UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2023

or

☐ 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 **Effingham, IL** (Address of principal executive offices)	**62401** (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	The Nasdaq Stock Market LLC
Depositary Shares, each representing a 1/40th interest in a share of 7.75% fixed rate reset non-cumulative perpetual preferred stock, Series A	MSBIP	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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, 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates on June 30, 2023 was $417,808,861 (based on the closing price on the Nasdaq Global Select Market on that date of $19.91).

As of February 13, 2024, the Registrant had 21,503,989 shares of outstanding common stock, $0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 6, 2024, to be filed within 120 days after December 31, 2023, are incorporated by reference into Part III of this Form 10-K to the extent indicated in such part.

MIDLAND STATES BANCORP, INC.

2023 ANNUAL REPORT ON FORM 10-K

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

As used in this report, references to the "Company," "we," "our," "us," and similar terms refer to the consolidated entity consisting of Midland States Bancorp, Inc. and its wholly-owned subsidiaries. Midland States Bancorp refers solely to the parent holding company and Midland States Bank (the "Bank") refers to our wholly owned banking subsidiary.

The acronyms and abbreviations identified below are used throughout this report, including the Notes to the Consolidated Financial Statements. You may find it helpful to refer to this page as you read this report.

2019 Incentive Plan	The Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan
ACL	Allowance for credit losses on loans
ASU	Accounting Standards Update
ATG Trust	ATG Trust Company
BaaS	Banking-as-a-Service
Basel III Rule	Basel III regulatory capital reforms required by the Dodd-Frank Act
BHCA	Bank Holding Company Act of 1956, as amended
CBLR	Community Bank Leverage Ratio
CFPB	Consumer Financial Protection Bureau
CISA	Cybersecurity and Infrastructure Security Agency
COVID	Coronavirus Disease
CRA	Community Reinvestment Act
CRA Proposal	Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations
CRE	Commercial Real Estate
CRE Guidance	Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance
DFPR	Illinois Department of Financial and Professional Regulation
DIF	Deposit Insurance Fund
EAD	Exposure at default
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FinTech	Financial Technology
FNBC	FNBC Bank & Trust
FRB	Federal Reserve Bank
GAAP	U.S. generally accepted accounting principles
Ginnie Mae	Government National Mortgage Association
Greensky	GreenSky, LLC
Illinois CRA	Illinois Community Reinvestment Act
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
Midland Trust	Midland States Preferred Securities Trust
Nasdaq	Nasdaq Global Select Market
NII at Risk	Net Interest Income at Risk
OREO	Other real estate owned
PCAOB	Public Company Accounting Oversight Board
PCD	Purchased credit deteriorated
PD	Probability of default
PPP	Paycheck Protection Program
Q-Factor	Qualitative factor
Regulatory Relief Act	Economic Growth, Regulatory Relief and Consumer Protection Act
SBA	Small Business Administration
SEC	U.S. Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
Treasury	U.S. Department of the Treasury
TDR	Troubled debt restructuring

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of, and are intended to be covered by the safe harbor provisions of, the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “goal,” “target,” “outlook,” “aim,” and “would” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in Item 1A – "Risk Factors” or Item 7 – "Management’s Discussion and Analysis of Financial Condition and Results of Operations” or the following:

- business, economic and political conditions, particularly those affecting the financial services industry and our primary market areas;
- the effects of interest rates, including on our net interest income and the value of our securities portfolio as well as monetary and fiscal policies of the U.S. government, including policies of the Treasury and the Federal Reserve;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers and the success of construction projects that we finance, including any loans acquired in acquisition transactions;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses on loans;
- the failure of assumptions and estimates underlying the establishment of our allowances for credit losses on loans, and estimation of values of collateral and various financial assets and liabilities;
- compliance with governmental and regulatory requirements, particularly those relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with commercial mortgage servicing operations;
- legislative and regulatory changes, including changes in banking, consumer protection, securities, trade and tax laws and regulations and their application by our regulators;
- our dependence upon third parties for certain information system, data management and processing services, and to provide key components of our business infrastructure;
- our ability to identify and address cyber-security risks, fraud and systems errors;
- our ability to effectively execute our strategic plan and manage our growth;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services, including FinTech companies and private credit funds, and demand for financial services in our market areas;
- the effects of COVID pandemic and its potential effects on the economic environment, our customers and our operations, as well as any changes to the federal, state or local government laws, regulations or orders in connection with the pandemic;
- risks related to our acquisition strategy, including our ability to identify suitable acquisition candidates, our ability to receive required regulatory approvals, exposure to potential asset and credit quality risks and unknown or contingent liabilities, the time and costs of integrating systems, procedures and personnel, the need for capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;
- the effects of the accounting treatment for loans acquired in connection with our acquisitions;
- changes in our senior management team and our ability to attract, motivate and retain qualified personnel;
- liquidity issues, including fluctuations in the fair value and liquidity of the securities we hold for sale and our ability to raise additional capital, if necessary;

- changes in federal tax law or policy;
- the quality and composition of our loan and investment portfolios and the valuation of our investment portfolio;
- demand for loan products and deposit flows;
- the costs, effects and outcomes of existing or future litigation;
- changes in accounting principles, policies and guidelines; and
- the effects of severe weather, natural disasters, acts of war or terrorism, widespread disease or pandemics, and other external events.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. In addition, our past results of operations are not necessarily indicative of our future results. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I

ITEM 1 – BUSINESS

Our Company

Midland States Bancorp, Inc., an Illinois corporation formed in 1988, is a diversified financial holding company headquartered in Effingham, Illinois. Our banking subsidiary, Midland States Bank, an Illinois state-chartered bank formed in 1881, 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, and insurance and financial planning services. As of December 31, 2023, the Company had total assets of $7.87 billion, and our wealth management group had assets under administration of approximately $3.73 billion.

Our strategic plan is focused on building a performance-based, customer-centric culture, creating revenue diversification, seeking accretive acquisitions, achieving operational excellence and maintaining a robust enterprise-wide risk management program. Over the past several years, we have grown organically and through a series of acquisitions, with an over-arching focus on enhancing shareholder value and building a platform for scalability. Most recently, in June 2022, the Company completed its branch acquisition from 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. In June 2021, the Company completed its acquisition of substantially all of the trust assets of ATG Trust, a trust company based in Chicago, Illinois. Additional information on recent acquisitions is presented in Note 2 to the consolidated financial statements in Item 8 of this Form 10-K.

Our Principal Businesses

Traditional Community Banking. Our traditional community banking business primarily consists of commercial and retail lending and deposit taking. We deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities within our market areas, which include Illinois and the St. Louis metropolitan area, where we operated 53 full-service banking offices as of December 31, 2023.

Our lending strategy is to maintain a broadly diversified loan portfolio based on the type of customer (i.e., businesses versus individuals), type of loan product (e.g., owner occupied commercial real estate, commercial loans, agricultural loans, etc.), geographic location and industries in which our business customers are engaged (e.g., manufacturing, retail, hospitality, etc.). We principally focus our commercial lending activities on loans that we originate from borrowers located in our market areas.

We market our lending products and services to qualified lending customers primarily through branch offices and high touch personal service. We focus our business development and marketing strategy primarily on middle market businesses. Our primary products and services include the following:

Commercial Loans. Our commercial loan portfolio is comprised primarily of term loans to purchase capital equipment and lines of credit for working capital and operational purposes to small and midsized businesses. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Part of our commercial loan portfolio includes loans extended to finance agricultural equipment and production.

These loans are typically short-term loans extended to farmers and other agricultural producers to purchase seed, fertilizer and equipment.

Commercial Real Estate Loans. We offer real estate loans for owner occupied and non-owner occupied commercial property. 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 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 portfolio includes loans to small and midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single family homes in our market areas. These loans are typically disbursed as construction progresses and carry interest rates that may vary with LIBOR or a successor index.

The following table presents the balance and associated percentage of the major property types within our commercial real estate and construction and land development loan portfolios at December 31, 2023 and 2022:

	December 31,			
	2023		2022	
(dollars in thousands)	**Balance**	**%**	**Balance**	**%**
Multi-Family	$ 516,295	18.1 %	$ 395,164	14.3 %
Skilled Nursing	469,096	16.4	485,456	17.6
Retail	454,589	15.9	452,806	16.4
Industrial/Warehouse	217,956	7.6	228,177	8.3
Hotel/Motel	159,707	5.6	164,597	6.0
Office	153,756	5.4	155,703	5.7
All other	888,039	31.0	872,138	31.7
Total commercial real estate and construction and land development loans	$ 2,859,438	100.0 %	$ 2,754,041	100.0 %

Residential Real Estate Loans. We offer first and second mortgage loans to our individual customers primarily for the purchase of primary residences. We also offer home equity lines of credit, consisting of loans secured by first or second mortgages on primarily owner occupied primary residences.

Consumer Installment Loans. We provide consumer installment loans for the purchase of cars, boats and other recreational vehicles, as well as for the purchase of major appliances and other home improvement projects. Our major appliance and other home improvement lending is originated principally through national and regional retailers and other vendors of these products and services. We have historically originated these loans through GreenSky and LendingPoint. However, during the fourth quarter of 2023, the Company ceased originating consumer loans through both GreenSky and LendingPoint.

Commercial Equipment Leasing. We originate and manage custom leasing and financing programs for commercial customers on a nationwide basis. The industries we service include manufacturing, construction, transportation and healthcare. The financings generated are typically retained and serviced by the Bank, and are generally leases between $50,000 and $500,000, but can be larger in certain circumstances.

Deposit Taking. We offer traditional depository products, including checking, savings, money market and certificates of deposits, to individuals, businesses, municipalities and other entities throughout our market areas. We also offer sweep accounts to our business customers. Deposits at the Bank are insured by the FDIC up to statutory limits. We also offer sweep accounts that are guaranteed through repurchase agreements to our business and municipal customers. Our ability to gather deposits, particularly core deposits, is an important aspect of our business franchise.

Wealth Management. Our wealth management group operates under the name Midland Wealth Management and provides a comprehensive suite of trust and wealth management products and services, including financial and estate planning, trustee and custodial services, investment management, tax and insurance planning, business planning, corporate retirement plan consulting and administration and retail brokerage services through a nationally recognized third party broker dealer.

FHA Servicing. Prior to August 28, 2020, we provided multifamily and healthcare facility FHA financing through Love Funding Corporation, our non-bank subsidiary. Love Funding Corporation originated commercial mortgage loans under FHA insurance programs, and sold those loans into the secondary market through mortgage-backed securities guaranteed by Ginnie Mae. On August 28, 2020, the Company completed the sale of Love Funding Corporation's commercial FHA origination platform to Dwight Capital, a nationwide mortgage banking firm headquartered in New York. The transaction was part of the Company's ongoing effort to enhance efficiency. At December 31, 2023, we continued to service approximately $2.08 billion of originated commercial FHA loans.

Competition

We compete in a number of areas, including commercial and retail banking, residential mortgages, wealth management and commercial equipment leasing. These industries are highly competitive, and the Bank and its subsidiaries face strong direct competition for deposits, loans and leases, wealth management, and other financial-related services. We compete primarily with other community banks, thrifts and credit unions. In addition, we compete with large banks and other financial intermediaries, such as consumer finance companies, private credit funds, brokerage firms, mortgage banking companies, business leasing and finance companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. Additionally, we face growing competition from so-called "online businesses" with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms, and FinTech companies, as well as automated retirement and investment service providers. We believe that the range and quality of products that we offer, the knowledge of our personnel and our emphasis on building long-lasting relationships set us apart from our competitors.

The following table reflects information on the markets we currently serve, as of June 30, 2023, the most recent date for which such information was publicly available:

(dollars in thousands)		June 30, 2023		December 31, 2023
County	State	Deposits	Market Share	# of Banking Offices
St. Charles	MO	$ 1,101,973	11.16 %	2
Winnebago	IL	906,627	12.52	7
Effingham	IL	1,123,957	41.51	1
Kankakee	IL	770,935	30.76	8
LaSalle	IL	354,256	9.93	4
St. Louis	MO	286,174	0.64	6
Will	IL	313,553	1.55	4
Lee	IL	232,262	27.94	1
Boone	IL	222,595	28.07	2
Whiteside	IL	246,108	12.49	2
Bureau	IL	168,070	13.76	1
Kendall	IL	127,365	5.18	2
Grundy	IL	95,642	5.97	1
Marion	IL	83,934	7.66	1
Monroe	IL	82,784	7.31	2
Champaign	IL	51,371	0.73	1
Fayette	IL	45,633	8.48	2
Jefferson	MO	43,713	1.21	1
St. Louis (City)	MO	33,079	0.06	1
St. Clair	IL	51,007	0.93	1
Franklin	MO	34,337	0.97	1
Bond	IL	32,873	7.63	1
Livingston	IL	24,037	1.77	1

Human Capital Resources

At December 31, 2023, we had 914 employees, including 36 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good. We believe our ability to attract and retain employees is a key to our success. Accordingly, we strive to offer competitive salaries and employee benefits to all employees and monitor salaries in our market areas.

In addition, we are committed to developing our staff through continuing and specialty education within banking. In this regard, we have developed and provided all employees with access to our Midland University training program. This program was developed to provide continuing education required or advisable regarding regulatory matters (such as anti-money laundering, bank secrecy, etc.) as well as other matters important to our organization and culture (e.g., social inclusion, diversity and non-discrimination, etc.). Additionally, our Midland University program provides for continuing education in areas specifically related to our banking and financial services business.

Leadership and professional development is also supported through our MASTERS high-potentials program as well as Midland WOMEN and African American affinity groups. Our MASTERS programs, Midland's Advanced Study for Talent Enrichment and Resource Strengthening, were created to accelerate the career development of employees exhibiting the growth potential and qualities necessary to ensure the continued success of our Company. A total of 110 employees have participated in this high potential training program since its inception in 2016. Midland WOMEN is an affinity group that focuses on leadership development of women throughout all levels of the organization. Midland WOMEN currently has more than 39 employees participating on various activity committees and offers programs that engage hundreds of Midland employees annually. The African American Affinity Group focuses on personal and professional development and advancement initiatives for African American and Black employees. There are currently 3 employees participating on the activity committee and 29 regularly active members of the African American affinity group.

Corporate Information

Through our website at www.midlandsb.com under "Investors - SEC Filings," we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not incorporated by reference into this report.

Supervision and Regulation

General

FDIC-insured institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the Company's growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the DFPR, the Federal Reserve, the FDIC and the CFPB. Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the FASB, securities laws administered by the SEC and state securities authorities, and anti-money laundering laws enforced by the Treasury have an impact on the Company's business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company's operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's business, the kinds and amounts of investments the Company and the Bank may make, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with the Company's and the Bank's insiders and affiliates and the Company's payment of dividends. In reaction to the global financial crisis and particularly following the passage of the Dodd Frank Act, the Company experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and caused the Company's compliance and risk management processes, and the costs thereof, to increase. However, in May 2018, the Regulatory Relief Act was enacted by Congress in part to provide regulatory relief for community banks and their holding companies. To that end, the law eliminated questions about the applicability of certain Dodd-Frank Act reforms to community bank systems, including relieving the Company of any requirement to engage in mandatory stress tests, maintain a risk committee or comply with the Volcker Rule's complicated prohibitions on proprietary trading and ownership of private funds. The Company believes these reforms are favorable to its operations.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and its subsidiary bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

The Role of Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company's earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish capital standards for banks and bank holding companies that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of "capital" divided by "total assets". As discussed below, bank capital measures have become more sophisticated over the years and have focused more on the quality of capital and the risk of assets. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, were excluded from capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than $15 billion, the Company is able to maintain its trust preferred proceeds as capital but the Company has to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

The Basel International Capital Accords. The risk-based capital guidelines for U.S. banks since 1989 were based upon the 1988 capital accord known as "Basel I" adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accord recognized that bank assets for the purpose of the capital ratio calculations needed to be assigned risk weights (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations. Basel I had a very simple formula for assigning risk weights to bank assets from 0% to 100% based on four categories. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as "Basel II," for large or "core" international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more) known as "advanced approaches" banks. The primary focus of Basel II was on the calculation of risk weights based on complex models developed by each advanced approaches bank. Because most banks were not subject to Basel II, the U.S. bank regulators worked to improve the risk sensitivity of Basel I standards without imposing the complexities of Basel II. This "standardized approach" increased the number of risk-weight categories and recognized risks well above the original 100% risk weight. It is institutionalized by the Dodd-Frank Act for all banking organizations, even for the advanced approaches banks, as a floor.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

The Basel III Rule. In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act. In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of enforceable regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than "small bank holding companies" (generally holding companies with consolidated assets of less than $3 billion) and certain qualifying banking organizations that may elect a simplified framework (which the Company has not done.) Thus, the Company and the Bank are each currently subject to the Basel III Rule as described below.

The Basel III Rule increased the required quantity and quality of capital and, for nearly every class of assets, it requires a more complex, detailed and calibrated assessment of risk and calculation of risk-weight amounts.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). A number of instruments that qualified as Tier 1 Capital under Basel I do not qualify, or their qualifications changed. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital under Basel I, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution's Common Equity Tier 1 Capital.

The Basel III Rule requires minimum capital ratios as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital from 4% to 6% of risk-weighted assets;
- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital. The federal bank regulators released a joint statement in response to the COVID pandemic reminding the industry that capital and liquidity buffers were meant to give banks the means to support the economy in adverse situations, and that the agencies would support banks that use the buffers for that purpose if undertaken in a safe and sound manner.

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered "adequately capitalized." Bank regulatory agencies uniformly encourage banks to hold more capital and be "well-capitalized" and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the Federal Reserve, in order to be well-capitalized, a banking organization must maintain:

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8% or more;

- A ratio of Total Capital to total risk-weighted assets of 10% or more; and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2023: (i) the Bank was not subject to a directive from the Federal Reserve to increase its capital; and (ii) the Bank was well-capitalized, as defined by Federal Reserve regulations. As of December 31, 2023, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized. The Company is also in compliance with the capital conservation buffer.

Prompt Corrective Action. The concept of an institution being "well-capitalized" is part of a regulatory enforcement regime that provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of institutions based on the capital level of each particular institution. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Community Bank Capital Simplification. Community banks have long raised concerns with bank regulators about the regulatory burden, complexity, and costs associated with certain provisions of the Basel III Rule. In response, Congress provided an "off-ramp" for institutions, like the Company, with total consolidated assets of less than $10 billion. Section 201 of the Regulatory Relief Act instructed the federal banking regulators to establish a single CBLR of between 8% and 10%. Under the final rule, a community banking organization is eligible to elect the new framework if it has less than $10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9%. The bank regulatory agencies temporarily lowered the CBLR to 8% as a result of the COVID pandemic. Nevertheless, the Company has not currently determined to elect the CBLR, but it may elect the framework at any time.

Supervision and Regulation of the Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation supervision and enforcement by, the Federal Reserve under the BHCA. The Company is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Financial Holding Company Election. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "The Role of Capital" above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of 5% or more of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be "so closely related to banking ... as to be a proper incident thereto." This authority permits the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. In 2006, the Company elected to operate as a financial holding company. In order to maintain its status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and the Bank must have a least a satisfactory CRA rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, the Company has a period of time in which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the Company that it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company's subsidiary bank has not received a satisfactory CRA rating, that company will not be able to commence any new financial activities or acquire a company that engages in such activities.

Change in Control. Federal law prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements. For a discussion of capital requirements, see "The Role of Capital" above.

Dividend Payments. The Company's ability to pay dividends to the Company's shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Illinois corporation, the Company is subject to the limitations of the Illinois Business Corporations Act, as amended, which allows us to pay dividends unless, after such dividend, (i) the Company would not be able to pay its debts as they become due in the usual course of business or (ii) the Company's total assets would be less than the sum of the Company's total liabilities plus any amount that would be needed if it were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to the rights of the shareholders receiving the distribution.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. These factors have come into consideration as a result of the COVID pandemic. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "The Role of Capital" above.

Incentive Compensation. There have been a number of developments in recent years focused on incentive compensation plans sponsored by bank holding companies and banks, reflecting recognition by the bank regulatory agencies and Congress that flawed incentive compensation practices in the financial industry were one of many factors contributing to the global financial crisis. Layered on top of that are the abuses in the headlines dealing with product cross-selling incentive plans. The result is interagency guidance on sound incentive compensation practices.

The interagency guidance recognized three core principles. Effective incentive plans should: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Much of the guidance addresses large banking organizations and, because of the size and complexity of their operations, the regulators expect those organizations to maintain systematic and formalized policies, procedures, and systems for ensuring that the incentive compensation arrangements for all executive and non-executive employees covered by this guidance are identified and reviewed, and appropriately balance risks and rewards. Smaller banking organizations like the Company that use incentive compensation arrangements are expected to be less extensive, formalized, and detailed than those of the larger banks.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Exchange Act. Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance. The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd Frank Act increased shareholder influence over boards of directors by requiring companies to give shareholders a nonbinding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow shareholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Supervision and Regulation of the Bank

General. The Bank is an Illinois-chartered bank. The deposit accounts of the Bank are insured by the FDIC's DIF to the maximum extent provided under federal law and FDIC regulations, currently $250,000 per insured depositor category. As an Illinois-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFPR, the chartering authority for Illinois banks, and, as a member bank, the Federal Reserve.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. For institutions like the Bank that are not considered large and highly complex banking organizations, assessments are now based on examination ratings and financial ratios. The total base assessment rates currently range from 2.5 basis points to 32 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking. The assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF has been calculated since effectiveness of the Dodd-Frank Act based on its average consolidated total assets less its average tangible equity. This method shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

For this purpose, the reserve ratio is the DIF balance divided by estimated insured deposits. In response to the global financial crisis, the Dodd-Frank Act increased the minimum reserve ratio from 1.15% to 1.35% of the estimated amount of total insured deposits. In the semiannual update in June 2022, the FDIC projected that the reserve ratio was at risk of not reaching the statutory minimum of 1.35% by September 30, 2028, the statutory deadline. Based on this update, the FDIC approved an increase in initial base deposit insurance assessment rate schedules by two basis points, applicable to all insured depository institutions. The increase was effective on January 1, 2023, applicable to the first quarterly assessment of the 2023 assessment (January 1 through March 31, 2023).

In addition, because the total cost of the failures of Silicon Valley Bank and Signature Bank was approximately $16.3 billion, the FDIC adopted a special assessment for banks having deposits above $5 billion, at an annual rate of 13.4 basis points beginning with the first quarterly assessment period of 2024 (January 1 through March 31, 2024) with an invoice payment date of June 28, 2024, and will continue to collect special assessments for an anticipated total of eight quarterly assessment periods. The base for the special assessment is equal to an insured depository institution's estimated uninsured deposits for the December 31, 2022 reporting period, adjusted to exclude the first $5 billion in estimated uninsured deposits.

Supervisory Assessments. All Illinois-chartered banks are required to pay supervisory assessments to the DFPR to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets. During the year ended December 31, 2023, the Bank paid supervisory assessments to the DFPR totaling approximately $0.5 million.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "The Role of Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash to meet financial obligations, such as deposits or other funding sources. Banks are required to implement liquidity risk management frameworks that ensure they maintain sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events. The level and speed of deposit outflows contributing to the failures of Silicon Valley Bank, Signature Bank and First Republic Bank in the first half of 2023 was unprecedented and contributed to acute liquidity and funding strain. These events have further underscored the importance of liquidity risk management and contingency funding planning by insured depository institutions like the Bank.

The primary roles of liquidity risk management are to: (i) prospectively assess the need for funds to meet financial obligations; and (ii) ensure the availability of cash or collateral to fulfill those needs at the appropriate time by coordinating the various sources of funds available to the institution under normal and stressed conditions. Because the global financial crisis was in part a liquidity crisis, Basel III includes a liquidity framework that requires the largest FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the net stable funding ratio, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the federal bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil, and in 2016 proposed implementation of the NSFR. While these rules do not, and will not, apply to the Bank, it continues to review its liquidity risk management policies in light of developments.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under Illinois banking law, Illinois-chartered banks generally may pay dividends only out of undivided profits. The DFPR may restrict the declaration or payment of a dividend by an Illinois-chartered bank, such as the Bank. The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and an FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its capital requirements under applicable guidelines as of December 31, 2023. Notwithstanding the availability of funds for dividends, however, the Federal Reserve and the DFPR may prohibit the payment of dividends by the Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "The Role of Capital" above.

State Bank Investments and Activities. The Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Illinois law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on "covered transactions" between the Bank and its "affiliates." The Company is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank.

The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the Company and to “related interests” of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank, or a principal shareholder of the Company, may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The standards apply to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness standards prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. While regulatory standards do not have the force of law, if an institution operates in an unsafe and unsound manner, the FDIC-insured institution’s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator’s order is cured, the regulator may restrict the FDIC-insured institution’s rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with safety and soundness may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. The key risk themes identified for 2023 are: (i) elevated operational risk as banks adapt to an evolving technology environment and persistent cybersecurity risks, (ii) the need for banks to prepare for a cyclical change in credit risk while credit performance is strong, (iii) elevated interest rate risk due to lower rates continuing to compress net interest margins, and (iv) strategic risks from non-depository financial institutions, use of innovative and evolving technology, and progressive data analysis capabilities. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Privacy and Cybersecurity. The Bank is subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require the Bank to periodically disclose its privacy policies and practices relating to sharing such information and permit consumers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact the Bank’s ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, the Bank is required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across all businesses and geographic locations.

Branching Authority. Illinois banks, such as the Bank, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals. The establishment of new interstate branches has historically been permitted only in those states the laws of which expressly authorize such expansion. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments. Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger.

Community Reinvestment Act Requirements. The CRA requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank's record of meeting the credit needs of its communities. Applications for acquisitions would also be affected by the evaluation of the Bank's effectiveness in meeting its CRA requirements.

On October 24, 2023, the bank regulatory agencies issued a final rule to strengthen and modernize the CRA regulations (the "CRA Rule"), portions of which become effective on April 1, 2024. The CRA Rule is designed to update how CRA activities qualify for consideration, where CRA activities are considered, and how CRA activities are evaluated. More specifically, the bank regulatory agencies described the goals of the CRA Rule as follows: (i) to expand access to credit, investment, and basic banking services in low and moderate income communities; (ii) to adapt to changes in the banking industry, including mobile and internet banking by modernizing assessment areas while maintaining a focus on branch based areas; (iii) to provide greater clarity, consistency, and transparency in the application of the regulations through the use of standardized metrics as part of CRA evaluation and clarifying eligible CRA activities focused on low and moderate income communities and underserved rural communities; (iv) to tailor CRA rules and data collection to bank size and business model; and (v) to maintain a unified approach among the regulators.

In 2022, the Bank, like all Illinois chartered banks, became subject to the state level CRA standards, following passage of the Illinois CRA. This means that, in addition to the federal CRA review, the Bank will be reviewed by the DFPR to assess the Bank's record of meeting the credit needs of its communities. Like the potential impact under the federal CRA, applications for additional acquisitions or activities would be affected by the evaluation of the Bank's effectiveness in meeting its Illinois CRA requirements.

Anti-Money Laundering. The Bank Secrecy Act (BSA) is the common name for a series of laws and regulations enacted in the United States to combat money laundering and the financing of terrorism. They are designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The so-called Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) regime under the BSA provides a foundation to promote financial transparency and deter and detect those who seek to misuse the U.S. financial system to launder criminal proceeds, financed terrorist acts or move funds for other illicit purposes

The laws require financial services companies to have policies and procedures with respect to measures designed to address: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and law enforcement authorities.

Concentrations in CRE. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency CRE Guidance provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk. As of December 31, 2023, the Bank did not exceed these guidelines.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rule making authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many rules issued by the CFPB, as required by the Dodd-Frank Act, addressed mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages."

The CFPB's rules have not had a significant impact on the Bank's operations, except for higher compliance costs.

Regulation of Affiliates

The Company operates one affiliate that is regulated by functional financial regulatory agencies. Midland Wealth Advisors, LLC is a registered investment advisor. The SEC has supervisory, examination and enforcement authority over its operations. The SEC's focus is primarily for the protection of investors under the federal securities laws.

ITEM 1A – RISK FACTORS

The material risks that management believes affect the Company are described below. You should carefully consider the risks, together with all of the information included herein. The risks described below are not the only risks the Company faces. Additional risks not presently known or that the Company believes are immaterial also may have a material adverse effect on the Company's results of operations and financial condition.

Macroeconomic and Credit Risks

A decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Our business and operations are sensitive to business and economic conditions in the United States, generally, and particularly the state of Illinois and the St. Louis metropolitan area. If the national, regional and local economies experience worsening economic conditions, our growth and profitability could be harmed. Weak economic conditions are characterized by, among other indicators, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, and lower home sales and commercial activity. All of these factors are generally detrimental to our business. Our business is significantly affected by monetary and other regulatory policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have a material adverse effect on our business, financial position, results of operations and growth prospects.

If we do not effectively manage our credit risk, we may experience increased levels of nonperforming loans, charge-offs and delinquencies, which could require increases in our provision for credit losses on loans.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. We cannot guarantee that our credit underwriting and monitoring procedures will reduce these credit risks, and they cannot be expected to completely eliminate our credit risks. If the overall economic climate in the United States, generally, or our market areas, specifically, declines, our borrowers may experience difficulties in repaying their loans, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for credit losses on loans, which would cause our net income, return on equity and capital to decrease. We maintain our allowance for credit losses on loans at a level that management considers adequate to absorb expected credit losses on loans based on an analysis of our portfolio and market environment.

As of December 31, 2023, our allowance for credit losses on loans as a percentage of total loans was 1.12% and as a percentage of total nonperforming loans was 121.56%. Although management believed, as of such date, that the allowance for credit losses on loans was adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for credit losses on loans in the future to further supplement the allowance for credit losses on loans, either due to management's decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our allowance for credit losses on loans and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may adversely affect our business, financial condition and results of operations.

A significant portion of our loan portfolio is secured by real estate, the value and liquidity of which can be negatively affected by economic conditions and environmental issues.

At December 31, 2023, approximately 52.8% of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of interest rate levels and by market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability. Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects.

In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property.

Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

Commercial loans represented 70.8% of our total loan portfolio at December 31, 2023. Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans often depend on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Accordingly, a downturn in the real estate market and a challenging business and economic environment may increase our risk related to commercial loans, particularly commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from their employment and other income and which are secured by real property, the value of which tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the commercial venture. Our operating commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on even a small number of commercial loans could have a material adverse impact on our financial condition and results of operations.

The small to midsized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to midsized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small or midsized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to midsized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be adversely affected.

Real estate construction loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects.

