




Midland States Bancorp, Inc. NASDAQ: MSBI

Fourth Quarter 2018 Earnings Call



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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 4Q18

4Q18 Earnings

Net income of \$16.3 million, or \$0.67 diluted EPS

- Return on average assets of 1.14%
- Return on average shareholders' equity of 10.81%
- Return on average tangible common equity ⁽¹⁾ of 16.40%

Strong Capital Generation

- Book value per share increased 2.2% to \$25.50
- Tangible book value per share ⁽¹⁾ increased 3.8% to \$17.00
- Significant increases in all capital ratios

Disciplined Balance Sheet Management

- Focus on commercial and consumer lending with attractive risk-adjusted yields
- Continued management of deposit costs

Key Operating Trends

- Excluding accretion income, NIM increased 5 bps
- Noninterest income accounted for 30% of total revenue

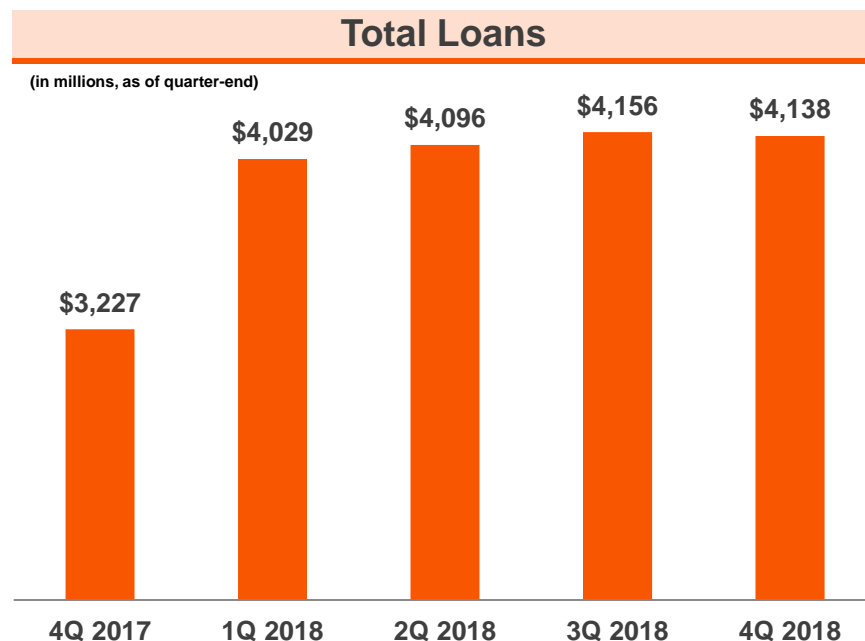
Notes:

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

Loan Portfolio

- Total loans declined \$18.7 million
- Decline in commercial real estate partially offset by continued growth in commercial loans and leases, and consumer lending
- Equipment loan and lease financings increased \$64.7 million, or 20.8%, from September 30, 2018 with full year 2018 growth of \$170.4 million, or 82.9%
- Organic loan growth in 2018 was \$124.7 million or 3.9%

Loan Portfolio Mix			
(in millions, as of quarter-end)			
	4Q 2018	3Q 2018	4Q 2017
Commercial loans and leases	\$ 1,075	\$ 1,035	\$ 761
Commercial real estate	1,639	1,712	1,440
Construction and land development	232	239	201
Residential real estate	578	586	454
Consumer	613	584	371
Total Loans	\$ 4,138	\$ 4,156	\$ 3,227



Total Deposits

- Total deposits decreased \$69.0 million to \$4.07 billion
- Decline in deposits attributable to:
 - Intentional run-off of brokered deposits
 - Outflows of public funds
 - Normal fluctuations in servicing deposits

