




# Midland States Bancorp, Inc.

## NASDAQ: MSBI

Investor Presentation

Stephens 9<sup>th</sup> Annual Bank Forum

September 25, 2019



**Forward-Looking Statements.** This presentation may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements express management’s current expectations, forecasts of future events or long-term goals, including with respect to pending acquisitions, and may be based upon beliefs, expectations and assumptions of Midland’s management, 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. 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 respective 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 Tangible Common Equity,” “Yield on Loans Excluding Accretion Income,” “Net Interest Margin Excluding Accretion Income,” “Tangible Common Equity to Tangible Assets,” “Tangible Book Value Per Share.” 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.

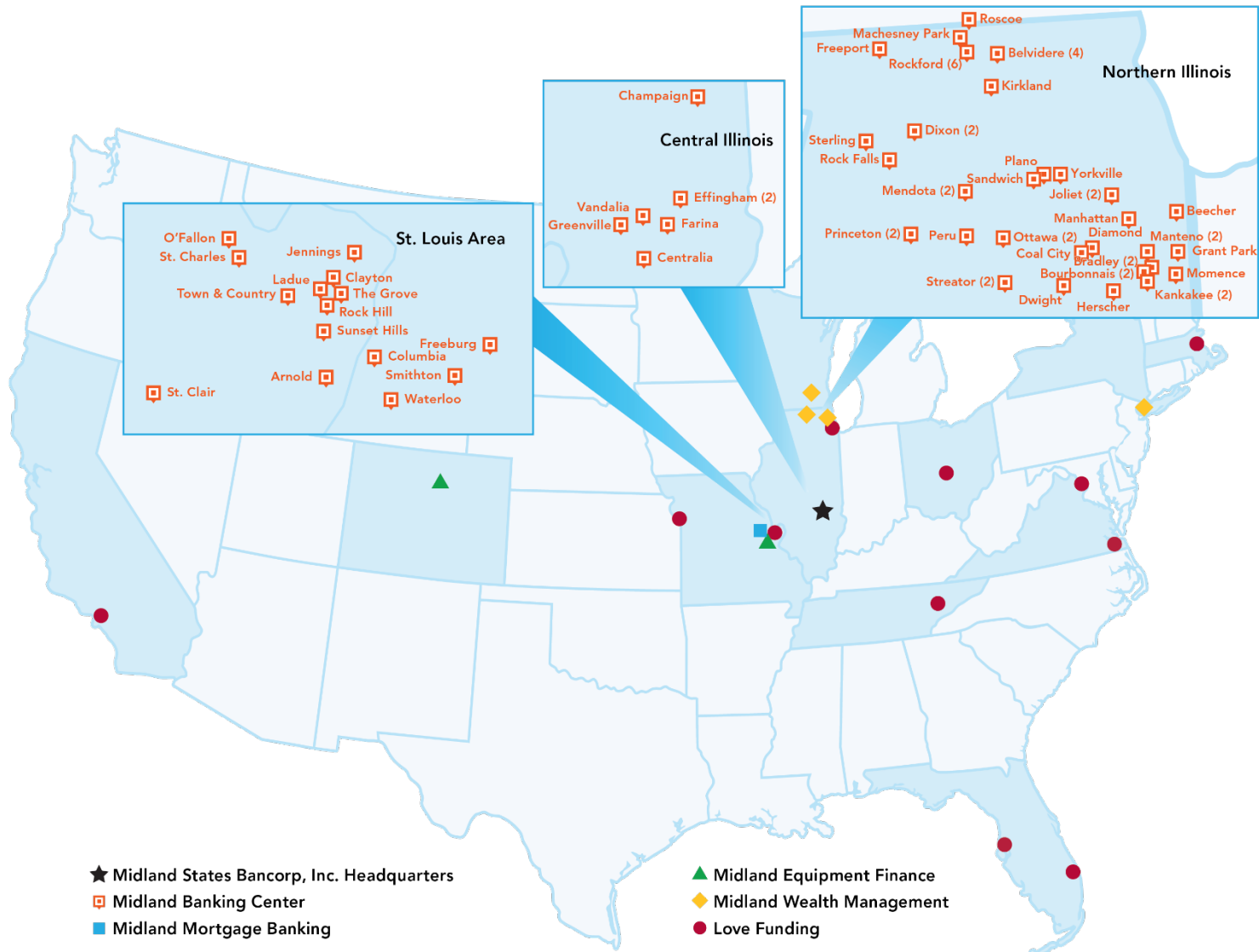
# Company Snapshot

- **\$5.55 billion asset community bank established in 1881 and headquartered in Effingham, Illinois (3rd largest Illinois-based community bank<sup>1</sup>)**
- **\$3.13 billion Wealth Management business**
- **Strong fee generators consistently account for approximately 30% of total revenue**
- **90+ offices throughout the U.S. including 74 traditional branches in Illinois and Missouri**
- **14 successful acquisitions since 2008**
- **July 2019 acquisition of HomeStar Bank expands presence in Kankakee, Illinois and adds attractive low-cost deposit base**

Notes:

- 1) Community bank defined as banks with less than \$10 billion in assets; Source: S&P Global Market Intelligence
- 2) All financial data as of June 30, 2019

# Financial Services & Banking Center Footprint



Residential Mortgage and Wealth Management services are also available through all Midland Banking Centers.

# Investment Summary

- **Experienced and deep management team**
- **Consistent track record of driving compelling shareholder returns through disciplined strategic expansion and earnings growth**
- **Solid asset quality with low charge-off history driven by a diversified loan portfolio, conservative credit culture and disciplined underwriting process**
- **Attractive, stable core deposit franchise with 22% non-interest bearing accounts<sup>(1)</sup>**
- **Proven track record of successful acquisitions with a focus on enhancing shareholder value while building a platform for scalability**
- **Illinois and contiguous states provide ample opportunities for future acquisitions**
- **Comprehensive risk management standards applied throughout the entire business**

Notes:

(1) As of June 30, 2019

# Business and Corporate Strategy

## Five Core Strategic Initiatives

### Customer-Centric Culture

Drive our organic growth by focusing on customer service and accountability to our clients and colleagues; seek to develop bankers who create dynamic relationships; pursue continual investment in people; maintain a core set of institutional values

### Operational Excellence

A corporate-wide focus on driving improvements in people, processes and technology in order to generate further improvement in Midland's operating efficiency and financial performance

### Enterprise-Wide Risk Management

Maintain a program designed to integrate controls, monitoring and risk-assessment at all key levels and stages of our operations and growth; ensure that all employees are fully engaged

### Accretive Acquisitions

Maintain experienced acquisition team capable of identifying and executing transactions that build shareholder value through a disciplined approach to pricing; take advantage of relative strength in periods of market disruption

### Revenue Diversification

Generate a diversified revenue mix and focus on growing businesses that generate strong recurring revenues such as wealth management

# Experienced Leadership Team

## Highly experienced senior management in place:



**John M. Schultz:** Chairman of the Board

- Held the position since 2006
- Chief Executive Officer of Agracel, Inc.
- Author of *Boomtown USA: the 7 ½ Keys to Big Success in Small Towns*



**Jeffrey G. Ludwig:** President and CEO of Midland States Bancorp

- Assumed Company CEO role in Jan. 2019 after serving as Bank CEO
- More than 10 years serving as CFO
- Joined Midland States in November 2006; 16+ years in banking industry



**Jeffrey S. Mefford:** President of Midland States Bank and EVP of Midland States Bancorp

- 25+ years in community banking
- Appointed Bank President in March 2018
- Oversees commercial, retail, mortgage and treasury sales



**Douglas J. Tucker:** SVP, Corporate Counsel and Director of IR

- 19+ years experience advising banks and bank holding co.
- Significant IPO, SEC reporting and M&A experience
- Served as lead outside counsel for all of Midland's acquisitions and capital raise transactions from 2007 prior to joining the Company



**Donald J. Spring:** Chief Accounting Officer

- Promoted to Chief Accounting Officer in 2019
- Joined Midland States in 2009 as Corporate Controller
- 35+ years of financial accounting and reporting experience; primarily in the banking industry



