Midland States Bancorp, Inc.
NASDAQ: MSBI

First Quarter 2020 Earnings Call

Midland
States Bancorp, Inc.

Forward-Looking Statements. This presentation may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements expressing management's current expectations, forecasts of future events or long-term goals may be based upon beliefs, expectations and assumptions of Midland's management, and are generally identifiable by the use of words such as "believe," "expect," "anticipate," "plan," "intend," "estimate," "may," "will," "would," "could," "should" or other similar expressions. All statements in this presentation speak only as of the date they are made, and Midland undertakes no obligation to update any statement. A number of factors, many of which are beyond the ability of Midland to control or predict, could cause actual results to differ materially from those in its forward-looking statements including the effects of the Coronavirus Disease 2019 (COVID-19) pandemic, including its potential effects on the economic environment, our customers and our operations, as well as any changes to federal, state or local government laws, regulations or orders in connection with the pandemic. These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. Additional information concerning Midland and its businesses, including additional factors that could materially affect Midland's financial results, are included in Midland's filings with the Securities and Exchange Commission.

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

COVID-19 RESPONSE OVERVIEW

Our COVID-19 Response: Employees

- Regular meetings of Pandemic Response Team
- Employee awareness campaign initiated based on CDC guidelines
- All non-essential business travel suspended
- Free COVID-19 testing added to health care plans and sick time benefits expanded
- 9 temporary branch closures
- Remaining branches operating with reduced schedules
- Bank branch lobbies temporarily closed with customer needs primarily serviced by drive-through facilities
- Rotating staff model implemented at branches to minimize employee exposure
- Approximately 95% of non-retail employees working from home

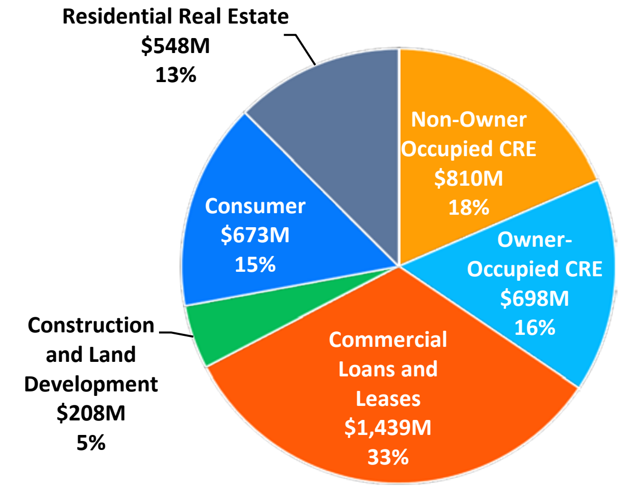
Our COVID-19 Response: Clients

- $263 million in PPP loans approved through April 16, 2020
- $665 million in loan payment deferral requests received, including equipment finance loans and leases
- Credit line utilization rates remained steady at 66-68% throughout March
- New consumer deposit and commercial treasury management account openings remaining relatively consistent with pre-crisis levels
- Debit card transaction and check processing volumes down notably during last week of March
- 1Q20 residential mortgage loan locks more than doubled from prior quarter
- Discussions held with approximately 80% of wealth management clients with vast majority remaining consistent with investment strategy

Loan Portfolio Overview

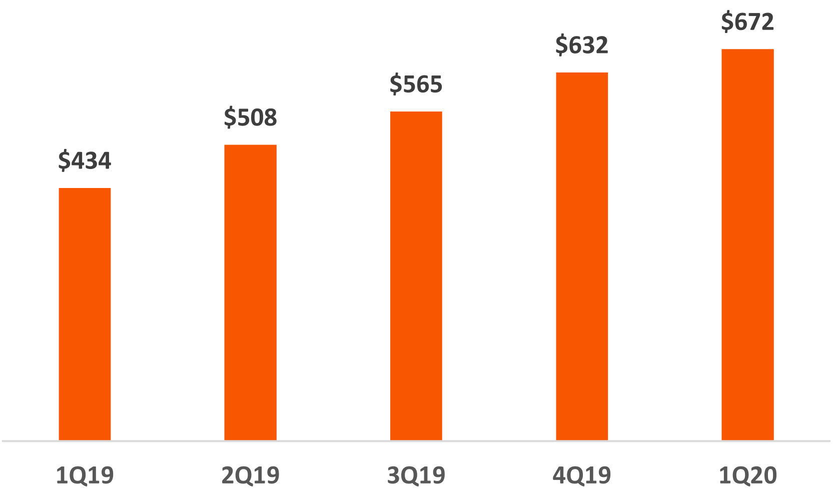
- Broadly diversified loan portfolio by type of customer and loan type
- 67% of portfolio is fixed; 33% is floating
- Portfolio is 72% Commercial Loans and 28% Consumer Loans as of 3/31/20

Loan Portfolio Mix



Equipment Finance Portfolio

($ in millions)