Real estate construction loans comprised approximately 7.4% of our total loan portfolio as of December 31, 2023, and such lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

Real estate market volatility and future changes in our disposition strategies could result in net proceeds that differ significantly from our other real estate owned fair value appraisals.

As of December 31, 2023, we had $9.1 million of other real estate owned. Our other real estate owned portfolio consists of properties that we obtained through foreclosure or through an in-substance foreclosure in satisfaction of loans. Properties in our other real estate owned portfolio are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the "fair value," which represents the estimated sales price of the properties on the date acquired less estimated selling costs.

In response to market conditions and other economic factors, we may utilize alternative sale strategies other than orderly disposition, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from appraisals, comparable sales and other estimates used to determine the fair value of our other real estate owned properties, potentially resulting in additional losses.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs and adversely affecting our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Operational, Strategic and Reputational Risks

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

As a bank, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks and malware or other cyber-attacks. See Item 1C - "Cybersecurity" appearing elsewhere in this Annual Report on Form 10-K for additional information.

In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, on networks and systems maintained by us and certain third party partners, such as our online banking, mobile banking or accounting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain the confidence of our clients. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or the confidential information of our clients, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Our third party partners' inability to anticipate, or failure to adequately mitigate, breaches of security could result in a number of negative events, including losses to us or our clients, loss of business or clients, damage to our reputation, the incurrence of additional expenses, disruption to our business, additional regulatory scrutiny or penalties or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We depend on information technology and telecommunications systems of third parties, and any systems failures, interruptions or data breaches involving these systems could adversely affect our operations and financial condition.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems, third party servicers, accounting systems, mobile and online banking platforms and financial intermediaries. We outsource to third parties many of our major systems, such as data processing and mobile and online banking. The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. A system failure or service denial could result in a deterioration of our ability to process loans, gather deposits or provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business or subject us to regulatory action and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In addition, failures of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation.

It may be difficult for us to replace some of our third party vendors, particularly vendors providing our core banking and information services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason, and even if we are able to replace them, it may be at higher cost or result in the loss of customers. Any such events could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our operations rely heavily on the secure processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. We also interact with and rely on retailers, for whom we process transactions, as well as financial counterparties and regulators. Each of these third parties may be targets of the same types of fraudulent activity, computer break-ins and other cyber security breaches described above, and the cyber security measures that they maintain to mitigate the risk of such activity may be different than our own and may be inadequate.

As a result of financial entities and technology systems becoming more interdependent and complex, a cyber incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including ourselves. As a result of the foregoing, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

The COVID pandemic could continue to adversely affect the U.S. economy and our customers.

The COVID pandemic could continue to negatively impact the United States and world economy. In recent months, the pandemic and global responses have continued to disrupt large portions of the global economy, affecting rates of inflation, work and lifestyle patterns, the real estate market and other matters. These trends have, among other things, negatively impacted the fair value of our securities portfolio, loan demand, the value of collateral securing our loans, our growth strategy, and other matters.

Our strategy of pursuing growth via acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Our acquisition activities could require us to use a substantial amount of cash, or other liquid assets and/or incur debt. There are risks associated with an acquisition strategy, including the following:

- We may incur time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business.
- We are exposed to potential asset and credit quality risks and unknown or contingent liabilities of the banks or businesses we acquire. If these issues or liabilities exceed our estimates, our earnings, capital and financial condition may be materially and adversely affected.
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity. This integration process is complicated and time consuming and can also be disruptive to the customers and employees of the acquired business and our business. If the integration process is not conducted successfully, we may not realize the anticipated economic benefits of acquisitions within the expected time frame, or ever, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.
- To finance an acquisition, we may borrow funds or pursue other forms of financing, such as issuing voting and/or non-voting common stock or preferred stock, which may have high dividend rights or may be highly dilutive to holders of our common stock, thereby increasing our leverage and diminishing our liquidity.
- We may be unsuccessful in realizing the anticipated benefits from acquisitions. For example, we may not be successful in realizing anticipated cost savings. We also may not be successful in preventing disruptions in service to existing customer relationships of the acquired institution, which could lead to a loss in revenues.

In addition to the foregoing, we may face additional risks in acquisitions to the extent we acquire new lines of business or new products, or enter new geographic areas, in which we have little or no current experience, especially if we lose key employees of the acquired operations. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome risks associated with acquisitions could have an adverse effect on our ability to successfully implement our acquisition growth strategy and grow our business and profitability.

We may not be able to continue growing our business, particularly if we cannot make acquisitions or increase loans through organic loan growth.

While we intend to continue to grow our business through strategic acquisitions coupled with organic loan growth, because certain of our market areas are comprised of mature, rural communities with limited population growth, we anticipate that much of our future growth will be dependent on our ability to successfully implement our acquisition growth strategy. A risk exists, however, that we will not be able to execute this strategy. Even if suitable targets are identified, we expect to compete for such businesses with other potential bidders, many of which may have greater financial resources than we have, which may adversely affect our ability to make acquisitions at attractive prices. Furthermore, many acquisitions we may wish to pursue would be subject to approvals by bank regulatory authorities, and we cannot predict whether any targeted acquisitions will receive the required regulatory approvals. In light of the foregoing, our ability to continue to grow successfully will depend to a significant extent on our capital resources and relationships with our regulators.

Our growth will also depend upon our ability to attract deposits and to identify favorable loan and investment opportunities and on whether we can continue to fund growth while maintaining cost controls and asset quality, as well on other factors beyond our control, such as national, regional and local economic conditions and interest rate trends.

We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, results of operations and growth prospects.

Our success is dependent, to a large degree, upon the continued service and skills of our existing executive management team, particularly Mr. Jeffrey G. Ludwig, our President and Chief Executive Officer, and Mr. Eric T. Lemke, our Chief Financial Officer.

Our business and growth strategies are built primarily upon our ability to retain employees with experience and business relationships within their respective market areas. The loss of Mr. Ludwig, Mr. Lemke or any of our other key personnel could have an adverse impact on our business and growth because of their skills, years of industry experience, knowledge of our market areas and the difficulty of finding qualified replacement personnel, particularly in light of the fact that we are not headquartered in a major metropolitan area. In addition, although we have non-competition agreements with each of our executive officers and with several others of our senior personnel, we do not have any such agreements with other employees who are important to our business, and in any event the enforceability of non-competition agreements varies across the states in which we do business. While our mortgage originators, loan officers and wealth management professionals are generally subject to non-solicitation provisions as part of their employment, our ability to enforce such agreements may not fully mitigate the injury to our business from the breach of such agreements, as such employees could leave us and immediately begin soliciting our customers. The departure of any of our personnel who are not subject to enforceable non-competition agreements could have a material adverse impact on our business, results of operations and growth prospects.

The termination of our partnership with GreenSky could have an adverse effect on loan growth and profitability.

On January 24, 2023, we notified GreenSky that, effective October 21, 2023, we would terminate our participation in GreenSky's consumer loan origination program. As the existing loans from our GreenSky portfolio pay off, we plan to reinvest the cash flows into either new loan originations or investment securities, or use the cash flows to pay off higher cost funding sources, which is expected to mitigate the impact of the loan payoffs on our earnings. Should the pace of payoffs in the GreenSky portfolio exceed a normalized level and we do not have sufficient opportunities to reinvest most of the cash flows into new loan originations, there could be an adverse impact on our overall loan growth and profitability during the period of time in which the GreenSky portfolio runs off.

We may be liable to purchasers of mortgage loans and mortgage servicing rights, including as a result of any breach of representations and warranties we make to the purchasers.

When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Under these agreements, we may be required to repurchase mortgage loans if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolios, our liquidity, results of operations and financial condition could be adversely affected. In addition, we have sold residential mortgage servicing rights to third parties pursuant to customary purchase agreements, under which we could be required to indemnify the purchasers for losses resulting from pre-closing servicing errors or breaches of our representations and warranties, which could affect our results of operations.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our stock.

We are a community bank, and our reputation is one of the most valuable components of our business. Similarly, each of our subsidiaries operate in niche markets where reputation is critically important. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our stock may be materially adversely affected.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services, such as those using artificial intelligence. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements, or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

We depend on the accuracy and completeness of information provided by customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information. In deciding whether to extend credit, we may rely upon our customers' representations that their financial statements conform to GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on materially misleading, false, inaccurate or fraudulent information.

We face strong competition from financial services companies and other companies that offer banking, mortgage, leasing, and wealth management services, which could harm our business.

Our operations consist of offering banking and mortgage services, and we also offer trust, wealth management and leasing services to generate noninterest income. Many of our competitors offer the same, or a wider variety of, banking and related financial services within our market areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan institutions, finance companies, private credit funds, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in our market areas. Additionally, we face growing competition from so-called "online businesses" with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms, and FinTech companies, as well as automated retirement and investment service providers. Increased competition in our markets may result in reduced loans, deposits and commissions and brokers' fees, as well as reduced net interest margin and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking, mortgage, leasing and wealth management customers, we may be unable to continue to grow our business and our financial condition and results of operations may be adversely affected.

Consumers and businesses are increasingly using non-banks to complete their financial transactions, which could adversely affect our business and results of operations.

Technology and other changes are allowing consumers and businesses to complete financial transactions that historically have involved banks through alternative methods. For example, the wide acceptance of internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

The development of our BaaS platform may expose us to liability for compliance violations by BaaS partners or fall short of its targeted impact on our financial performance.

During 2022, we invested in the development of a BaaS platform that will enable us to enter into partnerships with financial technology companies through which we will provide banking services to the customers of these companies. We believe that these partnerships will contribute to loan production, deposit gathering, and fee income generation in future years. We intend to be very selective in our approach to developing BaaS partnerships to ensure that any partners that are added meet our high standards for risk management. However, we are subject to compliance and regulatory risk if partners do not follow our servicing policies, lending laws, and regulations. Our bank regulators may hold us responsible for the activities of our BaaS partners with respect to the marketing or administration of their programs, which may result in increased compliance costs for us or potentially compliance violations as a result of BaaS partner activities. In addition, we may not find enough suitable partnerships for the BaaS platform to have a meaningful impact on our overall financial performance.

Legal, Accounting and Compliance Risks

If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could require charges to earnings, which would have a negative impact on our financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired.

We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. There can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances or may not adequately mitigate risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

We are and may become involved from time to time in suits, legal proceedings, information-gathering requests, investigations and proceedings by governmental and self-regulatory agencies that may lead to adverse consequences.

Many aspects of our business and operations involve the risk of legal liability, and in some cases we or our subsidiaries have been named or threatened to be named as defendants in various lawsuits arising from our business activities. For example, some of the services we provide, such as wealth management services, require us to act as fiduciaries for our customers and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. In addition, companies in our industry are frequently the subject of governmental and self-regulatory agency information-gathering requests, reviews, investigations and proceedings.

The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgments, settlements, fines, injunctions, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Accordingly, our ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies, which could adversely affect our financial condition and results of operations.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

Compliance with applicable bank regulations by us and our third party vendors has resulted, and may continue to result, in additional operating and compliance costs and restrictions that could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In addition, new proposals for legislation may continue to be introduced in the U.S. Congress that could further substantially change regulation of the bank and non-bank financial services industries and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Legislation and regulations may be impacted by the political ideologies of the executive branches of the U.S. government as well as the heads of regulatory and administrative agencies, which may change as a result of elections. Certain aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

We are subject to stringent capital requirements, and failure to comply with these requirements may impact dividend payments and limit our activities.

As a result of the implementation of the Basel III Rule, we are required to meet minimum capital requirements. The failure to meet applicable regulatory capital requirements of the Basel III Rule could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial conditions, generally. In addition, banking institutions that do not maintain a capital conservation buffer, comprised of Common Equity Tier 1 Capital, of 2.5% above the regulatory minimum capital requirements face constraints on the payment of dividends, stock repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall, unless prior regulatory approval is obtained. Accordingly, if the Bank or the Company fails to maintain the applicable minimum capital ratios and the capital conservation buffer, distributions by the Bank to the Company, or dividends or stock repurchases by the Company, may be prohibited or limited.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the DFPR periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. The federal banking agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, including those of our third party vendors,we could be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans.

Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution’s compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The Federal Reserve may require us to commit capital resources to support the Bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

The financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

At this time, it is difficult to predict the legislative and regulatory changes that will result from having a new President of the United States. The new administration and Congress may cause broad economic changes due to changes in governing ideology and governing style. New appointments to the Board of Governors of the Federal Reserve could affect monetary policy and interest rates, and changes in fiscal policy could affect broader patterns of trade and economic growth. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

Market and Interest Rate Risks

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings, capital ratios and growth are affected by the policies of the Federal Reserve. In the past year, the Federal Reserve has significantly increased the target Federal Funds rate as part of its efforts to decrease inflation, which has helped drive a significant increase in prevailing interest rates. The elevated interest rate environment is expected to continue. While this helped increase our net interest income, it has also harmed the value of our securities portfolio, which had $99.9 million in unrealized losses at December 31, 2023, and which has negatively affected our tangible book value. Future actions of the Federal Reserve could continue to have negative effects on our business, by decreasing loan demand, increasing our costs of deposits and other sources of funding, further harming the value of our securities portfolio, and negatively impacting the earnings of our wealth management business. Higher interest rates can also negatively affect our customers' businesses and financial condition, and the value of collateral securing loans in our portfolio.

Fluctuations in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we pay on our liabilities, such as deposits, generally rises more quickly than the rate of interest that we receive on our interest-bearing assets, such as loans, which may cause our profits to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the underlying property may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their mortgages and other indebtedness at lower rates.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans, or that adversely affects the value of collateral securing those loans, may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

If short-term interest rates remain at low levels for a prolonged period, and assuming longer term interest rates fall, we could experience net interest margin compression as our interest earning assets would continue to reprice downward while our interest-bearing liability rates could fail to decline in tandem. This would have a material adverse effect on our net interest income and our results of operations.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates continue to increase or economic and market conditions deteriorate.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise, which we expect to continue in 2024. Additional factors include, but are not limited to, rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

Downgrades in the credit rating of one or more insurers that provide credit enhancement for our state and municipal securities portfolio may have an adverse impact on the market for and valuation of these types of securities.

We invest in tax-exempt state and local municipal securities, some of which are insured by monoline insurers. Even though management generally purchases municipal securities on the overall credit strength of the issuer, the reduction in the credit rating of an insurer may negatively impact the market for and valuation of our investment securities. Such downgrade could adversely affect our liquidity, financial condition and results of operations.

Our mortgage banking profitability could significantly decline if we are not able to originate and resell a high volume of mortgage loans.

Mortgage production, especially refinancing activity, declines in rising interest rate environments, and in a rising interest rate environment, there can be no assurance that our mortgage production will continue at historical levels. Because we sell a substantial portion of the mortgage loans we originate, the profitability of our mortgage banking business also depends in large part on our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations.

Liquidity and Funding Risks

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits, including escrow deposits held in connection with our commercial mortgage servicing business. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff, or, in connection with our commercial mortgage servicing business, third parties for whom we provide servicing choose to terminate that relationship with us. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including originate loans, invest in securities, meet our expenses, pay dividends to our shareholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. The Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions and the perceived strength of our Bank could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and deposit volatility, and could lead to losses or defaults by us or by other institutions. These issues could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Additionally, if our competitors were extending credit on terms we found to pose excessive risks, or at interest rates which we believed did not warrant the credit exposure, we may not be able to maintain our business volume and could experience deteriorating financial performance.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

ITEM 1C – CYBERSECURITY

We rely extensively on various information systems and other electronic resources to operate our business. In addition, nearly all of our customers, service providers and other business partners on whom we depend, including the providers of our online banking, mobile banking and accounting systems, use these systems and their own electronic information systems. Any of these systems can be compromised, including through the intentional acts or carelessness by employees, customers and other individuals who are authorized to use them, and by criminals, who often use sophisticated and constantly evolving set of software, tools and strategies to do so. The nature of our business, as a financial services provider, and our relative size, make us and our business partners high-value targets for these bad actors to pursue, and any intrusion into our systems could result in material financial losses and operational problems. See “Operational, Strategic and Reputational Risks.”

Accordingly, we have developed an informational security program and devoted resources for assessing, identifying and managing risks associated with cybersecurity threats, including:

- established a dedicated internal cybersecurity team that is responsible for conducting regular assessments of our information systems, existing controls, vulnerabilities and potential improvements;

- implemented continuous monitoring tools and a third-party Security Operations Center that can detect and respond to cybersecurity threats in real-time;
- perform ongoing due diligence with respect to our third-party service providers, including their cybersecurity practices, and requiring contractual commitments from our service providers to take certain measures to mitigate their cybersecurity risk;
- retain third-party cybersecurity consultants who conduct periodic penetration testing, vulnerability assessments and other procedures to identify potential weaknesses in our systems and processes;
- conduct frequent cybersecurity training and testing for our workforce;
- provide our board of directors with regular updates regarding threat levels, including analyses that demonstrate the overall cybersecurity posture and health of the organization;
- engage in periodic assessments of our cyber resilience with the Cybersecurity and Infrastructure Security Agency (CISA);
- conduct scheduled reviews of our Incident Response Plan to assess the responsiveness during a cybersecurity event or Ransomware attack; and
- maintain third party vendor management program, which includes requirements for how our partners transmit, store and use bank information.

This information security program is a key part of our overall risk management system, which is administered by our Chief Risk Officer and Chief Information Security Officer. The program includes administrative, technical and physical safeguards to help ensure the security, integrity and confidentiality of customer records and information, and prohibit unauthorized access to our critical operating systems. These security and privacy policies and procedures are in effect across all of our businesses and geographic locations.

From time-to-time, we have identified cybersecurity threats and cybersecurity incidents, including with respect to our commercial customers and vendors, that require us to make changes to our processes and implement additional safeguards. While none of these identified threats or incidents have materially affected us, it is possible that future threats and incidents could have a material adverse effect on our business strategy, results of operations and financial condition, even if the threat or incident is promptly identified and countermeasures are implemented. Such events could lead to direct financial loss or require the expenditure of significant amounts to obtain the release of critical data and/or restore our operating systems or those of our customers and/or vendors if the incident was the result of a security breach for which we are held legally responsible.

Our management team is responsible for the day-to-day management of risks we face, including our Chief Information Security Officer. Our Chief Information Security Officer has 20 years of information technology and information security experience, and before joining our Company has held the positions of Chief Technology Officer and Director of IT and Information Security Officer at his prior places of employment.

In addition, our board of directors, as a whole and through its Risk Policy & Compliance Committee (the “Risk Committee”), is responsible for the oversight of risk management. In that role, our board of directors and Risk Committee, with support from the Company’s cybersecurity advisors, are responsible for ensuring that the risk management processes designed and implemented by management are adequate and functioning as designed. To carry out those duties, both our board of directors and the Risk Committee receive quarterly reports from our management team, including from our Chief Risk Officer and our Chief Information Security Officer regarding cybersecurity risks, and the Company’s efforts to prevent, detect, mitigate and remediate any cybersecurity incidents.

ITEM 2 – PROPERTIES

Our corporate headquarters office building is located at 1201 Network Centre Drive, Effingham, Illinois 62401. We own our corporate headquarters office building, which was built in 2011 and also houses our primary operations center. We have additional operations centers located in St. Louis, Missouri and Rockford, Illinois, supporting our banking and wealth management businesses. At December 31, 2023, the Bank operated a total of 53 full-service banking centers, including 42 located in Illinois and 11 located in the St. Louis metropolitan area. Of these facilities, 42 were owned, and we leased 11 from unaffiliated third parties.

We believe that the leases to which we are subject are generally on terms consistent with prevailing market terms. None of the leases are with our directors, officers, beneficial owners of more than 5% of our voting securities or any affiliates of the foregoing. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

ITEM 3 – 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 4 – MINE SAFETY DISCLOSURES

Not applicable.

PART II

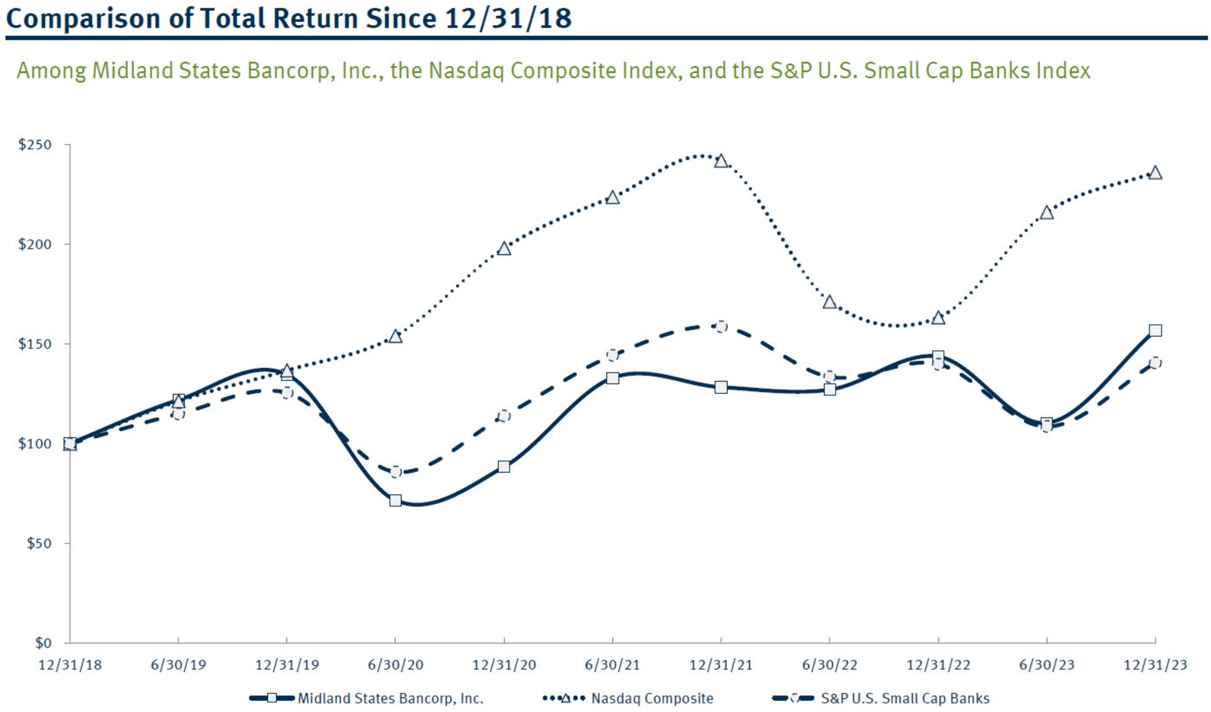
ITEM 5 – MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shareholders

As of February 13, 2024, the Company had 1,080 common stock shareholders of record, and the closing price of the Company's common stock, traded on the Nasdaq under the ticker symbol MSBI, was $24.09 per share.

Stock Performance Graph

The following graph compares the Company's five year cumulative shareholder returns with the Nasdaq Composite Index and the S&P U.S. Small Cap Banks Index. The graph assumes an investment of $100.00 in the Company's common stock and each index on December 31, 2018 and reinvestment of all quarterly dividends. Measurement points are the last trading day of the second quarter and fourth quarter of each subsequent year through December 31, 2023. There is no assurance that the Company's common stock performance will continue in the future with the same or similar results as shown in the graph.



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 fourth quarter of 2023.

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)]
October 1 - 31, 2023	102,787	$	20.75	102,787	$	7,963,225
November 1 - 30, 2023	54,370		22.22	32,898		7,231,999
December 1 - 31, 2023	—		—	—		25,000,000
Total	157,157	$	21.26	135,685	$	25,000,000

(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) As previously disclosed, the board of directors of the Company approved a new stock repurchase program on December 5, 2023, pursuant to which the Company is authorized to repurchase up to $25.0 million of common stock through December 31, 2024. The new stock repurchase program became effective on January 1, 2024. Stock repurchases under this 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. The Company's previous stock repurchase program expired on December 31, 2023.

Unregistered Sales of Equity Securities

None.

ITEM 6 – [RESERVED]

ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto, included in Item 8 - "Financial Statements and Supplementary Data", and other financial data appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995," Item 1A – "Risk Factors" and elsewhere in this report, may cause actual results to differ materially from those projected in the forward-looking statements. We assume no obligation to update any of these forward-looking statements. Readers of our Annual Report on Form 10-K should therefore consider these risks and uncertainties in evaluating forward-looking statements and should not place undue reliance on forward-looking statements.

Overview

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Its wholly-owned banking subsidiary, Midland States 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, and trust and investment management services and insurance and financial planning services. As of December 31, 2023, we had assets of $7.87 billion, deposits of $6.31 billion and shareholders' equity of $791.9 million.

Our strategic plan is focused on building a performance-based, customer-centric culture, creating revenue diversification, seeking accretive acquisitions, achieving operational excellence and maintaining a robust enterprise-wide risk management program. Over the past several years, we have grown organically and through a series of acquisitions, with an over-arching focus on enhancing shareholder value and building a platform for scalability.

Our principal lines of business include traditional community banking and wealth management. Our traditional community banking business primarily consists of commercial and retail lending and deposit taking. Our wealth management group provides a comprehensive suite of trust and wealth management products and services, and had $3.73 billion of assets under administration as of December 31, 2023.

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 leases 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 FHA mortgage loan servicing; residential mortgage loan originations and sales; 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.

Material Trends and Developments

Community Banking. We believe the most important trends affecting community banks in the United States over the foreseeable future will be related to heightened regulatory capital requirements, increasing regulatory burdens generally, including the implementation of the Dodd-Frank Act and the regulations promulgated and to be promulgated thereunder, and net interest margin compression. We expect that community banks will face increased competition for lower cost capital as a result of regulatory policies that may offer larger financial institutions greater access to government assistance than is available for smaller institutions, including community banks. We expect that troubled community banks will continue to face significant challenges when attempting to raise capital. We also believe that heightened regulatory capital requirements will make it more difficult for even well-capitalized, healthy community banks to grow in their communities. We believe these trends will favor community banks that have sufficient capital, a diversified business model and a strong deposit franchise, and we believe we possess these characteristics.

We also believe that increased regulatory burdens will have a significant adverse effect on smaller community banks, which often lack the personnel, experience and technology to efficiently comply with new regulations in a variety of areas in the banking industry, including in the areas of deposits, lending, compensation, information security and overdraft protection. We believe the increased costs to smaller community banks from a more complex regulatory environment, coupled with challenges in the real estate lending area, present attractive acquisition opportunities for larger community banks that have already made significant investments in regulatory compliance and risk management and can acquire and quickly integrate these smaller institutions into their existing platform. Furthermore, we believe that, as a result of our significant operational investments and our experience acquiring other institutions and quickly integrating them into our organization, we are well positioned to capitalize on the challenges facing smaller community banks.

We continue to believe we have significant opportunities for further growth through additional acquisitions of banks, branches, wealth management firms and trust departments of community banks, selective *de novo* opportunities, continued expansion of our wealth management operations, the hiring of commercial banking and wealth management professionals from other organizations and organic growth within our existing branch network. We also believe we have the necessary experience, management and infrastructure to take advantage of these growth opportunities.

Credit Reserves. One of our key operating objectives has been, and continues to be, maintenance of an appropriate level of reserve protection against estimated losses in our loan portfolio. Our allowance for credit losses on loans totaled $68.5 million, or 1.12% of total loans, and $61.1 million, or 0.97% of total loans, at December 31, 2023 and 2022, respectively.

Regulatory Environment. As a result of regulatory changes, including the Dodd-Frank Act and the Basel III Rule, we expect to be subject to more restrictive capital requirements, more stringent asset concentration and growth limitations and new and potentially heightened examination and reporting requirements. We also expect to face a more challenging environment for customer loan demand due to the increased costs that could be ultimately borne by borrowers, and to incur higher costs to comply with these new regulations. This uncertain regulatory environment could have a detrimental impact on our ability to manage our business consistent with historical practices and cause difficulty in executing our growth plan. See Item 1A - "Risk Factors—Legal, Accounting and Compliance Risks" and Item 1 - "Business—Supervision and Regulation."

Additional Factors Affecting Comparability

Each factor listed below affects the comparability of our results of operations and financial condition in 2023 and 2022, and may affect the comparability of financial information we report in future fiscal periods.

Balance Sheet Repositioning. In 2023, the Company took advantage of certain market conditions to reposition out of lower yielding securities into other structures, which are expected to result in improved overall margin, liquidity and capital allocations. These transactions resulted in losses of $9.4 million.

In addition, in the third quarter of 2023, the Company surrendered certain low-yielding life insurance policies and purchased additional policies. The Company recognized a $4.5 million tax charge related to the surrender of the policies.

Redemption of Subordinated Notes. In the second quarter of 2023, the Company redeemed $6.6 million of outstanding subordinated notes. The weighted average redemption price was 89.2% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest. The Company recorded gains totaling $0.7 million on these redemptions.

On October 15, 2022, the Company redeemed the outstanding Fixed-to-Floating Rate Subordinated Notes due October 15, 2027, having an aggregate principal amount of $40.0 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.

Preferred Stock Issuance. On August 24, 2022, the Company issued and sold 4,600,000 depositary shares, each representing a 1/40th ownership interest in a share of the Company’s 7.75% fixed rate reset non-cumulative, non-convertible, perpetual preferred stock, Series A. The net proceeds were $110.5 million.

Commercial FHA Mortgage Loan Servicing Rights. During the third quarter of 2022, we committed to a plan to sell the commercial servicing rights asset and transferred $24.0 million of commercial FHA loan servicing rights to held for sale. At June 30, 2023, the Company abandoned its plans to sell this servicing asset and removed this asset from held for sale at lower of cost or fair value with no gain or loss recognized.

Termination of Hedged Interest Rate Swaps. On October 24, 2022, the Company terminated the $140.0 million notional amount of future starting pay-fixed, receive-variable interest rate swaps on certain FHLB or other fixed-rate advances. The Company realized a $17.5 million net gain upon termination.

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.

Results of Operations

Overview. The following table sets forth condensed income statement information of the Company for the years ended 2023, 2022, and 2021:

	Years Ended December 31,		
(dollars in thousands, except per share data)	**2023**	**2022**	**2021**
Income Statement Data:			
Interest income	$ 404,296	$ 301,755	$ 237,817
Interest expense	168,279	56,020	30,142
Net interest income	236,017	245,735	207,675
Provision for credit losses	21,132	20,126	3,393
Noninterest income	66,590	79,891	69,899
Noninterest expense	173,902	175,662	175,069
Income before income taxes	107,573	129,838	99,112
Income taxes	32,113	30,813	17,795
Net income	75,460	99,025	81,317
Preferred dividends	8,913	3,169	—
Net income available to common shareholders	$ 66,547	$ 95,856	$ 81,317
Per Share Data:			
Basic earnings per common share	$ 2.97	$ 4.24	$ 3.58
Diluted earnings per common share	2.97	4.23	3.57
Performance Metrics:			
Return on average assets	0.95 %	1.31 %	1.18 %
Return on average shareholders' equity	9.80 %	14.40 %	12.65 %

During the year ended December 31, 2023, we generated net income of $75.5 million, or diluted earnings per common share of $2.97, compared to net income of $99.0 million, or diluted earnings per common share of $4.23, in the year ended December 31, 2022. Earnings for 2023 compared to 2022 decreased primarily due to a $9.7 million decrease in net interest income, a $1.0 million increase in provision for credit losses, a $13.3 million decrease in noninterest income, and a $1.3 million increase in income tax expense. These results were partially offset by a $1.8 million decrease in noninterest 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 2023 and 2022.

