Midland States Bancorp, Inc.
NASDAQ: MSBI

Third 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.

Overview of 3Q20

3Q20 Earnings	• Net income of $86 thousand, or $0.00 diluted EPS, reflect $13.9 million in one-time charges primarily related to branch and facilities optimization plan • Adjusted earnings(1) of $12.0 million, or $0.52 diluted EPS, excluding charges primarily related to branch and facilities optimization plan
Solid Balance Sheet Growth	• Annualized loan growth of 8.4%, driven by growth in equipment finance, consumer and warehouse lines to commercial FHA lenders • Annualized deposit growth of 6.9%, driven by continued increases in core deposits
Asset Quality	• 69% decline in total deferred loans • Increase in NPAs primarily due to three relationships • Allowance for credit losses strengthened to 1.07% of total loans
Positive Trends Across Multiple Business Lines	• Wealth management continues to provide stable source of noninterest income • Equipment financing group continues to see strong demand • Residential mortgage banking group capitalizing on continued demand for refinancings
Optimization and Efficiency Initiatives	• Sale of commercial FHA origination platform • Announcement of branch and facilities optimization plan

Notes:

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

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2020 Optimization and Efficiency Initiatives

	Initiative Details	FY 2021 Expected Financial Impact
Sale of Commercial FHA Loan Origination Platform	• Sale of origination platform to Dwight Capital • No significant gain on sale (reduced goodwill by $10.9 million) • $3.0 million tax charge on sale • Retain servicing and low-cost deposits • Ongoing warehouse and servicing deposit relationship with Dwight Capital	• Ongoing commercial FHA revenue of $1.2 million for servicing • $8-$9 million expense reduction
Branch Network and Facilities Optimization	• Pending consolidation of 13 branches (20% of network and ~30 FTEs) • Most affected branches located within 3 miles of another Midland branch • 4 of the branches have been closed since March due to pandemic • Expected to retain 70% to 80% of deposits from consolidated branches • Exiting three corporate locations including St. Louis and Denver	• Restructuring charge in 3Q20 of $13.6 million • Other branch renovation and upgrading projects beginning in 4Q20 and continuing in 2021 at a cost of $4 million • $6 million expense reduction in 2021

Paycheck Protection Program Overview

Paycheck Protection Program (as of 9/30/20)	
Loans Outstanding	$277.6 million
Number of Loans	2,295
Average Loan Size	$120,938
Total Fees Earned	$9.8 million
Remaining Fees to be Recognized	$7.6 million

Paycheck Protection Program Loan Forgiveness (as of 10/9/20)	
Loans Submitted to SBA	$71.6 million
Loans Forgiven by SBA	$3.1 million
Estimated Percentage to be Forgiven During 4Q20	25%-30%

Impact on 3Q20 Financials

	At or for the Three Months Ended 9/30/20	Metrics Excluding PPP Impact
Total Loans	$4.94 billion	$4.66 billion
Average Loans	$4.80 billion	$4.53 billion
Net Interest Income FTE[(1)]	$50.0 million	$48.5 million
Net Interest Margin[(1)]	3.33%	3.36%
ACL/Total Loans	1.07%	1.12%

1. Loan fees and deferred loan origination costs being amortized over an estimated 24-month life of PPP loans

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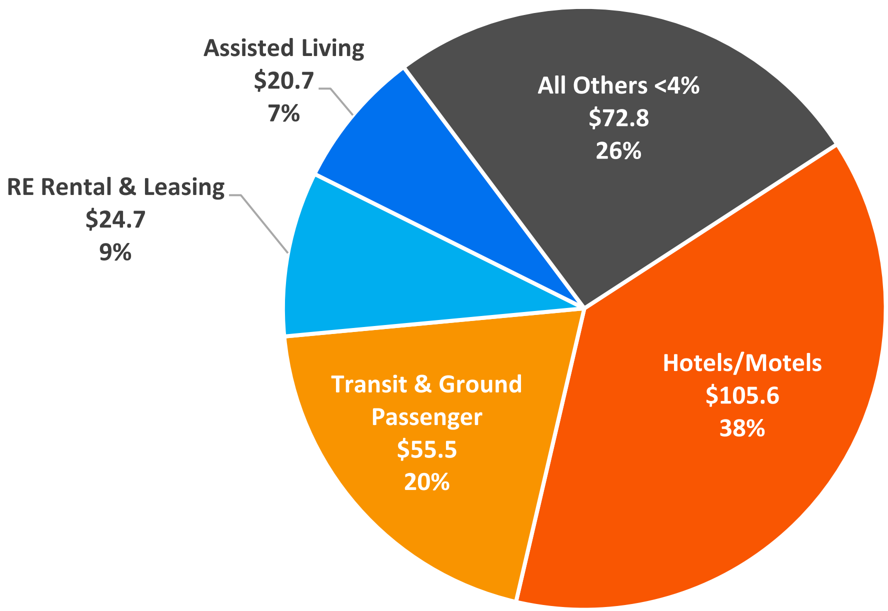
Loan Deferral Overview

Total Loan Deferrals			
	As of June 30, 2020	As of September 30, 2020	Percentage Change
Total Loans Deferred	$898.4 million	$279.3 million	(68.9%)
% of Total Loans	18.6%	5.7%	(69.7%)

Deferral Type (as of September 30, 2020)	
Full Payment Deferral	$237.9 million
Interest Only Deferral	$41.4 million

Deferrals by Industry
(as of September 30, 2020)

($ in millions)



Loan Portfolio

- **Total loans increased $102.0 million, or 2.1% from prior quarter, to $4.94 billion**
- **Increase primarily attributable to growth in commercial and consumer portfolios, partially offset by decrease in residential real estate loans**
- **PPP loans totaled $277.6 million at September 30, 2020**
- **Equipment finance balances increased $65.0 million, or 8.7%, from June 30, 2020**
- **$9.2 million increase in warehouse credit line utilization by commercial FHA loan originators**

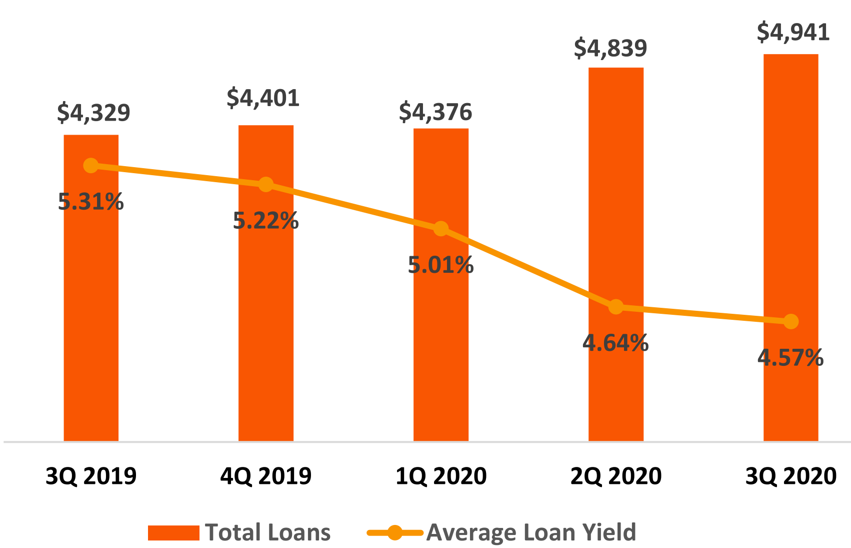
Loan Portfolio Mix

(in millions, as of quarter-end)