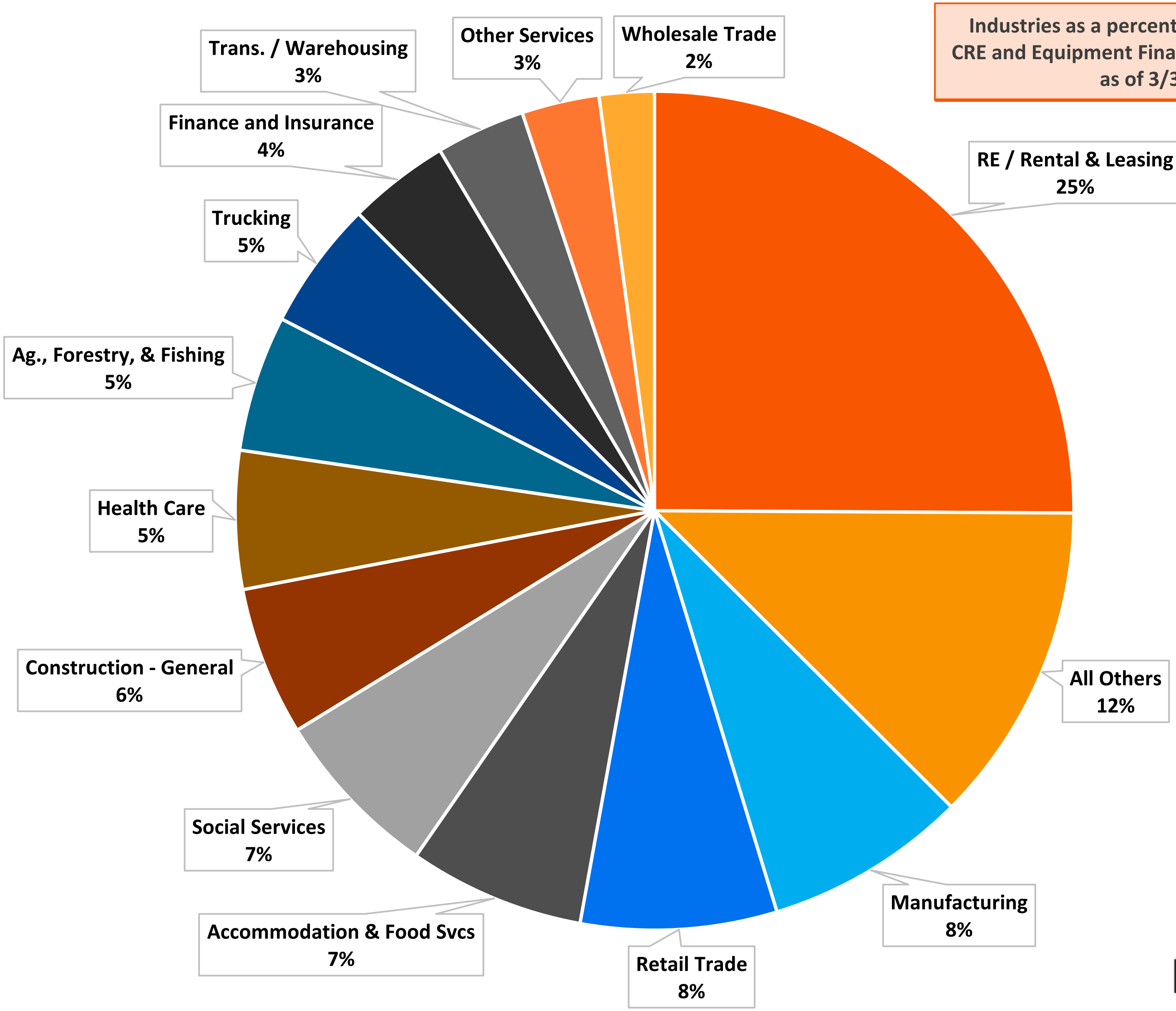


Commercial vs Consumer Loans

	1Q20	% of Total
Commercial Loans & Leases	$1,439	33%
Commercial Real Estate	$1,508	34%
Construction and Land Development	$208	5%
Total Commercial	**$3,155**	**72%**
Residential Real Estate	$548	13%
Consumer	$673	15%
Total Consumer	**$1,221**	**28%**
Total Loans	**$4,376**	**100%**

Commercial Loans and Leases by Industry

Industries as a percentage of Commercial, CRE and Equipment Finance Loans and Leases as of 3/31/20



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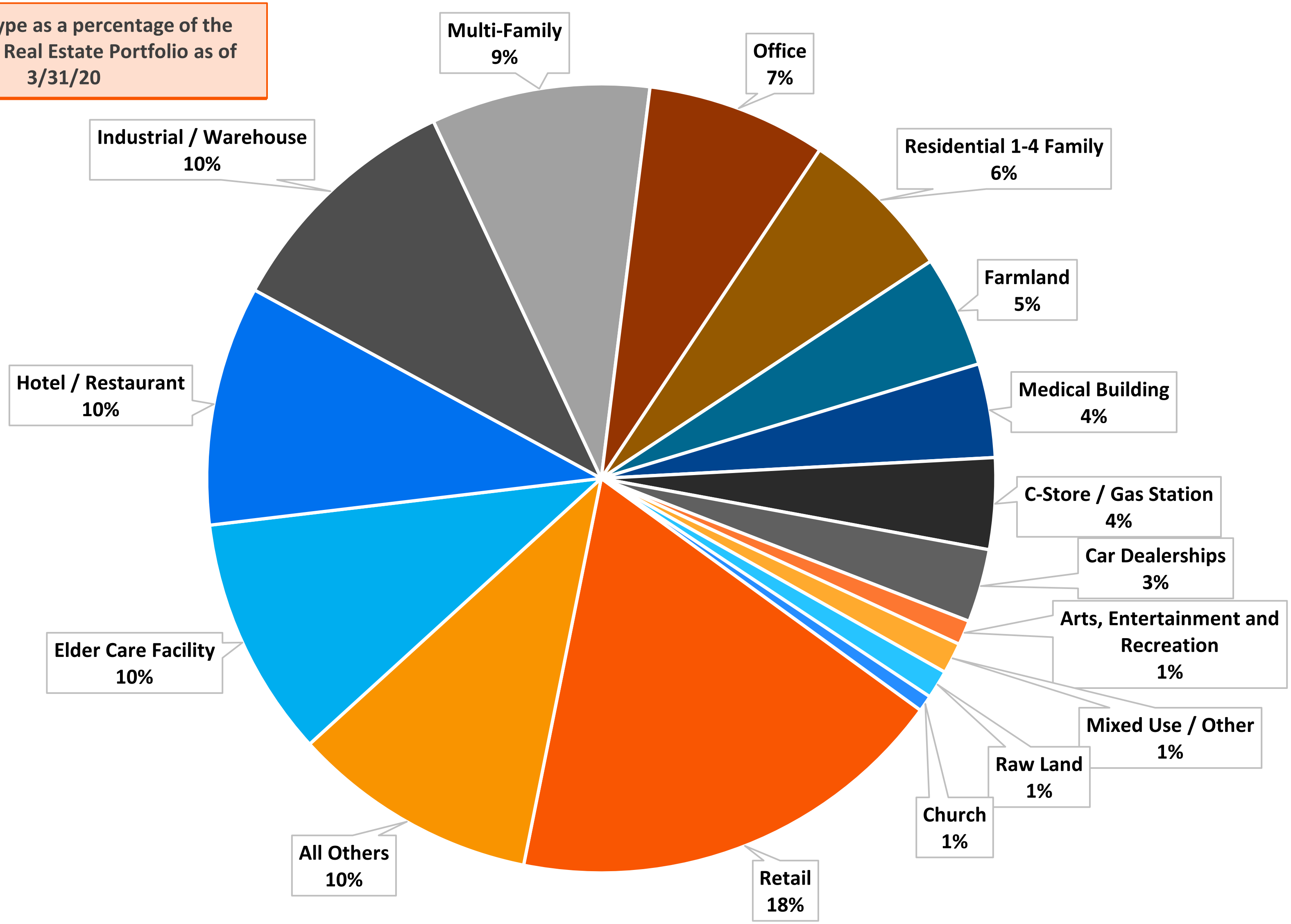
Commercial Real Estate Portfolio by Collateral Type