The Federal Reserve left interest rates unchanged at its meeting in December 2023 but signaled that it was no longer expecting further interest rate increases in its historic inflation fight, and that it could also cut interest rates three times in 2024. In 2023, the Federal Reserve increased the federal funds rate 100 basis points to a target range of 5.25%-5.50%, the highest since August 2007. This compares to rate increases totaling 425 basis points in 2022. The benchmark federal funds rate remains at a target range between 5.25%-5.50%, compared to a target range of 0.00%-0.25% at the beginning of 2022.

In 2023, net interest income, on a tax-equivalent basis, decreased to $236.8 million with a tax-equivalent net interest margin of 3.26% compared to net interest income, on a tax-equivalent basis, of $247.0 million and a tax-equivalent net interest margin of 3.57% in 2022.

Average Balance Sheet, Interest and Yield/Rate Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2023, 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.

	Years Ended December 31,								
	2023			2022			2021		
(tax-equivalent basis, dollars in thousands)	**Average Balance**	**Interest & Fees**	**Yield/ Rate**	**Average Balance**	**Interest & Fees**	**Yield/ Rate**	**Average Balance**	**Interest & Fees**	**Yield / Rate**
Interest-earning assets:									
Federal funds sold and cash investments	$ 77,046	$ 3,922	5.09 %	$ 256,221	$ 3,907	1.52 %	$ 518,804	$ 728	0.14 %
Investment securities:									
Taxable investment securities	798,579	28,653	3.59	694,269	15,801	2.28	646,079	13,898	2.15
Investment securities exempt from federal income tax [1]	55,997	1,708	3.05	104,949	3,476	3.31	130,495	4,222	3.24
Total securities	854,576	30,361	3.55	799,218	19,277	2.41	776,574	18,120	2.33
Loans:									
Loans [2]	6,238,970	365,529	5.86	5,743,525	274,617	4.78	4,821,718	213,922	4.44
Loans exempt from federal income tax [1]	53,290	2,233	4.19	67,878	2,635	3.88	81,730	3,127	3.38
Total loans	6,292,260	367,762	5.84	5,811,403	277,252	4.77	4,903,448	217,049	4.43
Loans held for sale	4,034	260	6.45	12,669	404	3.19	37,638	1,115	2.96
Nonmarketable equity securities	43,318	2,819	6.51	38,543	2,198	5.70	47,045	2,348	4.99
Total earning assets	7,271,234	405,124	5.57 %	6,918,054	303,038	4.38 %	6,283,509	239,360	3.81 %
Noninterest-earning assets	635,490			618,593			598,083		
Total assets	$ 7,906,724			$ 7,536,647			$ 6,881,592		
Interest-bearing liabilities:									
Checking and money market deposits	$ 3,738,818	$ 109,831	2.94 %	$ 3,456,890	$ 31,156	0.90 %	$ 2,467,288	$ 3,020	0.12 %
Savings deposits	612,243	1,632	0.27	703,341	540	0.08	655,735	164	0.02
Time deposits	814,727	21,840	2.68	625,307	4,161	0.67	690,558	7,373	1.07
Brokered time deposits	75,935	3,644	4.80	16,592	204	1.23	32,419	400	1.23
Total interest-bearing deposits	5,241,723	136,947	2.61	4,802,130	36,061	0.75	3,846,000	10,957	0.28
Short-term borrowings	23,406	68	0.29	58,688	104	0.18	68,986	86	0.12
FHLB advances and other borrowings	460,781	20,709	4.49	355,282	9,335	2.63	473,371	8,443	1.78
Subordinated debt	95,986	5,266	5.49	131,203	7,495	5.71	153,126	8,705	5.68
Trust preferred debentures	50,298	5,289	10.52	49,678	3,025	6.09	49,098	1,951	3.97
Total interest-bearing liabilities	5,872,194	168,279	2.87 %	5,396,981	56,020	1.04 %	4,590,581	30,142	0.66 %
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	1,173,873			1,386,251			1,568,005		
Other noninterest-bearing liabilities	90,562			65,539			80,308		
Total noninterest-bearing liabilities	1,264,435			1,451,790			1,648,313		
Shareholders' equity	770,095			687,876			642,698		
Total liabilities and shareholders' equity	$ 7,906,724			$ 7,536,647			$ 6,881,592		
Net interest income / net interest margin [3]		$ 236,845	3.26 %		$ 247,018	3.57 %		$ 209,218	3.33 %

(1) Interest income and average rates for tax-exempt loans and investment securities are presented on a tax-equivalent basis, assuming a statutory federal income tax rate of 21%. Tax-equivalent adjustments totaled $0.8 million, $1.3 million and $1.5 million for the years ended December 31, 2023, 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 which are not due solely to volume or rate have been allocated proportionally to the change due to volume and the change due to rate.

	Year Ended December 31, 2023 compared with Year Ended December 31, 2022			Year Ended December 31, 2022 compared with Year Ended December 31, 2021		
	Change due to:			Change due to:		
(tax-equivalent basis, dollars in thousands)	**Volume**	**Rate**	**Interest Variance**	**Volume**	**Rate**	**Interest Variance**
Earning assets:						
Federal funds sold and cash investments	$ (5,924)	$ 5,939	$ 15	$ (2,186)	$ 5,365	$ 3,179
Investment securities:						
Taxable investment securities	3,059	9,793	12,852	1,066	837	1,903
Investment securities exempt from federal income tax	(1,556)	(212)	(1,768)	(836)	90	(746)
Total securities	1,503	9,581	11,084	230	927	1,157
Loans:						
Loans	26,358	64,554	90,912	42,486	18,209	60,695
Loans exempt from federal income tax	(589)	187	(402)	(534)	42	(492)
Total loans	25,769	64,741	90,510	41,952	18,251	60,203
Loans held for sale	(415)	271	(144)	(768)	57	(711)
Nonmarketable equity securities	291	330	621	(455)	305	(150)
Total earning assets	$ 21,224	$ 80,862	$ 102,086	$ 38,773	$ 24,905	$ 63,678
Interest-bearing liabilities:						
Checking and money market deposits	$ 5,412	$ 73,263	$ 78,675	$ 2,471	$ 25,665	$ 28,136
Savings deposits	(156)	1,248	1,092	24	352	376
Time deposits	3,169	14,510	17,679	(565)	(2,647)	(3,212)
Brokered time deposits	1,790	1,650	3,440	(196)	—	(196)
Total interest-bearing deposits	10,215	90,671	100,886	1,734	23,370	25,104
Short-term borrowings	(83)	47	(36)	(16)	34	18
FHLB advances and other borrowings	3,756	7,618	11,374	(2,610)	3,502	892
Subordinated debt	(1,972)	(257)	(2,229)	(1,250)	40	(1,210)
Trust preferred debentures	51	2,213	2,264	29	1,045	1,074
Total interest-bearing liabilities	11,967	100,292	112,259	(2,113)	27,991	25,878
Net interest income	$ 9,257	$ (19,430)	$ (10,173)	$ 40,886	$ (3,086)	$ 37,800

Interest Income. For the year ended December 31, 2023, interest income, on a tax-equivalent basis, increased $102.1 million to $405.1 million as compared to the prior year, due to both improved yields on earning assets and growth in earning assets. The yield on earning assets increased 119 points to 5.57% from 4.38%, primarily due to the impact of increasing market interest rates.

Average earning assets increased to $7.27 billion in 2023 from $6.92 billion in 2022. An increase in average loans and investment securities of $480.9 million and $55.4 million, respectively, were partially offset by a $179.2 million decrease in federal funds sold and cash investments.

Average loans increased $480.9 million in 2023 compared to 2022 across all loan categories. Average commercial loans increased $71.2 million. Included in this category are commercial FHA warehouse lines, which decreased $44.3 million to $18.4 million in 2023. Excluding the changes in the commercial FHA warehouse line portfolio, average commercial loans increased $115.5 million in 2023 compared to the prior year.

Average commercial real estate loans, construction loans, and leases also increased $173.3 million, $155.7 million and $50.5 million, respectively, in 2023 compared to 2022. The increase in average construction loans was primarily due to funding draws on existing multifamily project lines. Average balances in our consumer loan portfolio remained flat year over year. During the fourth quarter of 2023, the Company ceased originating consumer loans through both Greensky and LendingPoint.

Interest Expense. Interest expense increased $112.3 million to $168.3 million in 2023 compared to 2022. The cost of interest-bearing liabilities increased to 2.87% compared to 1.04% for the prior year due to the increase in deposit costs as a result of the rate increases announced by the Federal Reserve.

Interest expense on deposits increased to $136.9 million in 2023 from $36.1 million in 2022, primarily due to increases in interest rates on deposits. Average balances of interest-bearing deposit accounts increased $439.6 million, or 9.15%, to $5.24 billion for 2023 compared to the same period one year earlier. The increase in volume was attributable to increases in retail deposits and brokered deposits of $98.7 million and $96.6 million, respectively. In addition, our Insured Cash Sweep product average balances increased $352.6 million.

Interest expense on FHLB advances and other borrowings increased $11.4 million for the year ended December 31, 2023, from the prior year, due to increases in both average balances and interest rates. The average balances increased $105.5 million in 2023 compared to 2022, while interest rate increases in 2023 pushed the average cost to 4.49% in 2023 compared to 2.63% in 2022.

Interest expense on subordinated debt decreased $2.2 million in 2023 from 2022. The Company redeemed $6.6 million of subordinated debt in the second quarter of 2023 and $40.0 million of subordinated debt on October 15, 2022.

Interest expense on trust preferred debentures increased $2.3 million in 2023 compared to 2022 due to interest rate increases, as these debt instruments reprice quarterly.

Provision for Credit Losses. The Company's provision for credit losses on loans and unfunded commitments was $21.1 million and $0 in 2023, respectively. In 2022, the provision for credit losses on loans and unfunded commitments was $18.8 million and $1.6 million, respectively, partially offset by the recognition of expense reversal of $0.2 million related to investment securities. The increase in the provision for credit losses on loans was primarily a result of an increase in net charge-offs in 2023 compared to the prior year.

The provision for credit losses on loans recognized during 2023 and 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. The following table sets forth the major components of our noninterest income for the years ended December 31, 2023, 2022 and 2021:

	Years Ended December 31,			2023 Compared to 2022		2022 Compared to 2021	
(dollars in thousands)	**2023**	**2022**	**2021**	**Increase (decrease)**		**Increase (decrease)**	
Noninterest income:							
Wealth management revenue	$ 25,572	$ 25,708	$ 26,811	$ (136)	(0.5)%	$ (1,103)	(4.1)%
Residential mortgage banking revenue	1,903	1,509	5,526	394	26.1	(4,017)	(72.7)
Service charges on deposit accounts	11,990	10,237	9,242	1,753	17.1	995	10.8
Interchange revenue	14,302	13,879	14,500	423	3.0	(621)	(4.3)
(Loss) gain on sales of investment securities, net	(9,372)	(230)	537	(9,142)	3,974.8	(767)	(142.8)
Gain on termination of hedged interest rate swaps	—	17,531	2,159	(17,531)	(100.0)	15,372	712.0
Impairment on commercial mortgage servicing rights	—	(1,263)	(7,532)	1,263	(100.0)	6,269	(83.2)
Income on company-owned life insurance	4,439	3,584	4,496	855	23.9	(912)	(20.3)
Other income	17,756	8,936	14,160	8,820	98.7	(5,224)	(36.9)
Total noninterest income	$ 66,590	$ 79,891	$ 69,899	$ (13,301)	(16.6)%	$ 9,992	14.3 %

Service charges on deposit accounts. Service charges on deposit accounts increased $1.8 million, or 17.1%, in 2023 compared to 2022, due to increases in business account analysis fees and overdraft-related fees.

Loss on sale of investment securities. The Company took advantage of certain market conditions during the year ended December 31, 2023 to reposition out of lower yielding securities into other structures, which are expected to result in improved overall margin, liquidity and capital allocations. These transactions resulted in losses of $9.4 million.

Gain on termination of hedged interest rate swaps. As previously stated, on October 24, 2022, the Company terminated $140.0 million notional amount of future starting pay-fixed, receive-variable interest rate swaps on certain FHLB or other fixed-rate advances. The Company realized a $17.5 million net gain upon termination.

Other noninterest income. Other income increased $8.8 million for 2023, as compared to 2022. Other noninterest income in 2023 included incremental servicing revenues of $2.2 million and $1.6 million related to our commercial FHA servicing portfolio and the Greensky portfolio, respectively. In addition, the Company recognized a $1.1 million one-time gain from the sale of Visa B stock, a gain of $0.7 million on the redemption of subordinated debt and a gain of $0.8 million on the sale of OREO.

During the third quarter of 2023, the Company recognized an enhancement fee of $6.6 million related to the surrender and purchase of company-owned life insurance policies. In the fourth quarter of 2023, the Company revised its accounting for the one-time enhancement fee and reversed the fee. The financial reporting periods affected by this revision include the Company's previously reported interim unaudited consolidated financial statements as of and for the three months and nine months ended September 30, 2023. The Company concluded this revision was not material to the Company's previously reported interim financial statements and would not be material to the current period financial statements; however the Company has elected to voluntarily revise its previously reported consolidated financial statements as of and for the three and nine month period ended September 30, 2023. The revision affects the Company's quarter-to-date and year-to-date income on company-owned life insurance. Additionally, the revision impacts the company-owned life insurance asset for the applicable period.

The Company expects to present the corrected interim 2023 amounts in its 2024 consolidated interim financial statements upon the filing of its Quarterly Report on Form 10-Q and Quarterly Earnings Release on Form 8-K as of and for the period ended September 30, 2024 as a voluntary immaterial revision to all applicable 2023 periods.

The following tables present the impact of the revision to the Company's previously reported financial statements.

Consolidated Income Statement
(dollars in thousands, except per share data)

	Period Ended September 30, 2023 (Unaudited)					
	Three Months As Reported	**Immaterial Revision**	**Three Months Revised**	**Nine Months As Reported**	**Immaterial Revision**	**Nine Months Revised**
Income on company owned life insurance	$ 7,558	$ (6,640)	$ 918	$ 9,325	$ (6,640)	$ 2,685
Net income	18,042	(6,640)	11,402	64,389	(6,640)	57,749
Net income available to common shareholders	15,813	(6,640)	9,173	54,704	(6,640)	48,064
Diluted earnings per common share	0.71	(0.30)	0.41	2.43	(0.29)	2.14

Consolidated Balance Sheet
(dollars in thousands)

	Period Ended September 30, 2023 (Unaudited)		
	Period End As Reported	**Immaterial Revision**	**Period End Revised**
Company owned life insurance	$ 208,390	$ (6,640)	$ 201,750
Total assets	7,975,925	(6,640)	7,969,285
Shareholders' equity	764,250	(6,640)	757,610

Noninterest Expense. The following table sets forth the major components of noninterest expense for the years ended December 31, 2023, 2022 and 2021:

	Years Ended December 31,			2023 Compared to 2022		2022 Compared to 2021	
(dollars in thousands)	**2023**	**2022**	**2021**	**Increase (decrease)**		**Increase (decrease)**	
Noninterest expense:							
Salaries and employee benefits	$ 93,438	$ 90,305	$ 86,883	$ 3,133	3.5 %	$ 3,422	3.9 %
Occupancy and equipment	15,986	14,842	14,866	1,144	7.7	(24)	(0.2)
Data processing	26,286	24,350	24,595	1,936	8.0	(245)	(1.0)
FDIC insurance	4,779	3,336	3,346	1,443	43.3	(10)	(0.3)
Professional	7,049	6,907	10,971	142	2.1	(4,064)	(37.0)
Marketing	3,158	3,318	3,239	(160)	(4.8)	79	2.4
Communications	1,741	2,382	3,002	(641)	(26.9)	(620)	(20.7)
Loan expense	4,206	4,586	2,014	(380)	(8.3)	2,572	127.7
Amortization of intangible assets	4,758	5,410	5,855	(652)	(12.1)	(445)	(7.6)
Other real estate owned	333	5,188	1,277	(4,855)	(93.6)	3,911	306.3
Loss on mortgage servicing rights held for sale	—	3,250	222	(3,250)	(100.0)	3,028	1364.0
Federal Home Loan Bank advances prepayment fees	—	—	8,536	—	—	(8,536)	(100.0)
Other expense	12,168	11,788	10,263	380	3.2	1,525	14.9
Total noninterest expense	$ 173,902	$ 175,662	$ 175,069	$ (1,760)	(1.0)%	$ 593	0.3 %

Salaries and employee benefits. For the year ended December 31, 2023, salaries and employee benefits expense increased $3.1 million as compared to 2022. The decline in loan production in 2023 resulted in a decline in the deferral of loan origination costs compared to the prior year, resulting in an increase in expense. The Company employed 914 employees at December 31, 2023 compared to 935 employees at December 31, 2022.

Occupancy and Equipment Expense. For the year ended December 31, 2023, occupancy and equipment expense increased $1.1 million as compared to the same period in 2022. The Company transitioned to an outsourced facilities management program and incurred increased repair expenses as a result of deferred maintenance. The Company operated 53 full-service banking centers at December 31, 2023 and 2022.

Data processing fees. The $1.9 million increase in data processing fees for the year ended December 31, 2023, was primarily the result of our continuing investments in technology to better serve our growing customer base and increased transaction volumes.

FDIC Insurance Expense. For the year ended December 31, 2023, FDIC insurance expense increased $1.4 million, as compared to the prior year, primarily as a result of the FDIC increasing the base assessment rate by 2 basis points, effective January 1, 2023.

Other Real Estate Owned. The Company recorded impairment charges on two properties totaling $4.3 million in 2022.

Loss on mortgage servicing rights held for sale. During the third quarter of 2022, the Company committed to a plan to sell the servicing rights asset associated with this portfolio and transferred $24.0 million of commercial FHA loan servicing rights to held for sale. We recognized a loss of $3.3 million on this asset at that time. At June 30, 2023, the Company abandoned its plans to sell this servicing asset and removed this asset from held for sale at lower of cost or fair value with no gain or loss recognized.

Income Tax Expense. Income tax expense was $32.1 million in 2023 compared to $30.8 million in 2022. Effective tax rates for 2023 and 2022 were 29.9% and 23.7% respectively. The Company's income tax expense and related effective tax rate for 2023 included tax charges of $4.5 million associated with the surrender of certain company-owned life insurance policies, as previously discussed.

Financial Condition

Assets. Total assets were $7.87 billion at December 31, 2023, as compared to $7.86 billion at December 31, 2022.

Loans. The loan portfolio is the largest category of our assets. The following table presents the balance and associated percentage of each major category in our loan portfolio at December 31, 2023, 2022 and 2021:

	December 31,					
	2023		2022		2021	
(dollars in thousands)	Balance	Percent	Balance	Percent	Balance	Percent
Loans:						
Commercial:						
Equipment finance loans	$ 531,143	8.7 %	$ 616,751	9.8 %	$ 521,973	10.0 %
Equipment finance leases	473,350	7.7	491,744	7.8	423,280	8.1
Commercial FHA lines	—	—	25,029	0.4	91,927	1.8
SBA PPP loans	—	—	1,916	—	52,477	1.0
Other commercial loans	951,387	15.5	870,878	13.8	783,811	14.9
Total commercial loans and leases	1,955,880	31.9	2,006,318	31.8	1,873,468	35.8
Commercial real estate	2,406,845	39.3	2,433,159	38.6	1,816,828	34.8
Construction and land development	452,593	7.4	320,882	5.1	193,749	3.7
Residential real estate	380,583	6.2	366,094	5.8	338,151	6.5
Consumer	935,178	15.2	1,180,014	18.7	1,002,605	19.2
Total loans, gross	6,131,079	100.0 %	6,306,467	100.0 %	5,224,801	100.0 %
Allowance for credit losses on loans	(68,502)		(61,051)		(51,062)	
Total loans, net	$ 6,062,577		$ 6,245,416		$ 5,173,739	

Total loans decreased $175.4 million to $6.13 billion at December 31, 2023, as compared to December 31, 2022, as the Company originated loans in a more selective and deliberate approach to balance liquidity and funding costs. Increases in construction and land development loans, and residential real estate loans of $131.7 million and $14.5 million, respectively, were offset by decreases in all other loan categories. The increase in our construction and land development portfolio was primarily driven by draws on existing lines.

Consumer loans decreased $244.8 million at December 31, 2023 compared to December 31, 2022, due to loan payoffs and a cessation in loans originated through GreenSky. Our Greensky-originated loan balances decreased $251.1 million during 2023 to $683.5 million at December 31, 2023. In addition, during the fourth quarter, the Company ceased originating loans through LendingPoint. At December 31, 2023, the Company had $121.0 million in loans outstanding that were originated through LendingPoint, which will continue to be serviced by LendingPoint.

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. Loans secured by office space totaled $153.8 million and $155.7 million at December 31, 2023 and 2022, respectively, primarily located in Illinois and Missouri.

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.

The following table presents the balance and associated percentage of the major property types within our commercial real estate and construction and land development loan portfolios at December 31, 2023 and 2022:

	December 31,			
	2023		2022	
(dollars in thousands)	**Balance**	**%**	**Balance**	**%**
Multi-Family	$ 516,295	18.1 %	$ 395,164	14.3 %
Skilled Nursing	469,096	16.4	485,456	17.6
Retail	454,589	15.9	452,806	16.4
Industrial/Warehouse	217,956	7.6	228,177	8.3
Hotel/Motel	159,707	5.6	164,597	6.0
Office	153,756	5.4	155,703	5.7
All other	888,039	31.0	872,138	31.7
Total commercial real estate and construction and land development loans	$ 2,859,438	100.0 %	$ 2,754,041	100.0 %

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 December 31, 2023:

	December 31, 2023								
	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	$ 81,812	$ 454,326	$ 615,589	$ 47,025	$ 138,302	$ 97,753	$ —	$ 47,723	$ 1,482,530
Commercial real estate	216,890	403,077	953,369	262,585	372,702	173,454	5,448	19,320	2,406,845
Construction and land development	20,549	68,106	120,415	189,133	4,396	47,971	104	1,919	452,593
Total commercial loans	319,251	925,509	1,689,373	498,743	515,400	319,178	5,552	68,962	4,341,968
Residential real estate	762	2,993	8,201	20,534	26,552	38,478	169,187	113,876	380,583
Consumer	3,676	479	895,365	561	35,097	—	—	—	935,178
Lease financing	14,863	—	362,271	—	96,216	—	—	—	473,350
Total loans	$ 338,552	$ 928,981	$ 2,955,210	$ 519,838	$ 673,265	$ 357,656	$ 174,739	$ 182,838	$ 6,131,079

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.

Analysis of the Allowance for Credit Losses on Loans. The allowance for credit losses on loans was $68.5 million, or 1.12% of total loans, at December 31, 2023 compared to $61.1 million, or 0.97% of total loans, at December 31, 2022. The following table allocates the allowance for credit losses on loans by loan category:

	December 31,					
	2023		2022		2021	
(dollars in thousands)	**Allowance**	**Percent [(1)]**	**Allowance**	**Percent [(1)]**	**Allowance**	**Percent [(1)]**
Commercial	$ 21,847	1.47 %	$ 14,639	0.97 %	$ 14,375	0.99 %
Commercial real estate	20,229	0.84	29,290	1.20	22,993	1.27
Construction and land development	4,163	0.92	2,435	0.76	972	0.50
Total commercial loans	46,239	1.06	46,364	1.09	38,340	1.11
Residential real estate	5,553	1.46	4,301	1.17	2,695	0.80
Consumer	3,770	0.40	3,599	0.30	2,558	0.26
Lease financing	12,940	2.73	6,787	1.38	7,469	1.76
Total allowance for credit losses on loans	$ 68,502	1.12 %	$ 61,051	0.97 %	$ 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.

In estimating expected credit losses as of December 31, 2023, we utilized certain forecasted macroeconomic variables from Oxford Economics in our models. The forecasted projections included, among other things, (i) U.S. gross domestic product ranging from 0.5% to 2.1% over the next four quarters; (ii) the 10-year treasury rate decreasing from 4.5% in the fourth quarter of 2023 to 4.0% by the fourth quarter of 2024; and (iii) Illinois unemployment rate averaging 5.4% through the fourth quarter of 2024.

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. These 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 fully 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 December 31, 2023, modeled expected credit losses were positively adjusted with a qualitative factor adjustment of approximately 41 basis points of total loans, decreasing from 50 basis points at December 31, 2022. The Q-Factor adjustment at December 31, 2023 was based primarily on declining credit quality conditions within the equipment financing segment.

The allowance allocated to commercial loans totaled $21.8 million, or 1.47% of total commercial loans, at December 31, 2023, compared to $14.6 million, or 0.97%, at December 31, 2022. Modeled expected credit losses increased $7.0 million and qualitative factor adjustments related to commercial loans decreased $1.6 million. Specific allocations for commercial loans that were evaluated for expected credit losses on an individual basis increased $1.8 million. There were no specific allocation reserves for commercial loans in the prior period. The weighted average risk grade for commercial and industrial loans at December 31, 2023, weakened to 4.62 from 4.42 at December 31, 2022.

The allowance allocated to commercial real estate loans totaled $20.2 million, or 0.84% to total commercial real estate loans, at December 31, 2023, decreasing $9.1 million, from $29.3 million, or 1.20% of total commercial real estate loans, at December 31, 2022. Modeled expected credit losses decreased $2.7 million, due to an improvement in our LDG, primarily as a result of a $3.4 million recovery on a loan previously charged off. The qualitative factor adjustments decreased $5.5 million as a result of improving economic forecasts, as the Federal Reserve signaled an expectation of rate decreases beginning in 2024. In addition, the qualitative factor for collateral values decreased based upon our mix of collateral-based loans, which does not include significant exposure to urban office properties. Specific allocations for commercial real estate loans that were evaluated for expected credit losses on an individual basis decreased from $1.5 million at December 31, 2022, to $0.7 million at

December 31, 2023. The weighted average risk grade for commercial real estate loans remained relatively unchanged at 4.83 at December 31, 2023, from 4.84 at December 31, 2022.

The allowance allocated to construction and land development loans totaled $4.2 million, or 0.92% to total construction loans, at December 31, 2023, increasing $1.7 million, from $2.4 million, or 0.76% of total constructions loans, at December 31, 2022. Modeled expected credit losses increased $1.4 million and qualitative factor adjustments related to construction loans increased $0.3 million. There were no specific allocation reserves for construction loans in either period.

The allowance allocated to the lease portfolio totaled $12.9 million, or 2.73% of total commercial leases, at December 31, 2023, increasing $6.2 million, from $6.8 million, or 1.38% of total commercial leases at December 31, 2022. Modeled expected credit losses related to commercial leases increased $6.8 million and qualitative factor adjustments decreased $0.6 million. There were no specific allocation reserves for commercial leases in either period.

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 years ended 2023, 2022, and 2021:

	Years Ended December 31,		
(dollars in thousands)	**2023**	**2022**	**2021**
Balance, beginning of period	$ 61,051	$ 51,062	$ 60,443
Charge-offs:			
Commercial	7,357	4,121	6,465
Commercial real estate	5,000	4,106	3,524
Construction and land development	1,601	6	448
Residential real estate	271	344	398
Consumer	1,046	1,229	1,158
Lease financing	5,026	1,297	3,427
Total charge-offs	20,301	11,103	15,420
Recoveries:			
Commercial	1,785	401	341
Commercial real estate	4,006	7	21
Construction and land development	33	30	221
Residential real estate	138	252	249
Consumer	288	457	514
Lease financing	370	1,148	743
Total recoveries	6,620	2,295	2,089
Net charge-offs	13,681	8,808	13,331
Provision for credit losses on loans	21,132	18,797	3,950
Balance, end of period	$ 68,502	$ 61,051	$ 51,062
Gross loans, end of period	$ 6,131,079	$ 6,306,467	$ 5,224,801
Average total loans	$ 6,292,260	$ 5,811,403	$ 4,903,447
Net charge-offs to average loans	0.22 %	0.15 %	0.27 %
Allowance for credit losses to total loans	1.12 %	0.97 %	0.98 %

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.

Charge-offs in 2023 increased to $20.3 million from $11.1 million in 2022. Our equipment finance business saw charge-offs increase to $9.6 million in 2023 from $2.0 million in 2022, due primarily to weakness within the trucking and transportation sector. The Company recognized a $3.4 million recovery on a commercial real estate loan, which was charged-off in 2017.

Nonperforming Loans. The following table sets forth our nonperforming assets by asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans and loans past due 90 days or more and still accruing interest. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

	December 31,		
(dollars in thousands)	**2023**	**2022**	**2021**
Nonperforming loans:			
Commercial	$ 9,282	$ 7,853	$ 12,261
Commercial real estate	33,891	29,602	19,175
Construction and land development	39	229	120
Residential real estate	3,869	8,449	7,912
Consumer	137	921	208
Lease financing	9,133	2,369	2,904
Total nonperforming loans	56,351	49,423	42,580
Other real estate owned and other repossessed assets	11,350	8,401	14,488
Nonperforming assets	$ 67,701	$ 57,824	$ 57,068
Nonperforming loans to total loans	0.92 %	0.78 %	0.81 %
Nonperforming assets to total assets	0.86 %	0.74 %	0.77 %
Allowance for credit losses to nonperforming loans	121.56 %	123.53 %	119.92 %

We did not recognize interest income on nonaccrual loans during the years ended December 31, 2023 or 2022 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 $3.4 million and $2.8 million for the years ended December 31, 2023 and 2022, respectively.

The following table presents the change in our non-performing loans for the year ended December 31, 2023:

(dollars in thousands)	**Year Ended December 31, 2023**
Balance, beginning of period	$ 49,423
New nonperforming loans	46,615
Return to performing status	(6,085)
Payments received	(26,048)
Charge-offs	(7,554)
Balance, end of period	$ 56,351

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. In the periods presented, all investment securities of the Company are classified as available for sale and, therefore, the book value of investment securities is equal to the fair market value.

The following table sets forth the book value and associated percentage of each category of investment securities at December 31, 2023, 2022 and 2021.