	3Q 2020	2Q 2020	3Q 2019
Commercial loans and leases	$ 1,938	$ 1,856	$ 1,293
Commercial real estate	1,497	1,495	1,622
Construction and land development	178	208	216
Residential real estate	471	509	588
Consumer	857	771	610
Total Loans	**$4,941**	**$4,839**	**$4,329**

Total Loans and Average Loan Yield

(in millions, as of quarter-end)



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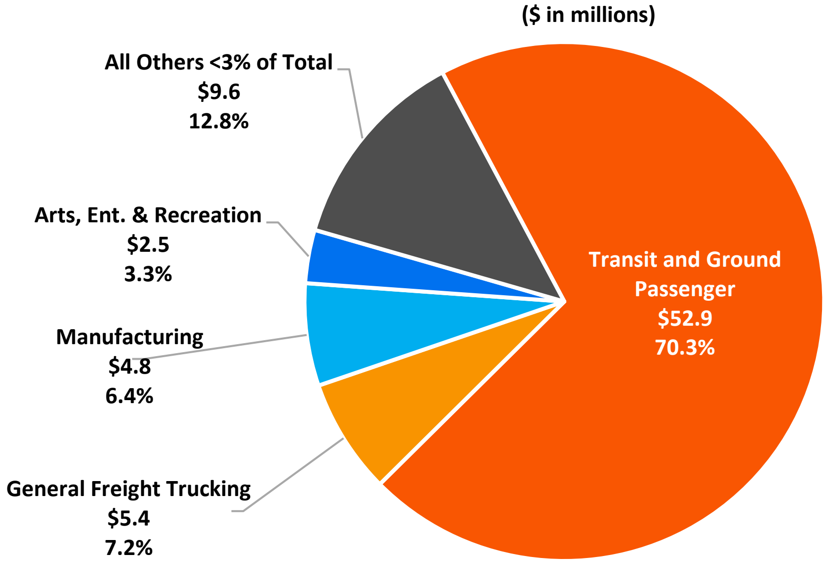
Midland Equipment Finance Portfolio Overview

Portfolio Characteristics (as of 9/30/20)	
Nationwide portfolio providing financing solutions to equipment vendors and end-users	
Total Outstanding Loans and Leases	$815.5 million (16.5% of total loans)
Number of Loans and Leases	6,210
Average Loan/Lease Size	$132,603
Largest Loan/Lease	$1.8 million
Weighted Average Rate	4.97%

Total Deferred Loans and Leases			
	As of June 30, 2020	**As of September 30, 2020**	**Percentage Change**
Total Deferrals	$233.0 million	$75.2 million	(67.7%)
Percentage of portfolio	31.5%	9.2%	(70.8%)

Equipment Finance Deferrals by Industry
(as of September 30, 2020)

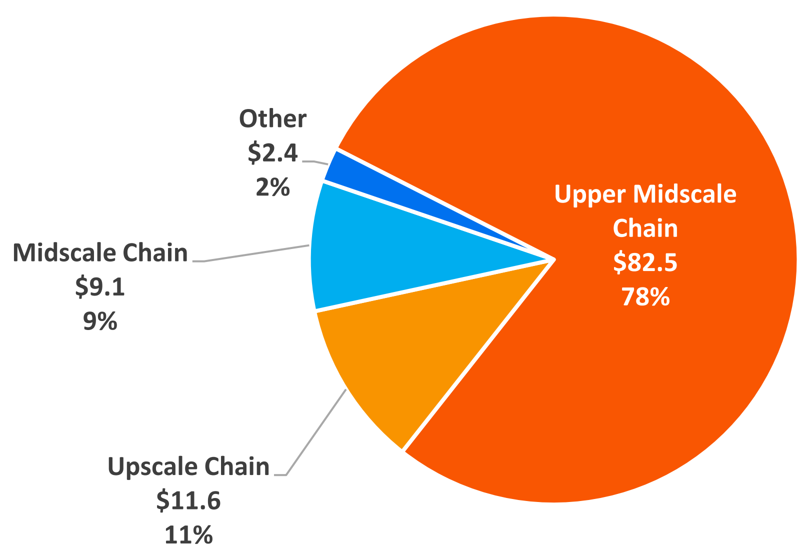


Hotel/Motel Portfolio Overview

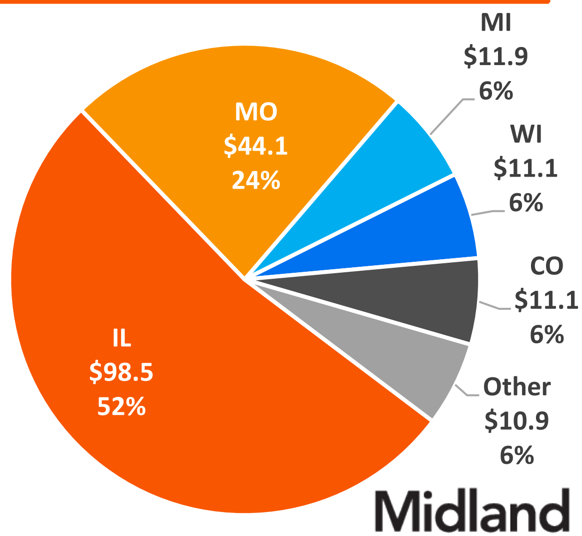
Portfolio Characteristics (CRE & C&I) (as of 9/30/20)	
Total Outstanding	$187.6 million (3.8% of total loans)
Number of Loans	61
Average Loan Size	$2.2 million
Largest Loan	$11.1 million
Average LTV	58%
Total Deferred Loans as of 6/30/20	$146.2 million (84.8% of portfolio)
Total Deferred Loans as of 9/30/20	$105.6 million (56.3% of portfolio)
Average LTV of Deferred Loans as of 9/30/20	50%
Deferred Loans Making I/O or Other Payments	$19.2 million (18.2% of deferrals)

Deferrals by Chain Scale

($ in millions)



Portfolio by State



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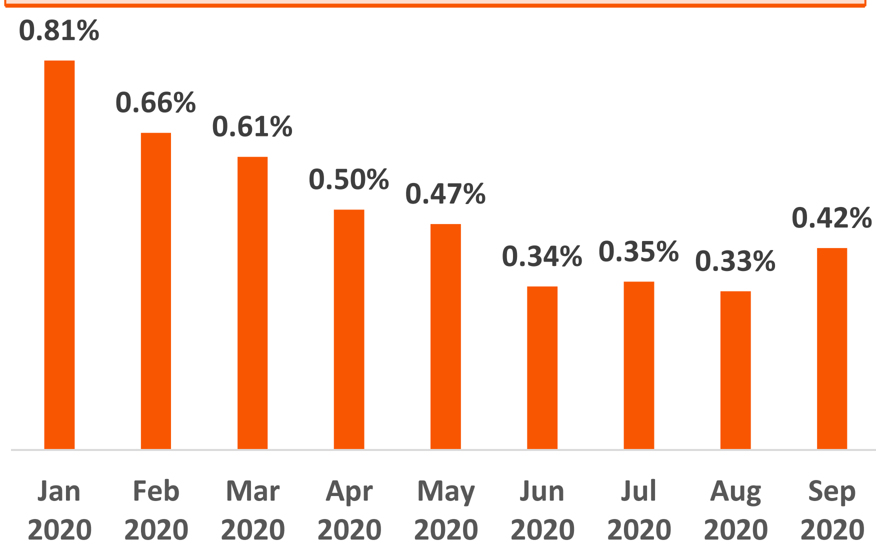
GreenSky Consumer Loan Portfolio Overview