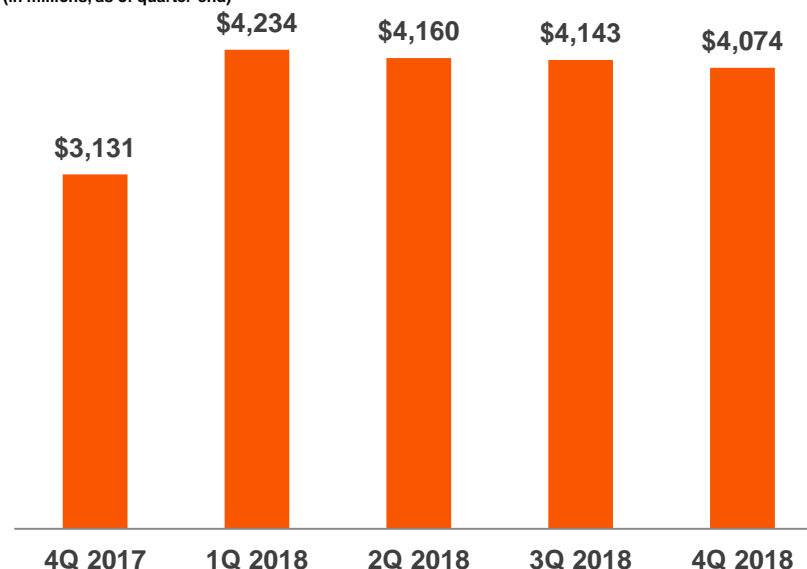
Deposit Mix

(in millions, as of quarter-end)

	4Q 2018	3Q 2018	4Q 2017
Noninterest-bearing demand	\$ 972	\$ 991	\$ 724
Interest-bearing:			
Checking	1,002	1,048	786
Money market	862	836	646
Savings	442	446	281
Time	634	634	503
Brokered	162	189	190
Total Deposits	\$ 4,074	\$ 4,143	\$ 3,131

Total Deposits

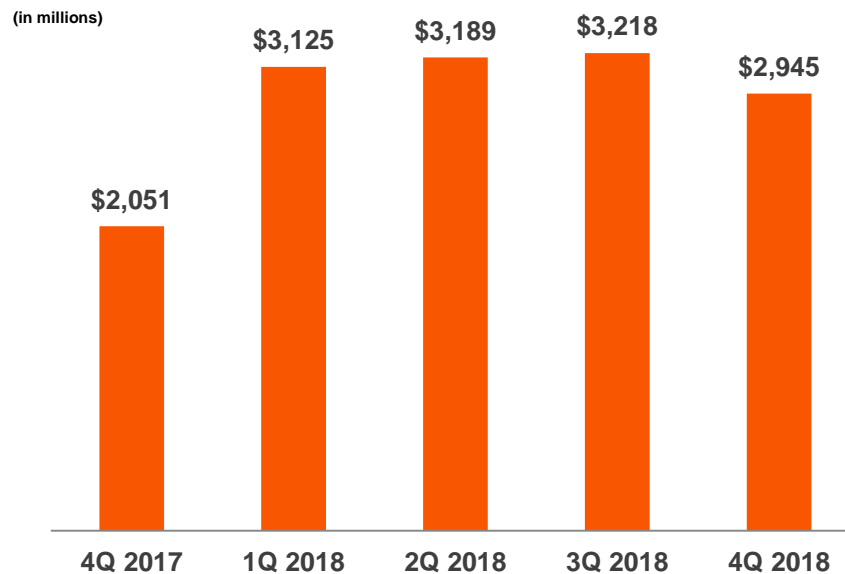
(in millions, as of quarter-end)