	December 31,					
	2023		2022		2021	
(dollars in thousands)	**Balance**	**Percent**	**Balance**	**Percent**	**Balance**	**Percent**
Investment securities available for sale:						
U.S. Treasury securities	$ 1,097	0.1 %	$ 81,230	10.6 %	$ 64,917	7.2 %
U.S. government sponsored entities and U.S. agency securities	72,572	7.9	37,509	4.9	33,817	3.7
Mortgage-backed securities - agency	574,500	62.7	448,150	58.3	440,270	48.5
Mortgage-backed securities - non-agency	83,529	9.1	20,754	2.7	28,706	3.2
State and municipal securities	57,460	6.3	94,636	12.3	143,099	15.8
Collateralized loan obligations	27,565	3.0	—	—	—	—
Corporate securities	99,172	10.9	85,955	11.2	195,794	21.6
Total investment securities, available for sale, at fair value	$ 915,895	100.0 %	$ 768,234	100.0 %	$ 906,603	100.0 %

The following table sets forth the book value, maturities and weighted average yields for our investment portfolio at December 31, 2023.

(dollars in thousands)	Balance	Percent	Weighted average yield
Investment securities available for sale:			
U.S. Treasury securities:			
Maturing within one year	$ 1,097	0.1 %	5.35 %
Maturing in one to five years	—	—	—
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	$ 1,097	0.1 %	5.35 %
U.S. government sponsored entities and U.S. agency securities:			
Maturing within one year	$ 4,995	0.5 %	5.50 %
Maturing in one to five years	46,351	5.1	5.71
Maturing in five to ten years	21,226	2.3	3.99
Maturing after ten years	—	—	—
Total U.S. government sponsored entities and U.S. agency securities	$ 72,572	7.9 %	5.17 %
Mortgage-backed securities - agency:			
Maturing within one year	$ 5,713	0.6 %	3.21 %
Maturing in one to five years	315,841	34.5	4.20
Maturing in five to ten years	116,396	12.7	2.76
Maturing after ten years	136,550	14.9	2.25
Total mortgage-backed securities - agency	$ 574,500	62.7 %	3.39 %
Mortgage-backed securities - non-agency:			
Maturing within one year	$ —	— %	— %
Maturing in one to five years	62,851	6.9	4.57
Maturing in five to ten years	9,530	1.0	2.26
Maturing after ten years	11,148	1.2	3.23
Total mortgage-backed securities - non-agency	$ 83,529	9.1 %	4.08 %
State and municipal securities [(1)]:			
Maturing within one year	$ 1,106	0.1 %	2.35 %
Maturing in one to five years	8,045	0.9	3.15
Maturing in five to ten years	28,007	3.1	2.17
Maturing after ten years	20,302	2.2	3.61
Total state and municipal securities	$ 57,460	6.3 %	2.80 %
Collateralized loan obligations:			
Maturing within one year	$ 1,450	0.2 %	7.16 %
Maturing in one to five years	21,115	2.3	6.99
Maturing in five to ten years	5,000	0.5	7.90
Maturing after ten years	—	—	—
Total collateralized loan obligations	$ 27,565	3.0 %	7.17 %
Corporate securities:			
Maturing within one year	$ 4,942	0.5 %	8.41 %
Maturing in one to five years	34,384	3.8	4.88
Maturing in five to ten years	59,846	6.6	3.72
Maturing after ten years	—	—	—
Total corporate securities	$ 99,172	10.9 %	4.32 %
Total investment securities, available for sale	$ 915,895	100.0 %	3.75 %

(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 December 31, 2023.

(dollars in thousands)	Amortized cost	Fair Value	Average credit rating AAA	AA+/-	A+/-	BBB+/-	<BBB-	Not Rated
Investment securities available for sale:								
U.S. Treasury securities	$ 1,097	$ 1,097	$ —	$ 1,097	$ —	$ —	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	74,161	72,572	56,048	16,524	—	—	—	—
Mortgage-backed securities - agency	650,119	574,500	23,780	550,720	—	—	—	—
Mortgage-backed securities - non-agency	87,019	83,529	9,800	73,729	—	—	—	—
State and municipal securities	62,952	57,460	2,927	54,533	—	—	—	—
Collateralized loan obligations	27,646	27,565	20,216	7,349	—	—	—	—
Corporate securities	109,598	99,172	—	50,465	21,831	20,062	6,814	—
Total investment securities, available for sale	$ 1,012,592	$ 915,895	$ 112,771	$ 754,417	$ 21,831	$ 20,062	$ 6,814	$ —

Liabilities. At December 31, 2023, liabilities totaled $7.08 billion compared to $7.10 billion at December 31, 2022.

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 decreased $55.1 million to $6.31 billion at December 31, 2023, as compared to December 31, 2022. Increases in interest-bearing checking and time deposits of $17.8 million and $295.0 million, respectively, during this period, were partially offset by decreases in noninterest-bearing demand, money market and savings account balances.

Noninterest-bearing demand accounts decreased $216.8 million to $1.15 billion at December 31, 2023, compared to December 31, 2022, as a result of increasing deposit rates in response to the rate increases announced by the Federal Reserve. Interest rate promotions offered in 2023 on time deposit products resulted in an increase in balances of non-brokered time deposits of $213.3 million over the same period. Brokered time deposits increased to $94.5 million at December 31, 2023 from $12.8 million at December 31, 2022. Our noninterest-bearing deposits decreased to 18.1% of total deposits at December 31, 2023 compared to 21.4% at December 31, 2022.

	December 31,					
(dollars in thousands)	2023		2022		2021	
	Balance	Percent	Balance	Percent	Balance	Percent
Noninterest-bearing demand	$ 1,145,395	18.1 %	$ 1,362,158	21.4 %	$ 2,245,701	36.8 %
Interest-bearing:						
Checking	2,511,840	39.8	2,494,073	39.2	1,663,021	27.2
Money market	1,135,629	18.0	1,184,101	18.6	869,067	14.2
Savings	559,267	8.9	661,932	10.4	679,115	11.1
Time	957,398	15.2	662,388	10.4	653,744	10.7
Total deposits	$ 6,309,529	100.0 %	$ 6,364,652	100.0 %	$ 6,110,648	100.0 %

The Company estimates that uninsured deposits[1] totaled $1.22 billion, or 19% of total deposits, at December 31, 2023 compared to $1.55 billion, or 24%, at December 31, 2022. The following table sets forth the maturity of uninsured time deposits as of December 31, 2023:

(dollars in thousands)		Amount
Three months or less	$	42,963
Three to six months		18,469
Six to 12 months		26,166
After 12 months		8,096
Total	$	95,694

(1) Uninsured deposits include the Call Report estimate of uninsured deposits less affiliate deposits, estimated insured portion of servicing deposits, additional structured FDIC coverage and collateralized deposits.

Capital Resources and Liquidity Management

Capital Resources. Shareholders' equity is influenced primarily by earnings, dividends, issuances and redemptions of common and preferred 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 increased $33.3 million to $791.9 million at December 31, 2023 as compared to December 31, 2022. The increase in shareholders' equity was due primarily to the generation of net income of $75.5 million, and an increase in accumulated other comprehensive income of $7.0 million. Offsetting these increases to shareholders' equity were dividends to common shareholders of $26.6 million, dividends to preferred shareholders of $8.9 million and repurchases of common stock of $17.9 million.

On December 5, 2023, the Company's board of directors authorized a new share repurchase program, pursuant to which the Company is authorized to repurchase up to $25.0 million of common stock through December 31, 2024. The new stock repurchase program became effective on January 1, 2024. The Company's previous stock repurchase program expired on December 31, 2023. As of December 31, 2023, $74.2 million, or 3,836,331 shares of the Company's common stock, had been repurchased under prior programs.

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 $20.9 million and $46.1 million at December 31, 2023 and December 31, 2022, respectively, were pledged for securities sold under agreements to repurchase.

The table below presents our sources of liquidity as of December 31, 2023 and December 31, 2022:

(dollars in thousands)	**December 31, 2023**	**December 31, 2022**
Cash and cash equivalents	$ 135,061	$ 160,631
Unpledged securities	346,843	209,184
FHLB committed liquidity	935,977	997,388
FRB discount window availability	699,896	12,201
Total Estimated Liquidity	$ 2,117,777	$ 1,379,404
Conditional Funding Based on Market Conditions		
Additional credit facility	$ 419,000	$ 250,000
Brokered CDs (additional capacity)	$ 500,000	$ 500,000

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 it 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 December 31, 2023, 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 December 31, 2023, 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 December 31, 2023:

Ratio	Actual	Minimum Regulatory Requirements [(1)]	Well Capitalized
Total risk-based capital ratio			
Midland States Bancorp, Inc.	13.20 %	10.50 %	N/A
Midland States Bank	12.40	10.50	10.00 %
Tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	10.91	8.50	N/A
Midland States Bank	11.44	8.50	8.00
Common equity tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	8.40	7.00	N/A
Midland States Bank	11.44	7.00	6.50
Tier 1 leverage ratio			
Midland States Bancorp, Inc.	9.71	4.00	N/A
Midland States Bank	10.18	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%.

Off-Balance Sheet Arrangements

We have limited off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets. Most of these commitments mature within two years and are expected to expire without being drawn upon. Standby letters of credit are included in the determination of the amount of risk-based capital that the Company and the Bank are required to hold.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. We decrease our exposure to losses under these commitments by subjecting them to credit approval and monitoring procedures. We assess the credit risk associated with certain commitments to extend credit and establish a liability for probable credit losses.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event that the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

We guarantee the distributions and payments for redemption or liquidation of the trust preferred securities issued by our wholly owned subsidiary business trusts to the extent of funds held by the trusts. Although this guarantee is not separately recorded, the obligation underlying the guarantee is fully reflected on our consolidated balance sheets as junior subordinated debentures held by subsidiary trusts. The junior subordinated debentures currently qualify as Tier 1 capital under the Federal Reserve capital adequacy guidelines.

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. Interest rate risk is the risk to earnings 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 SOFR (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 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 its effect on net interest income. 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.

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 NII at Risk to model interest rate risk utilizing various assumptions for assets, liabilities, and derivatives. 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.

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

	Net interest income sensitivity (Shocks)			
	Immediate change in rates			
(dollars in thousands)	-200	-100	+100	+200
December 31, 2023:				
Dollar change	$ 539	$ (293)	$ (1,424)	$ (3,162)
Percent change	0.2 %	(0.1)%	(0.6)%	(1.3)%
December 31, 2022:				
Dollar change	$ —	$ (12,560)	$ 10,814	$ 21,357
Percent change	— %	(4.2)%	3.6 %	7.2 %
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 -200, −100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next twelve months. In 2023, we added a -200 basis point scenario as the Federal Reserve has indicated the rate increases may have run their course. We were within board policy limits for all scenarios at December 31, 2023.

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 December 31, 2023 projects that our earnings exhibit increasing profitability in a declining rate environment, compared to December 31, 2022. Throughout the course of 2023, the bank exhibited similar trends to the industry concerning its beta assumptions related to its non-maturity deposit portfolio. Coupled with a market shift to slowing rate increases or even rate cuts into 2024, the bank did start to position its investment strategy to protect against lower rates in the future. These two aspects are the primary drivers of moving to a virtually neutral position as measured in the +/- 100 basis point rate shocks.

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.

Critical Accounting Estimates

Our most significant accounting policies are described in Note 1 to the consolidated financial statements. Certain of these accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities, and we consider these policies to be our critical accounting estimates. The judgment and assumptions made are based upon historical experience, future forecasts, or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations.

The following accounting estimate materially affects our reported earnings and financial condition and requires significant judgments and assumptions. Management has reviewed this critical accounting estimate and related disclosures with our Audit Committee.

Allowance for Credit Losses on Loans. Management's evaluation process used to determine the appropriateness of the allowance for credit losses on loans is subject to the use of estimates, assumptions, and judgments. The evaluation process combines many factors: management's ongoing review and grading of the loan portfolio leveraging probability of default and loss given default, consideration of historical loan loss and delinquency experience, trends in past due and nonaccrual loans, risk characteristics of the various classifications of loans, concentrations of loans to specific borrowers or industries, existing economic conditions and forecasts, the fair value of underlying collateral, and other qualitative and quantitative factors which could affect future credit losses. Because current economic conditions and forecasts can change and future events are inherently difficult to predict, the anticipated amount of estimated credit losses on loans, and therefore the appropriateness of the allowance for credit losses on loans, could change significantly. It is difficult to estimate how potential changes in any one economic factor or input might affect the overall allowance because a wide variety of factors and inputs are considered in estimating the allowance and changes in those factors and inputs considered may not occur at the same rate and may not be consistent across all product types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others. As an integral part of their examination process, various regulatory agencies also review the allowance for credit losses on loans. Such agencies may require additions to the allowance for credit losses on loans or may require that certain loan balances be charged-off or downgraded into criticized loan categories when their credit evaluations differ from those of management, based on their judgments about information available to them at the time of their examination. The Company believes the level of the allowance for credit losses on loans is appropriate. See Note 1 - *Summary of Significant Accounting Policies* and Note 4 - *Loans* of the notes to consolidated financial statements.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk are included under Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures about Market Risk."

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Crowe LLP
Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Midland States Bancorp, Inc.
Effingham, Illinois

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Midland States Bancorp, Inc. (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting
includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses on Loans – Modeling Techniques and Qualitative Factor Adjustments

As described in Notes 1 and 4 to the consolidated financial statements, the Allowance for Credit Losses on Loans ("ACL") represents the Company's estimate of amounts that are not expected to be collected over the contractual life of the Company's held for investment loan portfolio. The estimate of the ACL is based on historical experience, current conditions, and reasonable and supportable forecasts. As of December 31, 2023, the Company's ACL was $68,502,000, and the provision for credit losses on loans was $21,132,000 for the year then ended.

The Company employed a probability of default ("PD") and loss given default ("LGD") modeling approach to estimate the ACL, which were then adjusted for qualitative factors. The estimated PD and LGD rates are applied to the estimated exposure at default to calculate expected credit losses. The Company's ACL model utilizes regression analysis to develop default rates based on forecasted macroeconomic variables that correlate to and are predictive of losses. The methodologies utilized to develop and implement the macroeconomic factors that drive the loss estimates in the forecasting model were complex in their use of regression modeling techniques. The process involved the selection of the macroeconomic variables and the evaluation of regression analysis outputs to determine the statistical fit of the macroeconomic variables used to forecast expected credit losses. The Company also developed a qualitative analysis framework to address asset-specific risks, changes in economic and business conditions, or other risks management determines are not adequately considered by the model for each portfolio segment. Significant management judgment was applied in evaluating the qualitative factor adjustments used in the analysis.

The audit procedures over the modeling techniques used to determine loss estimates and the selection and application of the macroeconomic variables involved a high degree of auditor judgment and required significant audit effort, including the use of more experienced audit personnel and use of credit and valuation specialists due to its complexity. Additionally, the audit procedures over the qualitative factor adjustments utilized in management's methodology involved challenging and subjective auditor judgment. Therefore, we identified auditing the ACL modeling techniques and qualitative factor adjustments as a critical audit matter.

The primary audit procedures we performed to address this critical audit matter included:

- Tested the operating effectiveness of the Company's controls over:
    - The Company's allowance committee's oversight and approval of management's application of accounting policies, and selection and implementation of PD and LGD assumptions.
    - Management's review relating to selection and application of relevant macroeconomic variables and their appropriateness.
    - Management's review over the model methodologies, assumptions, judgments, and validation of inputs to the model.
    - Management's review over the appropriateness of the framework for the qualitative factor adjustments.
    - The completeness and accuracy of internal data used in the loss estimation models and in the qualitative analysis framework.
    - Management's review over the relevance and reliability of external data used in the loss estimation model and qualitative analysis framework.
    - The mathematical accuracy of the qualitative factor adjustments.
- Evaluated the reasonableness and appropriateness of the methodologies employed for suitability under the standard including, but not limited to, evaluating their conceptual soundness, and testing the PD models and LGD assumptions and judgments that were applied in the model.
- Tested the completeness and accuracy of internal data and relevance and reliability of external data used in the loss estimation models and in the qualitative analysis framework
- Specific to the qualitative analysis, we performed the following procedures, among others:
    - Assessed the appropriateness and reasonableness of the framework developed for the qualitative analysis including evaluating management's judgments as to which factors impacted the qualitative analysis for each portfolio segment.
    - Performed testing over the accuracy of inputs utilized in the calculation of qualitative analysis for each portfolio segment.
    - Tested the mathematical accuracy of the calculation of the qualitative factor adjustments.

Crowe LLP

We have served as the Company's auditor since 2017.

Oak Brook, Illinois
February 23, 2024

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

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 134,212	$ 153,345
Federal funds sold	849	7,286
Cash and cash equivalents	135,061	160,631
Investment securities available for sale, at fair value	915,895	768,234
Equity securities, at fair value	4,501	8,626
Loans	6,131,079	6,306,467
Allowance for credit losses on loans	(68,502)	(61,051)
Total loans, net	6,062,577	6,245,416
Loans held for sale	3,811	1,286
Premises and equipment, net	82,814	78,293
Other real estate owned	9,112	6,729
Nonmarketable equity securities	43,421	46,201
Accrued interest receivable	24,934	20,313
Loan servicing rights, at lower of cost or fair value	20,253	1,205
Commercial FHA mortgage loan servicing rights held for sale	—	20,745
Goodwill	161,904	161,904
Other intangible assets, net	16,108	20,866
Company-owned life insurance	203,485	150,443
Other assets	182,992	164,609
Total assets	$ 7,866,868	$ 7,855,501
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand deposits	$ 1,145,395	$ 1,362,158
Interest-bearing deposits	5,164,134	5,002,494
Total deposits	6,309,529	6,364,652
Short-term borrowings	34,865	42,311
Federal Home Loan Bank advances and other borrowings	476,000	460,000
Subordinated debt	93,546	99,772
Trust preferred debentures	50,616	49,975
Accrued interest payable and other liabilities	110,459	80,217
Total liabilities	7,075,015	7,096,927
Shareholders' Equity:		
Preferred stock, $2.00 par value; 4,000,000 shares authorized; 115,000 Series A shares, $1,000 per share liquidation preference, issued and outstanding at December 31, 2023 and 2022, respectively	110,548	110,548
Common stock, $0.01 par value; 40,000,000 shares authorized; 21,551,402 and 22,214,913 shares issued and outstanding at December 31, 2023 and 2022, respectively	216	222
Capital surplus	435,463	449,196
Retained earnings	322,379	282,405
Accumulated other comprehensive loss, net of tax	(76,753)	(83,797)
Total shareholders' equity	791,853	758,574
Total liabilities and shareholders' equity	$ 7,866,868	$ 7,855,501

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

MIDLAND STATES BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

	Years Ended December 31,		
	2023	2022	2021
Interest income:			
Loans including fees:			
Taxable	$ 365,529	$ 274,617	$ 213,922
Tax exempt	1,764	2,082	2,470
Loans held for sale	260	404	1,115
Investment securities:			
Taxable	28,653	15,801	13,898
Tax exempt	1,349	2,746	3,336
Nonmarketable equity securities	2,819	2,198	2,348
Federal funds sold and cash investments	3,922	3,907	728
Total interest income	404,296	301,755	237,817
Interest expense:			
Deposits	136,947	36,061	10,957
Short-term borrowings	68	104	86
Federal Home Loan Bank advances and other borrowings	20,709	9,335	8,443
Subordinated debt	5,266	7,495	8,705
Trust preferred debentures	5,289	3,025	1,951
Total interest expense	168,279	56,020	30,142
Net interest income	236,017	245,735	207,675
Provision for credit losses:			
Provision for credit losses on loans	21,132	18,797	3,950
Provision for credit losses on unfunded commitments	—	1,550	(412)
Recapture of other credit losses	—	(221)	(145)
Total provision for credit losses	21,132	20,126	3,393
Net interest income after provision for credit losses	214,885	225,609	204,282
Noninterest income:			
Wealth management revenue	25,572	25,708	26,811
Residential mortgage banking revenue	1,903	1,509	5,526
Service charges on deposit accounts	11,990	10,237	9,242
Interchange revenue	14,302	13,879	14,500
(Loss) gain on sales of investment securities, net	(9,372)	(230)	537
Gain on termination of hedged interest rate swaps	—	17,531	2,159
Impairment on commercial mortgage servicing rights	—	(1,263)	(7,532)
Income on company-owned life insurance	4,439	3,584	4,496
Other income	17,756	8,936	14,160
Total noninterest income	66,590	79,891	69,899
Noninterest expense:			
Salaries and employee benefits	93,438	90,305	86,883
Occupancy and equipment	15,986	14,842	14,866
Data processing	26,286	24,350	24,595
FDIC insurance	4,779	3,336	3,346
Professional	7,049	6,907	10,971
Marketing	3,158	3,318	3,239
Communications	1,741	2,382	3,002
Loan expense	4,206	4,586	2,014
Amortization of intangible assets	4,758	5,410	5,855
Other real estate owned	333	5,188	1,277
Loss on mortgage servicing rights held for sale	—	3,250	222
Federal Home Loan Bank advances prepayment fees	—	—	8,536
Other expense	12,168	11,788	10,263
Total noninterest expense	173,902	175,662	175,069
Income before income taxes	107,573	129,838	99,112
Income taxes	32,113	30,813	17,795
Net income	75,460	99,025	81,317
Preferred dividends	8,913	3,169	—
Net income available to common shareholders	$ 66,547	$ 95,856	$ 81,317
Per common share data:			
Basic earnings per common share	$ 2.97	$ 4.24	$ 3.58
Diluted earnings per common share	$ 2.97	$ 4.23	$ 3.57
Weighted average common shares outstanding	22,115,869	22,341,498	22,481,389
Weighted average diluted common shares outstanding	22,124,402	22,395,698	22,547,353

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

MIDLAND STATES BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Years Ended December 31,		
	2023	**2022**	**2021**
Net income	$ 75,460	$ 99,025	$ 81,317
Other comprehensive income (loss):			
Investment securities available for sale:			
Unrealized losses that occurred during the period	(1,280)	(106,927)	(12,553)
Recapture of credit loss expense	—	(221)	(145)
Reclassification adjustment for realized net losses (gains) on sales of investment securities included in net income	9,372	230	(537)
Income tax effect	(2,184)	28,876	3,640
Change in investment securities available for sale, net of tax	5,908	(78,042)	(9,595)
Cash flow hedges:			
Net unrealized derivative gains on cash flow hedges	1,556	2,438	6,851
Reclassification adjustment for gains realized in net income	—	(17,531)	(2,159)
Income tax effect	(420)	4,101	(1,291)
Change in cash flow hedges, net of tax	1,136	(10,992)	3,401
Other comprehensive income (loss), net of tax	7,044	(89,034)	(6,194)
Total comprehensive income	$ 82,504	$ 9,991	$ 75,123

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

MIDLAND STATES BANCORP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(dollars in thousands, except per share data)

	Preferred stock	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balances, December 31, 2020	$ —	$ 223	$ 453,410	$ 156,327	$ 11,431	$ 621,391
Net income	—	—	—	81,317	—	81,317
Other comprehensive loss	—	—	—	—	(6,194)	(6,194)
Common dividends declared ($1.12 per share)	—	—	—	(25,172)	—	(25,172)
Common stock repurchased	—	(5)	(11,687)	—	—	(11,692)
Share-based compensation expense	—	—	1,938	—	—	1,938
Issuance of common stock under employee benefit plans	—	3	2,246	—	—	2,249
Balances, December 31, 2021	$ —	$ 221	$ 445,907	$ 212,472	$ 5,237	$ 663,837
Net income	—	—	—	99,025	—	99,025
Other comprehensive loss	—	—	—	—	(89,034)	(89,034)
Issuance of preferred stock, net of offering costs	110,548	—	—	—	—	110,548
Common dividends declared ($1.16 per share)	—	—	—	(25,923)	—	(25,923)
Preferred dividends	—	—	—	(3,169)	—	(3,169)
Common stock repurchased	—	(1)	(1,108)	—	—	(1,109)
Share-based compensation expense	—	—	2,211	—	—	2,211
Issuance of common stock under employee benefit plans	—	2	2,186	—	—	2,188
Balances, December 31, 2022	$ 110,548	$ 222	$ 449,196	$ 282,405	$ (83,797)	$ 758,574
Net income	—	—	—	75,460	—	75,460
Other comprehensive income	—	—	—	—	7,044	7,044
Common dividends declared ($1.20 per share)	—	—	—	(26,573)	—	(26,573)
Preferred dividends	—	—	—	(8,913)	—	(8,913)
Common stock repurchased	—	(8)	(17,890)	—	—	(17,898)
Share-based compensation expense	—	—	2,489	—	—	2,489
Issuance of common stock under employee benefit plans	—	2	1,668	—	—	1,670
Balances, December, 31, 2023	$ 110,548	$ 216	$ 435,463	$ 322,379	$ (76,753)	$ 791,853

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

MIDLAND STATES BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Years Ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	$ 75,460	$ 99,025	$ 81,317
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	21,132	20,126	3,393
Depreciation on premises and equipment	4,778	4,842	5,506
Amortization of intangible assets	4,758	5,410	5,855
Amortization of operating lease right-of-use asset	1,635	1,831	1,742
Amortization of loan servicing rights	1,550	2,294	3,242
Share-based compensation expense	2,489	2,211	1,938
Increase in cash surrender value of life insurance	(4,439)	(3,320)	(3,451)
Gain on proceeds from company-owned life insurance	—	(264)	(1,045)
Investment securities (accretion) amortization, net	(2,414)	2,311	4,196
Gain on termination of hedged interest rate swaps	—	(17,531)	(2,159)
Loss (gain) on sales of investment securities, net	9,372	230	(537)
Gain on repurchase of subordinated debt	(676)	—	—
(Loss) gain on sales of other real estate owned	(819)	118	(473)
Impairment on other real estate owned	—	4,277	454
Origination of loans held for sale	(58,953)	(134,612)	(504,801)
Proceeds from sales of loans held for sale	98,851	269,958	739,954
Gain on sale of loans held for sale	(2,395)	(844)	(4,952)
Impairment on commercial mortgage servicing rights	—	1,263	7,532
Loss on mortgage servicing rights held for sale	—	3,250	222
Net change in operating assets and liabilities:			
Accrued interest receivable	(4,621)	(807)	4,075
Other assets	(18,731)	876	(31,974)
Accrued expenses and other liabilities	27,661	(13,579)	24,404
Net cash provided by operating activities	154,638	247,065	334,438
Cash flows from investing activities:			
Purchases of investment securities available for sale	(412,799)	(192,349)	(469,789)
Proceeds from sales of investment securities available for sale	191,733	136,403	14,777
Maturities and payments on investment securities available for sale	74,531	85,077	208,377
Purchases of equity securities	(286)	(511)	(260)
Proceeds from sales of equity securities	5,148	—	—
Net decrease (increase) in loans	112,496	(1,177,598)	(258,401)
Purchases of premises and equipment	(8,731)	(3,470)	(2,718)
Proceeds from sale of premises and equipment	104	175	647
Purchases of nonmarketable equity securities	(239,597)	(24,787)	—
Proceeds from redemptions of nonmarketable equity securities	242,377	14,927	20,255
Proceeds from sales of other real estate owned	7,547	1,453	9,210
(Purchases of) proceeds from company-owned life insurance, net	(48,603)	1,518	2,122
Net cash acquired (paid) in acquisitions	—	60,275	(2,715)
Net cash used in investing activities	(76,080)	(1,098,887)	(478,495)
Cash flows from financing activities:			
Net (decrease) increase in deposits	(55,123)	174,210	1,009,632
Net (decrease) increase in short-term borrowings	(7,446)	(34,492)	7,846
Proceeds from FHLB borrowings	23,288,000	3,540,000	500,000
Payments made on FHLB borrowings and other borrowings	(23,272,000)	(3,390,171)	(977,536)
FHLB advances prepayment fees	—	—	8,536
Payments made on subordinated debt	(5,845)	(40,000)	(31,075)
Proceeds from issuance of preferred stock	—	110,548	—
Cash dividends paid on preferred stock	(8,913)	(3,169)	—
Cash dividends paid on common stock	(26,573)	(25,923)	(25,172)
Common stock repurchased	(17,898)	(1,109)	(11,692)
Proceeds from issuance of common stock under employee benefit plans	1,670	2,188	2,249
Net cash (used in) provided by financing activities	(104,128)	332,082	482,788
Net (decrease) increase in cash and cash equivalents	(25,570)	(519,740)	338,731
Cash and cash equivalents:			
Beginning of period	160,631	680,371	341,640
End of period	$ 135,061	$ 160,631	$ 680,371

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

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Our wholly owned banking subsidiary, Midland States 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 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.

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with GAAP and conform to predominant practices within the banking industry. Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare the consolidated financial statements in conformity with GAAP. Actual results may differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the results of operations for annual periods presented herein, have been included. Certain reclassifications of 2022 amounts have been made to conform to the 2023 presentation but do not have an effect on net income or shareholders’ equity.

Subsequent Events

Management has evaluated subsequent events for recognition and disclosure through February 23, 2024, which is the date the financial statements were available to be issued.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Under the acquisition method of accounting, tangible and intangible identifiable assets acquired, liabilities assumed and any noncontrolling interests in the acquiree are recorded at fair value as of the acquisition date. The Company includes the results of operations of the acquired company in the consolidated statements of income from the date of acquisition. Transaction costs and costs to restructure the acquired company are expensed as incurred. Goodwill is recognized as the excess of the acquisition price over the estimated fair value of the net assets acquired. If the fair value of the net assets acquired is greater than the acquisition price, a bargain purchase gain is recognized and recorded in noninterest income.

Cash and Cash Equivalents and Cash Flows

For the presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash on hand, amounts due from banks, which includes amounts on deposit with the Federal Reserve, interest-bearing deposits with banks or other financial institutions and federal funds sold. Generally, federal funds are sold for one-day periods, but not longer than 30 days.

The following table summarizes supplemental cash flow information:

(dollars in thousands)	Years Ended December 31, 2023	2022	2021
Supplemental disclosures of cash flow information:			
Cash payments for:			
Interest paid on deposits and borrowed funds	$ 159,139	$ 55,069	$ 31,735
Income tax paid (net of refunds)	25,120	36,514	7,759
Supplemental disclosures of noncash investing and financing activities:			
Transfer of loans to loans held for sale	—	103,357	123,117
Transfer of loans to other real estate owned	9,112	517	805
Transfer of premises and equipment, net to assets held for sale	—	—	23
Transfer of loan servicing rights, at lower of cost or market to loan servicing rights held for sale	—	23,995	705
Transfer of loan servicing rights held for sale to loan servicing rights, at lower of cost or market	20,745	—	—
Right of use assets obtained in exchange for lease obligations	2,470	502	1,118

Investment Securities

The Company classifies its debt investment securities as available for sale or held to maturity at the time of purchase. Securities held to maturity are those debt instruments which the Company has the positive intent and ability to hold until maturity. Securities held to maturity are recorded at cost, adjusted for the amortization of premiums or accretion of discounts. All other debt securities are classified as available for sale. As of December 31, 2023, all investment securities were classified as available for sale. Investment securities available for sale are recorded at fair value with the unrealized gains and losses, net of the related tax effect, included in other comprehensive income. The related accumulated unrealized holding gains and losses are reported as a separate component of shareholders' equity until realized.