**Jeffrey A. Brunoehler:** Chief Credit Officer

- 30+ years in banking, lending and credit
- Leads the credit underwriting, approval and loan portfolio management functions
- Joined Midland in 2010

- MSBI common shares are 6.7% <sup>(1)</sup> owned by the Board of Directors and executive officers

### Notes:

(1) As of June 30, 2019; beneficial ownership includes shares of unvested restricted stock that officers are entitled to vote, but does not include common stock equivalent units owned by directors or officers under the Deferred Compensation Plan

# Successful Acquisition History

- Midland States has completed 14 transactions since 2008, including FDIC-assisted, branch, whole bank, asset purchase and business line acquisitions, and a New York trust asset acquisition
- Demonstrated history of earnings expansion
- Deliberate diversification of geographies and revenue channels
- Successful post-closing integration of systems and businesses

	Selected Acquisitions					
	2009	2010	2014	2016	2017	2018
	<b>Strategic Capital Bank</b>	<b>AMCORE Bank, N.A.</b>	<b>Love Savings / Heartland Bank</b>	<b>Sterling Bancorp</b>	<b>Centrue Financial</b>	<b>Alpine Bancorp.</b>
Acquisition Type	FDIC-Assisted	12 Branches	Whole Bank	Trust Administration	Whole Bank	Whole Bank & Wealth Mgmt
Assets Acquired (\$mm)	\$540.4	\$499.5	\$889.0	-	\$990.2	\$1,243.3
Location	Champaign, IL	Northern Illinois	St. Louis, MO	Yonkers, NY	Northern Illinois	Rockford, IL
	Financially Transformative	Operationally Transformative	Revenue Diversification	Expansion of Trust Business	Enhanced Scale and Market Presence	Expanded Core Bank and Wealth Management

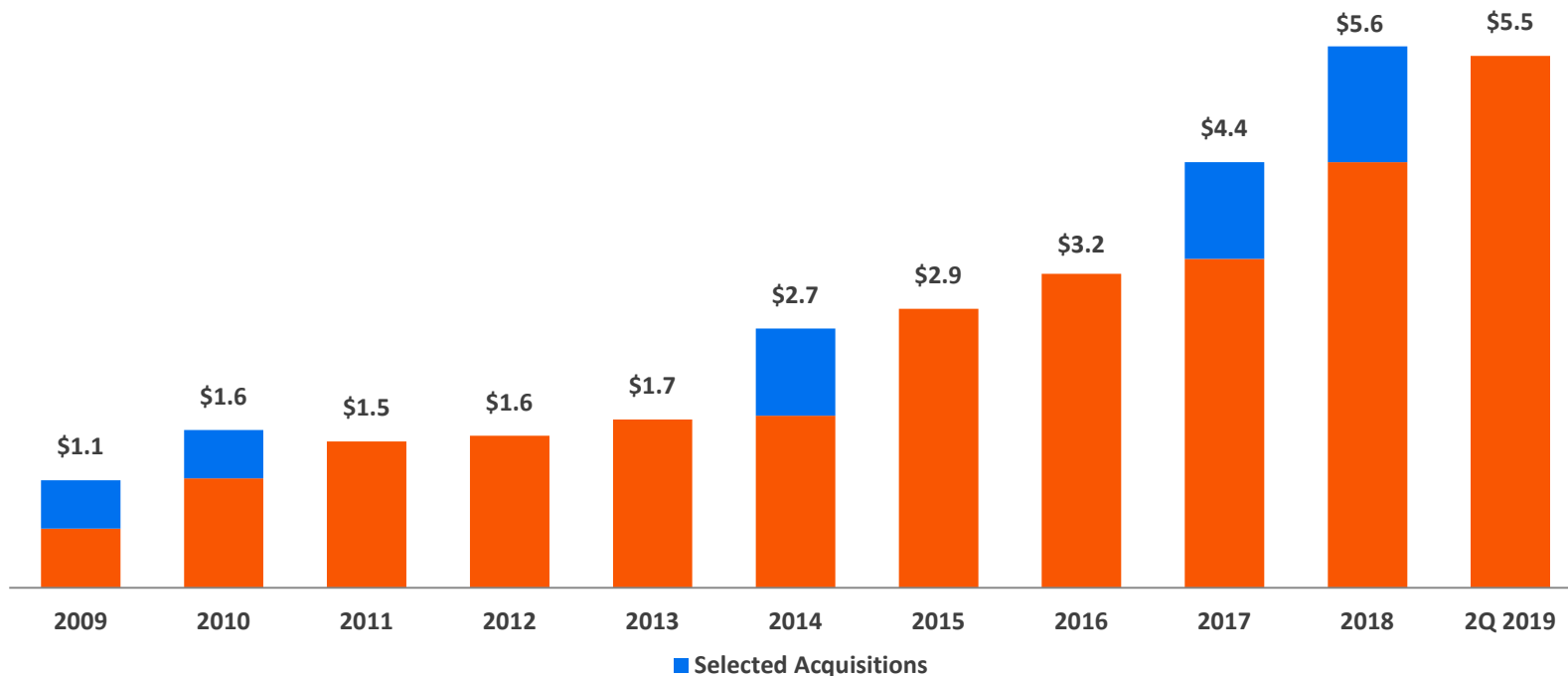


# Successful Execution of Strategic Plan...

## Total Assets

(at period-end in Billions)

CAGR: 18%



### Selected Acquisitions: Total Assets at Time of Acquisition (in millions)

2009: Strategic Capital Bank (\$540)

2010: AMCORE Bank (\$500)

2014: Love Savings/Heartland Bank (\$889)

2017: Centru Financial (\$990)

2018: Alpine Bancorp. (\$1,243)

# ...Leads to Creation of Shareholder Value

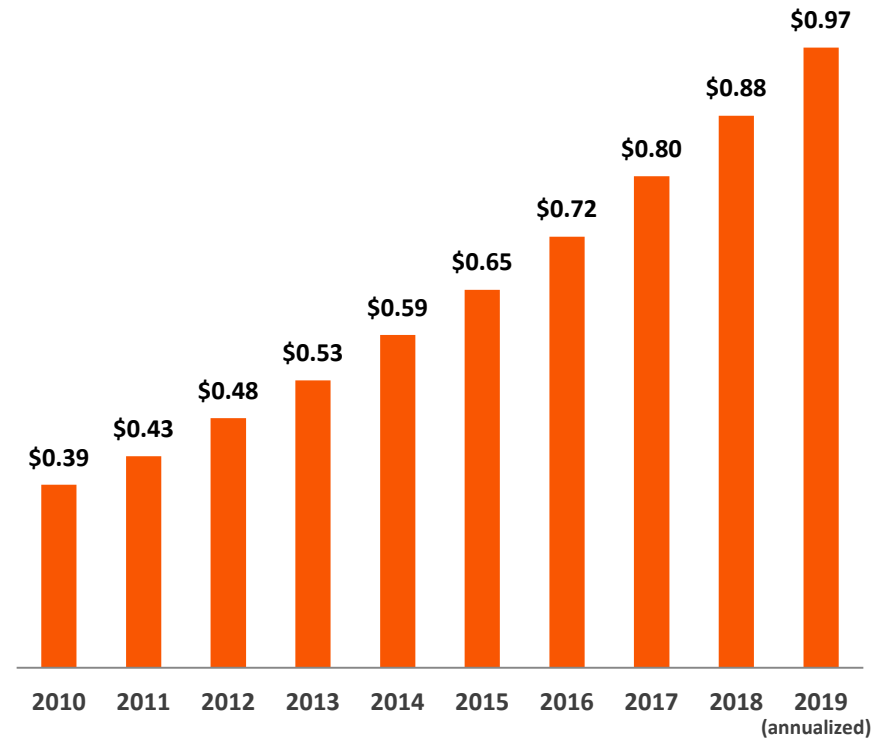
10%+ annual dividend growth over the past 15 years

## Tangible Book Value Per Share<sup>(1)</sup>

(at period-end)



## Dividends Declared Per Share



**Note:**

(1) Tangible book value per share is a non-GAAP financial measure; tangible book value per share is defined as tangible common equity divided by shares of common stock outstanding (in the case of the "as converted" measure, assuming the conversion of all preferred shares that were outstanding prior to December 31, 2014); please see reconciliation on slide 26 of the appendix