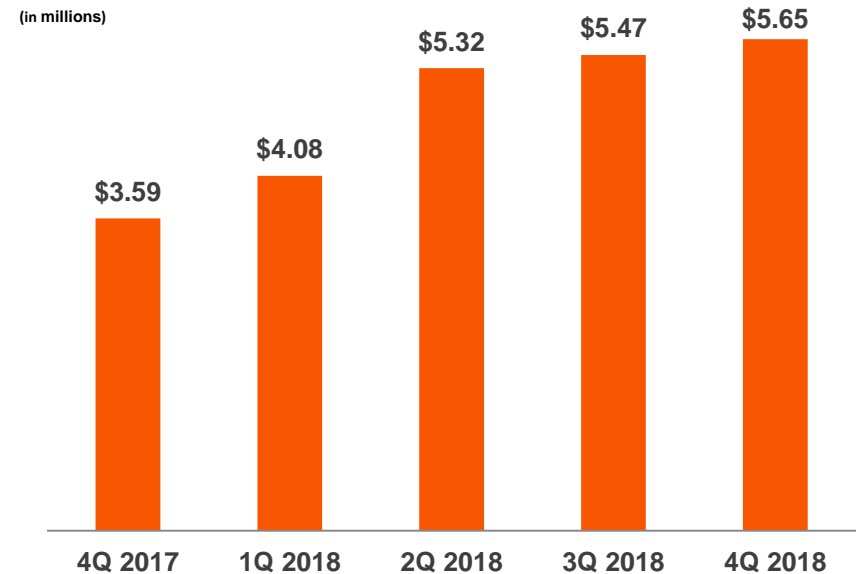
Wealth Management

- Total Wealth Management revenue increased 3.4% from the prior quarter
- Increase in revenue primarily driven by a higher level of revenue generated from estate fees
- During 4Q18, assets under administration declined \$272.9 million primarily due to market performance

Assets Under Administration



Wealth Management Revenue

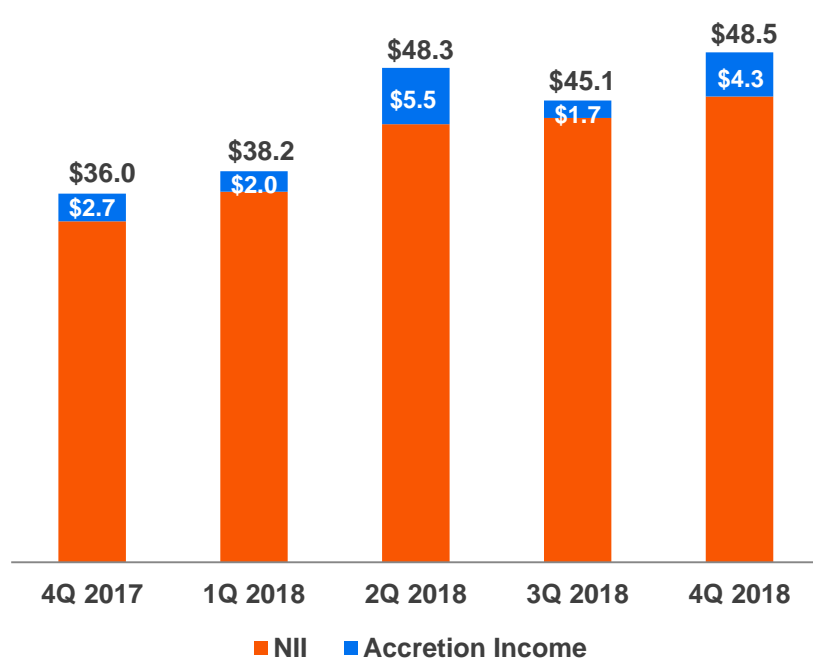


Net Interest Income/Margin

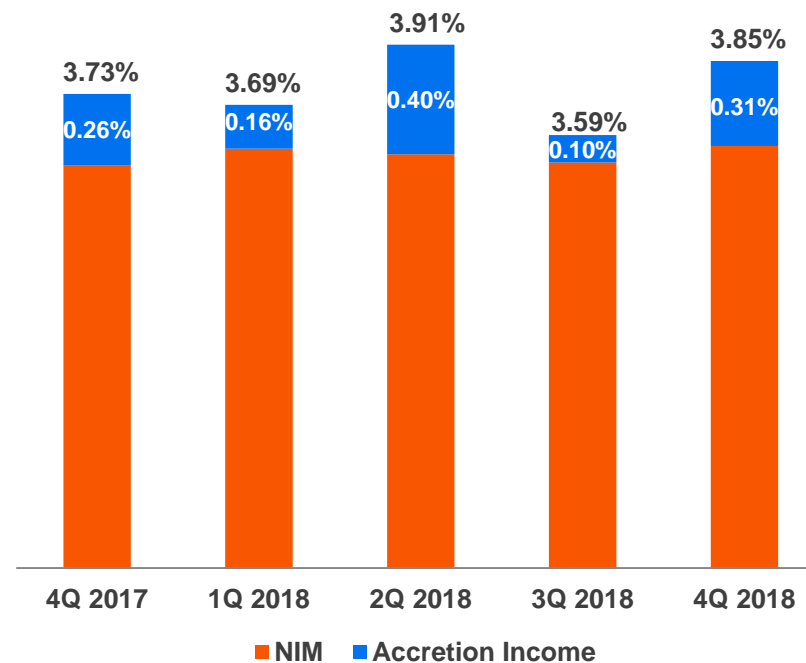
- Net interest income and margin increased due to higher accretion income
- Excluding the impact of accretion income, net interest margin increased 5 bps
- Average rate on new and renewed loans increased 34 basis points from prior quarter
- Expected scheduled accretion income: \$2.3 million in 1Q19; \$8.1 million in FY 2019