Portfolio Characteristics (as of 9/30/20)	
Total Outstanding	$768.6 million (15.6% of total loans)
Number of Loans	330,751
Average Loan Size	$2,324
Average FICO Score	763
Total Deferred Loans (as of June 30, 2020)	$35.8 million (5.3% of portfolio)
Total Deferred Loans (as of September 30, 2020)	$8.1 million (1.1% of portfolio)

Delinquency Rate (greater than 60 days)



Prime Credit

- Average FICO score of 763
- No losses to MSBI in 9 year history of the portfolio
- Portfolio can be sold to provide liquidity; Loan sales were executed at par in Sep and Oct 2020

Credit Enhancement

- Cash flow waterfall structure
  - Cash flow from portfolio covers servicing fee, credit losses and our target margin
  - Excess cash flow is an incentive fee to GreenSky that is available to cover additional losses
  - GreenSky received incentive fees in 20 of past 21 months including every month in 2020
- Escrow deposits
  - Escrow deposits absorb losses in excess of cash flow waterfall
  - Escrow account totaled $30.6 million at 9/30/20 or 4.0% of the portfolio

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Total Deposits

- **Total deposits increased $85.6 million, or 1.7% from prior quarter, to $5.03 billion**
- **Growth in deposits attributable to increase in commercial FHA servicing deposits**
- **Continued intentional run-off of higher-cost time deposits, replaced with lower-cost core deposits**

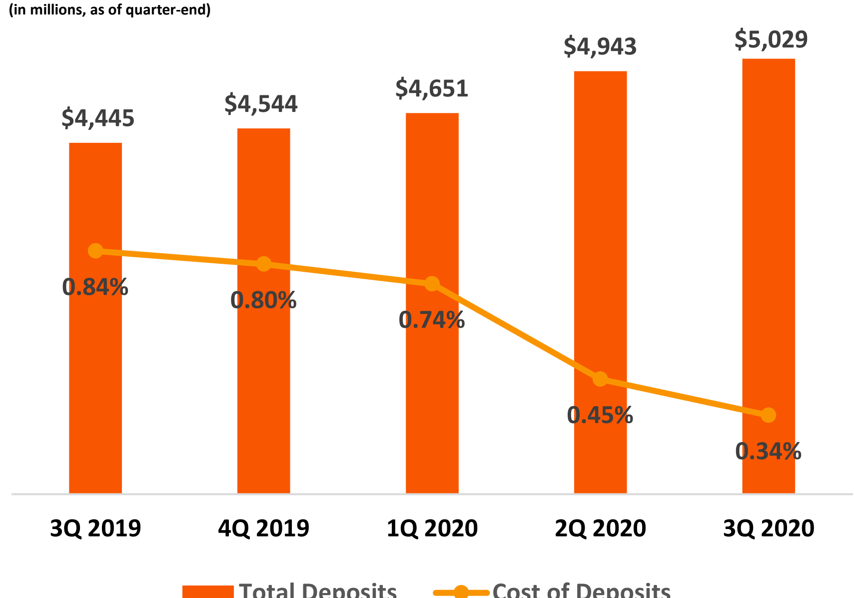
Deposit Mix

(in millions, as of quarter-end)

	3Q 2020	2Q 2020	3Q 2019
Noninterest-bearing demand	$ 1,355	$ 1,273	$ 1,015
Interest-bearing:			
Checking	1,581	1,485	1,222
Money market	827	877	754
Savings	581	595	527
Time	662	690	833
Brokered time	23	23	94
Total Deposits	**$5,029**	**$4,943**	**$4,445**

Total Deposits and Cost of Deposits

(in millions, as of quarter-end)



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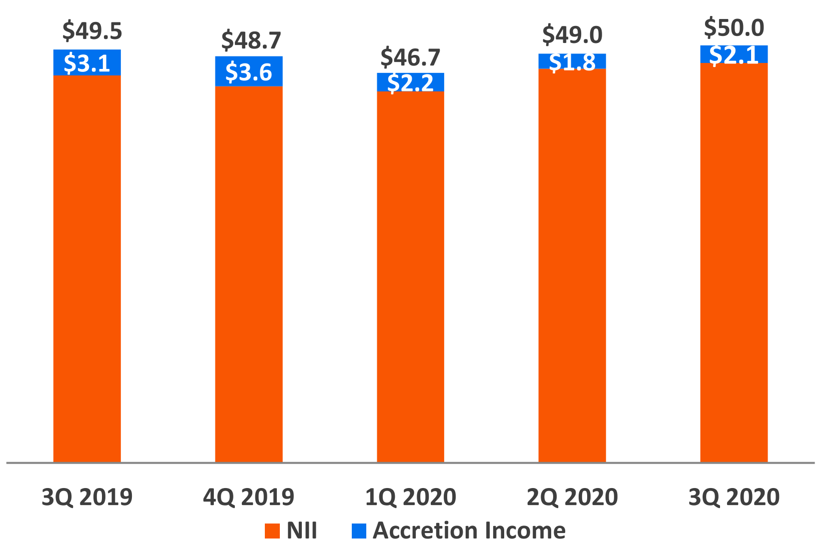
Net Interest Income/Margin

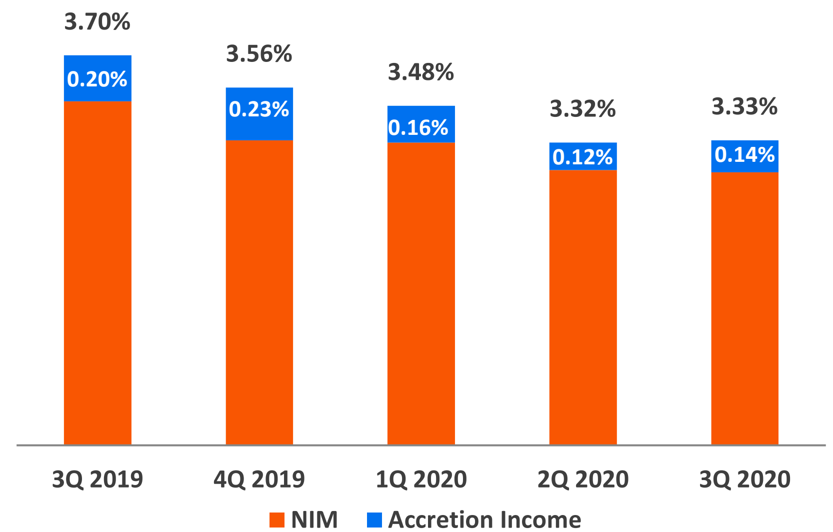
- **Net interest income increased 2.0% from the prior quarter due to higher average loan balances**
- **Net interest margin remained stable as decline in average yield on earning assets was largely offset by decline in cost of deposits**
- **11 basis point decline in cost of deposits**
- **CD maturities ($91 million at WAR of 1.11% in 4Q20) and redeployment of excess liquidity expected to positively impact NIM in 4Q20**

Net Interest Income

(in millions)