Collateral type as a percentage of the Commercial Real Estate Portfolio as of 3/31/20



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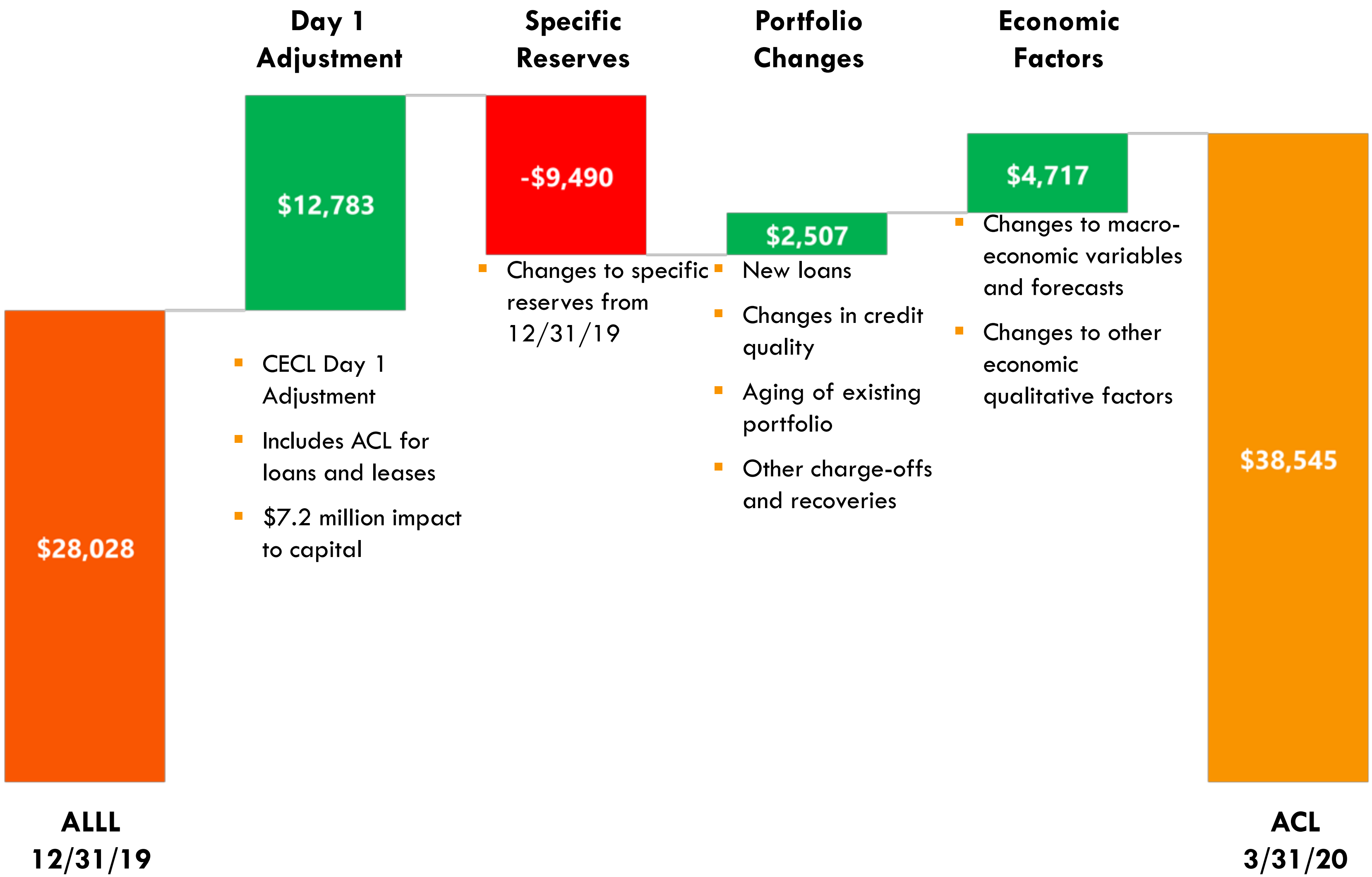
CECL Adoption – Drivers of Change from ALLL

($ in thousands)



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Net Interest Margin

- Normalized net interest margin was stable from prior quarter, down 1 bp
- Overall cost of deposits decreased 6 bps in 1Q20
- Average rate on new and renewed loans in 1Q20 declined to 4.59% from 4.86% in 4Q19
- $193.8 million in time deposits scheduled to mature in 2Q20 with weighted average rate of 2.14%
- Building liquidity on balance sheet will put pressure on NIM going forward
- Additional subordinated debt continues to impact NIM
  - Now expect to retain subordinated debt that is callable in June 2020
  - $30 million in subordinated debt will move to floating rate in June 2020 resulting in reduction of approximately 50 bps through the end of the year
- PPP loans will impact NIM in 2Q20 and 3Q20