Purchase premiums are amortized over the estimated life or to the earliest call date and purchase discounts are accreted over the estimated life of the related investment security as an adjustment to yield using the effective interest method. Unamortized premiums, unaccreted discounts, and early payment premiums are recognized in interest income upon disposition of the related security. Interest and dividend income are recognized when earned. Realized gains and losses from the sale of investment securities available for sale are determined using the specific identification method and are included in noninterest income. Also, when applicable, realized gains and losses are reported as a reclassification adjustment, net of tax, in other comprehensive income.

Available-for-sale debt securities in an unrealized loss position are evaluated, at least quarterly, for impairment related to credit losses. The Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, and the present value of cash flows expected to be collected from the security is less than the amortized cost basis, an allowance for credit losses is recorded. Any impairment that has not been recorded through an allowance for credit losses is recorded in other comprehensive income.

Equity Securities

Investments in stock of a publicly traded company or in mutual funds are classified as equity securities. Equity securities are recorded at fair value with unrealized gains and losses recognized in noninterest income.

Nonmarketable Equity Securities

Nonmarketable equity securities include the Bank's required investments in the stock of the FHLB and the FRB. The Bank is a member of the FHLB system as well as its regional FRB. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB stock and FRB stock are both carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash dividends and stock dividends are reported as interest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are classified as portfolio loans. Portfolio loans are carried at the principal balance outstanding, net of purchase premiums and discounts, and deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Accrued interest receivable on loans totaled $20.7 million and $17.0 million at December 31, 2023 and 2022, respectively, and was reported in accrued interest receivable on the consolidated balance sheets.

Interest income on mortgage and commercial loans is discontinued and the loan is placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Mortgage loans are charged-off at 180 days past due, and commercial loans are charged-off to the extent principal or interest is deemed uncollectible. Consumer loans continue to accrue interest until they are charged-off or at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cost-recovery or cash-basis method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Leases. The Company provides financing leases to small businesses for purchases of business equipment. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual values (approximately 3% to 15% of the cost of the related equipment), are recorded as lease receivables when the lease is signed and the leased property is delivered to the customer. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned lease income. Unearned lease income is recognized over the term of the lease on a basis that results in an approximately level rate of return on the unrecovered lease investment.

PCD Loans. In the past the Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. Purchased credit deteriorated loans are recorded at the amount paid. An allowance for credit losses on loans is determined using the same methodology as other loans held for investment. The initial allowance for credit losses on loans determined on a collective basis is allocated to individual loans. The sum of the loan’s purchase price and allowance for credit losses on loans becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses on loans are recorded through provision expense for credit losses.

Nonperforming Loans. A loan is considered nonperforming when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Nonperforming loans include loans on nonaccrual status and loans past due 90 days or more and still accruing interest.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectibility over the loans' contractual terms, adjusted for expected prepayments when appropriate.

Management estimates the allowance balance using relevant information, from internal and external sources, relating to historical credit loss experience, current conditions, and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current loan-specific risk characteristics, environmental conditions or other relevant factors.

The allowance for credit losses on loans is measured on a collective basis and reflects impairment in groups of loans aggregated on the basis of similar risk characteristics. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

In calculating the allowance for credit losses, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles may include internal credit ratings, risk ratings or classification, financial asset type, collateral type, size, industry of the borrower, historical or expected credit loss patterns, and reasonable and supportable forecast periods. We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary.

The table below identifies the Company's loan portfolio segments and classes.

Segment	Class
Commercial	Commercial
	Commercial Other
Commercial Real Estate	Commercial Real Estate Non-Owner Occupied
	Commercial Real Estate Owner Occupied
	Multi-Family
	Farmland
Construction and Land Development	Construction and Land Development
Residential Real Estate	Residential First Lien
	Other Residential
Consumer	Consumer
	Consumer Other
Lease Financing	Lease Financing

For each loan pool, we measure expected credit losses over the life of each loan utilizing a combination of models which measure (i) probability of default, the likelihood that loan will stop performing or default, (ii) loss given default, the expected loss rate for loans in default, (iii) assumed prepayment speed, the likelihood that a loan will prepay or pay-off prior to maturity, and (iv) exposure at default, the estimated outstanding principal balance of the loans upon default, including the expected funding of unfunded commitments outstanding as of the measurement date.

Expected credit losses are calculated as the product of probability of default (adjusted for prepayment), loss given default and exposure at default. This methodology builds on default probabilities already incorporated into our risk grading process by utilizing pool-specific historical loss rates to calculate expected credit losses. These pool-specific historical loss rates may be adjusted for current macroeconomic assumptions, as further discussed below, and other factors such as differences in underwriting standards, portfolio mix, or when historical asset terms do not reflect the contractual terms of the financial assets being evaluated as of the measurement date. Each time we measure expected credit losses, we assess the relevancy of historical loss information and consider any necessary adjustments to address any differences in asset-specific characteristics.

The measurement of expected credit losses is impacted by loan and borrower attributes and certain macroeconomic variables. Significant loan and borrower attributes utilized in our modeling processes include, among other things, (i) origination date, (ii) maturity date, (iii) payment type, (iv) collateral type and amount, (v) current risk grade, (vi) current unpaid balance and commitment utilization rate, (vii) payment status and delinquency history and (viii) expected recoveries of previously charged-off amounts. Significant macroeconomic variables utilized in our modeling processes include, among other things, (i) Gross Domestic Product, (ii) Consumer Price Index, (iii) selected market interest rates including U.S. Treasury rates, (iv) commercial and residential property prices and unemployment rates in Illinois and the U.S. as a whole, and (v) Retail Sales for the State of Illinois.

The probability of default and prepayment assumptions were estimated by analyzing internally-sourced data related to historical performance of each loan pool. They are adjusted to reflect the current impact of certain macroeconomic variables as well as their expected changes over a reasonable and supportable forecast period. We have determined that we are reasonably able to forecast the macroeconomic variables used in our modeling processes with an acceptable degree of confidence for a total of two years with the last twelve months of the forecast period encompassing a reversion process whereby the forecasted macroeconomic variables are reverted to their historical mean utilizing a straight line basis. The macroeconomic variables utilized as inputs in our modeling processes were subjected to a variety of analysis procedures and were selected primarily based on statistical relevancy and correlation to our historical credit losses. By reverting these modeling inputs to their historical mean and considering loan and borrower specific attributes, our models are intended to yield a measurement of expected credit losses that reflects our average historical loss rates for periods subsequent to the twelve-month reversion period. The LGD is based on historical recovery averages for each loan pool, adjusted to reflect the current impact of certain macroeconomic variables as well as their expected changes over a two-year forecast period, with the final twelve months of the forecast period encompassing a reversion process, which management considers to be both reasonable and supportable. The same forecast and reversion periods are used for all macroeconomic variables in our models.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These Q-Factor adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making Q-Factor adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries, (ii) actual and expected changes in economic and business conditions and developments that affect the collectibility of the loan pools, (iii) changes in the nature and volume of the loan pools and in the terms of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and staff, (v) changes in volume and severity of past due financial assets, the volume of non-accrual assets, and the volume and severity of adversely classified or graded assets, (vi) changes in the quality of our credit review function, (vii) changes in the value of the underlying collateral for loans that are non-collateral dependent, (viii) the existence, growth, and effect of any concentrations of credit and (ix) other factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters or health pandemics.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower’s ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower’s industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of collateral supporting collateral dependent loans on a quarterly basis.

Specific reserves reflect expected credit losses on loans identified for evaluation or individually considered nonperforming. These loans no longer have similar risk characteristics to collectively evaluated loans due to changes in credit risk, borrower circumstances, recognition of write-offs, or cash collections that have been fully applied to principal on the basis of nonaccrual policies. At a minimum, the population of loans subject to individual evaluation include individual loans where it is probable we will be unable to collect all amounts due, according to the original contractual terms. These include, nonaccrual loans with a balance greater than $500,000, accruing loans 90 days past due or greater with a balance greater than $100,000, specialty lending relationships and other loans as determined by management. Allowance for credit losses for consumer and residential loans are, primarily, determined by meaningful pools of similar loans and are evaluated on a quarterly basis.

Loans Held for Sale

Loans held for sale consist of residential mortgage loans originated with the intent to sell. Prior to 2023, loans held for sale may have also included commercial FHA mortgage loans originated with the intent to sell. Loans held for sale are carried at fair value, determined individually, as of the balance sheet date. The Company believes the fair value method better reflects the economic risks associated with these loans. Fair value measurements on loans held for sale are based on quoted market prices for similar loans in the secondary market, market quotes from anticipated sales contracts and commitments, or contract prices from firm sales commitments. The changes in the fair value of loans held for sale are reflected in noninterest income on the consolidated statements of income.

Mortgage Repurchase Reserve

The Company sells residential mortgage loans to investors in the normal course of business. Residential mortgage loans sold to investors are predominantly conventional residential first lien mortgages originated under our usual underwriting procedures, and are sold on a nonrecourse basis. The Company’s agreements to sell residential mortgage loans usually require general representations and warranties on the underlying loans sold, related to credit information, loan documentation, collateral, and insurability, which if subsequently untrue or breached, could require the Company to indemnify or repurchase certain loans affected. The balance in the repurchase reserve at the balance sheet date reflects the estimated amount of potential loss the Company could incur from repurchasing a loan, as well as loss reimbursements, indemnification, and other “make whole” settlement resolutions. Refer to Note 20 in the consolidated financial statements for additional information on the mortgage repurchase reserve.

Premises and Equipment

Premises, furniture and equipment, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the asset or the lease term. Estimated useful lives for premises range from 10 to 40 years and for equipment range from 3 to 10 years. Maintenance and repairs are charged to operating expenses as incurred, while improvements that extend the useful life of assets are capitalized and depreciated over the estimated remaining life.

We periodically review the carrying value of our long-lived assets to determine if impairment has occurred or whether changes in circumstances have occurred that would require a revision to the remaining useful life. In making such determination, we evaluate the performance, on an undiscounted basis, of the underlying operations or assets which give rise to such amount.

Operating Lease Right of Use Assets and Liabilities

The Company determines if a lease is present at the inception of an agreement. Operating leases are capitalized at commencement and are discounted using the Company’s FHLB borrowing rate for a similar term borrowing unless the lease defines an implicit rate within the contract.

The operating lease right of use assets represent the Company’s right to use an underlying asset for the lease term, and the operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right of use assets and operating lease liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company’s operating lease liabilities largely represent future rental expenses associated with operating leases and the borrowing rates are based on publicly available interest rates.

Other Real Estate Owned

OREO represents properties acquired through foreclosure or other proceedings and is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost basis. After foreclosure, OREO is held for sale and is carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to OREO is charged to the allowance for credit losses on loans. Fair value for OREO is based on an appraisal performed upon foreclosure. Property is evaluated regularly to ensure the recorded amount is supported by its fair value less estimated costs to dispose. After the initial foreclosure appraisal, fair value is generally determined by an annual appraisal unless known events warrant adjustments to the recorded value. Revenue from the operations of OREO is included in other income in the consolidated statements of income, and expense and decreases in valuations are included in other real estate owned expense in the consolidated statements of income.

Goodwill and Intangible Assets

Goodwill resulting from a business combination is generally determined as the excess of the fair value of consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

Annually, the Company performs an impairment test of goodwill as of August 31 of each year. During the current year, management performed quarterly qualitative assessments and an annual qualitative impairment test, as a result of the economic uncertainty and increased market volatility resulting from the rising interest rate environment. The Company's annual impairment test of goodwill and other intangible assets did not identify any impairment. Additionally, the Company determined that there were no triggering events and as a result no evidence of impairment between the annual impairment test and December 31, 2023.

Other intangible assets, which consist of core deposit and acquired customer relationship intangible assets, are typically amortized over a period ranging from 1 to 20 years using an accelerated method of amortization. On a periodic basis, we evaluate events and circumstances that may indicate a change in the recoverability of the carrying value.

Loan Servicing Rights

When loans are sold with servicing retained, a servicing rights asset is capitalized, which represents the, then current, fair value of future net cash flows expected to be realized for performing servicing activities. Loan servicing rights are carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value.

Loan servicing rights do not trade in an active market with readily observable prices. The fair value of loan servicing rights and their sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of distinct portfolios of government-insured residential and commercial mortgages, conventional residential mortgages and SBA loans. The Company periodically evaluates its loan servicing rights asset for impairment. Impairment is assessed based on the fair value of net servicing cash flows at each reporting date using estimated prepayment speeds of the underlying loans serviced and stratifications based on the risk characteristics of the underlying loans. To the extent the amortized cost of the mortgage servicing rights exceeds the estimated fair value by stratification, the Company records an impairment expense and reduces the carrying value of the loan servicing rights.

We recognize revenue from servicing residential mortgages, commercial FHA mortgages, and SBA loans as earned based on the specific contractual terms. This revenue, along with amortization of and changes in impairment on servicing rights, is reported in residential mortgage banking revenue and other noninterest income, respectively, in the consolidated statements of income.

Loans Servicing Rights Held for Sale

Mortgage servicing rights held for sale consist of commercial FHA mortgage servicing rights that management has committed to a plan to sell and has the ability to sell them to a buyer in their present condition. Mortgage servicing rights held for sale are carried at the lower of their carrying value or fair value less estimated costs to sell. Decreases in the valuation of mortgage servicing rights held for sale are included in loss on mortgage servicing rights held for sale in the consolidated statements of income.

Cash Surrender Value of Life Insurance Policies

We have purchased life insurance policies on the lives of certain officers and key employees and are the owner and beneficiary of the policies. These policies provide an efficient form of funding for long-term retirement and other employee benefits costs. These policies are recorded as cash surrender value of life insurance policies in the consolidated balance sheets at each policy's respective cash surrender value, adjusted for other charges or other amounts due that are probable at settlement, with changes in value recorded in noninterest income in the consolidated statements of income.

Derivative Financial Instruments

All derivatives are recognized on the consolidated balance sheet as a component of other assets or other liabilities at their fair value. On the date the derivative contract is entered into, the derivative is designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability cash flow hedge. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a cash flow hedge are recorded in accumulated other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the balance sheet or forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Hedge accounting is prospectively discontinued when (a) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); (b) the derivative expires or is sold, terminated, or exercised; (c) the derivative is no longer designated as a hedge instrument because it is unlikely that a forecasted transaction will occur; or (d) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the consolidated balance sheet at its fair value, and gains and losses that were in accumulated other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the consolidated balance sheet, with subsequent changes in its fair value recognized in current-period earnings.

The Company also enters into interest rate lock commitments, which are agreements to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. Interest rate lock commitments for mortgage loans that will be held for sale are carried at fair value on the consolidated balance sheet with changes in fair value reflected in residential mortgage banking revenue. The Company also has forward loan sales commitments related to its interest rate lock commitments and its loans held for sale. Forward loan sales commitments that meet the definition of a derivative are recorded at fair value in the consolidated balance sheet with changes in fair value reflected in residential mortgage banking revenue.

Allowance for Credit Losses on Unfunded Commitments

In the ordinary course of business, the Company has entered into credit-related financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. The notional amount of these commitments is not reflected in the consolidated financial statements until they are funded.

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on unfunded commitments is adjusted as a provision for credit loss expense on the consolidated income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Expected utilization rates are compared to the current funded portion of the total commitment amount as a practical expedient for funded exposure at default. The allowance for credit losses on unfunded commitments totaled $3.5 million and $1.9 million at December 31, 2023 and 2022, respectively.

Income Taxes

We file consolidated federal and state income tax returns, with each organization computing its taxes on a separate return basis. The provision for income taxes is based on income as reported in the consolidated financial statements.

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. The deferred tax assets and liabilities are computed based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in other income or expense. The Company evaluated its tax positions and concluded that it had taken no uncertain tax positions that require adjustment in the consolidated financial statements.

Share-Based Compensation Plans

Compensation cost for share-based payment awards is based on the fair value of the award at the date of grant. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model. The fair value of restricted stock is determined based on the Company’s current market price on the date of grant. Compensation cost is recognized in the consolidated financial statements on a straight-line basis over the requisite service period, which is generally defined as the vesting period. Additionally, the Company accounts for forfeitures as they occur.

Comprehensive Income

Comprehensive income is defined as net income plus transactions and other occurrences that are the result of non-owner changes in equity. Non-owner equity changes include unrealized gains and losses on available for sale securities and changes in the fair value of cash flow hedges. These are components of comprehensive income and do not have an impact on the Company's net income.

Earnings per Share

Earnings per share are calculated utilizing the two-class method. Basic earnings per share are 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 share are 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.

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, other than trust cash on deposit with the Bank, are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

Accounting Guidance Adopted in 2023

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 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 write-offs 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 adopted this guidance on January 1, 2023 and elected to apply on a prospective basis. The adoption of this accounting pronouncement did not have an impact on the consolidated financial statements aside from additional and revised disclosures.

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, allowing for optional expedients and exceptions for accounting related to contracts, hedging relationships and other transactions, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision based on the expectations of when LIBOR would cease being published. In 2021, the UK Financial Conduct Authority delayed the intended cessation date of certain tenors of LIBOR to June 30, 2023.

In December 2022, to ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the FASB issued ASU No. 2022-06, which defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.

The amendments in this ASU are effective March 12, 2020 through December 31, 2024. The Company believes the adoption of this guidance will not have a material impact on the consolidated financial statements.

Accounting Guidance Issued But Not Yet Adopted

FASB ASU No. 2023-02, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method – In March 2023, the FASB issued ASU No. 2023-02, which allows for reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the type of program the tax credits are related to. The ASU is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted for all entities. The Company believes the adoption will not have a material impact on the consolidated financial statements.

NOTE 2 – ACQUISITIONS

FNBC Bank & Trust

On June 17, 2022, the Company completed its branch acquisition from 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 $0.4 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, 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 were expensed in 2021.

NOTE 3 – INVESTMENT SECURITIES

Investment Securities Available for Sale

Investment securities available for sale at December 31, 2023 and December 31, 2022 were as follows:

	December 31, 2023			
(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury securities	$ 1,097	$ —	$ —	$ 1,097
U.S. government sponsored entities and U.S. agency securities	74,161	176	1,765	72,572
Mortgage-backed securities - agency	650,119	2,325	77,944	574,500
Mortgage-backed securities - non-agency	87,019	414	3,904	83,529
State and municipal securities	62,952	258	5,750	57,460
Collateralized loan obligations	27,646	3	84	27,565
Corporate securities	109,598	41	10,467	99,172
Total available for sale securities	$ 1,012,592	$ 3,217	$ 99,914	$ 915,895

(dollars in thousands)	December 31, 2022 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Investment securities available for sale				
U.S. Treasury securities	$ 86,313	$ 113	$ 5,196	$ 81,230
U.S. government sponsored entities and U.S. agency securities	41,775	71	4,337	37,509
Mortgage-backed securities - agency	522,028	268	74,146	448,150
Mortgage-backed securities - non-agency	24,922	—	4,168	20,754
State and municipal securities	102,719	149	8,232	94,636
Corporate securities	95,266	—	9,311	85,955
Total available for sale securities	$ 873,023	$ 601	$ 105,390	$ 768,234

Investment securities with a carrying amount of $320.5 million and $440.6 million were pledged for public deposits at December 31, 2023 and December 31, 2022, respectively.

The following is a summary of the amortized cost and fair value of the investment securities available for sale, by maturity, at December 31, 2023. 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	$ 13,624	$ 13,590
After one year through five years	112,287	109,895
After five years through ten years	122,716	109,079
After ten years	26,827	25,302
Mortgage-backed securities	737,138	658,029
Total available for sale securities	$ 1,012,592	$ 915,895

Proceeds and gross realized gains and losses on sales of investment securities available for sale for the years ended 2023, 2022, and 2021 are summarized as follows:

(dollars in thousands)	Years Ended December 31, 2023	2022	2021
Investment securities available for sale			
Proceeds from sales	$ 191,733	$ 136,403	$ 14,777
Gross realized gains on sales	338	829	537
Gross realized losses on sales	(9,710)	(1,059)	—

Unrealized losses and fair values for investment securities available for sale as of December 31, 2023 and December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

	December 31, 2023					
	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. government sponsored entities and U.S. agency securities	$ 42,826	$ 87	$ 8,323	$ 1,678	$ 51,149	$ 1,765
Mortgage-backed securities - agency	130,106	7,386	348,476	70,558	478,582	77,944
Mortgage-backed securities - non-agency	8,852	353	19,418	3,551	28,270	3,904
State and municipal securities	51,497	5,750	—	—	51,497	5,750
Collateralized loan obligations	14,763	84	—	—	14,763	84
Corporate securities	4,688	53	84,662	10,414	89,350	10,467
Total available for sale securities	$ 252,732	$ 13,713	$ 460,879	$ 86,201	$ 713,611	$ 99,914

	December 31, 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	$ 1,839	$ 24	$ 59,865	$ 5,172	$ 61,704	$ 5,196
U.S. government sponsored entities and U.S. agency securities	10,288	40	23,453	4,297	33,741	4,337
Mortgage-backed securities - agency	152,657	9,736	273,353	64,410	426,010	74,146
Mortgage-backed securities - non-agency	1,924	270	18,830	3,898	20,754	4,168
State and municipal securities	35,603	1,662	41,538	6,570	77,141	8,232
Corporate securities	39,595	3,400	46,360	5,911	85,955	9,311
Total available for sale securities	$ 241,906	$ 15,132	$ 463,399	$ 90,258	$ 705,305	$ 105,390

At December 31, 2023, 262 investment securities available for sale had unrealized losses with aggregate depreciation of 12.27% from their amortized cost basis. For all of the above investment securities, the unrealized losses were generally due to changes in interest rates and other market conditions, and unrealized losses were considered to be temporary as the fair value is expected to recover as the securities approach their respective maturity dates. The issuers are of high credit quality and all principal amounts are expected to be paid when securities mature. 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.

NOTE 4 – LOANS

The following table presents total loans outstanding by portfolio class, as of December 31, 2023 and December 31, 2022:

(dollars in thousands)	December 31, 2023	December 31, 2022
Commercial:		
Commercial	$ 825,938	$ 786,877
Commercial other	656,592	727,697
Commercial real estate:		
Commercial real estate non-owner occupied	1,622,668	1,591,399
Commercial real estate owner occupied	436,857	496,786
Multi-family	279,904	277,889
Farmland	67,416	67,085
Construction and land development	452,593	320,882
Total commercial loans	4,341,968	4,268,615
Residential real estate:		
Residential first lien	317,388	304,243
Other residential	63,195	61,851
Consumer:		
Consumer	107,743	105,880
Consumer other	827,435	1,074,134
Lease financing	473,350	491,744
Total loans	$ 6,131,079	$ 6,306,467

Total loans include net deferred loan costs of $3.8 million and $4.4 million at December 31, 2023 and December 31, 2022, respectively, and unearned discounts of $66.4 million and $62.6 million within the lease financing portfolio at December 31, 2023 and December 31, 2022, respectively.

At December 31, 2023, the Company had residential real estate loans held for sale totaling $3.8 million, compared to $1.3 million at December 31, 2022. The Company sold loans and leases with proceeds totaling $98.9 million and $270.0 million during the years ended December 31, 2023 and 2022, 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. Commercial FHA warehouse lines of $25.0 million as of December 31, 2022 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 substantially the same terms, including collateralization and interest rates prevailing at the time. The new loans, other additions, repayments and other reductions for the years ended December 31, 2023 and 2022, are summarized as follows:

	Years Ended December 31,	
(dollars in thousands)	**2023**	**2022**
Beginning balance	$ 19,776	$ 13,869
New loans and other additions	2,368	9,804
Repayments and other reductions	(1,154)	(3,897)
Ending balance	$ 20,990	$ 19,776

The following table represents, by loan portfolio segment, a summary of changes in the allowance for credit losses on loans for the years ended December 31, 2023, 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 year ended December 31, 2023:							
Balance, beginning of period	$ 14,639	$ 29,290	$ 2,435	$ 4,301	$ 3,599	$ 6,787	$ 61,051
Provision for credit losses on loans	12,780	(8,067)	3,296	1,385	929	10,809	21,132
Charge-offs	(7,357)	(5,000)	(1,601)	(271)	(1,046)	(5,026)	(20,301)
Recoveries	1,785	4,006	33	138	288	370	6,620
Balance, end of period	$ 21,847	$ 20,229	$ 4,163	$ 5,553	$ 3,770	$ 12,940	$ 68,502
Changes in allowance for credit losses on loans for the year ended December 31, 2022:							
Balance, beginning of period	$ 14,375	$ 22,993	$ 972	$ 2,695	$ 2,558	$ 7,469	$ 51,062
Provision for credit losses on loans	3,984	10,396	1,439	1,698	1,813	(533)	18,797
Charge-offs	(4,121)	(4,106)	(6)	(344)	(1,229)	(1,297)	(11,103)
Recoveries	401	7	30	252	457	1,148	2,295
Balance, end of period	$ 14,639	$ 29,290	$ 2,435	$ 4,301	$ 3,599	$ 6,787	$ 61,051
Changes in allowance for credit losses on loans for the year ended December 31, 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	648	1,031	(234)	(1,085)	864	2,726	3,950
Charge-offs	(6,465)	(3,524)	(448)	(398)	(1,158)	(3,427)	(15,420)
Recoveries	341	21	221	249	514	743	2,089
Balance, end of period	$ 14,375	$ 22,993	$ 972	$ 2,695	$ 2,558	$ 7,469	$ 51,062

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

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 the amortized cost basis of individually evaluated loans on nonaccrual status as of December 31, 2023 and December 31, 2022:

	December 31, 2023			December 31, 2022		
(dollars in thousands)	**Nonaccrual with allowance**	**Nonaccrual with no allowance**	**Total nonaccrual**	**Nonaccrual with allowance**	**Nonaccrual with no allowance**	**Total nonaccrual**
Commercial:						
Commercial	$ 3,560	$ —	$ 3,560	$ 1,910	$ 1,111	$ 3,021
Commercial other	4,941	—	4,941	3,169	—	3,169
Commercial real estate:						
Commercial real estate non-owner occupied	1,614	14,098	15,712	1,345	11,899	13,244
Commercial real estate owner occupied	4,276	6,500	10,776	7,118	—	7,118
Multi-family	240	6,015	6,255	154	8,949	9,103
Farmland	1,148	—	1,148	25	—	25
Construction and land development	39	—	39	202	—	202
Total commercial loans	15,818	26,613	42,431	13,923	21,959	35,882
Residential real estate:						
Residential first lien	2,583	490	3,073	2,925	572	3,497
Other residential	635	—	635	871	—	871
Consumer:						
Consumer	134	—	134	120	—	120
Lease financing	9,097	36	9,133	1,606	—	1,606
Total loans	$ 28,267	$ 27,139	$ 55,406	$ 19,445	$ 22,531	$ 41,976

There was no interest income recognized on nonaccrual loans during the years ended December 31, 2023 and 2022 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 $3.4 million, $2.8 million and $2.7 million for the years ended December 31, 2023, 2022 and 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 December 31, 2023 and December 31, 2022:

	Type of Collateral			
(dollars in thousands)	**Real Estate**	**Blanket Lien**	**Equipment**	**Total**
December 31, 2023				
Commercial:				
Commercial	$ —	$ —	$ 1,972	$ 1,972
Commercial other	—	—	1,232	1,232
Commercial real estate:				
Non-owner occupied	14,147	—	—	14,147
Owner occupied	9,275	—	—	9,275
Multi-family	5,143	—	—	5,143
Total collateral dependent loans	$ 28,565	$ —	$ 3,204	$ 31,769
December 31, 2022				
Commercial:				
Commercial	$ —	$ 1,604	$ —	$ 1,604
Commercial real estate:				
Non-owner occupied	13,033	—	—	13,033
Owner occupied	3,874	—	—	3,874
Multi-family	8,950	—	—	8,950
Residential real estate				
Residential first lien	220	—	—	220
Total collateral dependent loans	$ 26,077	$ 1,604	$ —	$ 27,681

The aging status of the recorded investment in loans by portfolio as of December 31, 2023 was as follows:

(dollars in thousands)	Accruing loans 30-59 days past due	60-89 days past due	Past due 90 days or more	Total past due	Nonaccrual	Current	Total
Commercial:							
Commercial	$ 9,340	$ 504	$ —	$ 9,844	$ 3,560	$ 812,534	$ 825,938
Commercial other	11,156	5,990	781	17,927	4,941	633,724	656,592
Commercial real estate:							
Commercial real estate non-owner occupied	384	—	—	384	15,712	1,606,572	1,622,668
Commercial real estate owner occupied	—	—	—	—	10,776	426,081	436,857
Multi-family	14,506	8,140	—	22,646	6,255	251,003	279,904
Farmland	—	120	—	120	1,148	66,148	67,416
Construction and land development	211	10,593	—	10,804	39	441,750	452,593
Total commercial loans	35,597	25,347	781	61,725	42,431	4,237,812	4,341,968
Residential real estate:							
Residential first lien	69	299	161	529	3,073	313,786	317,388
Other residential	100	50	—	150	635	62,410	63,195
Consumer:							
Consumer	62	20	—	82	134	107,527	107,743
Consumer other	7,225	4,561	3	11,789	—	815,646	827,435
Lease financing	7,622	1,826	—	9,448	9,133	454,769	473,350
Total loans	$ 50,675	$ 32,103	$ 945	$ 83,723	$ 55,406	$ 5,991,950	$ 6,131,079

The aging status of the recorded investment in loans by portfolio as of December 31, 2022 was as follows:

(dollars in thousands)	Accruing loans 30-59 days past due	60-89 days past due	Past due 90 days or more	Total past due	Nonaccrual	Current	Total
Commercial:							
Commercial	$ 7	$ 112	$ —	$ 119	$ 3,021	$ 783,737	$ 786,877
Commercial other	6,035	2,365	—	8,400	3,169	716,128	727,697
Commercial real estate:							
Commercial real estate non-owner occupied	1,008	999	—	2,007	13,244	1,576,148	1,591,399
Commercial real estate owner occupied	73	—	—	73	7,118	489,595	496,786
Multi-family	—	—	—	—	9,103	268,786	277,889
Farmland	—	—	—	—	25	67,060	67,085
Construction and land development	—	6,000	—	6,000	202	314,680	320,882
Total commercial loans	7,123	9,476	—	16,599	35,882	4,216,134	4,268,615
Residential real estate:							
Residential first lien	82	456	428	966	3,497	299,780	304,243
Other residential	188	13	—	201	871	60,779	61,851
Consumer:							
Consumer	139	18	12	169	120	105,591	105,880
Consumer other	5,381	3,559	733	9,673	—	1,064,461	1,074,134
Lease financing	4,415	1,522	—	5,937	1,606	484,201	491,744
Total loans	$ 17,328	$ 15,044	$ 1,173	$ 33,545	$ 41,976	$ 6,230,946	$ 6,306,467

Loan Restructurings

The Company adopted the accounting guidance in ASU No. 2022-02, effective as of January 1, 2023, which eliminated the recognition and measurement of a TDR. Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulties that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are for modifications which have a direct impact on cash flows.