Net Interest Margin



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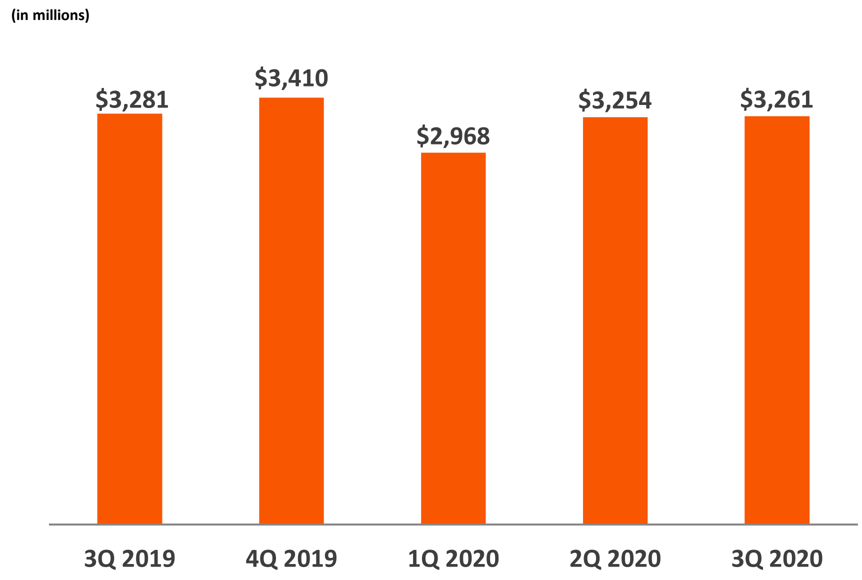
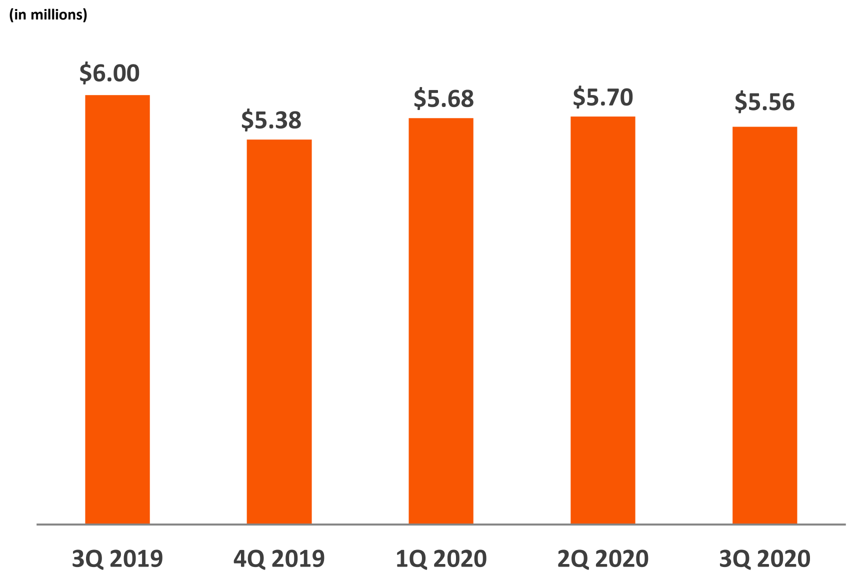
Wealth Management

- During 3Q20, assets under administration increased $7.1 million, primarily due to market performance
- Wealth Management revenue remains a consistent source of noninterest income
- Slight variation in quarter-to-quarter revenue primarily relates to seasonal fees related to tax preparation

Assets Under Administration



Wealth Management Revenue



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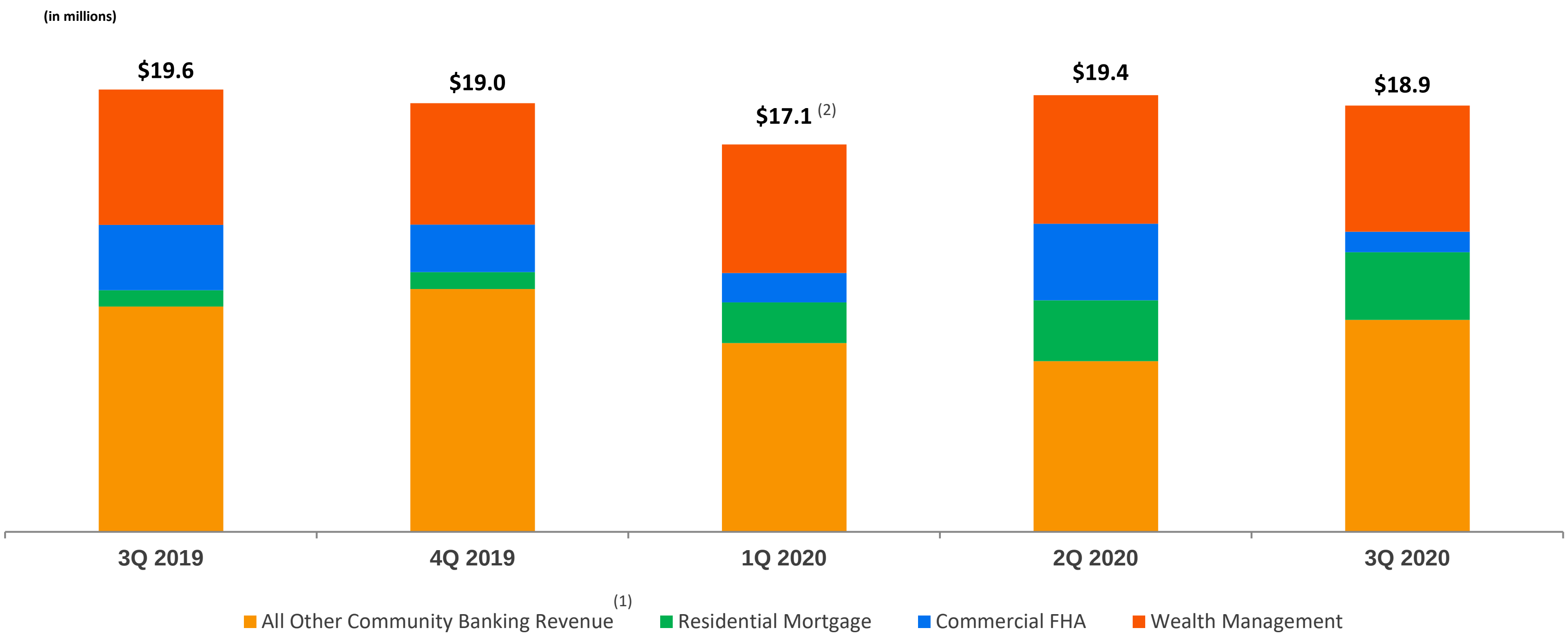
Noninterest Income

- **Noninterest income reduced 2.5% from prior quarter, due to lower Commercial FHA revenue resulting from the sale of the origination platform at the end of August and a $1.4 million impairment of commercial mortgage servicing rights ("MSRs")**
- **Excluding the impact of the impairment of commercial MSRs, noninterest income increased due to higher residential mortgage banking and community banking revenue**
- **Increase in economic activity resulting in higher community bank revenue including service charges and interchange fees**