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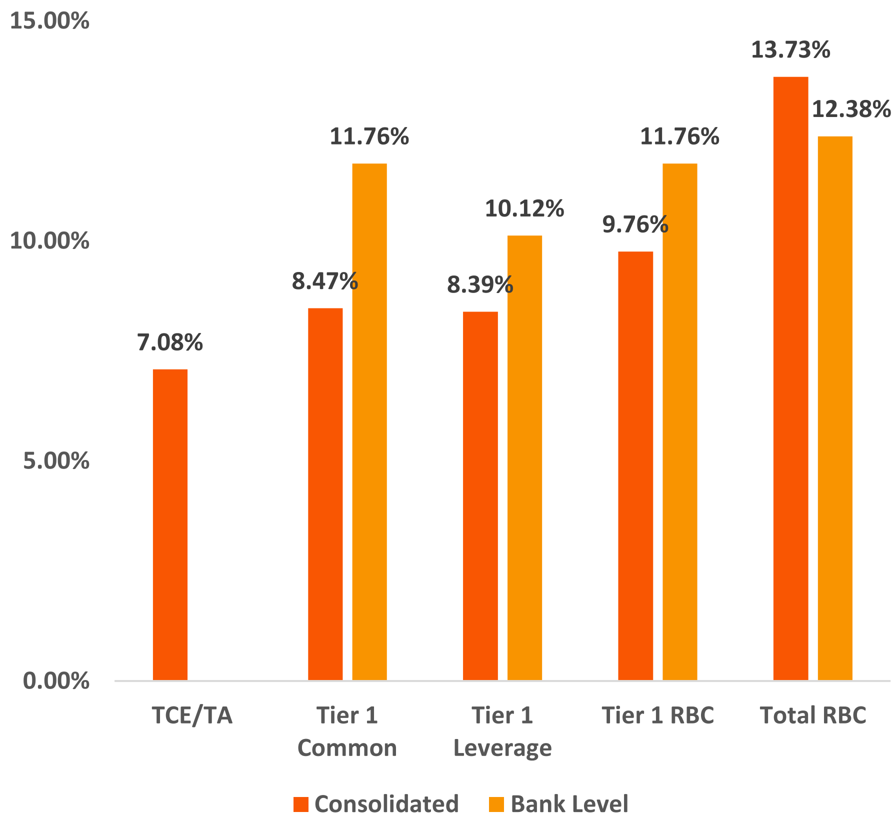
Capital and Liquidity Overview

Capital Ratios
(as of 3/31/20)



Liquidity Sources
(as of 3/31/20)

($ in millions)	
Cash and Cash Equivalents	$ 449.4
Unpledged Securities	309.0
FHLB Committed Liquidity	436.6
FRB Discount Window Availability	17.7
Primary Liquidity	**1,212.7**
Proceeds from Loan Sale	100.0
FRB – Additional Loans to Discount Window	85.0
Secondary Liquidity	**185.0**
Total Estimated Liquidity	**$ 1,397.7***

*PPP Liquidity Facility represents additional source of liquidity

Conditional Funding Based on Market Conditions	
Additional Credit Facility	$ 250.0
Brokered CDs (additional capacity)	$ 500.0

Other Liquidity
Holding Company Cash Position of $47.8 Million

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FIRST QUARTER 2020 FINANCIAL REVIEW

Loan Portfolio

- **Total loans decreased $25.2 million to $4.38 billion**
- **Decrease primarily attributable to declines in consumer, residential real estate and commercial real estate portfolios; partially offset by growth in the commercial loans and leases portfolio**
- **Decline in consumer portfolio due to $99.7 million in loans moved to held-for-sale**
- **Equipment finance balances increased $40.9 million, or 6.5%, from December 31, 2019**

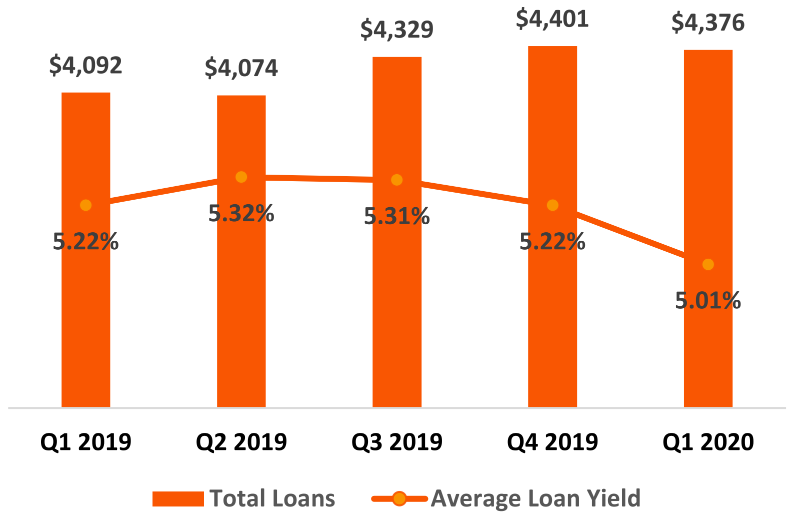
Loan Portfolio Mix

(in millions, as of quarter-end)

	1Q 2020	4Q 2019	1Q 2019
Commercial loans and leases	$ 1,439	$ 1,388	$ 1,123
Commercial real estate	1,508	1,526	1,560
Construction and land development	208	209	239
Residential real estate	548	568	569
Consumer	673	710	601
Total Loans	**$ 4,376**	**$ 4,401**	**$ 4,092**

Total Loans and Average Loan Yield

(in millions, as of quarter-end)



Total Deposits

- Total deposits increased $106.4 million to $4.65 billion, or 9.4% on an annualized basis
- Growth in deposits attributable to increase in core deposits, primarily from commercial customers
- Continued intentional run-off of higher-cost time deposits, replaced with lower-cost core deposits
- Time deposits decreased $56.3 million due to run-off of higher-cost CDs with promotional rates

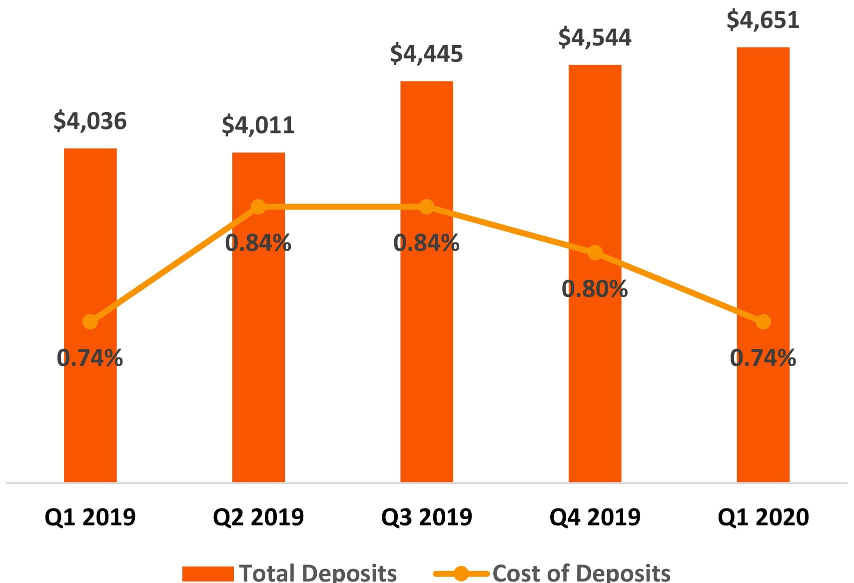
Deposit Mix

(in millions, as of quarter-end)