# Overview of HomeStar Bank Acquisition

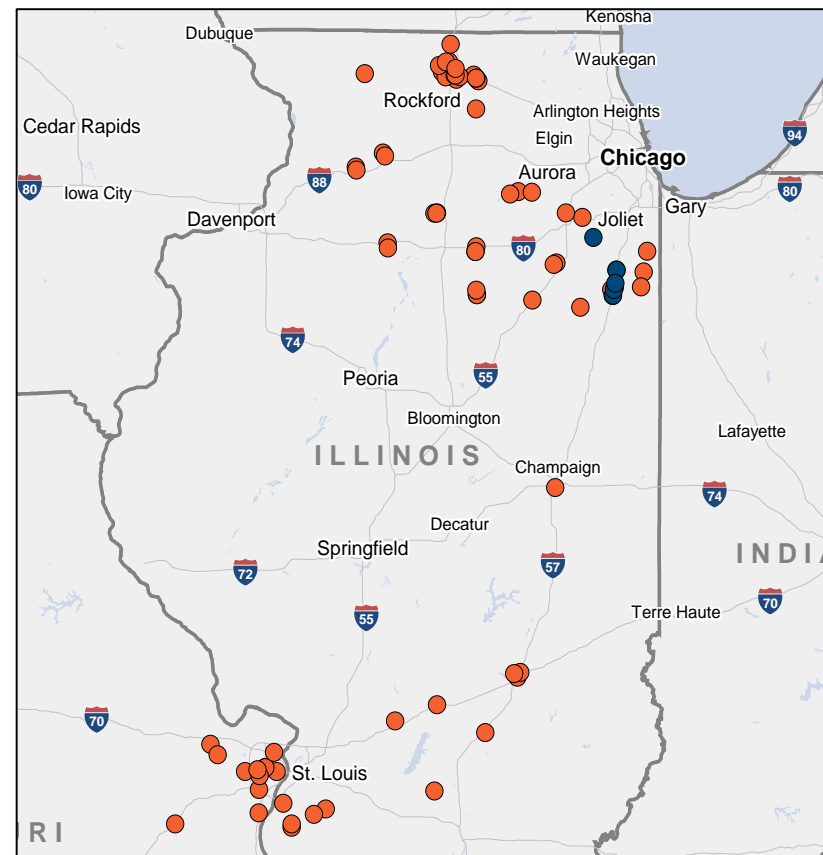
## Key Highlights<sup>(1)</sup>

- Closed in July 2019
- Complements Midland's franchise in Kankakee
  - Provides #1 deposit market share in Kankakee, IL MSA
- Stable, low-cost deposit franchise
  - 20 bps weighted average cost of deposits
  - 1.3% deposit beta (3Q15-4Q18)
- Highly accretive transaction with significant opportunities to realize cost savings
- Small, in-market acquisition with ease of integration and little to no disruption to efficiency initiatives

## Financial Impact<sup>(1)</sup>

- Approx. 9% EPS accretion in 2020 (first full year of cost savings)
- TBV per share dilution of 2 years (crossover method)
- Adds \$223 million in total loans
- Adds \$333 million in total deposits
- Provides more than \$100 million in excess liquidity

## Combined Branch Map



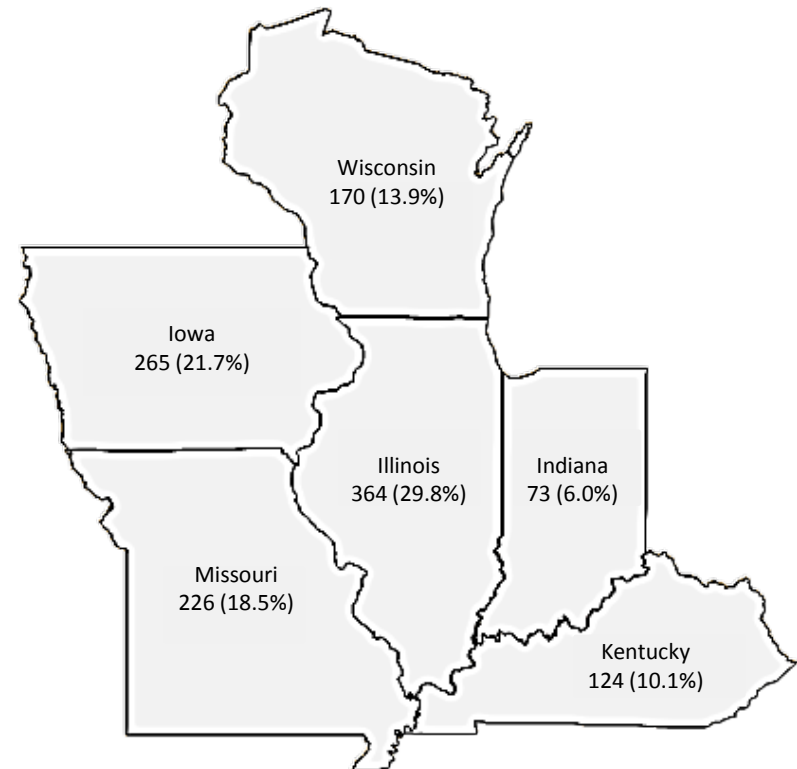
● Midland States Bancorp, Inc.

● HomeStar Financial Group, Inc.

# Market Opportunities & Acquisition Strategy

- MSBI believes there will be numerous small to midsized banking organizations available for acquisition within Illinois and contiguous states
- There are more than 1,200 institutions in the six-state region with less than \$1.0 billion in assets <sup>(1)</sup>
  - Illinois and Missouri combine for nearly half of those institutions
- MSBI targets institutions with demographics similar to current markets that are strategically compelling and financially accretive
- Remain a community bank focused on customer service

Number of Banks & Thrifts  
With less than \$1.0 Billion in Assets <sup>(1)</sup>



Be a “partner of choice” for community banks  
with scale and/or succession challenges

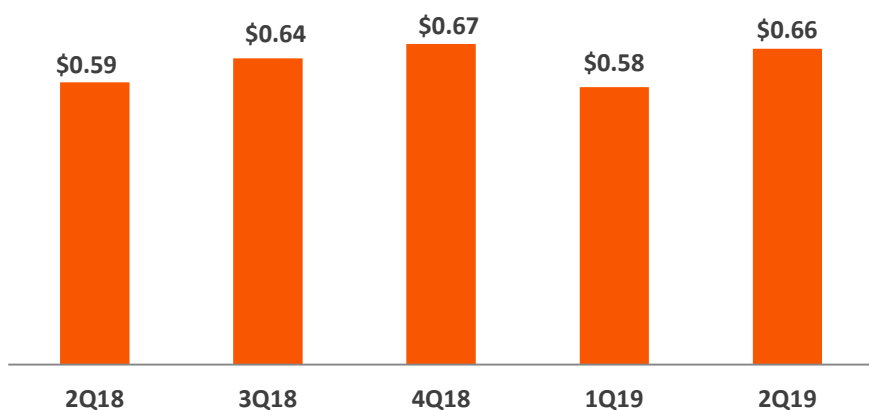
Note:

(1) Based on December 31, 2018 financial data

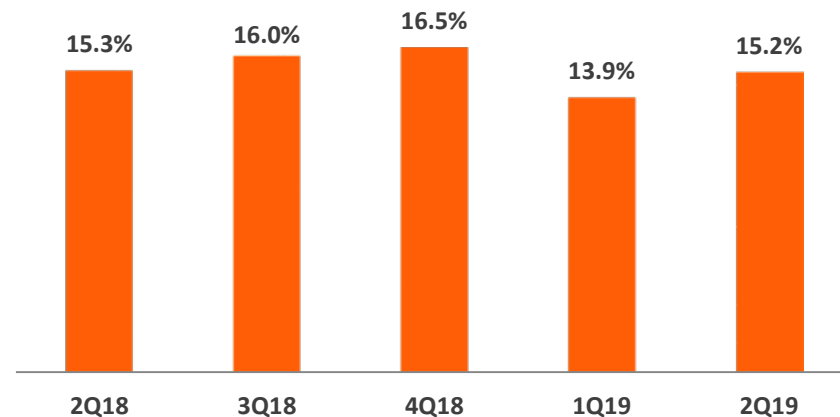
Source: S&P Global Market Intelligence

# Performance Metrics

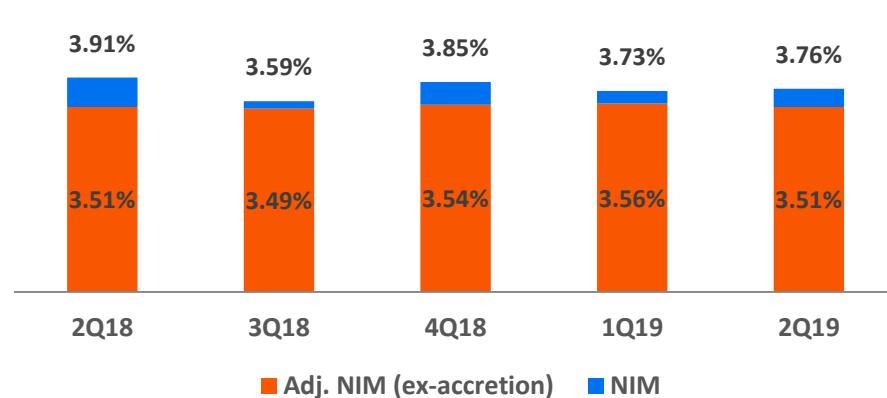
Adjusted Diluted Earnings Per Share <sup>(1)</sup>



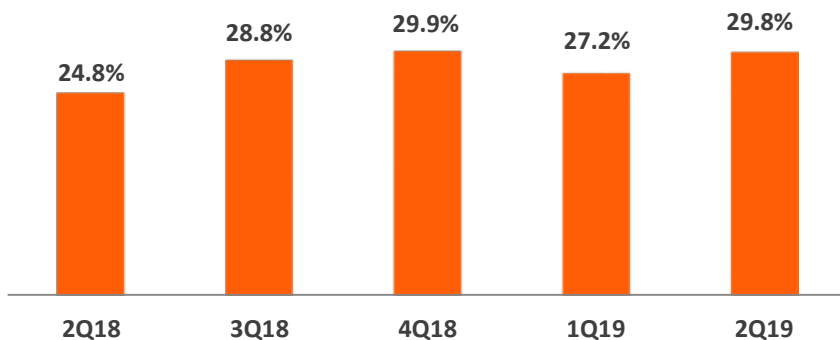
Adjusted Return on Avg. Tangible Common Equity <sup>(1)</sup>



Net Interest Margin <sup>(2)</sup>



Noninterest Income / Total Revenue <sup>(3)</sup>



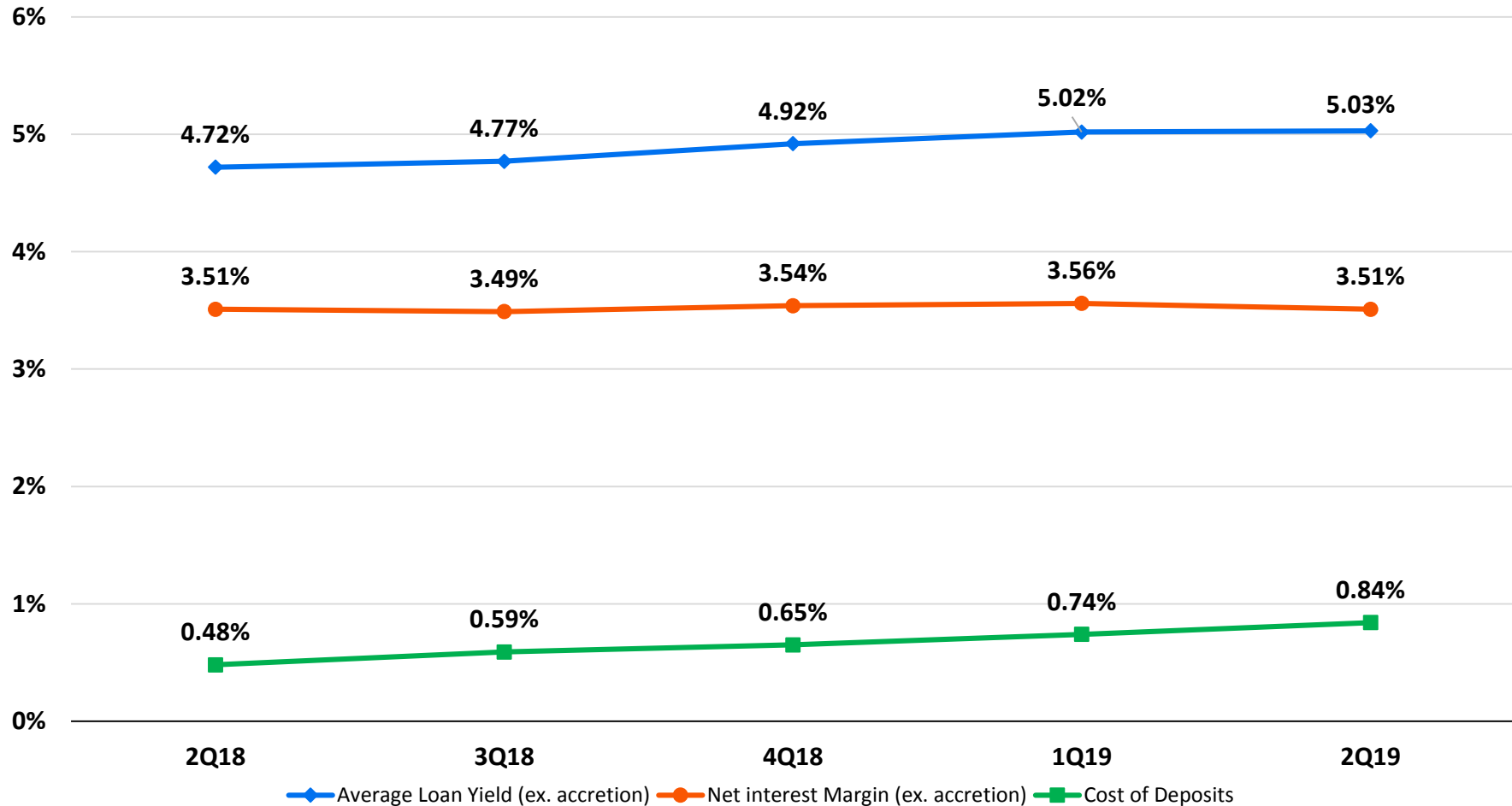
■ Adj. NIM (ex-accretion) ■ NIM

**Notes:**

- (1) Adjusted diluted earnings per share and adjusted return on average tangible common equity are non-GAAP financial measures; please see page 28 for a reconciliation
- (2) Net interest margin excluding accretion income is a non-GAAP financial measure management uses to assess the impact of purchase accounting on the yield on loans and net interest margin, excluding loan accretion from acquired loans; please see page 27 for a reconciliation
- (3) Excludes gain on sale of investment securities