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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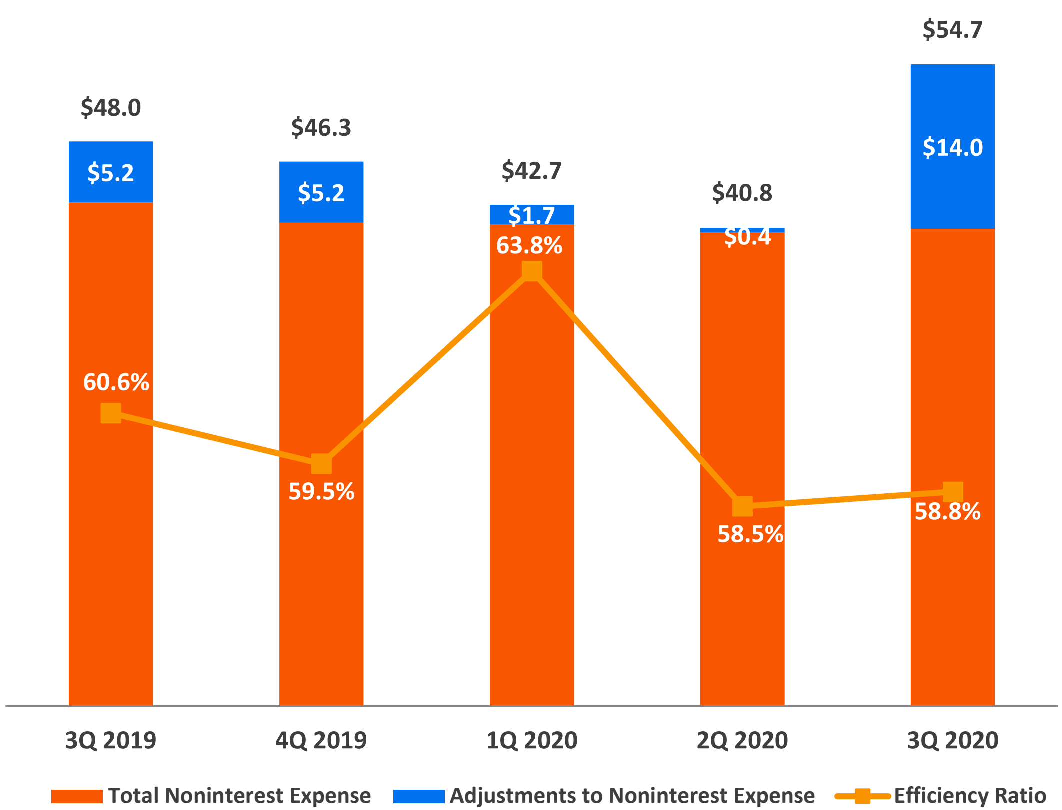
Noninterest Expense and Operating Efficiency

Noninterest Expense and Efficiency Ratio [1]

(Noninterest expense in millions)



- **Efficiency Ratio [1] was 58.8% in 3Q20 vs. 58.5% in 2Q20**
- **Adjustments to non-interest expense:**

($ in millions)	3Q20	2Q20
Integration and acquisition related expenses	($13.9)	($0.05)
Loss on MSRs held for sale	$(0.2)	$(0.4)

- **Excluding these adjustments, noninterest expense was essentially unchanged from the prior quarter**
- **Following branch and facilities consolidation scheduled to occur in 4Q20, noninterest expense expected to range from $39 million to $40 million per quarter to start 2021**

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

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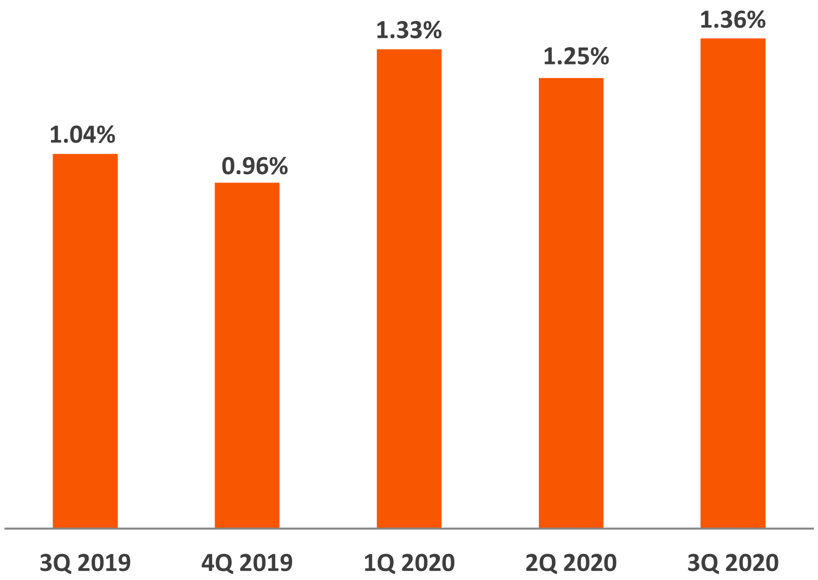
Asset Quality

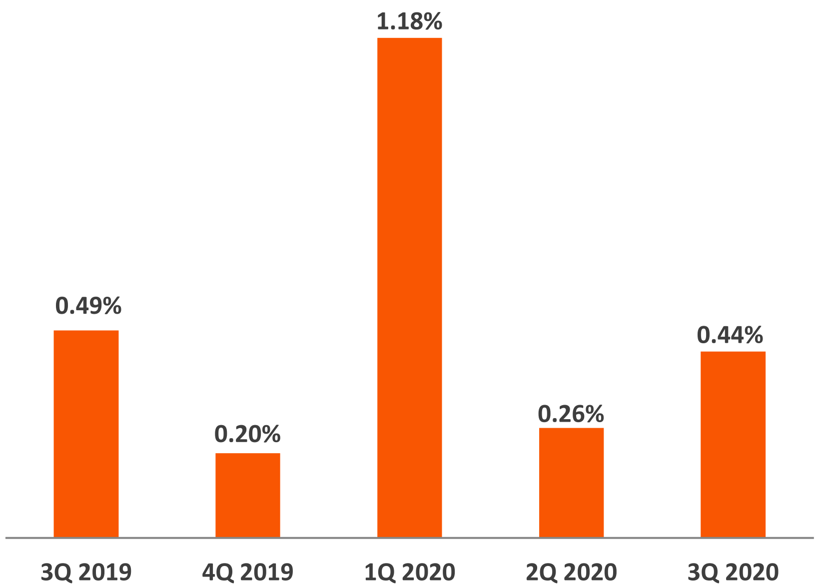
- Nonperforming loans/total loans increased to 1.36% from 1.25% at the end of the prior quarter, primarily due to the addition of three CRE loans
- Net charge-offs of $5.3 million, or 0.44% of average loans, reflects charge-offs taken against the three CRE loans moved into NPL in 3Q20
- Provision for loan losses of $11.0 million in 3Q20 primarily reflects the higher level of net charge-offs experienced in the quarter
- At 9/30/20, approximately 96% of ACL was allocated to general reserves

Nonperforming Loans / Total Loans

(Total Loans as of quarter-end)