	1Q 2020	4Q 2019	1Q 2019
Noninterest-bearing demand	$ 1,053	$ 1,019	$ 941
Interest-bearing:			
Checking	1,425	1,343	969
Money market	850	788	802
Savings	534	522	457
Time	766	822	686
Brokered time	23	50	181
Total Deposits	**$4,651**	**$ 4,544**	**$ 4,036**

Total Deposits and Cost of Deposits

(in millions, as of quarter-end)



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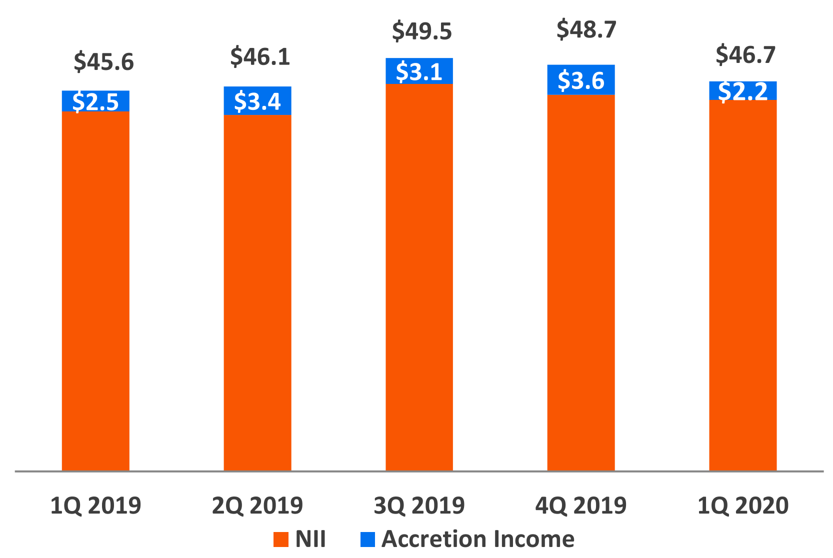
Net Interest Income/Margin

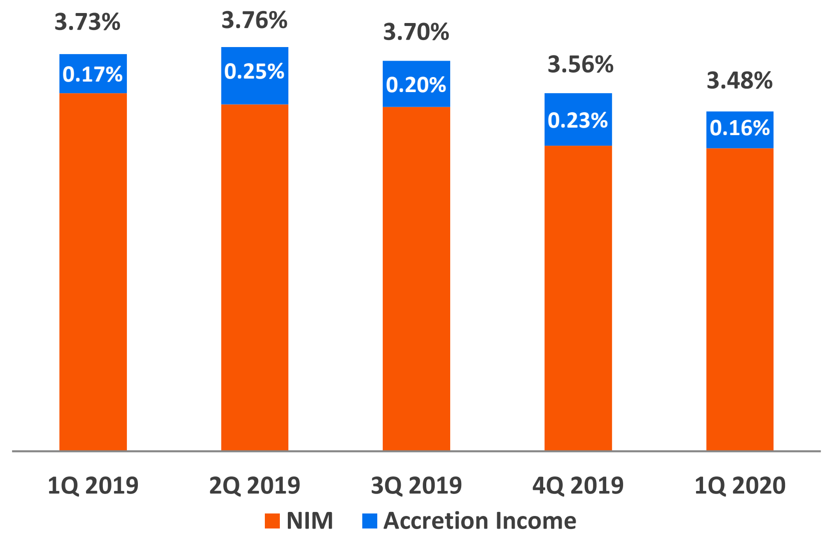
- Net interest income decreased 4.2%
- Excluding the impact of accretion income, net interest margin declined 1 basis point
- Accretion income declined primarily due to adoption of CECL
- Decline in earning asset yields largely offset by decline in cost of deposits
- Decline in earning asset yields primarily driven by Fed rate cuts
- PPP loans expected to provide positive impact in 2Q20 and 3Q20

Net Interest Income

(in millions)



Net Interest Margin



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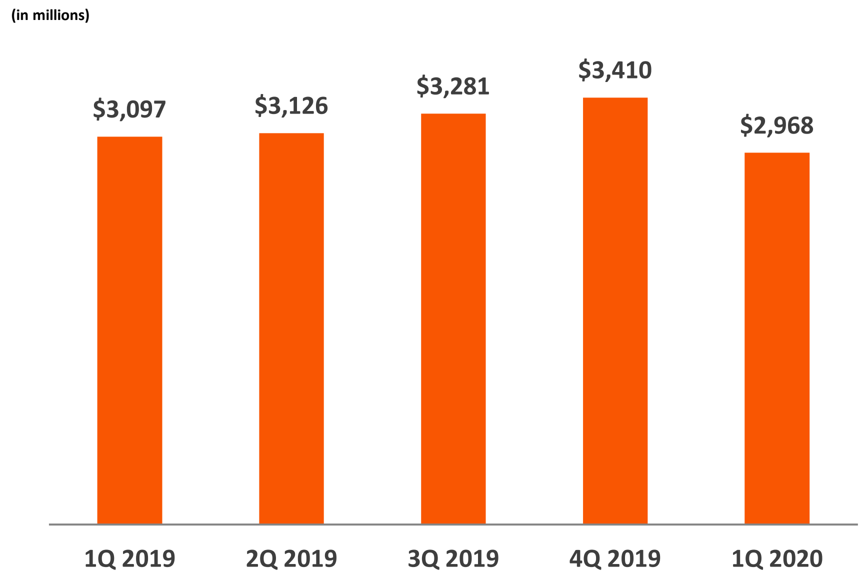
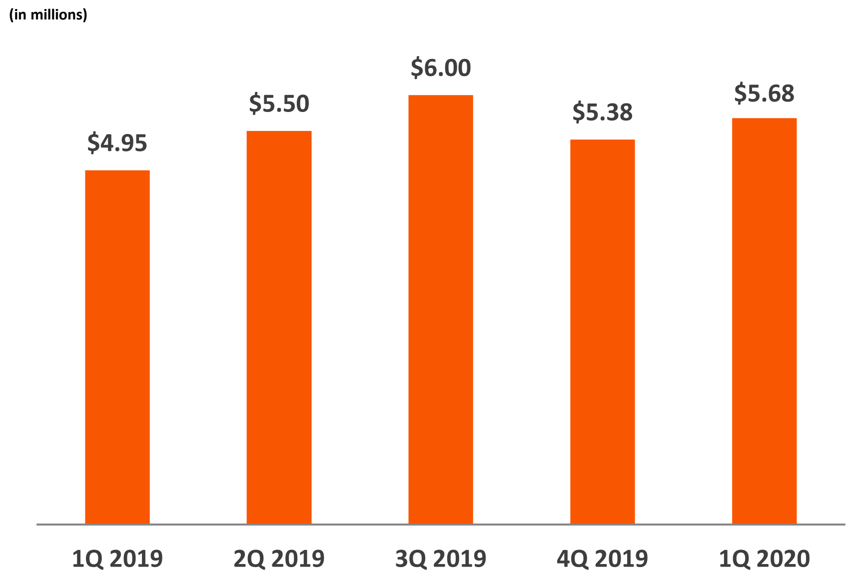
Wealth Management