The Company may offer various types of concessions when modifying a loan. Commercial and industrial loans modified in a loan restructuring often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested.

Loans modified in a loan restructuring for the Company may have the financial effect of increasing the specific allowance associated with the loan. An allowance for loans that have been modified in a loan restructuring is measured based on the probability of default and loss given default model, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

Commercial and consumer loans modified in a loan restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a loan restructuring subsequently default, the Company evaluates the loan for possible further loss. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan.

In some cases, the Company will modify a loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession such as an interest rate reduction or principal forgiveness, may be granted. During the year ended December 31, 2023 the Company restructured eleven loans and one lease for borrowers experiencing financial difficulties with principal balances totaling $2.4 million. Nine of the restructured loans were provided a term extension with the other two receiving an interest rate reduction and a term extension. The lease was provided a term extension with an increased interest rate. The Company has not committed to lend any additional amounts to the borrowers that have been granted a loan modification.

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 geographic regions. 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.

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The following tables present the recorded investment of the commercial loan portfolio by risk category as of December 31, 2023 and December 31, 2022:

			December 31, 2023							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			2023	2022	2021	2020	2019	Prior	Revolving loans	Total
Commercial	Commercial	Acceptable credit quality	$ 157,498	$ 96,295	$ 71,366	$ 36,680	$ 14,688	$ 42,827	$ 369,297	$ 788,651
		Special mention	3,015	450	4	—	181	43	983	4,676
		Substandard	4,485	13,651	420	342	253	4,961	4,940	29,052
		Substandard – nonaccrual	1,238	—	1,321	25	79	360	536	3,559
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	166,236	110,396	73,111	37,047	15,201	48,191	375,756	825,938
	Commercial other	Acceptable credit quality	139,057	195,726	100,946	59,392	32,848	28,946	90,928	647,843
		Special mention	—	532	399	114	107	4	1,682	2,838
		Substandard	37	220	—	—	—	—	639	896
		Substandard – nonaccrual	1,819	1,918	449	184	361	94	116	4,941
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	74	—	—	—	—	—	—	74
		Subtotal	140,987	198,396	101,794	59,690	33,316	29,044	93,365	656,592
Commercial real estate	Non-owner occupied	Acceptable credit quality	237,215	653,057	309,013	110,743	82,563	124,430	6,328	1,523,349
		Special mention	4,480	—	181	457	—	274	—	5,392
		Substandard	35,811	1,658	—	—	17,835	22,911	—	78,215
		Substandard – nonaccrual	5,573	—	154	999	7,597	1,389	—	15,712
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	283,079	654,715	309,348	112,199	107,995	149,004	6,328	1,622,668
	Owner occupied	Acceptable credit quality	32,972	100,893	113,264	48,415	23,671	77,854	1,803	398,872
		Special mention	5,750	—	129	—	149	177	8	6,213
		Substandard	—	7,716	265	—	705	12,310	—	20,996
		Substandard – nonaccrual	126	9,431	28	171	27	689	304	10,776
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	38,848	118,040	113,686	48,586	24,552	91,030	2,115	436,857
	Multi-family	Acceptable credit quality	4,483	170,519	25,835	28,137	10,185	11,538	254	250,951
		Special mention	—	—	—	—	—	—	—	—
		Substandard	8,140	—	—	—	—	14,558	—	22,698
		Substandard – nonaccrual	1,700	—	899	—	104	3,552	—	6,255
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	14,323	170,519	26,734	28,137	10,289	29,648	254	279,904
	Farmland	Acceptable credit quality	10,104	4,735	13,405	12,255	3,723	18,636	1,439	64,297
		Special mention	—	—	1,451	—	—	96	—	1,547
		Substandard	—	—	133	—	22	269	—	424
		Substandard – nonaccrual	—	—	—	—	—	1,100	48	1,148
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	10,104	4,735	14,989	12,255	3,745	20,101	1,487	67,416
Construction and land development		Acceptable credit quality	65,538	233,660	88,047	—	677	916	29,385	418,223
		Special mention	—	—	—	—	—	40	—	40
		Substandard	—	—	16,594	—	—	—	15,349	31,943
		Substandard – nonaccrual	—	—	—	—	—	39	—	39
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,535	432	356	—	—	25	—	2,348
		Subtotal	67,073	234,092	104,997	—	677	1,020	44,734	452,593
Total		Acceptable credit quality	646,867	1,454,885	721,876	295,622	168,355	305,147	499,434	4,092,186
		Special mention	13,245	982	2,164	571	437	634	2,673	20,706
		Substandard	48,473	23,245	17,412	342	18,815	55,009	20,928	184,224
		Substandard – nonaccrual	10,456	11,349	2,851	1,379	8,168	7,223	1,004	42,430
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	1,609	432	356	—	—	25	—	2,422
Total commercial loans			$ 720,650	$ 1,490,893	$ 744,659	$ 297,914	$ 195,775	$ 368,038	$ 524,039	$ 4,341,968

			December 31, 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	$ 111,087	$ 102,966	$ 61,751	$ 28,063	$ 12,547	$ 45,168	$ 404,100	$ 765,682
		Special mention	3,559	2,106	—	227	551	3,154	159	9,756
		Substandard	—	—	—	206	1,722	3,915	2,575	8,418
		Substandard – nonaccrual	—	340	—	132	83	246	2,220	3,021
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	114,646	105,412	61,751	28,628	14,903	52,483	409,054	786,877
	Commercial other	Acceptable credit quality	283,465	153,788	105,980	64,218	15,459	163	96,509	719,582
		Special mention	—	—	754	2,331	455	—	55	3,595
		Substandard	250	—	—	12	80	—	848	1,190
		Substandard – nonaccrual	524	1,247	444	463	491	—	—	3,169
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	161	—	—	—	—	—	—	161
		Subtotal	284,400	155,035	107,178	67,024	16,485	163	97,412	727,697
Commercial real estate	Non-owner occupied	Acceptable credit quality	679,040	403,952	145,235	72,504	18,249	160,992	4,833	1,484,805
		Special mention	1,407	186	477	10,633	195	8,452	—	21,350
		Substandard	569	—	7,458	32,731	1,587	29,655	—	72,000
		Substandard – nonaccrual	—	701	—	48	10,246	2,249	—	13,244
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	681,016	404,839	153,170	115,916	30,277	201,348	4,833	1,591,399
	Owner occupied	Acceptable credit quality	120,141	122,321	64,720	31,916	29,454	88,928	4,305	461,785
		Special mention	—	1,161	—	7,917	—	12,161	22	21,261
		Substandard	141	272	79	1,984	—	3,771	375	6,622
		Substandard – nonaccrual	155	4,165	225	146	333	1,790	304	7,118
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	120,437	127,919	65,024	41,963	29,787	106,650	5,006	496,786
	Multi-family	Acceptable credit quality	163,647	31,605	29,458	208	24,490	14,574	1,101	265,083
		Special mention	—	—	—	—	—	—	—	—
		Substandard	—	—	—	—	—	3,703	—	3,703
		Substandard – nonaccrual	—	927	—	113	—	8,063	—	9,103
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	163,647	32,532	29,458	321	24,490	26,340	1,101	277,889
	Farmland	Acceptable credit quality	8,659	16,138	13,467	4,117	3,129	19,102	1,593	66,205
		Special mention	—	—	—	—	—	159	—	159
		Substandard	—	14	—	23	113	347	199	696
		Substandard – nonaccrual	—	—	—	—	—	25	—	25
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	8,659	16,152	13,467	4,140	3,242	19,633	1,792	67,085
Construction and land development		Acceptable credit quality	171,243	79,747	10,676	8,388	98	1,420	37,997	309,569
		Special mention	—	—	—	—	—	210	—	210
		Substandard	—	6,000	—	—	2,415	—	—	8,415
		Substandard – nonaccrual	—	—	—	202	—	—	—	202
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	2,112	337	8	—	—	29	—	2,486
		Subtotal	173,355	86,084	10,684	8,590	2,513	1,659	37,997	320,882
Total		Acceptable credit quality	1,537,282	910,517	431,287	209,414	103,426	330,347	550,438	4,072,711
		Special mention	4,966	3,453	1,231	21,108	1,201	24,136	236	56,331
		Substandard	960	6,286	7,537	34,956	5,917	41,391	3,997	101,044
		Substandard – nonaccrual	679	7,380	669	1,104	11,153	12,373	2,524	35,882
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	2,273	337	8	—	—	29	—	2,647
Total commercial loans			$ 1,546,160	$ 927,973	$ 440,732	$ 266,582	$ 121,697	$ 408,276	$ 557,195	$ 4,268,615

The following table presents the gross charge-offs by class of loan and year of origination on the commercial loan portfolio for the year ended December 31, 2023:

		Term Loans by Origination Year							
(dollars in thousands)		**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total**
For the year ended December 31, 2023									
Commercial	Commercial	$ —	$ —	$ —	$ 70	$ 126	$ 224	$ 2,211	$ 2,631
	Commercial Other	203	2,412	697	702	292	420	—	4,726
Commercial Real Estate	Non-owner occupied	—	—	—	—	—	2,630	—	2,630
	Owner occupied	—	—	—	—	48	1,510	—	1,558
	Multi-family	—	—	—	—	—	812	—	812
Construction and land development		—	—	—	—	42	1,559	—	1,601
Total gross commercial charge-offs		$ 203	$ 2,412	$ 697	$ 772	$ 508	$ 7,155	$ 2,211	$ 13,958

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 and loans past due 90 days or more and still accruing interest 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 December 31, 2023 and December 31, 2022:

			December 31, 2023							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total**
Residential real estate	Residential first lien	Performing	$ 42,550	$ 74,613	$ 37,009	$ 29,628	$ 19,647	$ 110,703	$ 4	$ 314,154
		Nonperforming	179	50	335	—	139	2,531	—	3,234
		Subtotal	42,729	74,663	37,344	29,628	19,786	113,234	4	317,388
	Other residential	Performing	3,245	1,113	377	409	836	2,009	54,571	62,560
		Nonperforming	—	9	—	—	—	178	448	635
		Subtotal	3,245	1,122	377	409	836	2,187	55,019	63,195
Consumer	Consumer	Performing	30,748	24,190	31,946	6,116	2,313	10,794	1,502	107,609
		Nonperforming	11	55	6	6	—	56	—	134
		Subtotal	30,759	24,245	31,952	6,122	2,313	10,850	1,502	107,743
	Consumer other	Performing	190,018	392,184	149,791	63,461	23,991	7,987	—	827,432
		Nonperforming	—	—	—	—	—	3	—	3
		Subtotal	190,018	392,184	149,791	63,461	23,991	7,990	—	827,435
Leases financing		Performing	143,334	157,059	74,359	50,174	30,428	8,863	—	464,217
		Nonperforming	1,485	5,043	1,482	317	612	194	—	9,133
		Subtotal	144,819	162,102	75,841	50,491	31,040	9,057	—	473,350
Total		Performing	409,895	649,159	293,482	149,788	77,215	140,356	56,077	1,775,972
		Nonperforming	1,675	5,157	1,823	323	751	2,962	448	13,139
Total other loans			$ 411,570	$ 654,316	$ 295,305	$ 150,111	$ 77,966	$ 143,318	$ 56,525	$ 1,789,111

(dollars in thousands)			December 31, 2022 Term Loans Amortized Cost Basis by Origination Year 2022	2021	2020	2019	2018	Prior	Revolving loans	Total
Residential real estate	Residential first lien	Performing	$ 75,449	$ 38,774	$ 31,566	$ 20,780	$ 21,691	$ 109,067	$ 336	$ 297,663
		Nonperforming	101	—	104	414	987	4,974	—	6,580
		Subtotal	75,550	38,774	31,670	21,194	22,678	114,041	336	304,243
	Other residential	Performing	1,722	496	534	1,060	1,496	1,515	53,159	59,982
		Nonperforming	17	—	—	7	18	208	1,619	1,869
		Subtotal	1,739	496	534	1,067	1,514	1,723	54,778	61,851
Consumer	Consumer	Performing	32,561	40,374	9,411	3,476	2,768	14,756	2,346	105,692
		Nonperforming	33	50	7	1	13	79	5	188
		Subtotal	32,594	40,424	9,418	3,477	2,781	14,835	2,351	105,880
	Consumer other	Performing	669,015	260,360	92,148	34,501	6,637	5,430	5,310	1,073,401
		Nonperforming	733	—	—	—	—	—	—	733
		Subtotal	669,748	260,360	92,148	34,501	6,637	5,430	5,310	1,074,134
Leases financing		Performing	215,084	110,294	84,458	54,684	21,767	3,088	—	489,375
		Nonperforming	—	522	736	818	254	39	—	2,369
		Subtotal	215,084	110,816	85,194	55,502	22,021	3,127	—	491,744
Total										
		Performing	993,831	450,298	218,117	114,501	54,359	133,856	61,151	2,026,113
		Nonperforming	884	572	847	1,240	1,272	5,300	1,624	11,739
Total other loans			$ 994,715	$ 450,870	$ 218,964	$ 115,741	$ 55,631	$ 139,156	$ 62,775	$ 2,037,852

The following table presents the gross charge-offs by class of loan and year of origination on the other loan portfolio for the year ended December 31, 2023:

(dollars in thousands)		Term Loans by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
For the year ended December 31, 2023									
Residential real estate	Residential first lien	$ —	$ —	$ 8	$ 35	$ 108	$ 53	$ —	$ 204
	Other residential	—	—	—	—	—	10	57	67
Consumer	Consumer	—	49	23	22	37	36	—	167
	Consumer other	46	101	45	19	37	631	—	879
Lease financing		669	2,156	1,172	213	542	274	—	5,026
Total gross other charge-offs		$ 715	$ 2,306	$ 1,248	$ 289	$ 724	$ 1,004	$ 57	$ 6,343

NOTE 5 – PREMISES, EQUIPMENT AND LEASES

A summary of premises, equipment and leases at December 31, 2023 and December 31, 2022 is as follows:

(dollars in thousands)	December 31, 2023	December 31, 2022
Land	$ 15,968	$ 16,004
Buildings and improvements	78,104	71,837
Furniture and equipment	35,797	34,081
Lease right-of-use assets	7,673	7,001
Total	137,542	128,923
Accumulated depreciation	(54,728)	(50,630)
Premises and equipment, net	$ 82,814	$ 78,293

Depreciation expense for the years ended December 31, 2023, 2022 and 2021 was $4.8 million, $4.8 million, and $5.5 million, respectively.

The Company has entered into operating leases, primarily for banking offices and operating facilities, which have remaining lease terms of 2 months to 14 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 in the remaining lease term if they are reasonably certain to be exercised. The Company had operating lease right-of-use assets of $7.7 million and $7.0 million as of December 31, 2023 and December 31, 2022, respectively, included in premises and equipment on our consolidated balance sheets. The operating lease liabilities of the Company were $9.3 million and $8.9 million as of December 31, 2023 and December 31, 2022, respectively, and are included in accrued interest payable and other liabilities on our consolidated balance sheets.

Information related to operating leases for the years ended December 31, 2023 and 2022 was as follows:

(dollars in thousands)	Years Ended December 31, 2023	2022
Operating lease cost	$ 1,919	$ 2,096
Operating cash flows from leases	2,256	2,507
Right-of-use assets obtained in exchange for lease obligations	2,470	502
Right-of-use assets derecognized due to terminations or impairment	—	(123)
Weighted average remaining lease term	7.8 years	7.2 years
Weighted average discount rate	3.41 %	2.89 %

Net rent expense under operating leases, included in occupancy and equipment expense, was $1.4 million, $1.5 million and $1.4 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The projected minimum rental payments under the terms of the leases as of December 31, 2023 were as follows:

(dollars in thousands)	Amount
Year ending December 31:	
2024	$ 2,025
2025	1,322
2026	1,197
2027	1,101
2028	1,074
Thereafter	3,976
Total future minimum lease payments	10,695
Less imputed interest	(1,360)
Total operating lease liabilities	$ 9,335

NOTE 6 – LOAN SERVICING RIGHTS

A summary of loan servicing rights at December 31, 2023 and December 31, 2022 is as follows:

	December 31, 2023		December 31, 2022	
(dollars in thousands)	**Serviced Loans**	**Carrying Value**	**Serviced Loans**	**Carrying Value**
Commercial FHA	$ 2,084,961	$ 19,273	$ —	$ —
SBA	42,685	549	46,081	656
Residential	225,067	431	255,298	549
Commercial FHA held for sale	—	—	2,255,617	20,745
Total	$ 2,352,713	$ 20,253	$ 2,556,996	$ 21,950

Commercial FHA Mortgage Loan Servicing

During the third quarter of 2022, the Company committed to a plan to sell our commercial FHA servicing portfolio and, therefore, transferred $24.0 million to commercial FHA servicing rights held for sale. At June 30, 2023, the Company abandoned its plans to sell this servicing asset and removed this asset from held for sale at lower of cost or fair value with no gain or loss recognized.

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 considered many factors as appropriate, including lockouts, balloons, prepayment penalties, interest rate ranges, delinquencies, and geographic location. The discount rate was 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 and weighted average discount rate was 7.23% and 8.12% at December 31, 2023.

Changes in our commercial FHA loan servicing rights for the years ended December 31, 2023 2022 and 2021are summarized as follows:

	Years Ended December 31,		
(dollars in thousands)	**2023**	**2022**	**2021**
Loan servicing rights:			
Balance, beginning of period	$ —	$ 27,386	$ 38,322
Servicing rights transferred from (to) held for sale	20,473	(23,995)	—
Amortization	(1,200)	(1,907)	(2,965)
Refinancing fee received from third party	—	(221)	(439)
Permanent impairment	—	(1,263)	(7,532)
Balance, end of period	$ 19,273	$ —	$ 27,386
Fair value:			
At beginning of period	$ —	$ 28,368	$ 38,322
At end of period	32,469	—	28,368

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill by segment at December 31, 2023 and December 31, 2022 is summarized as follows:

(dollars in thousands)	**2023**	**2022**
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 December 31, 2023 and December 31, 2022 are summarized as follows:

	December 31, 2023			December 31, 2022		
(dollars in thousands)	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Core deposit intangibles	$ 58,914	$ (48,287)	$ 10,627	$ 58,913	$ (44,723)	$ 14,190
Customer relationship intangibles	15,918	(10,437)	5,481	15,919	(9,243)	6,676
Total intangible assets	$ 74,832	$ (58,724)	$ 16,108	$ 74,832	$ (53,966)	$ 20,866

Amortization of intangible assets was $4.8 million, $5.4 million and $5.9 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	Amount
Year ending December 31,	
2024	$ 4,008
2025	3,224
2026	2,672
2027	2,101
2028	1,582
Thereafter	2,521
Total	$ 16,108

NOTE 8 – DERIVATIVE INSTRUMENTS

As part of the Company’s overall interest rate risk management, 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. The notional amount does not represent amounts exchanged by the parties, rather the amount exchanged is determined by reference to the notional amount and the other terms of the individual agreements.

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 residential mortgage banking revenue and other noninterest income 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 December 31, 2023 and December 31, 2022:

	Notional amount		Fair value gain	
(dollars in thousands)	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Derivative instruments (included in other assets):				
Interest rate lock commitments	$ 2,405	$ 2,078	$ 62	$ 49

(dollars in thousands)	Notional amount December 31, 2023	Notional amount December 31, 2022	Fair value loss December 31, 2023	Fair value loss December 31, 2022
Derivative instruments (included in other liabilities):				
Interest rate lock commitments	$ —	$ 4,419	$ —	$ 15
Forward commitments to sell mortgage-backed securities	5,000	6,669	83	—
Total	$ 5,000	$ 11,088	$ 83	$ 15

During the years ended December 31, 2023, 2022 and 2021, the Company recognized net losses of $0.1 million, $0.4 million and $1.5 million, respectively, on derivative instruments.

Cash Flow Hedges

The Company periodically enters 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 December 31, 2023 and December 31, 2022

(dollars in thousands)	December 31, 2023	December 31, 2022
Notional Amount	$ 400,000	$ 200,000
Fair value loss included in other liabilities	(8,443)	(9,999)
Tax effected amount included in accumulated other comprehensive (loss) income	(6,164)	(7,300)
Average remaining life	2.67	3.37
Weighted average pay rate	6.55 %	7.23 %
Weighted average receive rate	5.41 %	5.48 %

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 $6.9 million and $7.4 million at December 31, 2023 and December 31, 2022, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $0.3 million and $0.4 million at December 31, 2023 and December 31, 2022, respectively, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets.

NOTE 9 – DEPOSITS

The following table summarizes the classification of deposits as of December 31, 2023 and December 31, 2022:

(dollars in thousands)	December 31, 2023	December 31, 2022
Noninterest-bearing demand	$ 1,145,395	$ 1,362,158
Interest-bearing:		
Checking	2,511,840	2,494,073
Money market	1,135,629	1,184,101
Savings	559,267	661,932
Time	957,398	662,388
Total deposits	$ 6,309,529	$ 6,364,652

Included in time deposits are time certificates of $250,000 or more of $179.2 million and $118.6 million as of December 31, 2023 and December 31, 2022, respectively.

As of December 31, 2023, the scheduled maturities of time deposits were as follows:

(dollars in thousands)	Amount
Year Ending December 31,	
2024	$ 806,156
2025	102,413
2026	38,566
2027	7,026
2028	3,237
Total	$ 957,398

NOTE 10 – FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings as of December 31, 2023 and December 31, 2022:

(dollars in thousands)	December 31, 2023	December 31, 2022
FHLB advances – fixed rate, fixed term at rates averaging 4.94% at December 31, 2023 - maturing through February 2028	$ 150,000	$ —
FHLB advances – putable fixed rate at rates averaging 3.07% and 2.35% at December 31, 2023 and December 31, 2022, respectively – maturing through October 2028 with call provisions through October 2024	160,000	110,000
FHLB advances –SOFR floater at rates averaging 5.92% at December 31, 2022 – matured October 2023	—	100,000
FHLB advances – Short term fixed rate at rates averaging 5.45% and 4.31% at December 31, 2023 and December 31, 2022, respectively– maturing through January 2024	166,000	250,000
Total FHLB advances and other borrowings	$ 476,000	$ 460,000

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 $2.98 billion and $2.90 billion at December 31, 2023 and December 31, 2022, respectively.

Contractual payments over the next five years for FHLB advances and other borrowings were as follows:

(dollars in thousands)	Amount
Year Ending December 31,	
2024	$ 286,000
2025	40,000
2026	35,000
2027	—
2028	115,000
Total	$ 476,000

NOTE 11 – SUBORDINATED DEBT

The following table summarizes the Company's subordinated debt at December 31, 2023 and December 31, 2022:

	Subordinated debt			
	Fixed to Float		Fixed	
(dollars in thousands)	Issued September 2019	Issued September 2019	Issued June 2015	Total
At December 31, 2023				
Outstanding amount	$ 66,750	$ 27,250	$ —	$ 94,000
Carrying amount	66,573	26,973	—	93,546
Current rate	5.00 %	5.50 %	N/A	
At December 31, 2022				
Outstanding amount	$ 72,750	$ 27,250	$ 550	$ 100,550
Carrying amount	72,300	26,925	547	99,772
Current rate	5.00 %	5.50 %	6.50 %	
Maturity date	9/30/2029	9/30/2034	6/18/2025	
Optional redemption date	9/30/2024	9/30/2029	N/A	
Fixed to variable conversion date	9/30/2024	9/30/2029	N/A	
Variable rate	3-month SOFR plus 3.61%	3-month SOFR plus 4.05%	N/A	
Interest payment terms	Semiannually	Semiannually	Semiannually	

During the second quarter of 2023, the Company repurchased $6.0 million of the outstanding Fixed to Float Subordinated Notes due September 30, 2029. The Company recognized a gain of $0.7 million, which included the discount realized on the repurchase, offset by the remaining unamortized debt issuance costs on the repurchase.

The Company also repurchased the outstanding Fixed Rate Subordinated Notes due June 18, 2025, having an aggregate principal amount of $0.6 million, during the second quarter of 2023. The aggregate repurchase price was 100% of the aggregate principal amount of the subordinated notes, plus accrued and unpaid interest.

The value of subordinated debentures have been reduced by the debt issuance costs, which are being amortized on a straight line basis through the earlier of the redemption option or maturity date. All of the subordinated debentures above may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 12 – TRUST PREFERRED DEBENTURES

The Company formed Midland Trust, a statutory trust under the Delaware Statutory Trust Act. Midland Trust issued a pool of $10.0 million of floating rate cumulative trust preferred securities with a liquidation amount of $1,000 per security. The Company issued $10.3 million of subordinated debentures to the Midland Trust in exchange for ownership of all the common securities of the Midland Trust.

In addition, the Company assumed the obligations of subordinated debentures in conjunction with the acquisitions of Grant Park Bancshares, Inc., Love Savings Holding Company, and Centrue Financial Corporation. The subordinated debentures were issued to Grant Park Statutory Trust I, Love Savings/Heartland Capital Trust III, Love Savings/Heartland Capital Trust IV and Centrue Statutory Trust II and were recorded by the Company at fair value at the acquisition date with the discount amortizing into interest expense over the life of the liability.

The Company is not considered the primary beneficiary of the trusts; therefore, the trusts are not consolidated in the Company's financial statements, but rather the subordinated debentures, net of unamortized purchase discount, are shown as liabilities. The Company's investments in the common stock of the trusts, totaling $1.9 million, are included in other assets.

The following table summarizes the terms of each issuance:

(dollars in thousands)	Date of issuance	Issuance Amount	Shares Issued	Variable Rate	Maturity Date	At December 31, 2023 Carrying Amount	At December 31, 2023 Rate	At December 31, 2022 Carrying Amount	At December 31, 2022 Rate
Grant Park Statutory Trust I	12/19/2003	$ 3,093	3,000	SOFR plus 2.85%	1/23/2034	$ 2,454	8.52 %	$ 2,410	7.26 %
Midland States Preferred Securities Trust	3/26/2004	10,310	10,000	SOFR plus 2.75%	4/23/2034	10,284	8.42 %	10,282	7.07 %
Centrue Statutory Trust II	4/22/2004	10,310	10,000	SOFR plus 2.65%	6/17/2034	8,468	8.32 %	8,358	7.39 %
Love Savings/Heartland Capital Trust III	11/30/2006	20,619	20,000	SOFR plus 1.75%	12/31/2036	15,110	7.42 %	14,870	6.52 %
Love Savings/Heartland Capital Trust IV	6/6/2007	20,619	20,000	SOFR plus 1.47%	9/6/2037	14,300	7.13 %	14,055	6.20 %
Total trust preferred debentures		$ 64,951				$ 50,616		$ 49,975	

For all of the debentures mentioned above, interest is payable quarterly. The debentures and the common securities issued by each of the trusts are redeemable in whole or in part on dates each quarter at the redemption price plus interest accrued to the redemption date, as specified in the trust indenture document. The debentures are also redeemable in whole or in part from time to time upon the occurrence of "special events" defined within the indenture document. Subject to certain exceptions and limitations, the Company may, from time to time, defer subordinated debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities, and, with certain exceptions, prevent the Company from declaring or paying cash distributions on common stock or debt securities that rank pari passu or junior to the subordinated debentures.

All of the trust preferred debentures above may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 13 – INCOME TAXES

The components of income taxes for the years ended December 31, 2023, 2022 and 2021 were as follows:

(dollars in thousands)	2023	2022	2021
Federal:			
Current	$ 25,221	$ 22,792	$ 10,044
Deferred	(1,791)	64	7,926
State:			
Current	9,226	11,101	144
Deferred	(543)	(3,144)	(319)
Total income tax expense	$ 32,113	$ 30,813	$ 17,795

The Company's income tax expense differed from the statutory federal rate of 21% for the years ended December 31, 2023, 2022 and 2021 as follows:

(dollars in thousands)	2023	2022	2021
Expected income taxes	$ 22,590	$ 27,266	$ 20,814
Less income tax effect of:			
Tax-exempt income, net	(1,762)	(2,014)	(2,499)
State tax, net of federal benefit	6,844	6,274	5,465
State tax settlement, net of federal expense	—	—	(5,614)
Equity-based compensation benefit	(21)	(186)	(93)
Surrender of company-owned life insurance policies	3,756	—	—
Valuation allowance	69	58	47
Other	637	(585)	(325)
Actual income tax expense	$ 32,113	$ 30,813	$ 17,795

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 $6.8 million tax benefit that was recognized in 2021.

Deferred tax assets, net in the accompanying consolidated balance sheets at December 31, 2023 and 2022 include the following amounts of deferred tax assets and liabilities:

(dollars in thousands)	2023	2022
Assets:		
Allowance for credit losses on loans	$ 18,496	$ 16,484
Deferred compensation	2,108	2,238
Loans	1,069	1,379
Tax credits	621	861
Unrealized loss on securities	26,022	28,404
Unrealized loss on derivatives	2,280	2,700
Net operating losses	8,090	8,922
Operating lease liabilities	2,521	2,415
Other, net	2,842	4,837
Deferred tax assets	64,049	68,240
Valuation allowance	(244)	(176)
Deferred tax assets, net of valuation allowance	63,805	68,064
Liabilities:		
Premises and equipment	786	573
Mortgage servicing rights	3,870	4,217
Fair value adjustment on trust preferred debentures	3,853	4,025
Deferred loan costs, net of fees	2,410	3,006
Intangible assets	3,577	4,458
Leased equipment	23,824	24,346
Operating lease right-of-use assets	2,072	1,890
Other, net	1,202	3,064
Deferred tax liabilities	41,594	45,579
Deferred tax assets, net	$ 22,211	$ 22,485

At December 31, 2023 and 2022, the accumulation of the prior year's earnings representing tax bad debt deductions was approximately $3.1 million for both years. If these tax bad debt reserves were charged for losses other than bad debt losses, the Company would be required to recognize taxable income in the amount of the charge. It is not expected that such tax-restricted retained earnings will be used in a manner that would create federal income tax liabilities.