NCO / Average Loans



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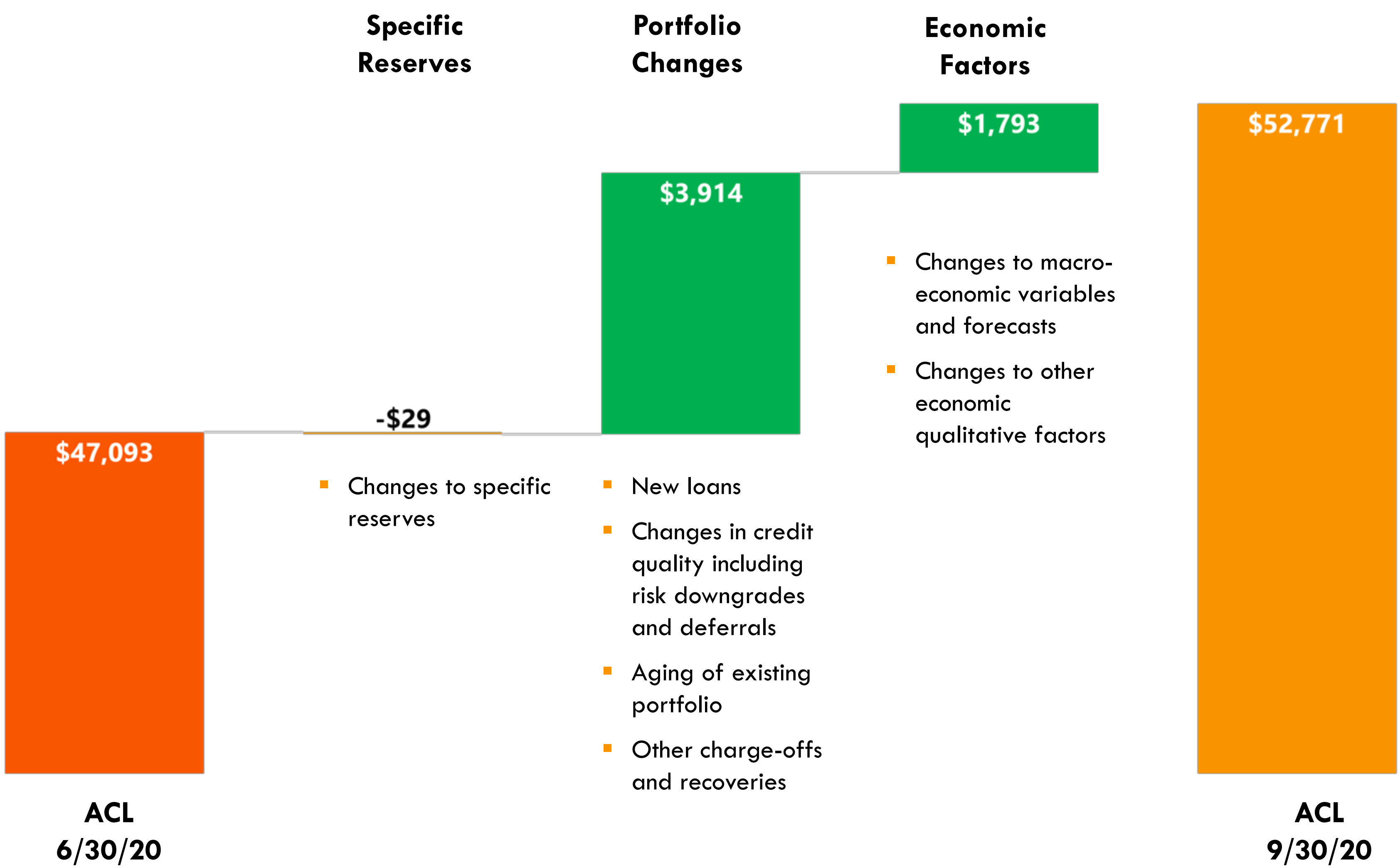
Changes in Allowance for Credit Losses

($ in thousands)



- Changes to specific reserves

- New loans
- Changes in credit quality including risk downgrades and deferrals
- Aging of existing portfolio
- Other charge-offs and recoveries

- Changes to macro-economic variables and forecasts
- Changes to other economic qualitative factors

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ACL by Portfolio

($ in thousands)

Portfolio	Total Loans at 9/30/20	ACL	% of Total Loans	Total Loans at 6/30/20	ACL	% of Total Loans
Commercial	$ 729,745	$ 7,846	1.08%	$ 715,206	$ 4,916	0.69%
Warehouse Lines	136,761	-	0.00%	127,568	-	0.00%
Commercial Other	813,412	10,014	1.23%	767,175	7,297	0.95%
Equipment Finance	420,003	9,285	2.21%	376,499	6,553	1.74%
Paycheck Protection Program	277,553	416	0.15%	276,007	414	0.15%
Lease Financing	395,534	4,814	1.22%	374,054	6,155	1.65%
CRE non-owner occupied	824,311	12,533	1.52%	804,147	10,247	1.27%
CRE owner occupied	442,692	4,927	1.11%	465,217	6,378	1.37%
Multi-family	149,290	3,475	2.33%	142,194	2,982	2.10%
Farmland	80,465	454	0.56%	83,625	689	0.82%
Construction and Land Development	177,894	1,802	1.01%	207,593	1,512	0.73%
Residential RE First Lien	380,402	3,702	0.97%	411,635	3,960	0.96%
Other Residential	90,427	877	0.97%	97,818	870	0.89%
Consumer	82,912	388	0.47%	81,447	354	0.43%
Consumer Other[1]	774,382	1,939	0.25%	689,312	1,733	0.25%
Total Loans	**4,941,466**	**52,771**	**1.07%**	**4,839,423**	**47,093**	**0.97%**
Loans (excluding GreenSky, PPP and warehouse lines)	**3,698,097**	**50,299**	**1.36%**	**3,698,092**	**44,835**	**1.21%**

Notes:

(1) Primarily consists of loans originated through GreenSky relationship

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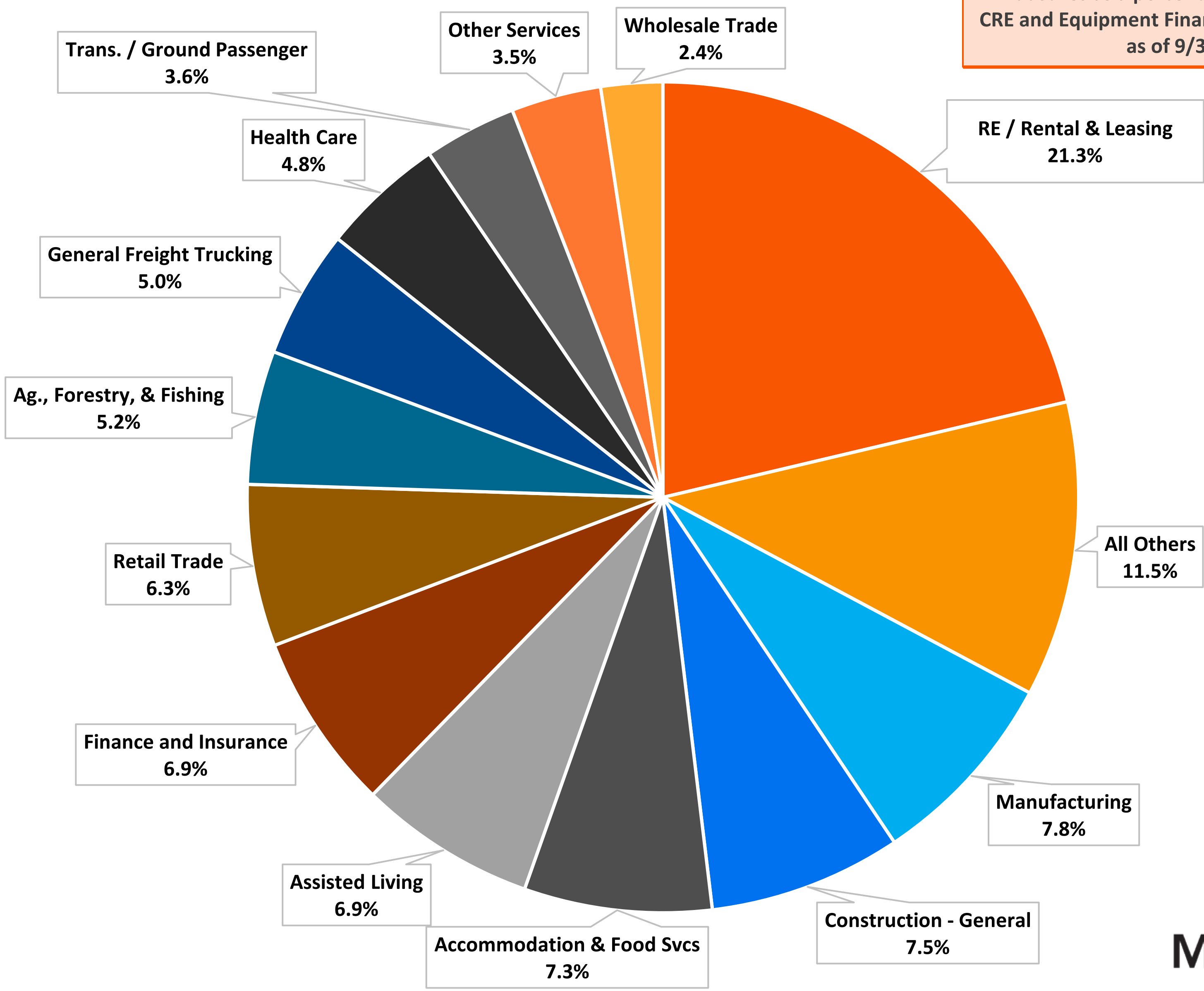
Outlook and Near-Term Priorities