- During 1Q20, assets under administration decreased $442.5 million, primarily due to market performance
- Total Wealth Management revenue increased 5.6% from the prior quarter
- Increase primarily attributable to higher trust fees related to tax preparation and higher estate fees

Assets Under Administration



Wealth Management Revenue



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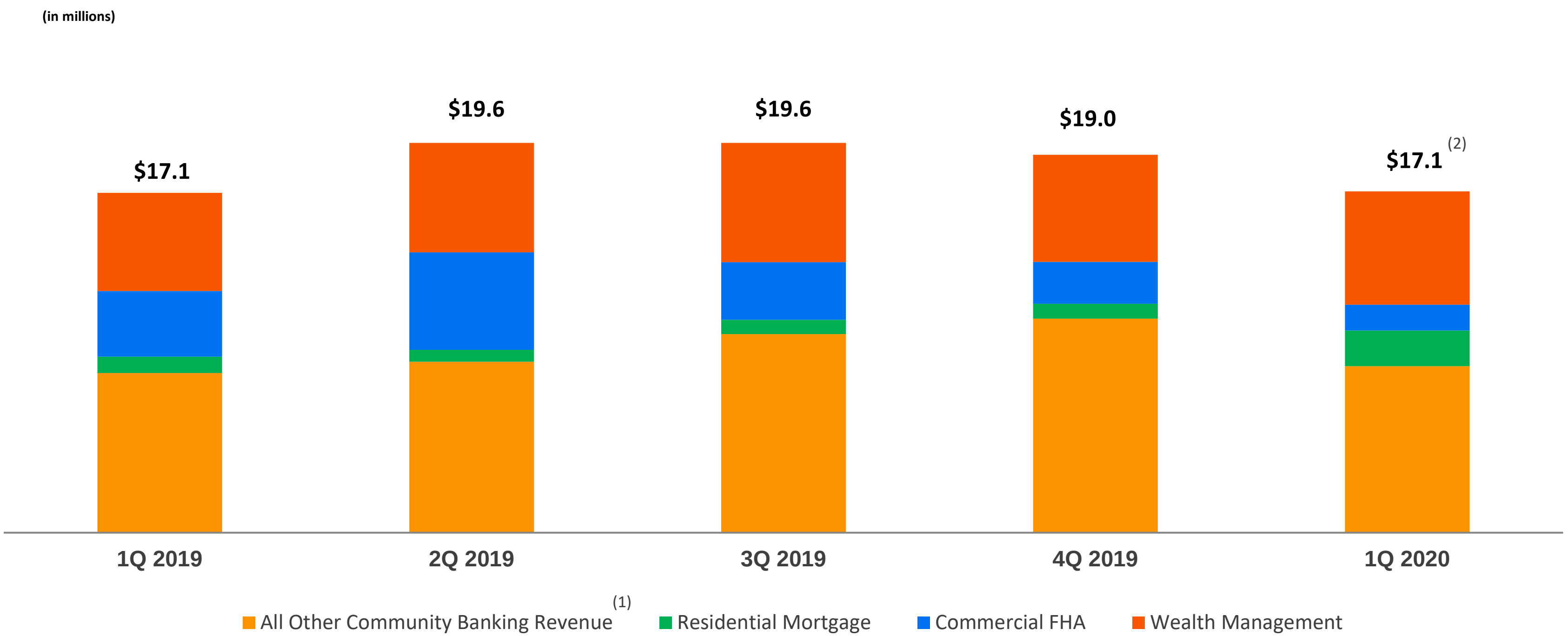
Noninterest Income

- **Noninterest income decreased 54.8% from prior quarter**
- **Decline primarily related to $8.5 million impairment of commercial mortgage servicing rights and lower commercial FHA revenue**
- **Wealth management and residential mortgage banking revenue increased from the prior quarter**

Noninterest Income



Notes:
(1) Represents service charges, interchange revenue, net gain (loss) on sale of investment securities, and other income
(2) Excludes $8.5 million impairment of commercial mortgage servicing rights