The tax benefit associated with the state tax settlement is related to an agreement that was reached with the state taxing authorities on an issue from prior year state tax returns.

The Company had $33.6 million of federal net operating loss carryforwards expiring 2024 through 2035, $13.8 million of Illinois post-apportioned net operating loss carryforwards expiring in 2028 and 2029, and $33.6 million of Missouri pre-apportioned net operating loss carryforwards expiring 2024 through 2035, at December 31, 2023. The utilization of the federal and Missouri net operating losses are subject to the limitations of Internal Revenue Code Section 382. The utilization of the Illinois net operating loss is limited to $100,000 per year for years 2021 through 2023 and the carryforward period will toll in years the Company could have utilized more than $100,000 of net operating loss.

The Company has state tax credit carryforwards of $0.8 million with a five year carryforward period, expiring between 2024 and 2028. Any amounts that are expected to expire before being fully utilized have been accounted for through a valuation allowance as discussed below.

The deferred tax asset associated with the unrealized losses on securities is mainly a result of changes in interest rates, and the unrealized losses are considered to be temporary as the fair value is expected to recover as the securities approach their respective maturity dates.

We had no unrecognized tax benefits as of December 31, 2023 and 2022, and did not recognize any increase of unrecognized benefits during 2023 relative to any tax positions taken during the year.

Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in other income or expense; no such accruals existed as of December 31, 2023 and 2022.

Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character within the carryback or carryforward period available under the tax law. All available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. At December 31, 2023, the Company concluded, based on all available evidence, a valuation allowance was needed for the Company's deferred tax asset related to capital loss carry forwards. An addition was made to the $176,000 valuation allowance from December 31, 2022 in the amount of $68,000, resulting in a valuation allowance of $244,000 at December 31, 2023 for the estimated capital losses that will not be able to be utilized in the future. For the Company's remaining deferred tax assets, based on our taxpaying history and estimates of taxable income over the years in which the items giving rise to the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences.

The Company is subject to U.S. federal income tax as well as income tax of various states. Years that remain open for potential review by the Internal Revenue Service are 2020 through 2022 and by state taxing authorities are 2019 through 2022.

NOTE 14 – RETIREMENT PLANS

Profit Sharing Plan

We sponsor the Midland States Bank 401(k) Profit Sharing Plan, which provides retirement benefits to substantially all of our employees. The 401(k) component of the plan allows participants to defer a portion of their compensation ranging from 1% to 100%. Such deferrals accumulate on a tax deferred basis until the participant withdraws the funds. The Company matches 50% of participant contributions up to 6% of their compensation. Total expense recorded for the Company match was $1.8 million, $1.6 million and $1.2 million for the years ended December 31, 2023, 2022, and 2021, respectively. There were no employer discretionary profit sharing contributions made to the 401(k) plan in 2023, 2022 and 2021.

Deferred Compensation Arrangements

Certain executive officers participate in a nonqualified deferred compensation arrangement. The plan is fully funded in a trust controlled by the Company with the gains and losses recognized in other noninterest income. The trust asset is reflected in the Company's equity securities with the offsetting deferred compensation liability reflected in other liabilities. The change in value associated with the gains and losses, which are due to the employee upon distribution, is recognized in salaries and employee benefits.

The following table summarizes the activity in the asset and liability balances of the executive officer nonqualified deferred compensation arrangement for the years ended December 31, 2023, 2022, and 2021:

(dollars in thousands)	2023	2022	2021
Beginning balance, trust asset	$ 3,294	$ 3,714	$ 3,657
Contributions	255	446	207
Gain (loss) on trust assets	427	(474)	359
Distributions	(396)	(392)	(509)
Ending balance, trust asset	$ 3,580	$ 3,294	$ 3,714
Beginning balance, deferred compensation liability	$ 3,294	$ 3,714	$ 3,657
Employee deferrals	255	446	207
Expense on deferred compensation liability	427	(474)	359
Distributions	(396)	(392)	(509)
Ending balance, deferred compensation liability	$ 3,580	$ 3,294	$ 3,714

Certain directors also participate in a nonqualified deferred compensation arrangement. The deferred compensation liability is reflected in other liabilities with the associated expense recognized in other noninterest expense.

The following table summarizes the activity in the liability balance of the director nonqualified deferred compensation arrangement for the years ended December 31, 2023, 2022, and 2021:

(dollars in thousands)	2023	2022	2021
Beginning balance, deferred compensation liability	$ 6,137	$ 5,372	$ 4,560
Deferred compensation	396	532	606
Expense on deferred compensation liability	323	296	251
Distributions	(803)	(63)	(45)
Ending balance, deferred compensation liability	$ 6,053	$ 6,137	$ 5,372

Defined Benefit Pension Plan

The Bank participated in the Pentegra Defined Benefit Plan for Financial Institutions, a non-contributory defined benefit pension plan for certain former employees of Heartland Bank who met prescribed eligibility requirements. Benefits under the plan were frozen July 1, 2004.

Effective October 1, 2021, the Bank withdrew from the multiple-employer plan by transferring assets and liabilities to a qualified successor plan under actuarial assumptions and methodology determined appropriate by Pentegra. Assets of $16.6 million were transferred to the successor plan on November 30, 2021. Transferred liability excludes the previously allocated orphan liability. On June 30, 2023, we terminated the plan and notified the IRS, seeking a final determination letter. We expect to receive the final determination letter and begin distributing assets to plan participants in late 2024.

The following table details the components of the net periodic benefit cost for the years ended December 31, 2023 and 2022:

(dollars in thousands)	2023	2022
Service cost	$ —	$ —
Interest cost	635	445
Expected return on plan assets	(511)	(828)
Amortization of transition obligation	—	14
Net periodic benefit cost	$ 124	$ (369)

Assumptions used to determine net periodic benefit cost:

	2023	2022
Discount rate	5.05 %	2.70 %
Expected long-term return on plan assets	4.75 %	5.50 %
Rate of compensation increase	N/A	N/A

Previously, costs for administration, shortfalls in funds to maintain the frozen level of benefit coverage and differences of actuarial assumptions related to the frozen benefits were expensed as incurred.

The following table provides a comparison of obligations to plan assets:

(dollars in thousands)	December 31, 2023	December 31, 2022
Projected benefit obligation	$ 13,353	$ 13,016
Accumulated benefit obligation	13,353	13,016
Fair value of plan assets	12,768	12,765

The minimum required contribution for 2024 is expected to be zero.

NOTE 15 – SHARE-BASED COMPENSATION

The Company awards select employees and directors certain forms of share-based incentives under the 2019 Incentive Plan. The 2019 Incentive Plan made 1,000,000 shares available to be issued to selected employees and directors of, and service providers to, the Company or its subsidiaries. The granting of awards under this plan can be in the form of stock options, stock appreciation rights, stock awards and cash incentive awards. The awards are granted by the compensation committee, which is comprised of members of the board of directors.

Total compensation cost that has been charged against income under the plans was $2.5 million, $2.2 million and $1.9 million for the years ended December 31, 2023, 2022, and 2021, respectively.

Restricted Stock

Restricted stock awards require certain service requirements and have a vesting period of four years. Compensation expense is recognized on a straight-line basis over the vesting period of the award based on the fair value of the stock at the date of grant.

A summary of the activity for restricted stock awards and restricted stock unit awards for the year follows:

	Number outstanding	Weighted average grant due fair value
Nonvested, beginning of year	269,978	$ 25.53
Granted	196,906	23.04
Vested	(93,837)	24.93
Forfeited	(32,033)	25.58
Nonvested, end of year	341,014	$ 24.25

As of December 31, 2023, there was $7.8 million of total unrecognized compensation cost related to nonvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 3.16 years.

The total fair value of shares vested during the years ended December 31, 2023, 2022, and 2021 was $2.1 million, $2.4 million and $2.1 million, respectively.

Stock Options

The Company awards stock options to employees with an exercise price equal to the market price of the Company's common stock at the date of the grant and those awards, typically have a vesting period of four years and a ten-year contractual term.

The fair value of each option award is estimated on the date of grant using the Black-Scholes model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Nasdaq ABA Community Bank Index. The Company has elected to use the practical expedient of one-half the weighted average time to vest plus the contractual life to estimate the expected term. The Company estimates the impact of forfeitures based on historical experience. Should the Company's current estimate change, additional expense could be recognized or reversed in future periods. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The Company did not grant stock options in the years ended December 31, 2023 and 2021. The fair value of options granted during the year ended December 31, 2022 was determined using the following weighted-average assumptions as of the grant date.

	2022
Dividend yield	4.24 %
Expected volatility	23.81 %
Risk free interest rate	4.23 %
Expected life	6.25 years

The weighted average fair value of stock options granted during the year ended December 31, 2022 was $4.92.

The summary of our stock option activity for the year ended December 31, 2023 is as follows:

	2023		
	Shares	Weighted average exercise price	Weighted average remaining contractual life
Option outstanding, beginning of year	415,572	$ 25.81	
Options granted	—	N/A	
Options exercised	(42,437)	18.45	
Options forfeited	(30,179)	28.43	
Options expired	—	N/A	
Options outstanding, end of year	342,956	26.49	5.7 years
Options exercisable	200,044	25.10	3.5 years
Options vested and expected to vest	342,956	26.49	5.7 years

The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2023 was $0.6 million. As of December 31, 2023, there was $0.7 million of total unrecognized compensation cost related to nonvested stock options granted under our 2019 Incentive Plan. This cost is expected to be recognized over a period of 2.8 years.

The following table includes information related to stock option exercises for the years ended December 31, 2023, 2022, and 2021.

(dollars in thousands)	2023	2022	2021
Cash received from options exercised	$ 783	$ 2,061	$ 2,225
Intrinsic value from options exercised	230	943	814
Tax benefit from options exercised	48	198	171

NOTE 16 – PREFERRED STOCK

On August 24, 2022, the Company issued and sold 4,600,000 depositary shares (the "Depositary Shares"), each representing a 1/40th ownership interest in a share of the Company's 7.75% fixed-rate reset non-cumulative perpetual preferred stock, Series A, par value $2.00 per share (the "Series A preferred stock"), with a liquidation preference of $25 per depositary share (equivalent to $1,000 per share of Series A Preferred Stock). The Series A preferred stock qualifies as Tier 1 capital for purposes of regulatory capital calculations. The gross proceeds were $115.0 million while net proceeds from the issuance of the Series A preferred stock, after deducting $4.5 million of offering costs, including the underwriting discount and other expenses, were $110.5 million.

Dividends on the Series A preferred stock are not cumulative or mandatory, and will be paid when, as, and if declared by the Company's board of directors. If declared, dividends will accrue and be payable, quarterly in arrears, (i) from and including the date of original issuance to, but excluding September 30, 2027 or the date of earlier redemption, at a rate of 7.75% per annum, on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2022, and (ii) from and including September 30, 2027, during each reset period, at a rate per annum equal to the five-year treasury rate as of the most recent reset dividend determination date plus 4.713%, on March 30, June 30, September 30 and December 30 of each year, beginning on December 30, 2027, except in each case where such day is not a business day. Neither the holders of the Series A preferred stock nor holders of the Depositary Shares will have the right to require the redemption or repurchase of the Series A preferred stock.

NOTE 17 – 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. Presented below are the calculations for basic and diluted earnings per common share for the years ended 2023, 2022, and 2021:

	Years Ended December 31,		
(dollars in thousands, except per share data)	**2023**	**2022**	**2021**
Net income	$ 75,460	$ 99,025	$ 81,317
Preferred dividends declared	(8,913)	(3,169)	—
Net income available to common shareholders	66,547	95,856	81,317
Common shareholder dividends	(26,234)	(25,628)	(24,912)
Unvested restricted stock award dividends	(339)	(295)	(260)
Undistributed earnings to unvested restricted stock awards	(565)	(809)	(564)
Undistributed earnings to common shareholders	$ 39,409	$ 69,124	$ 55,581
Basic			
Distributed earnings to common shareholders	$ 26,234	$ 25,628	$ 24,912
Undistributed earnings to common shareholders	39,409	69,124	55,581
Total common shareholders earnings, basic	$ 65,643	$ 94,752	$ 80,493
Diluted			
Distributed earnings to common shareholders	$ 26,234	$ 25,628	$ 24,912
Undistributed earnings to common shareholders	39,409	69,124	55,581
Total common shareholders earnings	65,643	94,752	80,493
Add back:			
Undistributed earnings reallocated from unvested restricted stock awards	—	2	2
Total common shareholders earnings, diluted	$ 65,643	$ 94,754	$ 80,495
Weighted average common shares outstanding, basic	22,115,869	22,341,498	22,481,389
Options	8,533	54,200	65,964
Weighted average common shares outstanding, diluted	22,124,402	22,395,698	22,547,353
Basic earnings per common share	$ 2.97	$ 4.24	$ 3.58
Diluted earnings per common share	2.97	4.23	3.57
Antidilutive stock options[(1)]	302,020	265,831	65,033

(1) The diluted earnings per common share computation excludes antidilutive stock options because the exercise prices of these stock options exceeded the average market prices of the Company's common shares for those respective periods.

NOTE 18 – CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. 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. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. The Bank is also restricted by Illinois law and regulations of the Illinois Department of Financial and Professional Regulation and the FDIC as to the maximum amount of dividends the Bank can pay the Company. As a practical matter, the Bank restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

At December 31, 2023, the Company and the Bank exceeded the regulatory minimums and the Bank met the regulatory definition of "well-capitalized" based on the most recent regulatory notification. There have been no conditions or events since that notification that management believes have changed the Bank's category.

At December 31, 2023 and 2022, the Company's and the Bank's actual and required capital ratios were as follows:

	Actual		Fully Phased-In Regulatory Guidelines Minimum		Required to be Well Capitalized Under Prompt Corrective Action Requirements	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2023						
Total risk-based capital ratio						
Midland States Bancorp, Inc.	$ 923,101	13.20 %	$ 734,070	10.50 %	N/A	N/A
Midland States Bank	865,910	12.40	733,312	10.50	$ 698,392	10.00%
Tier 1 risk-based capital ratio						
Midland States Bancorp, Inc.	762,508	10.91	594,247	8.50	N/A	N/A
Midland States Bank	798,862	11.44	593,633	8.50	558,714	8.00
Common equity tier 1 risk-based capital ratio						
Midland States Bancorp, Inc.	587,009	8.40	489,380	7.00	N/A	N/A
Midland States Bank	798,863	11.44	488,874	7.00	453,955	6.50
Tier 1 leverage ratio						
Midland States Bancorp, Inc.	762,508	9.71	314,228	4.00	N/A	N/A
Midland States Bank	798,863	10.18	313,868	4.00	392,335	5.00
December 31, 2022						
Total risk-based capital ratio						
Midland States Bancorp, Inc.	$ 891,320	12.38 %	$ 755,859	10.50 %	N/A	N/A
Midland States Bank	827,689	11.51	755,316	10.50	$ 719,349	10.00%
Tier 1 risk-based capital ratio						
Midland States Bancorp, Inc.	734,754	10.21	611,886	8.50	N/A	N/A
Midland States Bank	770,566	10.71	611,447	8.50	575,479	8.00
Common equity tier 1 risk-based capital ratio						
Midland States Bancorp, Inc.	559,255	7.77	503,906	7.00	N/A	N/A
Midland States Bank	770,566	10.71	503,544	7.00	467,577	6.50
Tier 1 leverage ratio						
Midland States Bancorp, Inc.	734,754	9.43	311,715	4.00	N/A	N/A
Midland States Bank	770,566	9.90	311,299	4.00	389,123	5.00

In December 2018, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, 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 new accounting standard. In March 2020, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, 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 adopted the capital transition relief over the permissible five-year period.

NOTE 19 – 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.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment securities. The fair value of investment securities available for sale are determined by quoted market prices, if available (Level 1). For investment securities available for sale where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For investment securities available for sale where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Securities classified as Level 3 are not actively traded, and as a result, fair value is determined utilizing third-party valuation services through consensus pricing. There were no transfers between Levels 1, 2 or 3 during the period presented for assets measured at fair value on a recurring basis. The fair value of equity securities is determined using quoted prices or market prices for similar securities (Level 2).

Loans held for sale. The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Derivative instruments. The fair value of derivative instruments are determined based on derivative valuation models using observable market data as of the measurement date (Level 2).

Loan servicing rights. In accordance with GAAP, the Company records impairment charges on loan servicing rights on a non-recurring basis when the carrying value exceeds the estimated fair value. The fair value of our servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, servicing costs, replacement reserves and other economic factors which are estimated based on current market conditions (Level 3).

Mortgage servicing rights held for sale. Mortgage servicing rights held for sale consist of commercial FHA mortgage servicing rights that management has committed to a plan to sell and has the ability to sell them to a buyer in their present condition. Mortgage servicing rights held for sale are carried at the lower of their carrying value or fair value less estimated costs to sell (Level 2).

Nonperforming loans. All of our nonaccrual loans are considered nonperforming and are reviewed individually for the amount of impairment, if any. We measure collateral dependent nonperforming loans based on the estimated fair value of such collateral. In cases where the Company has an agreed upon selling price for the collateral, the fair value is set at the selling price (Level 1). The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral (Level 2). When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable (Level 3). The nonperforming loans categorized as Level 3 also include unsecured loans and other secured loans whose fair values are based significantly on unobservable inputs such as the strength of a guarantor, cash flows discounted at the effective loan rate, and management's judgment.

Other Real Estate Owned. OREO is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost basis. After foreclosure, OREO is held for sale and is carried at the lower of cost or fair value less estimated costs of disposal. Fair value for OREO is based on an appraisal performed upon foreclosure. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between comparable sales and income data available. Property is evaluated regularly to ensure the recorded amount is supported by its fair value less estimated costs to dispose. After the initial foreclosure appraisal, fair value is generally determined by an annual appraisal unless known events warrant adjustments to the recorded value (Level 2).

Assets held for sale. Assets held for sale represent the fair value of the banking facilities that are expected to be sold. The fair value of the assets held for sale was based on estimated market prices from independently prepared current appraisals (Level 2).

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 December 31, 2023 and December 31, 2022, are summarized below:

	December 31, 2023			
(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	$ 1,097	$ 1,097	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	72,572	—	72,572	—
Mortgage-backed securities - agency	574,500	—	574,500	—
Mortgage-backed securities - non-agency	83,529	—	83,529	—
State and municipal securities	57,460	—	57,460	—
Collateralized loan obligations	27,565	—	27,565	—
Corporate securities	99,172	—	99,172	—
Equity securities	4,501	4,501	—	—
Loans held for sale	3,811	—	3,811	—
Derivative assets	372	—	372	—
Total	$ 924,579	$ 5,598	$ 918,981	$ —
Liabilities				
Derivative liabilities	$ 8,836	$ —	$ 8,836	$ —
Total	$ 8,836	$ —	$ 8,836	$ —
Assets measured at fair value on a non-recurring basis:				
Nonperforming loans	4,633	—	3,964	669
Other real estate owned	9,112	—	9,112	—

(dollars in thousands)	December 31, 2022 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	$ 81,230	$ 81,230	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	37,509	—	37,509	—
Mortgage-backed securities - agency	448,150	—	448,150	—
Mortgage-backed securities - non-agency	20,754	—	20,754	—
State and municipal securities	94,636	—	94,636	—
Corporate securities	85,955	—	85,955	—
Equity securities	8,626	8,626	—	—
Loans held for sale	1,286	—	1,286	—
Derivative assets	481	—	481	—
Total	$ 778,627	$ 89,856	$ 688,771	$ —
Liabilities				
Derivative liabilities	$ 10,446	$ —	$ 10,446	$ —
Total	$ 10,446	$ —	$ 10,446	$ —
Assets measured at fair value on a non-recurring basis:				
Loan servicing rights	$ 1,205	$ —	$ —	$ 1,205
Mortgage servicing rights held for sale	20,745	—	20,745	—
Nonperforming loans	49,423	5,478	34,406	9,539
Other real estate owned	6,729	—	6,729	—
Assets held for sale	356	—	356	—

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2023 and 2022.

The following table presents losses recognized on assets measured on a nonrecurring basis for the years ended December 31, 2023, 2022 and 2021:

(dollars in thousands)	Years Ended December 31, 2023	2022	2021
Commercial mortgage servicing rights	$ —	$ 1,263	$ 7,532
Loan servicing rights held for sale	—	3,250	222
Nonperforming loans	19,421	8,892	14,468
Other real estate owned	—	4,276	454
Total losses on assets measured on a nonrecurring basis	$ 19,421	$ 17,681	$ 22,676

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 December 31, 2023 and December 31, 2022:

(dollars in thousands)	Fair value	Valuation technique	Unobservable input / assumptions	Range (weighted average)(1)
December 31, 2023				
Nonperforming loans	$ 669	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	24.38% - 100.00% (27.46%)
December 31, 2022				
Loan servicing rights:				
SBA servicing rights	$ 876	Discounted cash flow	Prepayment speed	14.49% - 15.44% (15.00%)
			Discount rate	No range (13.00%)
Residential servicing rights	2,770	Discounted cash flow	Prepayment speed	7.56% - 26.28% (7.92%)
			Discount rate	9.00% - 11.50% (10.13%)

(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 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 December 31, 2023 and December 31, 2022:

	December 31, 2023			December 31, 2022		
(dollars in thousands)	Aggregate fair value	Difference	Contractual principal	Aggregate fair value	Difference	Contractual principal
Residential loans held for sale	$ 3,811	$ 203	$ 3,608	$ 1,286	$ 42	$ 1,244

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 years ended December 31, 2023, 2022 and 2021 :

	Years Ended December 31,		
(dollars in thousands)	2023	2022	2021
Commercial loans held for sale	$ —	$ —	$ (67)
Residential loans held for sale	163	(425)	(148)
Total loans held for sale	$ 163	$ (425)	$ (215)

The carrying values and estimated fair value of certain financial instruments not carried at fair value at December 31, 2023 and December 31, 2022 were as follows:

(dollars in thousands)	December 31, 2023 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	$ 134,212	$ 134,212	$ 134,212	$ —	$ —
Federal funds sold	849	849	849	—	—
Loans	6,131,079	6,129,244	—	—	6,129,244
Accrued interest receivable	24,934	24,934	—	24,934	—
Liabilities					
Deposits	$ 6,309,529	$ 6,294,979	$ —	$ 6,294,979	$ —
Short-term borrowings	34,865	34,865	25,000	9,865	—
FHLB and other borrowings	476,000	475,240	—	475,240	—
Subordinated debt	93,546	90,253	—	90,253	—
Trust preferred debentures	50,616	51,626	—	51,626	—

(dollars in thousands)	December 31, 2022 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	$ 153,345	$ 153,345	$ 153,345	$ —	$ —
Federal funds sold	7,286	7,286	7,286	—	—
Loans	6,306,467	6,121,026	—	—	6,121,026
Accrued interest receivable	20,313	20,313	—	20,313	—
Liabilities					
Deposits	$ 6,364,652	$ 6,344,534	$ —	$ 6,344,534	$ —
Short-term borrowings	42,311	42,311	—	42,311	—
FHLB and other borrowings	460,000	457,998	—	457,998	—
Subordinated debt	99,772	95,301	—	95,301	—
Trust preferred debentures	49,975	54,668	—	54,668	—

The methods utilized to measure fair value of financial instruments at December 31, 2023 and December 31, 2022 represent an approximation of exit price; however, an actual exit price may differ.

NOTE 20 – COMMITMENTS, CONTINGENCIES AND CREDIT RISK

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 December 31, 2023 and December 31, 2022 were as follows:

(dollars in thousands)	December 31, 2023	December 31, 2022
Commitments to extend credit	$ 855,489	$ 1,276,263
Financial guarantees – standby letters of credit	22,745	23,748

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 2023 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 years ended December 31, 2023, 2022 and 2021. The liability for unresolved repurchase demands totaled $0.1 million and $0.2 million at December 31, 2023 and December 31, 2022.

NOTE 21 – 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 financing; 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 years ended December 31, 2023, 2022 and 2021 were as follows:

(dollars in thousands)	Banking	Wealth Management	Other	Total
Year Ended December 31, 2023				
Net interest income (expense)	$ 244,877	$ (12)	$ (8,848)	$ 236,017
Provision for credit losses	21,132	—	—	21,132
Noninterest income	40,830	25,572	188	66,590
Noninterest expense	155,487	20,247	(1,832)	173,902
Income (loss) before income taxes (benefit)	109,088	5,313	(6,828)	107,573
Income taxes (benefit)	32,654	2,309	(2,850)	32,113
Net income (loss)	$ 76,434	$ 3,004	$ (3,978)	$ 75,460
Total assets	$ 7,845,023	$ 31,437	$ (9,592)	$ 7,866,868
Year Ended December 31, 2022				
Net interest income (expense)	$ 256,226	$ —	$ (10,491)	$ 245,735
Provision for credit losses	20,126	—	—	20,126
Noninterest income	54,179	25,708	4	79,891
Noninterest expense	157,680	18,019	(37)	175,662
Income (loss) before income taxes (benefit)	132,599	7,689	(10,450)	129,838
Income taxes (benefit)	35,055	2,136	(6,378)	30,813
Net income (loss)	$ 97,544	$ 5,553	$ (4,072)	$ 99,025
Total assets	$ 7,841,966	$ 29,332	$ (15,797)	$ 7,855,501
Year Ended December 31, 2021				
Net interest income (expense)	$ 218,309	$ —	$ (10,634)	$ 207,675
Provision for credit losses	3,393	—	—	3,393
Noninterest income	42,249	26,876	774	69,899
Noninterest expense	158,803	17,372	(1,106)	175,069
Income (loss) before income taxes (benefit)	98,362	9,504	(8,754)	99,112
Income taxes (benefit)	17,218	2,679	(2,102)	17,795
Net income (loss)	$ 81,144	$ 6,825	$ (6,652)	$ 81,317
Total assets	$ 7,460,114	$ 28,883	$ (45,192)	$ 7,443,805

NOTE 22 – 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 years ended December 31, 2023, 2022 and 2021.

	Years Ended December 31,		
(dollars in thousands)	**2023**	**2022**	**2021**
Noninterest income - in-scope of Topic 606			
Wealth management revenue:			
Trust management/administration fees	$ 22,208	$ 21,704	$ 20,954
Investment advisory fees	6	—	1,282
Investment brokerage fees	1,720	2,068	2,050
Other	1,638	1,936	2,525
Service charges on deposit accounts:			
Nonsufficient fund fees	7,325	6,404	5,339
Other	4,665	3,076	3,009
Interchange revenues	14,302	13,879	14,500
Other income:			
Merchant services revenue	1,592	1,590	1,511
Other	1,726	3,039	3,850
Noninterest income - out-of-scope of Topic 606	11,408	26,195	14,879
Total noninterest income	$ 66,590	$ 79,891	$ 69,899

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 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.

NOTE 23 – PARENT COMPANY ONLY FINANCIAL INFORMATION

The condensed financial statements of Midland States Bancorp, Inc. are presented below:

Condensed Balance Sheets
(dollars in thousands)

	December 31,	
	2023	2022
Assets:		
Cash	$ 7,763	$ 2,721
Investment in subsidiaries	892,781	860,129
Note receivable due from bank subsidiary	30,000	40,000
Other assets	8,010	8,468
Total assets	$ 938,554	$ 911,318
Liabilities:		
Subordinated debt	$ 93,546	$ 99,772
Trust preferred debentures	50,616	49,975
Other liabilities	2,539	2,997
Total liabilities	146,701	152,744
Shareholders' equity	791,853	758,574
Total liabilities and shareholders' equity	$ 938,554	$ 911,318

Condensed Statements of Income
(dollars in thousands)

	Years ended December 31,		
	2023	2022	2021
Income			
Dividends from subsidiaries	$ 54,000	$ 14,765	$ 45,350
Earnings of consolidated subsidiaries, net of dividends	28,286	90,021	44,582
Interest income on note due from bank subsidiary	1,578	10	—
Other income	323	4	932
Total income	84,187	104,800	90,864
Interest expense	10,555	10,534	10,668
Other expense	1,044	1,625	984
Total expense	11,599	12,159	11,652
Income before income tax benefit	72,588	92,641	79,212
Income tax benefit	2,872	6,384	2,105
Net income	$ 75,460	$ 99,025	$ 81,317

Condensed Statements of Cash Flows
(dollars in thousands)

	Years ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	$ 75,460	$ 99,025	$ 81,317
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	(28,286)	(90,021)	(44,582)
Share-based compensation expense	2,489	2,211	1,938
Change in other assets	462	(373)	3,223
Change in other liabilities	(198)	1,639	763
Net cash provided by operating activities	49,927	12,481	42,659
Cash flows from investing activities:			
Capital injection to bank subsidiary	—	(50,000)	—
Change in note receivable due from bank subsidiary	10,000	(40,000)	—
Net cash received in dissolution of subsidiary	2,674	—	2,003
Net cash provided by (used in) investing activities	12,674	(90,000)	2,003
Cash flows from financing activities:			
Payments on other borrowings	—	(171)	—
Payments made on subordinated debt	(5,845)	(40,000)	(31,075)
Common stock repurchased	(17,898)	(1,109)	(11,692)
Cash dividends paid on common stock	(26,573)	(25,923)	(25,172)
Cash dividends paid on preferred stock	(8,913)	(3,169)	—
Proceeds from issuance of preferred stock	—	110,548	—
Proceeds from issuance of common stock under employee benefit plans	1,670	2,188	2,249
Net cash (used in) provided by financing activities	(57,559)	42,364	(65,690)
Net increase (decrease) in cash	5,042	(35,155)	(21,028)
Cash:			
Beginning of period	2,721	37,876	58,904
End of period	$ 7,763	$ 2,721	$ 37,876

The Bank has $30.0 million of borrowings from the parent as part of its strategy to manage FDIC insurance premiums. The note has a rolling 13 month maturity, and the interest rate is a variable rate equal to the one year treasury rate.

ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A – 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 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.

Management's annual report on internal control over financial reporting. Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company's internal control over financial reporting as of December 31, 2023. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management asserts that the Company maintained effective internal control over financial reporting as of December 31, 2023 based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2023, has been audited by Crowe LLP, the independent registered public accounting firm who also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Crowe LLP has issued a report on the Company's internal control over financial reporting as of December 31, 2023, which is included in Item 8 of this Form 10-K and is incorporated into this item by reference.