# Higher Average Loan Yields Producing Stable NIM

Net Interest Margin, Average Loan Yields and Cost of Deposits

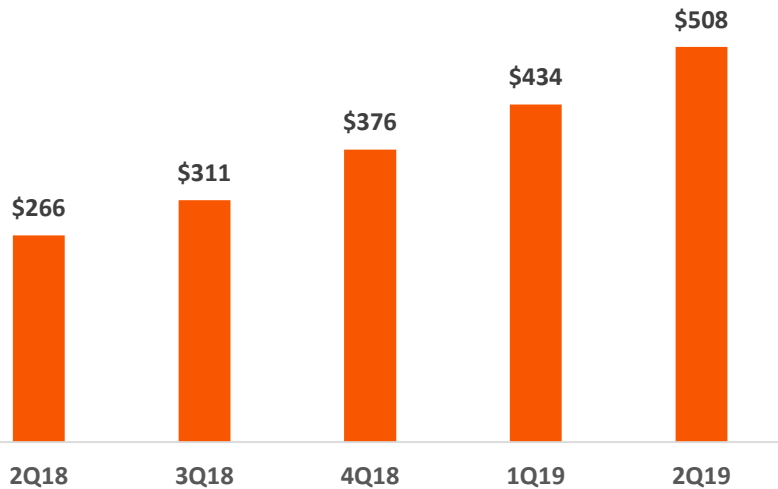


# Loan Portfolio Overview

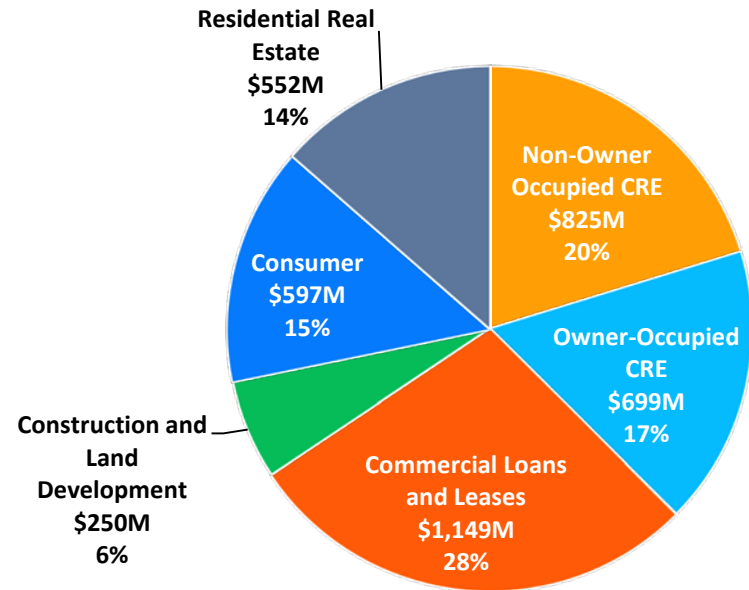
- Broadly diversified loan portfolio by type of customer and loan type
- 66% of portfolio is fixed; 34% is floating
- Focus on growing Equipment Finance portfolio that provides superior risk-adjusted yields

## Equipment Finance Portfolio

(\$ in millions)



## Loan Portfolio Mix

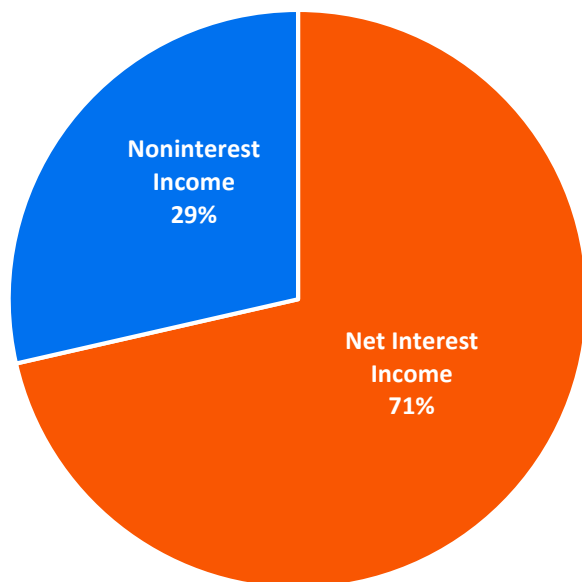


**\$4.07 Billion Gross Loans**  
5.32% Yield (2Q19)

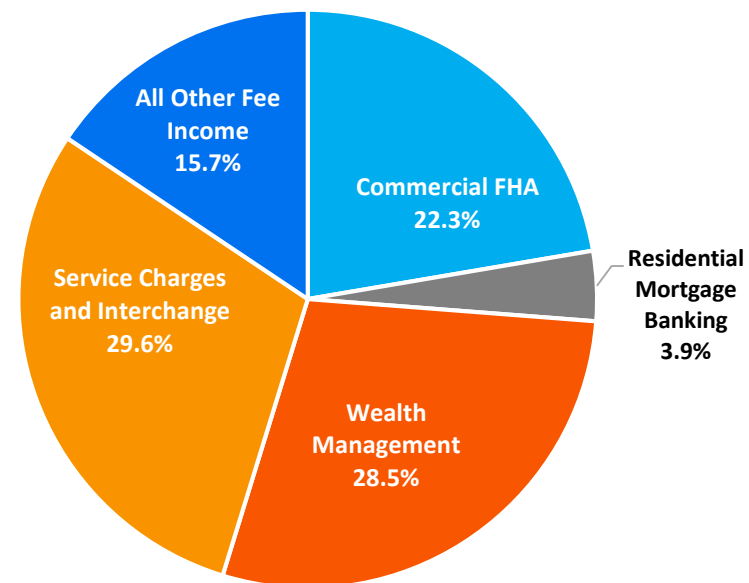
# Revenue Mix

- Diverse revenue mix with nearly 30% noninterest income
- Strong sources of recurring income led by Wealth Management business

YTD 2019 Revenue Mix



YTD 2019 Noninterest Income Mix

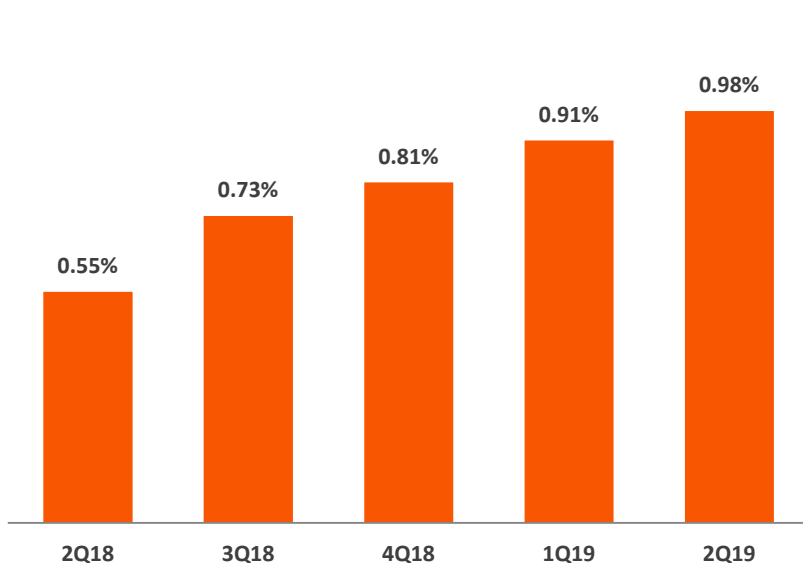




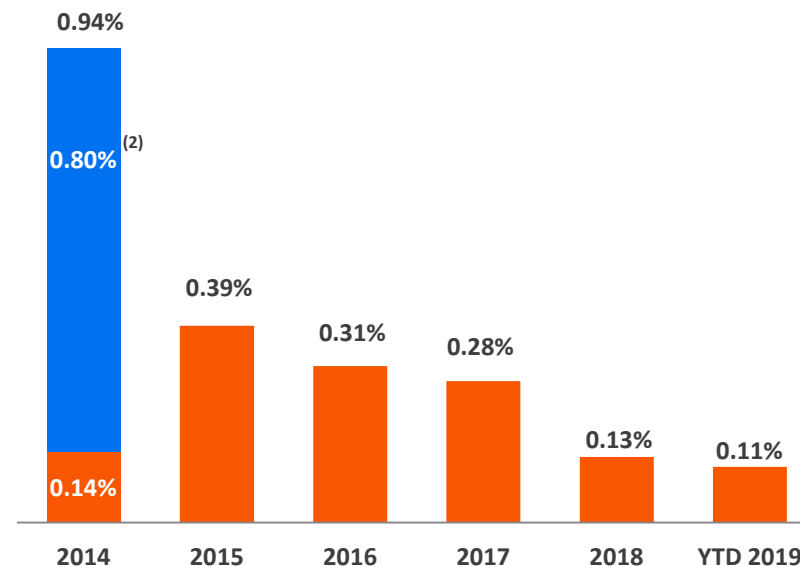
# Strong Credit Quality

- Managed by experienced personnel, MSBI maintains a disciplined approval process and conservative credit culture
- Credit losses have steadily declined since 2015