Net Interest Income

(in millions)



Net Interest Margin

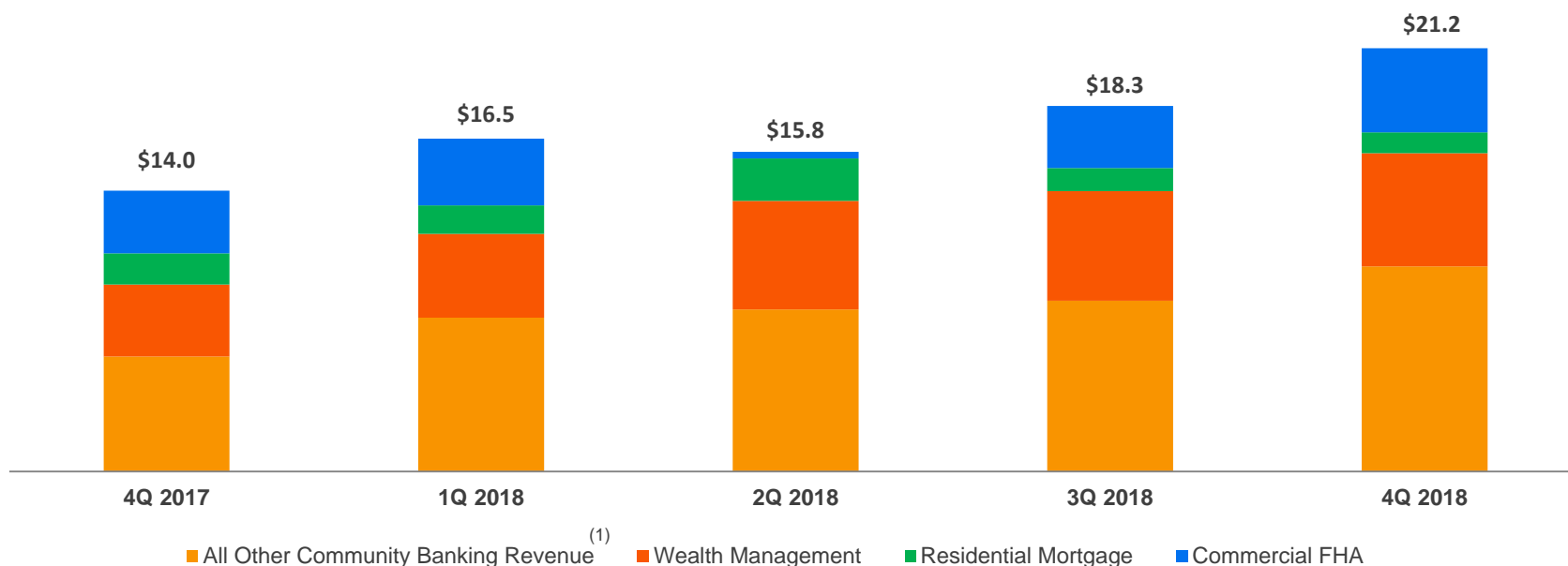


Noninterest Income

- Noninterest income increased 15.9% from prior quarter
- Wealth management remains largest single contributor to noninterest income
- Commercial FHA revenue of \$4.2 million included \$1.4 million recapture of MSR impairment
- Higher level of revenue in community banking fees, which includes service charges on deposits and interchange revenue

Noninterest Income

(in millions)