- Maintain strong capital and liquidity positions to continue supporting clients and communities through the duration of the COVID-19 pandemic
- Continue capitalizing on areas of near-term demand to drive additional loan growth
- Implement branch network and corporate facilities reduction plan
- Continue evaluating opportunities to optimize our cost structure
- Position Midland for more consistent financial performance and earnings growth as the economy strengthens

APPENDIX

Commercial Loans and Leases by Industry

Industries as a percentage of Commercial, CRE and Equipment Finance Loans and Leases as of 9/30/20



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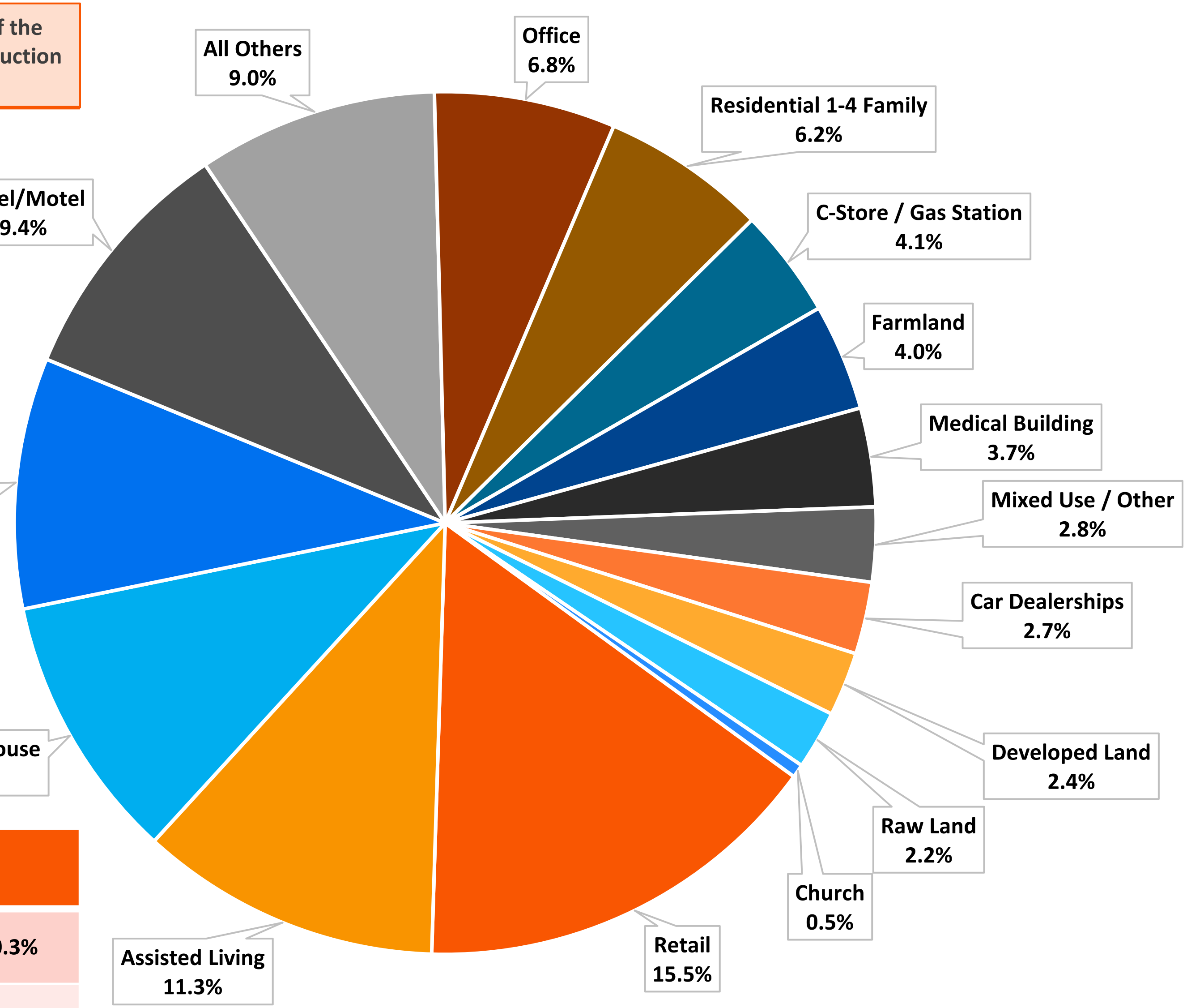
Commercial Real Estate Portfolio by Collateral Type

Collateral type as a percentage of the Commercial Real Estate and Construction Portfolio as of 9/30/20



CRE Concentration (as of 9/30/20)	
CRE as a % of Total Loans	30.3%
CRE as a % of Total Risk-Based Capital[(1)]	174.6%