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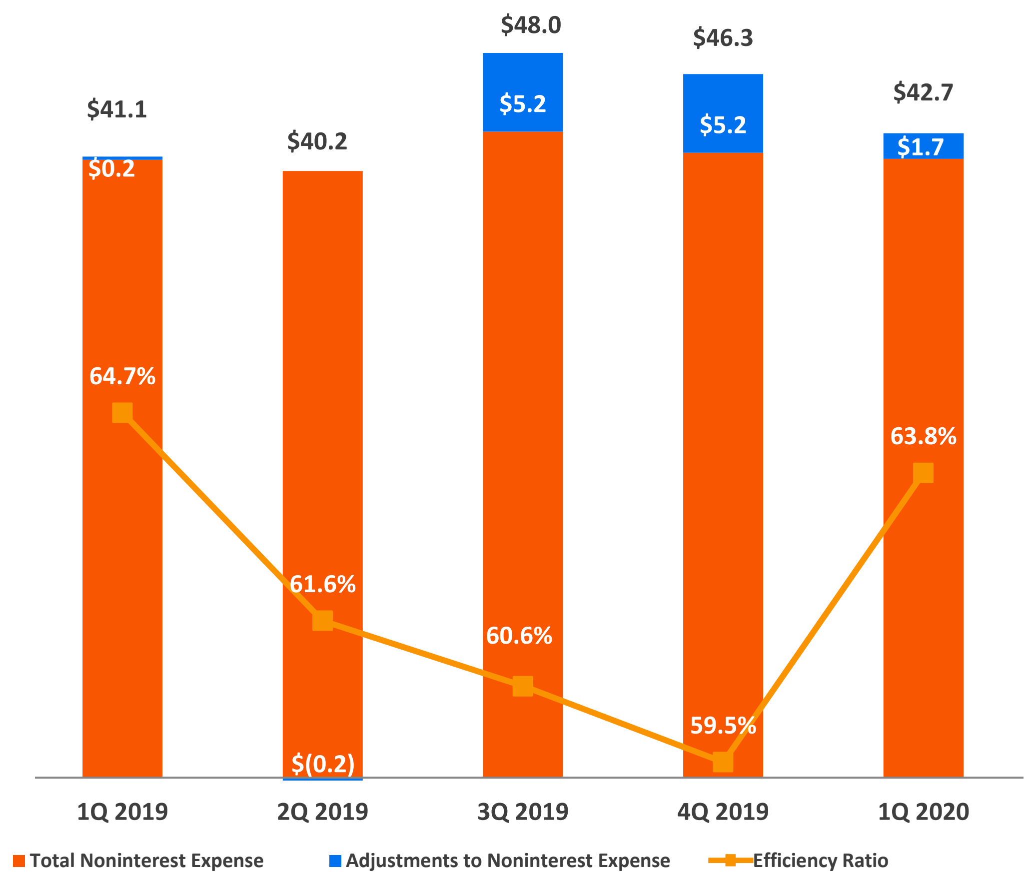
Noninterest Expense and Operating Efficiency

Noninterest Expense and Efficiency Ratio [1]

(Noninterest expense in millions)



- Efficiency Ratio [1] was 63.8% in 1Q20 vs. 59.5% in 4Q19
- Adjustments to non-interest expense:

($ in millions)	1Q20	4Q19
Integration and acquisition related expenses	($1.0)	($3.3)
Loss on repurchase of subordinated debt	($0.2)	($1.8)
Loss on MSRs held for sale	$(0.5)	$(0.1)

- Excluding these adjustments, noninterest expense was essentially unchanged on a linked-quarter basis
- 1Q20 noninterest expense included $0.9 million increase in reserve for unfunded commitments
- Two additional branches consolidated in 1Q20
- Staffing level adjustments implemented in 1Q20 expected to result in $3.9 million in annualized savings, beginning in 2Q20

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

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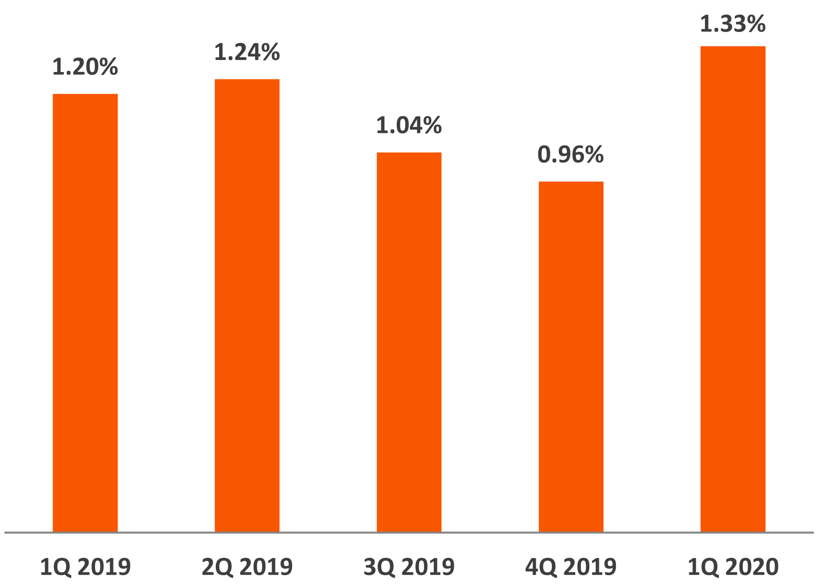
Asset Quality

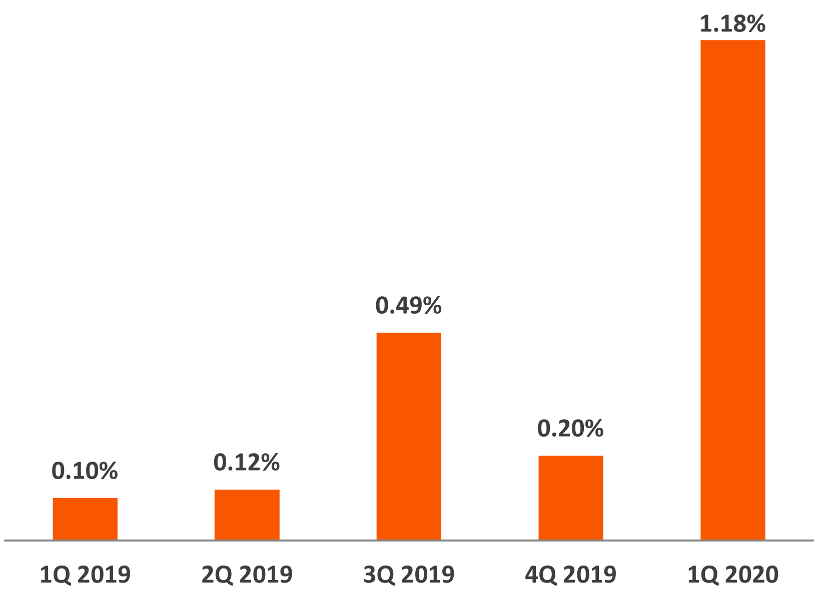
- Adoption of new CECL accounting standard resulted in approximately $12.8 million increase in ACL, relative to ALLL as of 12/31/19
- $12.8 million in net charge-offs in 1Q20, of which approximately $10.2 million related to three NPLs with specific reserves established against them for at least one year (unrelated to COVID-19 stress)
- Provision for loan losses of $10.6 million in 1Q20 reflects higher level of NCOs and a downgrade in economic forecast due to the impact of COVID-19 pandemic
- Increase in NPLs primarily attributable to addition of PCI loans upon adoption of CECL and two large CRE relationships totaling $13.5 million
- At 3/31/20, approximately 95% of ACL was allocated to general reserves