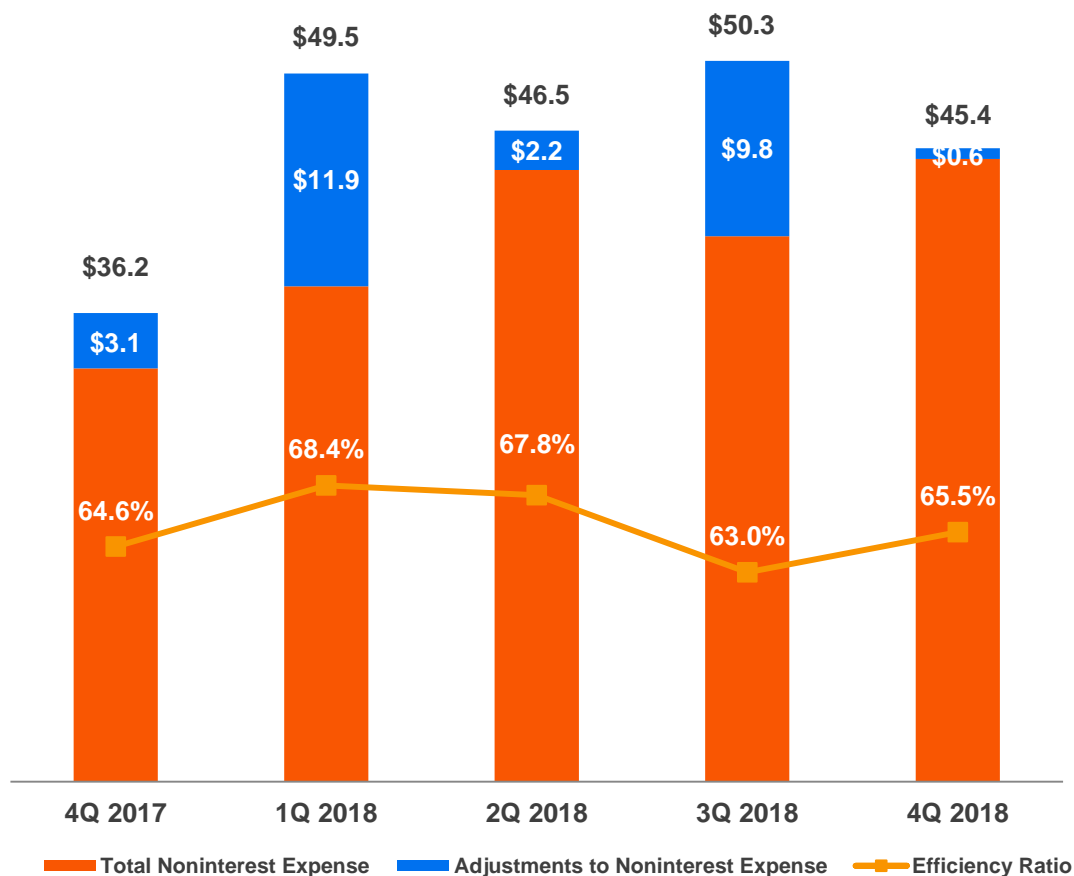
Notes:

(1) Represents service charges, interchange revenue, net gain (loss) on sale of investment securities, and other income

Noninterest Expense and Operating Efficiency

Noninterest Expense and Efficiency Ratio (1)

(Noninterest expense in millions)



- Efficiency Ratio ⁽¹⁾ was 65.5% in 4Q18 vs. 63.0% in 3Q18
- Integration and acquisition related expenses
 - \$0.6 million in 4Q18
 - \$9.6 million in 3Q18
- Loss on mortgage servicing rights held for sale
 - None in 4Q18
 - \$0.3 million in 3Q18
- Excluding these items, noninterest expense increased 10.7% on a linked-quarter basis
- 2019 quarterly run-rate for noninterest expense projected to be approximately \$42-\$43 million

Notes:

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

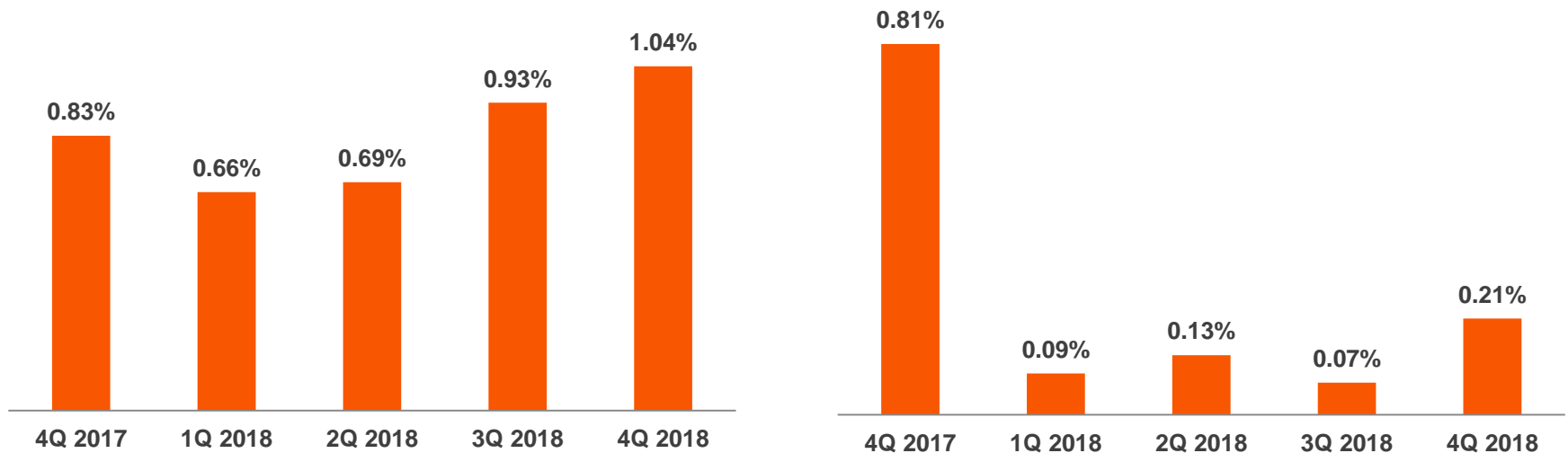
Asset Quality

- Increase in nonperforming loans primarily attributable to the downgrade of three commercial real estate loans
- Net charge-offs for 4Q18 was 0.21% of average loans on an annualized basis, while net charge-offs for full year 2018 was 0.13%
- Provision for loan losses of \$3.5 million in 4Q18
- ALLL/total loans of 0.51% and credit marks/total loans of 0.53% at December 31, 2018

Nonperforming Loans / Total Loans

NCO / Average Loans

(Total Loans as of quarter-end)





Outlook

- **Continued implementation of balance sheet management and fee income generation strategies utilized in 2018**
- **Loan production will remain focused on areas with most attractive risk-adjusted yields**
- **Acquisition strategy focused on tuck-in opportunities in near-term**
- **Focused on harvesting additional synergies following rapid growth over past two years**
- **Formula for driving near-term earnings growth:**
 - **Prudent balance sheet management**
 - **Strong fee income generation**
 - **Stable net interest margin**
 - **Improved operating efficiency**



APPENDIX

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

Adjusted Earnings Reconciliation

	For the Quarter Ended				
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
<i>(dollars in thousands, except per share data)</i>					
Income before income taxes - GAAP	\$ 20,863	\$ 10,933	\$ 15,827	\$ 3,182	\$ 7,766
Adjustments to noninterest income:					
Gain (loss) on sales of investment securities, net	469	-	(70)	65	2
Other	(1)	(12)	(48)	150	37
Total adjustments to noninterest income	468	(12)	(118)	215	39
Adjustments to noninterest expense:					
Loss on mortgage servicing rights held for sale	-	270	188	-	442
Integration and acquisition expenses	553	9,559	2,019	11,884	2,686
Total adjustments to noninterest expense	553	9,829	2,207	11,884	3,128
Adjusted earnings pre tax	20,948	20,774	18,152	14,851	10,855
Adjusted earnings tax	4,551	5,142	3,683	4,586	6,992
Revaluation of net deferred tax assets	-	-	-	-	(4,540)
Adjusted earnings - non-GAAP	16,397	15,632	14,469	10,265	8,403
Preferred stock dividends, net	34	35	36	36	37
Adjusted earnings available to common shareholders - non-GAAP	\$ 16,363	\$ 15,597	\$ 14,433	\$ 10,229	\$ 8,366
Adjusted diluted earnings per common share	\$ 0.67	\$ 0.64	\$ 0.59	\$ 0.48	\$ 0.42
Adjusted return on average assets	1.14 %	1.09 %	1.03 %	0.87 %	0.76 %
Adjusted return on average shareholders' equity	10.85 %	10.45 %	9.93 %	8.34 %	7.34 %
Adjusted return on average tangible common equity	16.46 %	16.02 %	15.27 %	11.86 %	9.88 %