Nonperforming Assets / Total Assets <sup>(1)</sup>



NCOs / Average Loans



**Notes:**

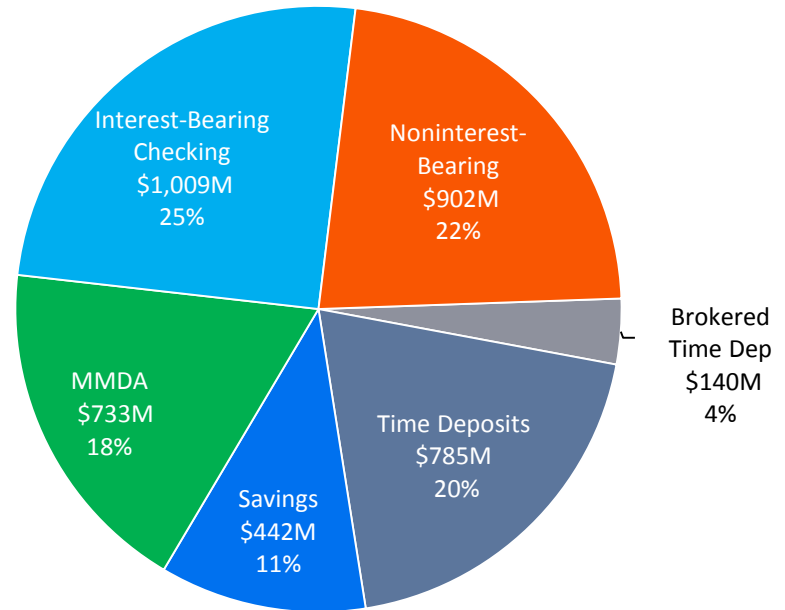
(1) Nonperforming assets include nonperforming loans, other real estate owned and other repossessed assets; nonperforming assets exclude covered other real estate owned related to our two FDIC-assisted transactions; nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings; nonperforming loans exclude purchased credit-impaired loans, or PCI loans, acquired in our prior acquisitions; PCI loans had carrying values of \$50.2 million, \$45.9 million, \$43.0 million, \$36.9 million, and \$34.5 million as of June 30, 2018, September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019, respectively; this ratio may therefore not be comparable to a similar ratio of our peers

(2) NCOs for 2014 include a \$9.8 million charge-off of a PCI loan related to a pool of commercial real estate loans from a previous FDIC acquisition being closed out in 2014 due to no more active loans remaining in the pool; excluding this charge-off, NCOs / Average Loans for the period would be 0.14%

# Strong Core Deposit Base (1)

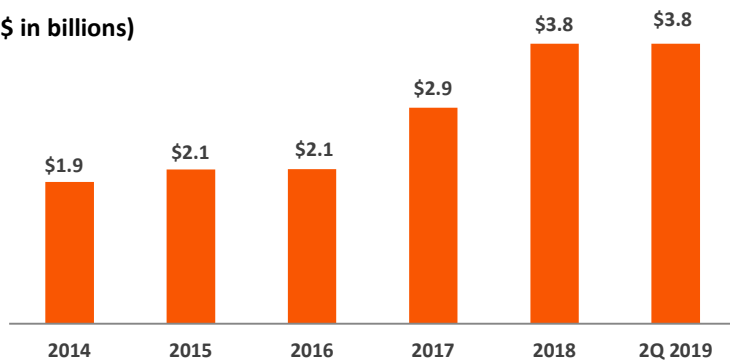
- 94% core deposits (2)
- Recent acquisitions have improved overall funding mix
- 22% non-interest bearing deposits
- Retail deposits represent 54% of total deposits

## Deposit Mix



## Core Deposits (2)

(\$ in billions)



**\$4.01 Billion Total Deposits**  
**0.84% Cost (2Q19)**

**Notes:**

(1) As of or for the three months ended June 30, 2019

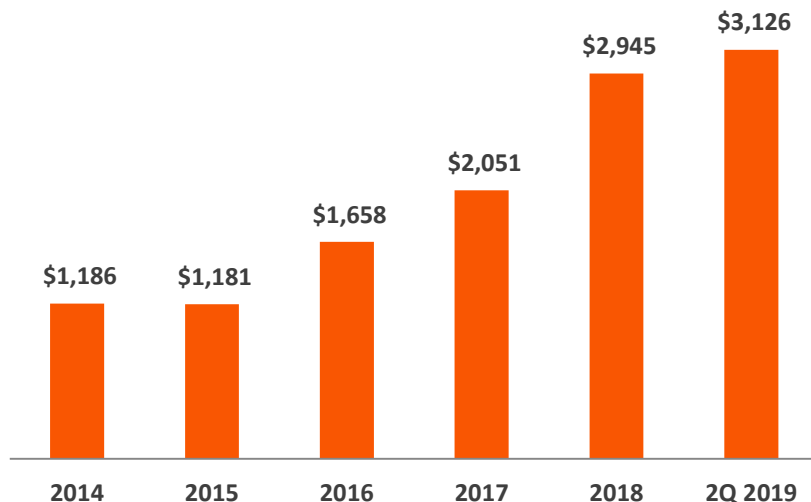
(2) Core deposits defined as total deposits less brokered deposits and certificates of deposit greater than \$250,000

# Wealth Management

- Wealth Management group offers Trust and Estate services, Investment Management, Financial Planning and Employer Sponsored Retirement Plans
- Acquisition of Sterling Trust (Nov. 2016) added \$400 million in Assets Under Administration
- Acquisition of CedarPoint Investment Advisors (Mar. 2017 - \$180 million in AUA) added RIA platform
- Acquisition of Alpine Bancorporation (Feb. 2018) added approx. \$1.1 billion in AUA

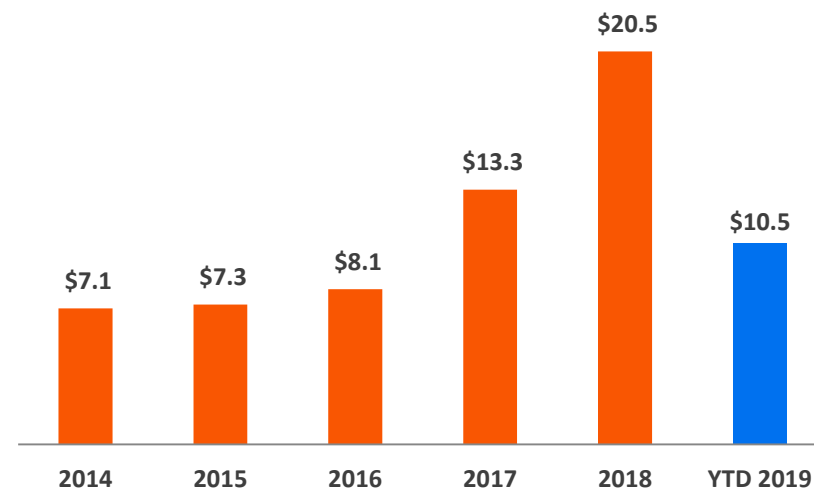
## Assets Under Administration

(in millions)



## Wealth Management Revenue

(in millions)