Notes:
(1) Represents non-owner occupied CRE loans only

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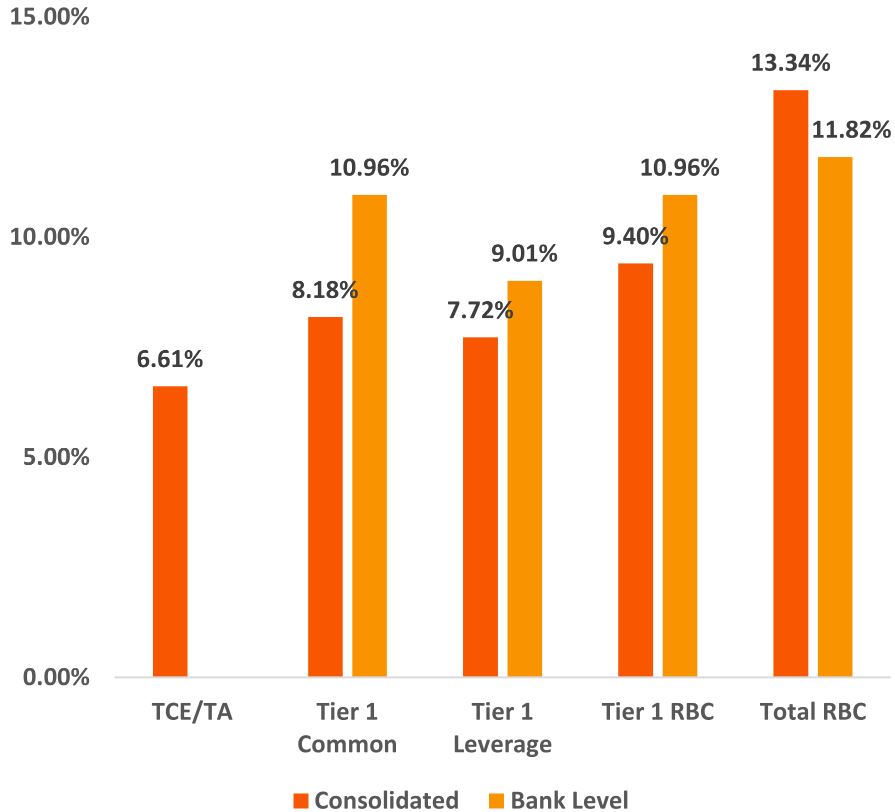
Capital and Liquidity Overview

Capital Ratios
(as of 9/30/20)



Liquidity Sources
(as of 9/30/20)

($ in millions)	
Cash and Cash Equivalents	$ 416.2
Unpledged Securities	188.7
FHLB Committed Liquidity	451.2
FRB Discount Window Availability	52.7
Primary Liquidity	**1,153.8**
FRB – PPP Liquidity Facility(1)	250.0
Secondary Liquidity	**250.0**
Total Estimated Liquidity	**$ 1,403.8**
Conditional Funding Based on Market Conditions	
Additional Credit Facility	$ 250.0
Brokered CDs (additional capacity)	$ 500.0

(1) Enrolled in PPP facility – loans available to submit

Other Liquidity

Holding Company Cash Position of $62.6 Million

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

Adjusted Earnings Reconciliation

	For the Quarter Ended				
(dollars in thousands, except per share data)	**September 30, 2020**	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**
Income before income taxes - GAAP	$ 3,270	$ 15,993	$ 2,005	$ 16,071	$ 16,670
Adjustments to noninterest income:					
Gain on sales of investment securities, net	1,721	-	-	635	25
Other	(17)	11	(13)	(6)	-
Total adjustments to noninterest income	1,704	11	(13)	629	25
Adjustments to noninterest expense:					
Loss (gain) on mortgage servicing rights held for sale	188	391	496	95	(70)
Loss on repurchase of subordinated debt	-	-	193	1,778	-
Impairment related to branch optimization	12,651	60	146	-	3,229
Integration and acquisition expenses	1,199	(6)	885	3,332	2,063
Total adjustments to noninterest expense	14,038	445	1,720	5,205	5,222
Adjusted earnings pre tax	15,604	16,427	3,738	20,647	21,867
Adjusted earnings tax	3,581	3,543	932	4,537	5,445
Adjusted earnings - non-GAAP	12,023	12,884	2,806	16,110	16,422
Preferred stock dividends, net	-	-	-	-	(22)
Adjusted earnings available to common shareholders - non-GAAP	$ 12,023	$ 12,884	$ 2,806	$ 16,110	$ 16,444
Adjusted diluted earnings per common share	$ 0.52	$ 0.55	$ 0.11	$ 0.64	$ 0.66
Adjusted return on average assets	0.72 %	0.78 %	0.19 %	1.04 %	1.09 %
Adjusted return on average shareholders' equity	7.56 %	8.20 %	1.73 %	9.71 %	10.01 %
Adjusted return on average tangible common equity	11.04 %	12.14 %	2.53 %	14.15 %	14.52 %

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RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES (unaudited) (continued)

Efficiency Ratio Reconciliation

	For the Quarter Ended				
(dollars in thousands)	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Noninterest expense - GAAP	$ 54,659	$ 40,782	$ 42,675	$ 46,325	$ 48,025
(Loss) gain on mortgage servicing rights held for sale	(188)	(391)	(496)	(95)	70
Loss on repurchase of subordinated debt	-	-	(193)	(1,778)	-
Impairment related to branch optimization	(12,651)	(60)	(146)	-	(3,229)
Integration and acquisition expenses	(1,199)	6	(885)	(3,332)	(2,063)
Adjusted noninterest expense	$ 40,621	$ 40,337	$ 40,955	$ 41,120	$ 42,803
Net interest income - GAAP	$ 49,980	$ 48,989	$ 46,651	$ 48,687	$ 49,450
Effect of tax-exempt income	430	438	485	474	502
Adjusted net interest income	50,410	49,427	47,136	49,161	49,952
Noninterest income - GAAP	$ 18,919	$ 19,396	$ 8,598	$ 19,014	$ 19,606
Loan servicing rights impairment	1,418	107	8,468	1,613	1,060
Gain on sales of investment securities, net	(1,721)	-	-	(635)	(25)
Other	17	(11)	13	6	-
Adjusted noninterest income	18,633	19,492	17,079	19,998	20,641
Adjusted total revenue	$ 69,043	$ 68,919	$ 64,215	$ 69,159	$ 70,593
Efficiency ratio	58.83 %	58.53 %	63.78 %	59.46 %	60.63 %

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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)	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	$ 621,880	$ 633,589	$ 631,160	$ 661,911	$ 655,522
Adjustments:					
Preferred stock	-	-	-	-	-
Goodwill	(161,904)	(172,796)	(172,796)	(171,758)	(171,074)
Other intangibles, net	(29,938)	(31,495)	(33,124)	(34,886)	(36,690)
Tangible common equity	$ 430,038	$ 429,298	$ 425,240	$ 455,267	$ 447,758
Total Assets to Tangible Assets:					
Total assets—GAAP	$ 6,700,045	$ 6,644,498	$ 6,208,230	$ 6,087,017	$ 6,113,904
Adjustments:					
Goodwill	(161,904)	(172,796)	(172,796)	(171,758)	(171,074)
Other intangibles, net	(29,938)	(31,495)	(33,124)	(34,886)	(36,690)
Tangible assets	$ 6,508,203	$ 6,440,207	$ 6,002,310	$ 5,880,373	$ 5,906,140
Common Shares Outstanding	22,602,844	22,937,296	23,381,496	24,420,345	24,338,748
Tangible Common Equity to Tangible Assets	6.61 %	6.67 %	7.08 %	7.74 %	7.58 %
Tangible Book Value Per Share	$ 19.03	$ 18.72	$ 18.19	$ 18.64	$ 18.40

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
(dollars in thousands)	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Net income available to common shareholders	$ 86	$ 12,569	$ 1,549	$ 12,792	$ 12,677
Average total shareholders' equity—GAAP	$ 632,879	$ 631,964	$ 652,701	$ 658,497	$ 651,162
Adjustments:					
Preferred stock	-	-	-	-	(814)
Goodwill	(168,771)	(172,796)	(171,890)	(171,082)	(166,389)
Other intangibles, net	(30,690)	(32,275)	(33,951)	(35,745)	(34,519)
Average tangible common equity	$ 433,418	$ 426,893	$ 446,860	$ 451,670	$ 449,440
ROATCE	0.08 %	11.84 %	1.39 %	11.24 %	11.19 %

Midland States Bancorp, Inc.