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

Efficiency Ratio Reconciliation

	For the Quarter Ended				
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
<i>(dollars in thousands)</i>					
Noninterest expense - GAAP	\$ 45,375	\$ 50,317	\$ 46,452	\$ 49,499	\$ 36,192
Loss on mortgage servicing rights held for sale	-	(270)	(188)	-	(442)
Integration and acquisition expenses	(553)	(9,559)	(2,019)	(11,884)	(2,686)
Adjusted noninterest expense	<u>\$ 44,822</u>	<u>\$ 40,488</u>	<u>\$ 44,245</u>	<u>\$ 37,615</u>	<u>\$ 33,064</u>
Net interest income - GAAP	\$ 48,535	\$ 45,081	\$ 48,286	\$ 38,185	\$ 36,036
Effect of tax-exempt income	574	585	541	394	659
Adjusted net interest income	<u>49,109</u>	<u>45,666</u>	<u>48,827</u>	<u>38,579</u>	<u>36,695</u>
Noninterest income - GAAP	\$ 21,170	\$ 18,272	\$ 15,847	\$ 16,502	\$ 13,998
Mortgage servicing rights (recapture) impairment	(1,380)	297	500	133	494
(Gain) loss on sales of investment securities, net	(469)	-	70	(65)	(2)
Other	1	12	48	(150)	(37)
Adjusted noninterest income	<u>19,322</u>	<u>18,581</u>	<u>16,465</u>	<u>16,420</u>	<u>14,453</u>
Adjusted total revenue	<u>\$ 68,431</u>	<u>\$ 64,247</u>	<u>\$ 65,292</u>	<u>\$ 54,999</u>	<u>\$ 51,148</u>
Efficiency ratio	65.50 %	63.02 %	67.76 %	68.39 %	64.64 %

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				
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
<i>(dollars in thousands, except per share data)</i>					
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	\$ 608,525	\$ 594,146	\$ 592,535	\$ 585,385	\$ 449,545
Adjustments:					
Preferred stock	(2,781)	(2,829)	(2,876)	(2,923)	(2,970)
Goodwill	(164,673)	(164,044)	(164,044)	(155,674)	(98,624)
Other intangibles	(37,376)	(39,228)	(41,081)	(46,473)	(16,932)
Tangible common equity	<u>\$ 403,695</u>	<u>\$ 388,045</u>	<u>\$ 384,534</u>	<u>\$ 380,315</u>	<u>\$ 331,019</u>
Total Assets to Tangible Assets:					
Total assets—GAAP	\$ 5,637,673	\$ 5,724,612	\$ 5,730,600	\$ 5,723,372	\$ 4,412,701
Adjustments:					
Goodwill	(164,673)	(164,044)	(164,044)	(155,674)	(98,624)
Other intangibles	(37,376)	(39,228)	(41,081)	(46,473)	(16,932)
Tangible assets	<u>\$ 5,435,624</u>	<u>\$ 5,521,340</u>	<u>\$ 5,525,475</u>	<u>\$ 5,521,225</u>	<u>\$ 4,297,145</u>
Common Shares Outstanding	23,751,798	23,694,637	23,664,596	23,612,430	19,122,049
Tangible Common Equity to Tangible Assets	7.43 %	7.03 %	6.96 %	6.89 %	7.70 %
Tangible Book Value Per Share	\$ 17.00	\$ 16.38	\$ 16.25	\$ 16.11	\$ 17.31

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
<i>(dollars in thousands)</i>					
Net income available to common shareholders	\$ 16,302	\$ 8,462	\$ 12,746	\$ 1,770	\$ 1,954
Average total shareholders' equity—GAAP	\$ 599,723	\$ 593,457	\$ 584,653	\$ 498,941	\$ 453,968
Adjustments:					
Preferred stock	(2,812)	(2,859)	(2,905)	(2,952)	(2,997)
Goodwill	(164,051)	(164,044)	(158,461)	(118,996)	(97,406)
Other intangibles	(38,394)	(40,228)	(44,098)	(27,156)	(17,495)
Average tangible common equity	<u>\$ 394,466</u>	<u>\$ 386,326</u>	<u>\$ 379,189</u>	<u>\$ 349,837</u>	<u>\$ 336,070</u>
ROATCE	16.40 %	8.69 %	13.48 %	2.05 %	2.31 %