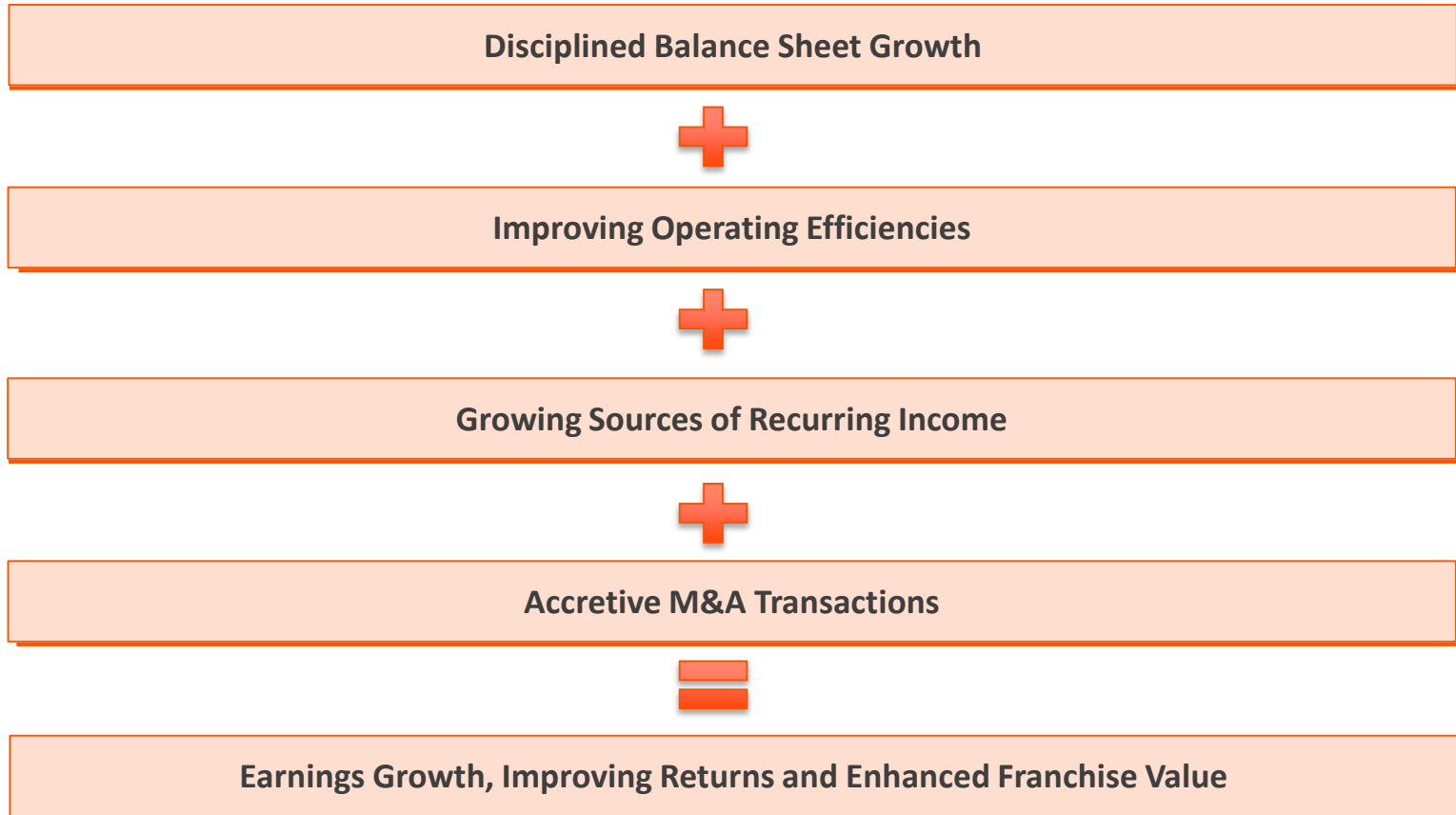
# Outlook



# Outlook

- **Continued execution on protecting margin and controlling expenses resulting in solid financial performance**
- **Low-single-digit organic loan growth expected in 2019**
- **Organic loan growth closely linked to core deposit growth**
- **HomeStar acquisition provides additional liquidity that will enhance our funding profile and increase flexibility in loan production going forward**
- **Issuance of \$100 million of subordinated notes in September 2019 (KBRA rated BBB-) positions the Company to reduce the cost of outstanding borrowings**

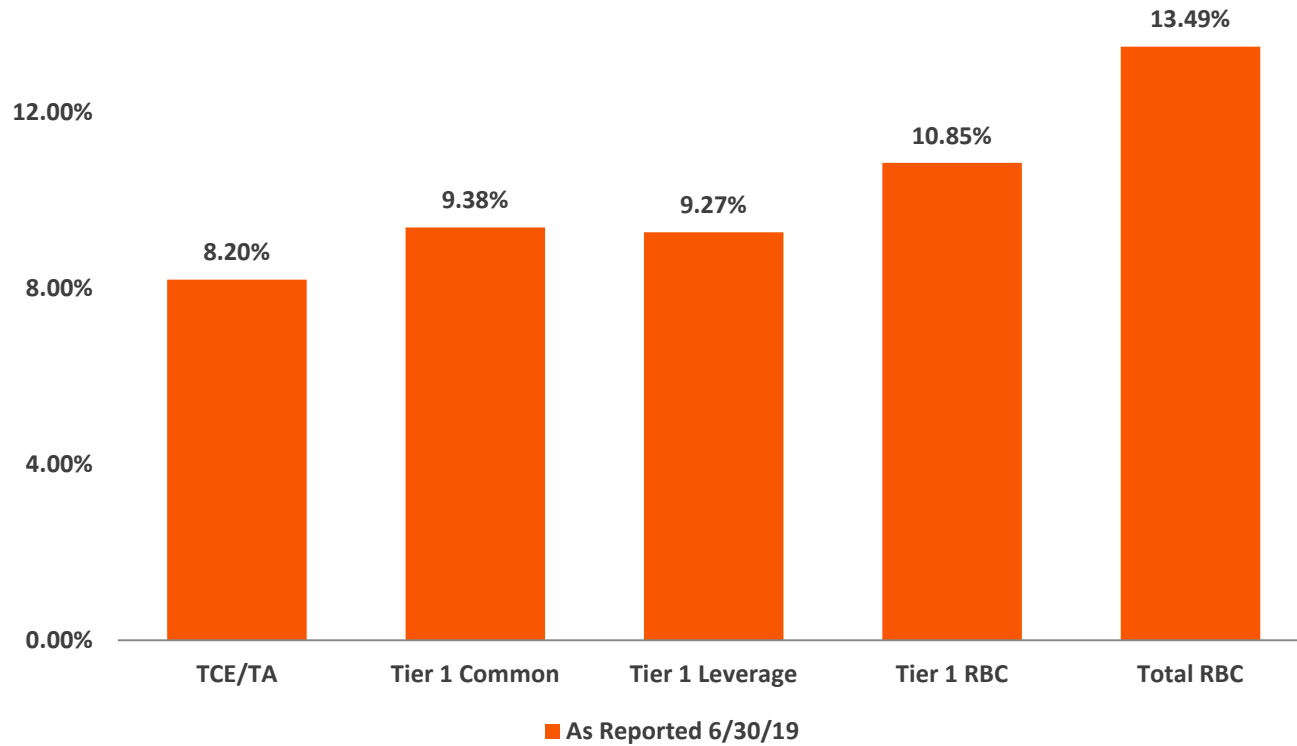
# Formula for Enhancing Shareholder Value





# APPENDIX

# Appendix: Capital Position

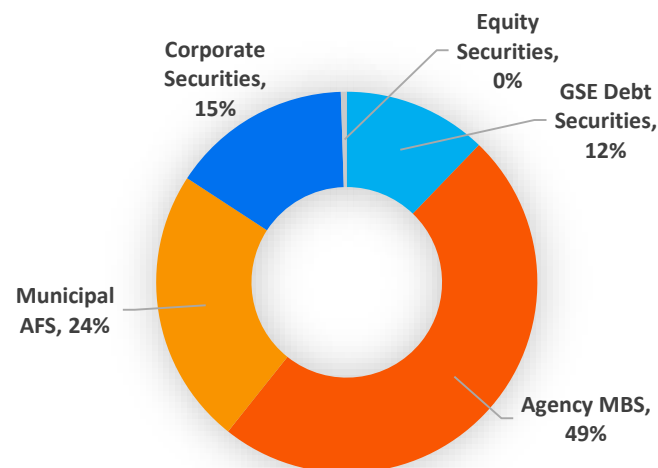




# Appendix: Investments

- Midland continues to adjust the portfolio to optimize the portfolio's duration, mix, and to increase yield. As of June 2019, the portfolio had an effective duration of approximately 3.25 years.
- The portfolio weighted average yield as of June 30, 2019 was 3.41%.