Nonperforming Loans / Total Loans

(Total Loans as of quarter-end)



NCO / Average Loans



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APPENDIX

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

Adjusted Earnings Reconciliation

	For the Quarter Ended				
(dollars in thousands, except per share data)	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
Income before income taxes - GAAP	$ 2,005	$ 16,071	$ 16,670	$ 21,394	$ 18,336
Adjustments to noninterest income:					
Gain on sales of investment securities, net	-	635	25	14	-
Other	(13)	(6)	-	(23)	-
Total adjustments to noninterest income	(13)	629	25	(9)	-
Adjustments to noninterest expense:					
Loss (gain) on mortgage servicing rights held for sale	496	95	(70)	(515)	-
Loss on repurchase of subordinated debt	193	1,778	-	-	-
Integration and acquisition expenses	1,031	3,332	5,292	286	160
Total adjustments to noninterest expense	1,720	5,205	5,222	(229)	160
Adjusted earnings pre tax	3,738	20,647	21,867	21,174	18,496
Adjusted earnings tax	932	4,537	5,445	4,978	4,398
Adjusted earnings - non-GAAP	2,806	16,110	16,422	16,196	14,098
Preferred stock dividends, net	-	-	(22)	34	34
Adjusted earnings available to common shareholders - non-GAAP	$ 2,806	$ 16,110	$ 16,444	$ 16,162	$ 14,064
Adjusted diluted earnings per common share	$ 0.11	$ 0.64	$ 0.66	$ 0.66	$ 0.58
Adjusted return on average assets	0.19 %	1.04 %	1.09 %	1.16 %	1.02 %
Adjusted return on average shareholders' equity	1.73 %	9.71 %	10.01 %	10.33 %	9.31 %
Adjusted return on average tangible common equity	2.53 %	14.15 %	14.52 %	15.19 %	13.90 %

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RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES (continued)

Efficiency Ratio Reconciliation

	For the Quarter Ended				
(dollars in thousands)	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Noninterest expense - GAAP	$ 42,675	$ 46,325	$ 48,025	$ 40,194	$ 41,097
(Loss) gain on mortgage servicing rights held for sale	(496)	(95)	70	515	-
Loss on repurchase of subordinated debt	(193)	(1,778)	-	-	-
Integration and acquisition expenses	(1,031)	(3,332)	(5,292)	(286)	(160)
Adjusted noninterest expense	$ 40,955	$ 41,120	$ 42,803	$ 40,423	$ 40,937
Net interest income - GAAP	$ 46,651	$ 48,687	$ 49,450	$ 46,077	$ 45,601
Effect of tax-exempt income	485	474	502	526	543
Adjusted net interest income	47,136	49,161	49,952	46,603	46,144
Noninterest income - GAAP	$ 8,598	$ 19,014	$ 19,606	$ 19,587	$ 17,075
Loan servicing rights impairment (recapture)	8,468	1,613	1,060	(559)	25
Gain on sales of investment securities, net	-	(635)	(25)	(14)	-
Other	13	6	-	23	-
Adjusted noninterest income	17,079	19,998	20,641	19,037	17,100
Adjusted total revenue	$ 64,215	$ 69,159	$ 70,593	$ 65,640	$ 63,244
Efficiency ratio	63.78 %	59.46 %	60.63 %	61.58 %	64.73 %

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

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

	As of				
(dollars in thousands, except per share data)	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	$ 631,160	$ 661,911	$ 655,522	$ 639,888	$ 624,168
Adjustments:					
Preferred stock	-	-	-	(2,684)	(2,733)
Goodwill	(172,796)	(171,758)	(171,074)	(164,673)	(164,673)
Other intangibles, net	(33,124)	(34,886)	(36,690)	(33,893)	(35,566)
Tangible common equity	$ 425,240	$ 455,267	$ 447,758	$ 438,638	$ 421,196
Total Assets to Tangible Assets:					
Total assets—GAAP	$ 6,208,230	$ 6,087,017	$ 6,113,904	$ 5,546,055	$ 5,641,780
Adjustments:					
Goodwill	(172,796)	(171,758)	(171,074)	(164,673)	(164,673)
Other intangibles, net	(33,124)	(34,886)	(36,690)	(33,893)	(35,566)
Tangible assets	$ 6,002,310	$ 5,880,373	$ 5,906,140	$ 5,347,489	$ 5,441,541
Common Shares Outstanding	23,381,496	24,420,345	24,338,748	23,897,038	23,827,438
Tangible Common Equity to Tangible Assets	7.08 %	7.74 %	7.58 %	8.20 %	7.74 %
Tangible Book Value Per Share	$ 18.19	$ 18.64	$ 18.40	$ 18.36	$ 17.68

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
(dollars in thousands)	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
Net income available to common shareholders	$ 1,549	$ 12,792	$ 12,677	$ 16,321	$ 13,948
Average total shareholders' equity—GAAP	$ 652,701	$ 658,497	$ 651,162	$ 628,730	$ 614,210
Adjustments:					
Preferred stock	-	-	(814)	(2,708)	(2,759)
Goodwill	(171,890)	(171,082)	(166,389)	(164,673)	(164,673)
Other intangibles, net	(33,951)	(35,745)	(34,519)	(34,689)	(36,438)
Average tangible common equity	$ 446,860	$ 451,670	$ 449,440	$ 426,660	$ 410,340
ROATCE	1.39 %	11.24 %	11.19 %	15.34 %	13.79 %