## Investment Portfolio



(dollars in thousands)	Book Value	% of Total Investment Securities	Weighted Average T.E. Yield
<b>Investment Securities Available for Sale:</b>			
Government sponsored entity debt securities	\$ 74,875	12.2%	2.4%
Agency mortgage-backed securities	297,362	48.5%	2.8%
State and municipal	143,729	23.5%	4.2%
Corporate securities	93,691	15.3%	5.0%
<b>Total Securities Available for Sale</b>	<b>\$ 609,657</b>	<b>99.5%</b>	<b>3.4%</b>
<b>Equity Securities</b>	<b>3,369</b>	<b>0.5%</b>	<b>2.5%</b>
<b>Total Investment Securities</b>	<b>\$ 613,026</b>	<b>100.0%</b>	<b>3.4%</b>

# Appendix: Reconciliation of TBV Per Share

(dollars in thousands, except per share data)	As of December 31,										As of
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	June 30, 2019
<b>Shareholders' Equity to Tangible Common Equity—as converted:</b>											
Total shareholders' equity—GAAP	\$ 76,627	\$ 109,208	\$ 126,953	\$ 130,918	\$ 149,440	\$ 219,456	\$ 232,880	\$ 321,770	\$ 449,545	\$ 608,525	\$ 639,888
Adjustments:											
Preferred equity	(23,600)	(47,370)	(57,370)	(57,370)	(57,370)	-	-	-	(2,970)	(2,781)	(2,684)
Goodwill	(7,582)	(7,582)	(7,582)	(7,732)	(7,732)	(47,946)	(46,519)	(48,836)	(98,624)	(164,673)	(164,673)
Other intangibles	<u>(1,072)</u>	<u>(13,234)</u>	<u>(10,740)</u>	<u>(8,485)</u>	<u>(8,189)</u>	<u>(9,464)</u>	<u>(7,004)</u>	<u>(7,187)</u>	<u>(16,932)</u>	<u>(37,376)</u>	<u>(33,893)</u>
<b>Tangible common equity</b>	\$ 44,373	\$ 41,022	\$ 51,261	\$ 57,331	\$ 76,149	\$ 162,046	\$ 179,357	\$ 265,747	\$ 331,019	\$ 403,695	\$ 438,638
Adjustments:											
Preferred equity	23,600	47,370	57,370	57,370	57,370	-	-	-	-	-	-
Warrants	<u>6,300</u>	<u>11,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Tangible common equity—as converted <sup>(1)</sup></b>	<u>\$ 74,273</u>	<u>\$ 99,692</u>	<u>\$ 108,631</u>	<u>\$ 114,701</u>	<u>\$ 133,519</u>	<u>\$ 162,046</u>	<u>\$ 179,357</u>	<u>\$ 265,747</u>	<u>\$ 331,019</u>	<u>\$ 403,695</u>	<u>\$ 438,638</u>
<b>Total Assets to Tangible Assets:</b>											
Total assets—GAAP	\$ 1,118,814	\$ 1,642,376	\$ 1,520,762	\$ 1,572,064	\$ 1,739,548	\$ 2,676,614	\$ 2,884,824	\$ 3,233,723	\$ 4,412,701	\$ 5,637,673	\$ 5,546,055
Adjustments:											
Goodwill	(7,582)	(7,582)	(7,582)	(7,732)	(7,732)	(47,946)	(46,519)	(48,836)	(98,624)	(164,673)	(164,673)
Other intangibles	<u>(1,072)</u>	<u>(13,234)</u>	<u>(10,740)</u>	<u>(8,485)</u>	<u>(8,189)</u>	<u>(9,464)</u>	<u>(7,004)</u>	<u>(7,187)</u>	<u>(16,932)</u>	<u>(37,376)</u>	<u>(33,893)</u>
<b>Tangible assets</b>	<u>\$ 1,110,160</u>	<u>\$ 1,621,560</u>	<u>\$ 1,502,440</u>	<u>\$ 1,555,847</u>	<u>\$ 1,723,627</u>	<u>\$ 2,619,204</u>	<u>\$ 2,831,301</u>	<u>\$ 3,177,700</u>	<u>\$ 4,297,145</u>	<u>\$ 5,435,624</u>	<u>\$ 5,347,489</u>
<b>Common Shares Outstanding—as converted:</b>											
Common shares outstanding	4,143,640	4,164,030	4,198,947	4,257,319	4,620,026	11,725,158	11,797,404	15,483,499	19,122,049	23,751,798	23,897,038
Adjustments:											
Upon conversion of preferred stock	<u>2,544,680</u>	<u>3,795,549</u>	<u>3,739,028</u>	<u>3,739,028</u>	<u>3,772,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Common shares outstanding—as converted <sup>(1)</sup></b>	<u>6,688,320</u>	<u>7,959,579</u>	<u>7,937,975</u>	<u>7,996,347</u>	<u>8,392,690</u>	<u>11,725,158</u>	<u>11,797,404</u>	<u>15,483,499</u>	<u>19,122,049</u>	<u>23,751,798</u>	<u>23,897,038</u>
<b>Tangible common equity to tangible assets ratio</b>	4.00%	2.53%	3.41%	3.68%	4.42%	6.19%	6.33%	8.36%	7.70%	7.43%	8.20%
<b>Tangible book value per share—as converted <sup>(1)</sup></b>	\$ 11.10	\$ 12.52	\$ 13.68	\$ 14.34	\$ 15.91	\$ 13.82	\$ 15.20	\$ 17.16	\$ 17.31	\$ 17.00	\$ 18.36

## Notes:

(1) As converted represents amount per common share with all preferred shares that were outstanding prior to December 31, 2014 converted into common shares.

# Appendix: Reconciliation of Net Interest Margin Excluding Accretion Income

	For the Quarter Ended				
	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019
Reported yield on loans	5.21%	4.88%	5.28%	5.22%	5.32%
Effect of accretion income on acquired loans	<u>(0.49%)</u>	<u>(0.11%)</u>	<u>(0.36%)</u>	<u>(0.20%)</u>	<u>(0.29%)</u>
Yield on loans excluding accretion income	<u>4.72%</u>	<u>4.77%</u>	<u>4.92%</u>	<u>5.02%</u>	<u>5.03%</u>
Reported net interest margin	3.91%	3.59%	3.85%	3.73%	3.76%
Effect of accretion income on acquired loans	<u>(0.40%)</u>	<u>(0.10%)</u>	<u>(0.31%)</u>	<u>(0.17%)</u>	<u>(0.25%)</u>
Net interest margin excluding accretion income	<u>3.51%</u>	<u>3.49%</u>	<u>3.54%</u>	<u>3.56%</u>	<u>3.51%</u>

# Appendix: Reconciliation of Adjusted Earnings/Profitability

	For the Quarter Ended				
	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019	June 30, 2019
<b>(dollars in thousands, except per share data)</b>					
<b><u>Adjusted Earnings</u></b>					
Income before income taxes - GAAP	\$ 15,827	\$ 10,933	\$ 20,863	\$ 18,336	\$ 21,394
Adjustments to noninterest income:					
Gain (loss) on sales of investment securities, net	(70)	-	469	-	14
Other	(48)	(12)	(1)	-	(23)
Total adjustments to noninterest income	(118)	(12)	468	-	(9)
Adjustments to noninterest expense:					
Loss (gain) on mortgage servicing rights held for sale	188	270	-	-	(515)
Integration and acquisition expenses	2,019	9,559	553	160	286
Total adjustments to noninterest expense	2,207	9,829	553	160	(229)
Adjusted earnings pre tax	18,152	20,774	20,948	18,496	21,174
Adjusted earnings tax	3,683	5,142	4,551	4,398	4,978
<b>Adjusted earnings - non-GAAP</b>	<b>14,469</b>	<b>15,632</b>	<b>16,397</b>	<b>14,098</b>	<b>16,196</b>
Preferred stock dividends, net	36	35	34	34	34
<b>Adjusted earnings available to common shareholders - non-GAAP</b>	<b>\$ 14,433</b>	<b>\$ 15,597</b>	<b>\$ 16,363</b>	<b>\$ 14,064</b>	<b>\$ 16,162</b>
Adjusted diluted earnings per common share	\$ 0.59	\$ 0.64	\$ 0.67	\$ 0.58	\$ 0.66
Weighted average shares outstanding - diluted	24,268,111	24,325,743	24,200,346	24,204,661	24,303,211
Average assets	\$ 5,651,430	\$ 5,691,719	\$ 5,690,661	\$ 5,629,803	\$ 5,588,193
Adjusted return on average assets	1.03%	1.09%	1.14%	1.02%	1.16%
Average tangible common equity	\$ 379,189	\$ 386,326	\$ 394,466	\$ 410,340	\$ 426,660
Adjusted return on average tangible common equity	15.27%	16.02%	16.46%	13.90%	15.19%