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 fourth fiscal quarter of 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B – OTHER INFORMATION

During the quarter ended December 31, 2023, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 9C – DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item can be found in the sections titled “Proposal 1 – Election of Directors,” “Security Ownership of Certain Beneficial Owners,” and “Corporate Governance and the Board of Directors” appearing in the Company’s Proxy Statement for the 2024 annual meeting of shareholders to be filed within 120 days after December 31, 2023, which information is incorporated herein by reference.

ITEM 11 – EXECUTIVE COMPENSATION

The information required by this item can be found in the sections titled “Compensation Discussion and Analysis,” “Executive Compensation,” “Corporate Governance and the Board of Directors” and “Compensation Committee Report” appearing in the Company’s Proxy Statement for the 2024 annual meeting of shareholders to be filed within 120 days after December 31, 2023, which information is incorporated herein by reference.

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plans. The following table discloses the number of outstanding options, warrants and rights granted to participants by the Company under our equity compensation plans, as well as the number of securities remaining available for future issuance under these plans as of December 31, 2023. The table provides this information separately for equity compensation plans that have and have not been approved by security holders. Additional information regarding stock incentive plans is presented in Note 15 to the Consolidated Financial Statements included pursuant to Item 8.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights (1)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders (2)	451,338	$ 26.17	797,066
Equity compensation plans not approved by shareholders (3)	161,771	$ 28.59	—
Total	613,109	$ 26.49	797,066

(1) The weighted average exercise price only relates to outstanding option awards.

(2) Column (a) includes 107,304 outstanding stock options granted from the initial 1,000,000 shares reserved for issuance under the Midland States Bancorp, Inc. Second Amended and Restated 2010 Long-Term Incentive Plan, 190,551 outstanding stock options granted from the initial 1,000,000 shares reserved under the Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan and the additional 550,000 shares reserved under the Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan Amended and Restated and 153,483 stock units credited to participant accounts under the Deferred Compensation Plan for Directors of Midland States Bancorp, Inc. (Effective November 8, 2018) to be issued in accordance with each director’s election following each director’s separation from service or at a date certain from the Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan. Column (c) reflects 598,424 shares remaining available for issuance under the Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan Amended and Restated and 198,642 shares remaining available for issuance under the Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan (Amended and Restated May 2, 2023).

(3) Column (a) includes 45,101 outstanding stock options granted from the additional 1,000,000 shares reserved for issuance under the Midland States Bancorp, Inc. Second Amended and Restated 2010 Long-Term Incentive Plan pursuant to the February 2, 2016 amendment and restatement, and 116,670 stock units credited to participant accounts under the Deferred Compensation Plan for Directors of Midland States Bancorp, Inc. (Effective November 8, 2018) to be issued in accordance with each director’s election following each director’s separation from service or at a date certain from the additional 1,000,000 shares reserved for issuance under the Midland States Bancorp, Inc. Second Amended and Restated 2010 Long-Term Incentive Plan pursuant to the February 2, 2016 amendment and restatement.

Other information required by Item 12 can be found in the section titled “Security Ownership of Certain Beneficial Owners” appearing in the Company’s Proxy Statement for the 2024 annual meeting of shareholders to be filed within 120 days after December 31, 2023, which is incorporated herein by reference.

ITEM 13– CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item can be found in the sections titled “Certain Relationships and Related Party Transactions” and “Corporate Governance and the Board of Directors” appearing in the Company’s Proxy Statement for the 2024 annual meeting of shareholders to be filed within 120 days after December 31, 2023, which is incorporated herein by reference.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item can be found in the section titled "Proposal 3 – Ratification of the Appointment of Crowe LLP as our Independent Registered Public Accounting Firm" appearing in the Company's Proxy Statement for the 2024 annual meeting of shareholders to be filed within 120 days after December 31, 2023, which is incorporated herein by reference.

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements:

The following consolidated financial statements of the registrant and its subsidiaries are filed as part of this document under Item 8 - "Financial Statements and Supplementary Data."

Consolidated Balance Sheets – December 31, 2023 and 2022

Consolidated Statements of Income – Years Ended December 31, 2023, 2022 and 2021

Consolidated Statements of Comprehensive Income – Years Ended December 31, 2023, 2022 and 2021

Consolidated Statements of Shareholders' Equity – Years Ended December 31, 2023, 2022 and 2021

Consolidated Statements of Cash Flows – Years Ended December 31, 2023, 2022 and 2021

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

All schedules are omitted as such information is inapplicable or is included in the financial statements.

(3) Exhibits:

The exhibits are filed as part of this report and exhibits incorporated herein by reference to other documents are as follows:

Exhibit No.	Description
3.1	Articles of Incorporation of Midland States Bancorp, Inc., as amended – filed herewith.
3.2	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).
4.1	Specimen common stock certificate of Midland States Bancorp, Inc. (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-1 (File No. 333-210683), filed with the SEC on April 11, 2016).
4.2	Deposit Agreement, dated as of August 24, 2022, by and among Midland States Bancorp, Inc., Computershare Inc., Computershare Trust Company, N.A. and the holders from time to time of the depositary receipts described therein (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed with the SEC on August 24, 2022)
4.3	Form of depositary receipt representing the Depositary Shares (included as Exhibit A to Exhibit 4.2 hereto).
4.4	Description of the Company’s Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K filed with the SEC on February 24, 2023
4.5	Indenture, dated as of September 20, 2019, between Midland States Bancorp, Inc. and UMB Bank National Association, as trustee, regarding 5.00% Fixed-to-Floating Rate Subordinated Notes due 2029 (incorporated herein by reference to Exhibit 4.1 of the Company’s Current Report on Form 8-K filed with the SEC on September 20, 2019).
4.6	Form of 5.00% Fixed-to-Floating Rate Subordinated Notes due 2029 (included in Exhibit 4.5).
4.7	Indenture, dated as of September 20, 2019, between Midland States Bancorp, Inc. and UMB Bank National Association, as trustee, regarding 5.50% Fixed-to-Floating Rate Subordinated Notes due 2034 (incorporated herein by reference to Exhibit 4.3 of the Company’s Current Report on Form 8-K filed with the SEC on September 20, 2019).
4.8	Form of 5.50% Fixed-to-Floating Rate Subordinated Notes due 2034 (included in Exhibit 4.7).

10.1*	Amended and Restated Employment Agreement, dated as of November 5, 2020, between Midland States Bancorp, Inc., Midland States Bank and Jeffrey Ludwig (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2021).
10.2*	Amended and Restated Employment Agreement, dated as of November 5, 2020, between Midland States Bancorp, Inc., Midland States Bank and Jeffrey Mefford incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2021).
10.3*	Amended and Restated Employment Agreement, dated as of November 5, 2020, between Midland States Bancorp, Inc., Midland States Bank and Douglas J. Tucker incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2021).
10.4*	Amended and Restated Employment Agreement, dated as of November 5, 2020, between Midland States Bancorp, Inc., Midland States Bank and Eric T. Lemke incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed with the SEC on February 26, 2021).
10.5*	Change of Control Agreement, dated as of May 3, 2023, between Midland States Bancorp, Inc. and Daniel E. Casey – filed herewith.
10.6*	Midland States Bancorp, Inc. Second Amended and Restated 2010 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.10 to Pre-Effective Amendment No. 2 to the Company’s Registration Statement on Form S-1 (File No. 333-210683), filed with the SEC on May 11, 2016).
10.7*	Deferred Compensation Plan for Directors of Midland States Bancorp, Inc. (Effective November 8, 2018) (incorporated by reference to Exhibit 10.21 to the Company’s Annual Report on Form 10-K filed with the SEC on February 28, 2019).
10.8*	Deferred Compensation Plan for Executives of Midland States Bancorp, Inc. (Effective November 8, 2018) (incorporated by reference to Exhibit 10.22 to the Company’s Annual Report on Form 10-K filed with the SEC on February 28, 2019).
10.9*	The Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan (Amended and Restated May 1, 2023) – filed herewith.
10.10*	The Amended Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan (Amended and Restated May 1, 2023) – filed herewith.
10.11*	Form of Incentive Stock Option Award Agreement under the Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan (Amended and Restated May 1, 2023) – filed herewith.
10.12*	Form of Nonqualified Stock Option Award Agreement under the Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan (Amended and Restated May 1, 2023) – filed herewith.
10.13*	Form of Restricted Stock Unit Award Agreement under the Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan (Amended and Restated May 1, 2023) – filed herewith.
10.14*	Form of Restricted Stock Award Agreement under the Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan (Amended and Restated May 1, 2023) – filed herewith.

19.1	Midland States Bancorp, Inc. Insider Trading Policy – filed herewith.
21.1	Subsidiaries of Midland States Bancorp, Inc. – filed herewith.
23.1	Consent of Crowe LLP – filed herewith.
31.1	Principal Executive Officer’s Certification required by Rule 13(a)-14(a) – filed herewith.
31.2	Principal Financial Officer’s Certification required by Rule 13(a)-14(a) – filed herewith.
32.1	Principal 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	Principal 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.
97.1	Midland States Bancorp, Inc. Clawback Policy – filed herewith.

101.INS	The Inline XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document – filed herewith.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document– filed herewith.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document– filed herewith.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document– filed herewith.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document– filed herewith.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document– filed herewith.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Management contract or compensatory plan or arrangement

ITEM 16 – FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 23, 2024	By: /s/ Jeffrey G. Ludwig
	Jeffrey G. Ludwig
	President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Jeffrey C. Smith Jeffrey C. Smith	Chairman of the Board of Directors	February 23, 2024
/s/ Jeffrey G. Ludwig Jeffrey G. Ludwig	President, Chief Executive Officer and Vice Chairman (Principal Executive Officer)	February 23, 2024
/s/ Eric T. Lemke Eric T. Lemke	Chief Financial Officer (Principal Financial Officer)	February 23, 2024
/s/ Donald J. Spring Donald J. Spring	Chief Accounting Officer (Principal Accounting Officer)	February 23, 2024
/s/ R. Dean. Bingham R. Dean. Bingham	Director	February 23, 2024
/s/ Gerald J. Carlson Gerald J. Carlson	Director	February 23, 2024
/s/ Jennifer L. DiMotta Jennifer L. DiMotta	Director	February 23, 2024
/s/ Sherina M. Edwards Sherina M. Edwards	Director	February 23, 2024
/s/ Deborah A. Golden Deborah A. Golden	Director	February 23, 2024
/s/ Jerry L. McDaniel Jerry L. McDaniel	Director	February 23, 2024
/s/ Jeffrey M. McDonnell Jeffrey M. McDonnell	Director	February 23, 2024
/s/ Richard T. Ramos Richard T. Ramos	Director	February 23, 2024
/s/ Robert F. Schultz Robert F. Schultz	Director	February 23, 2024

ARTICLES OF INCORPORATION
OF
MIDLAND STATES BANCORP, INC.

1. Corporate Name: Midland States Bancorp, Inc.

2. Initial Registered Agent: Douglas J. Tucker
Initial Registered Office: 133 W. Jefferson Avenue, Effingham, IL 62401
Effingham County

3. Purpose or purposes for which the corporation is organized: The transaction of any or all lawful businesses for which corporations may be incorporated under the Illinois Business Corporation Act.

Article 4
AUTHORIZED STOCK

Section 4.1 **Authorized Shares**. The aggregate number of shares of stock which the corporation shall have authority to issue is Forty-Four Million (44,000,000) shares of stock, consisting of Thirty-Five Million (35,000,000) shares of Common Stock, par value of $0.01 per share, Five Million (5,000,000) shares of Non-Voting Common Stock, par value of $0.01 per share, and Four Million (4,000,000) shares of Preferred Stock, par value of $2.00.

Section 4.2 **Common Stock**. Except as otherwise provided in any resolution or resolutions adopted by the board of directors providing for the issuance of a class of Common Stock, the Common Stock shall: (a) have the exclusive voting power of the corporation, (b) entitle the holders thereof to one vote per share at all meetings of the shareholders of the corporation, (c) entitle the holders to share ratably, without preference over any other shares of the corporation, in all assets of the corporation in the event of any dissolution, liquidation or winding up of the corporation, and (d) entitle the record holders thereof on such record dates as are determined, from time to time by the board of directors, to receive such dividends, if any, if, as and when declared by the board of directors.

Section 4.3 **Non-Voting Common Stock**. Except as otherwise provided in any resolution or resolutions adopted by the board of directors providing for the issuance of an additional class of Non-Voting Common Stock, shares of the Non-Voting Common Stock shall for all purposes be treated as shares of Common Stock and entitle the holders thereof to any and all rights and privileges afforded to holders of Common Stock; *provided, however,* that holders of Non-Voting Common Stock shall not be entitled to vote on any matter presented to the shareholders of the corporation for their action or consideration.

Section 4.4 **Preferred Stock**. The shares of Preferred Stock may be issued from time to time in one or more series. The board of directors of this corporation shall have authority to fix by resolution or resolutions the designations and the powers, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including, without limitation, the voting rights, the dividend rate, conversion rights, redemption price and liquidation preference, of any series of shares of Preferred Stock, to fix the number of shares constituting any such series and to increase or decrease the number of shares of any such series (but not below the number of shares thereof then outstanding). In case the number of shares of any such series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution or resolutions originally fixing the number of shares of such series.

Section 4.5 No Pre-emptive Rights. No holder of any class of shares of the corporation shall, as such holder, have any preemptive or preferential right to: (a) purchase or subscribe to any shares of any class of stock of the corporation, whether now or hereafter authorized, whether unissued or in treasury; or (b) purchase any obligations convertible into shares of any class of stock of the corporation, in either case which at any time may be proposed to be issued by the corporation or subjected to rights or options to purchase granted by the corporation.

Section 4.6 Unclaimed Dividends. Any and all right, title, interest and claim in or to any dividends declared by the corporation, whether in cash, stock, or otherwise, which are unclaimed by the shareholder entitled thereto for a period of five (5) years after the close of business on the payment date, shall be and be deemed to be extinguished and abandoned; and such unclaimed dividends in the possession of the corporation, its transfer agents or other agents or depositaries shall at such time become the absolute property of the corporation, free and clear of any and all claims of any persons whatsoever."

Article 5
BOARD OF DIRECTORS

Section 5.1. Size; Qualifications. The business and affairs of the corporation shall be managed by or under the direction of the board of directors, which shall consist of no fewer than seven (7) and no greater than thirteen (13) persons, as fixed from time to time by resolution of not less than two-thirds of the number of directors which immediately prior to such proposed change had been fixed, in the manner prescribed herein, by the board of directors of the corporation, provided, however, that the number of directors shall not be reduced as to shorten the term of any director at the time in office. Directors need not be residents of the State of Illinois and need not be shareholders of the corporation.

Section 5.2 Powers. In addition to the powers and authority expressly conferred upon them by statute or by these Articles of Incorporation or the Bylaws of the corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation.

Section 5.3 Classification of Board of Directors. The directors of the corporation shall be divided into three classes, Class I, Class II and Class III, as nearly equal in number as the then total number of directors constituting the entire board of directors permits with the term of office of one class expiring each year. Directors of Class I shall hold office for an initial term expiring at the 2011 annual meeting, directors of Class II shall hold office for an initial term expiring at the 2012 annual meeting and directors of Class III shall hold office for an initial term expiring at the 2013 annual meeting. At each annual meeting of shareholders, the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting. Any vacancies in the board of directors for any reason, and any directorships resulting from any increase in the number of directors, may be filled by the board of directors, acting by not less than two-thirds of the directors then in office, although less than a quorum, and any directors so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified. If the number of directors is changed, any increase or decrease in the number of directors shall be apportioned among the classes so as to maintain all classes as equal in number as possible.

Section 5.4 Quorum. The greater of: (a) a majority of the directors at any time in office; and (b) one-third of the number of directors fixed pursuant to paragraph Section 5.1 of this Article shall constitute a quorum of the board of directors. If at any meeting of the board of directors there shall be less than such a quorum, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

Section 5.5 **Action at Meeting**. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors unless a greater number is required by law or by these articles of incorporation.

Section 5.6 **Resignation and Removal of Directors**. A director may resign at any time upon written notice to the board of directors. Notwithstanding any other provisions of these articles of incorporation or the bylaws of the corporation (and notwithstanding the fact that some lesser percentage may be specified by law, these articles of incorporation or the bylaws of the corporation), any director or the entire board of directors of the corporation may be removed at any time, but only for “cause” as defined below, and only by the affirmative vote of the holders of not less than 70% of the outstanding shares of stock of the corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at an annual meeting of shareholders or at a meeting of the shareholders for which the notice of the meeting names the director or directors to be removed at said meeting. For the purposes of removal of a director, “cause” shall be deemed to exist only if the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for gross negligence or willful misconduct in the performance of such director’s duty to the Corporation and such adjudication is no longer subject to direct appeal.

Section 5.7 **No Cumulative Voting**. There shall be no cumulative voting for directors of the corporation.

Section 5.8 **No Written Ballots**. Elections of directors need not be by written ballot unless the bylaws of the corporation shall so provide.

Article 6
BYLAWS

The bylaws may be amended, altered or repealed by resolution adopted by not less than two-thirds of the number of directors as may be fixed from time to time, in the manner prescribed herein, or in a manner otherwise provided in the bylaws. The bylaws of the corporation may also be amended, altered or repealed by the shareholders of the corporation, *provided, however*, that such amendment, alteration or repeal is approved by the affirmative vote of the holders of not less than 70% of the outstanding shares of stock of the corporation then entitled to vote generally in the election of directors.

Article 7
AMENDMENTS

The corporation reserves the right to amend, alter, change or repeal any provision contained in these articles of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon shareholders herein are granted subject to this reservation.

Article 8
INDEMNIFICATION

Subject to the limits of applicable federal and state banking law and regulation, the corporation shall indemnify each person who is or was a director or officer of the corporation and each person who serves or served at the request of the corporation as a director, officer or partner of another enterprise in accordance with, and to the fullest extent authorized by, the Illinois Business Corporation Act, as the same now exists or may be hereafter amended. No amendment to or repeal of this Article shall apply to or have any effect on the rights of any individual referred to in this Article for or with respect to acts or omissions of such individual occurring prior to such amendment or repeal.

Article 9
PERSONAL LIABILITY OF DIRECTORS

To the fullest extent permitted by the Illinois Business Corporation Act, as the same now exists or may be hereafter amended, a director of the corporation shall not be liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director. No amendment to or repeal of this Article shall apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to the effective date of such amendment or repeal. If the Illinois Business Corporation Act is amended or interpreted to permit further elimination or limitation of the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Illinois Business Corporation Act as so amended or interpreted.

Article 10
ADDITIONAL VOTING REQUIREMENTS

Section 10.1 Voting Requirements**.** Except as otherwise expressly provided in **Section 10.3** of this Article, and notwithstanding any other provision of these articles of incorporation:

(a) any merger or consolidation of the corporation or of any Subsidiary with or into any other corporation;

(b) any sale, lease, exchange or other disposition by the corporation or any Subsidiary of assets constituting all or substantially all of the assets of the corporation and its Subsidiaries taken as a whole to or with any other corporation, person or other entity in a single transaction or a series of related transactions;

(c) the amendment, alteration, change or repeal of these articles of incorporation; and

(d) the voluntary dissolution of the corporation;

shall require the affirmative vote of the holders of shares having at least 70% of the voting power of all outstanding stock of the corporation entitled to vote thereon. Such affirmative vote shall be required notwithstanding the fact that no vote or a lesser vote may be required, or that some lesser percentage may be specified, by law or otherwise in these articles of incorporation or by the bylaws of the corporation.

Section 10.2 Subsidiary**.** For purposes of this Article, the term "Subsidiary" means any entity in which the corporation beneficially owns, directly or indirectly, more than 75% of the outstanding voting stock. The phrase "voting security" as used in **Section 10.1** of this Article shall mean any security which is (or upon the happening of any event, would be) entitled to vote for the election of directors, and any security convertible, with or without consideration into such security or carrying any warrant or right to subscribe to or purchase such a security.

Section 10.3 **<u>Exceptions</u>.** Notwithstanding anything contained in this Article or applicable law to the contrary, any action or transaction described in **Section 10.1** of this Article that is:

(a) approved at any time prior to its consummation by resolution adopted by not less than two-thirds of the number of directors as may be fixed from time to time, in the manner prescribed herein, by the board of directors of the corporation; or

(b) with any entity of which a majority of all of the classes of equity is owned of record or beneficially by the corporation; or

(c) a merger with another entity which may be authorized without action by the shareholders of the corporation to the extent and in the manner permitted from time to time by the law of the State of Illinois;

shall only require the affirmative vote of the holders of at least a majority of the voting power of all outstanding stock of the corporation entitled to vote thereon.

Section 10.4 **<u>Construction</u>.** The interpretation, construction and application of any provision or provisions of this Article and the determination of any facts in connection with the application of this Article, shall be made by not less than two-thirds of the number of directors as may be fixed from time to time, in the manner prescribed herein, by the board of directors of the corporation. Any such interpretation, construction, application or determination, when made in good faith, shall be conclusive and binding for all purposes of this Article.

Article 11
BUSINESS COMBINATIONS WITH INTERESTED SHAREHOLDERS

To the extent not already applicable to the corporation, the provisions of Section 7.85 of the Illinois Business Corporation act, as the same now exists or may hereafter be amended or as such Section 7.85 may hereafter be renumbered or recodified, will be deemed to apply to the corporation, and the corporation shall be subject to all of the restrictions set forth in such Section 7.85.

Article 12
SHAREHOLDERS' ACTION

Any action required or permitted to be taken by the holders of capital stock of the corporation must be effected at a duly called annual or special meeting of the holders of capital stock of the corporation and may not be effected by any consent in writing by such holders.

Article 13
NON-SHAREHOLDER INTERESTS

In connection with the exercise of its judgment in determining what is in the best interests of this Corporation and its shareholders when evaluating a proposal by another person or persons to make a tender or exchange offer for any equity security of this Corporation or any subsidiary, to merge or consolidate with this corporation or any subsidiary or to purchase or otherwise acquire all or substantially all of the assets of this Corporation or any subsidiary, the board of directors of this Corporation may consider all of the following factors and any other factors which it deems relevant: (i) the adequacy of the amount to be paid in connection with any such transaction; (ii) the social and economic effects of the transaction on the Corporation and its subsidiaries and the other elements of the communities in which the Corporation or its subsidiaries operate or are located; (iii) the business and financial condition and earnings prospects of the acquiring person or persons, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring person or persons, and the possible effect of such conditions upon the Corporation and its subsidiaries and the other elements of the communities in which the Corporation and its subsidiaries operate or are located; (iv) the competence, experience, and integrity of the acquiring person or persons and its or their management; and (v) any antitrust or other legal or regulatory issues which may be raised by any such transaction.

Exhibit 3.1

Statement of Resolution Establishing Series
of
7.750% Fixed-Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A
of
Midland States Bancorp, Inc.

Pursuant to and in accordance with Section 6.10 of the Illinois Business Corporation Act of 1983, the undersigned corporation made the following statement:

Article 1

The name of the corporation is Midland States Bancorp, Inc. (the "Corporation").

Article 2

Pursuant to the authority vested in the board of directors of the Corporation (the "Board") in accordance with the provisions of the Articles of Incorporation of the Corporation (the "Articles"), the following resolutions were adopted on August 17, 2022 creating a series of 115,000 shares of non-cumulative perpetual preferred stock designated as "Series A Preferred Stock":

Resolved, that pursuant to the authority vested in the Board in accordance with the provisions of the Articles, a series of preferred stock of the Corporation is hereby created, such series to be known as Series A Preferred Stock, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series, and the qualifications, limitations and restrictions thereof are as follows:

1. Definitions. The following terms used herein shall be defined as set forth below:

"**Appropriate Federal Banking Agency**" means the "appropriate Federal banking agency" with respect to the Corporation as defined in Section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. Section 1813(q)), or any successor provision.

"**Board**" means the board of directors of the Corporation.

"**Business Day**" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in the State of Illinois.

"**Bylaws**" means the Bylaws of the Corporation, as they may be amended or restated from time to time.

"**Calculation Agent**" means such bank or other entity (which may be the Corporation or an affiliate of the Corporation) as may be appointed by the Corporation to act as Calculation Agent for the Series A Preferred Stock, including any successor calculation agent duly appointed by the Corporation.

"**Articles of Incorporation**" means Articles of Incorporation of the Corporation, as amended by the Statement of Resolution, and as it may be amended or restated from time to time.

"**Common Stock**" means the common stock, $0.01 par value per share, of the Corporation.

"**Corporation**" means Midland States Bancorp, Inc.

"**First Reset Date**" means September 30, 2027.

"**Five-Year Treasury Rate**" means, for any Reset Period commencing on or after the First Reset Date, the average of the yields on actively traded U.S. treasury securities adjusted to constant maturity, for five-year maturities, for the five Business Days immediately preceding the Reset Dividend Determination Date for such Reset Period, appearing under the caption "Treasury Constant Maturities" in the most recently published statistical release designated H.15 Daily Update or any successor publication which is published by the Federal Reserve as of 5:00 p.m. (Eastern Time) as of such Reset Dividend Determination Date, as determined by the Calculation Agent in its sole discretion; *provided* that if no such calculation can be determined as described above, then: (i) if the Calculation Agent determines that the treasury rate has not been discontinued, then the Calculation Agent will use for such Reset Period a substitute base rate that it has determined is most comparable to the treasury rate; or (ii) if the Calculation Agent determines that the treasury rate has been discontinued, then the Calculation Agent will use for such Reset Period and each successive Reset Period a substitute or successor base rate that it has determined is most comparable to the treasury rate; *provided*, in the case of this clause (ii), that, if the Calculation Agent determines there is an industry-accepted successor base rate to the treasury rate, then the Calculation Agent shall use such successor base rate. If the Calculation Agent has determined a substitute or successor base rate in accordance with clause (ii), above, but no calculation with respect to such substitute or successor base rate can be determined as of any subsequent Reset Dividend Determination Date, then a new substitute or successor base rate shall be determined as set forth in clause (i) or clause (ii), above, as applicable, as if the previously-determined substitute or successor base rate was the treasury rate. If the Calculation Agent has determined a substitute or successor base rate, then the Calculation Agent will apply any technical, administrative or operational changes that the Corporation determines (including changes to the definitions of "Series A Dividend Period", "Reset Period", "Reset Date" and "Reset Dividend Determination Date", timing and frequency of determining rates with respect to each Reset Period and making payments of dividends, rounding of amounts or tenors, and other administrative matters) for calculating such substitute or successor base rate in a manner that is consistent with market practice for such substitute or successor base rate, including any adjustment factor needed to make such substitute or successor base rate comparable to the treasury rate; *provided* that, if the Corporation decides that adoption of any portion of such market practice is not administratively feasible or if the Corporation determines that no market practice for use of the substitute or successor base rate exists, the Calculation Agent will apply any such changes for calculating such substitute or successor base rate in such other manner as the Corporation determines is reasonably necessary. The Five-Year Treasury Rate shall be determined by the Calculation Agent on the Reset Dividend Determination Date. If the Five-Year Treasury Rate for any Series A Dividend Period cannot be determined pursuant to the methods described in clauses (i) and (ii) above, the dividend rate for such Series A Dividend Period shall be the same as the dividend rate determined for the immediately preceding Series A Dividend Period.

"**Preferred Stock**" means any and all series of preferred stock of the Corporation, including the Series A Preferred Stock.

"**Reset Date**" means the First Reset Date and each date falling on the fifth anniversary of the preceding Reset Date, which in each case, shall not be adjusted for Business Days.

"**Reset Dividend Determination Date**" means, in respect of any Reset Period, the third Business Day immediately preceding the beginning of such Reset Period.

"**Reset Period**" means the period from, and including, the First Reset Date to, but excluding, the next following Reset Date and thereafter each period from, and including, each Reset Date to, but excluding, the next following Reset Date.

"**Series A Preferred Stock**" shall have the meaning set forth in Section 2 of this Certificate of Designation.

"**Voting Preferred Stock**" means, with regard to any election or removal of a Preferred Stock Director (as defined in Section 7(b) below) or any other matter as to which the holders of Series A Preferred Stock are entitled to vote as specified in Section 7 of this Certificate of Designation, any and all other series of Preferred Stock (other than Series A Preferred Stock) that rank equally with Series A Preferred Stock as to the payment of dividends and upon which like voting rights have been conferred and are exercisable with respect to such matter.

2. Designation and Number of Shares. There is hereby created out of the authorized and unissued shares of Preferred Stock, a series of Preferred Stock designated as the "7.750% Fixed Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A" (hereinafter called "**Series A Preferred Stock**"); the authorized number of shares that shall constitute such series shall be 115,000 shares, par value $2.00 per share; and such shares shall have a liquidation preference of $1,000 per share. The number of shares constituting the Series A Preferred Stock may be increased from time to time by resolution of the Board or a duly authorized committee of the Board in accordance with the Articles of Incorporation (as then in effect), the Bylaws (as then in effect), and applicable law up to the maximum number of shares of Preferred Stock authorized to be issued under the Articles of Incorporation (as then in effect) less all shares at the time authorized of any other series of Preferred Stock or decreased from time to time by a resolution of the Board or a duly authorized committee of the Board in accordance with the Articles of Incorporation (as then in effect), the Bylaws (as then in effect), and applicable law but not below the number of shares of Series A Preferred Stock then outstanding. Shares of Series A Preferred Stock shall be dated the date of issue, which date shall be referred to herein as the "original issue date." Shares of outstanding Series A Preferred Stock that are redeemed, purchased, or otherwise acquired by the Corporation shall be cancelled and shall revert to authorized but unissued shares of the Preferred Stock, undesignated as to series. The Corporation shall have the authority to issue fractional shares of Series A Preferred Stock. Each share of Series A Preferred Stock shall be identical in all respects to every other share of Series A Preferred Stock.

3. Ranking. The shares of Series A Preferred Stock shall rank:

(a) senior, as to dividends and upon liquidation, dissolution, and winding-up of the Corporation, to the Common Stock and to any other class or series of capital stock of the Corporation now or hereafter authorized, issued, or outstanding that, by its terms, does not expressly provide that such class or series ranks *pari passu* with the Series A Preferred Stock or senior to the Series A Preferred Stock as to dividends and upon liquidation, dissolution, and winding-up of the Corporation, as the case may be (collectively, "**Series A Junior Securities**");

(b) on a parity, as to dividends and upon liquidation, dissolution, and winding-up of the Corporation, with any class or series of capital stock of the Corporation now or hereafter authorized, issued, or outstanding that, by its terms, expressly provides that such class or series ranks *pari passu* with the Series A Preferred Stock as to dividends and upon liquidation, dissolution, and winding-up of the Corporation, as the case may be (collectively, "**Series A Parity Securities**"); and

(c) junior, as to dividends and upon liquidation, dissolution, and winding-up of the Corporation, to any other class or series of capital stock of the Corporation now or hereafter authorized, issued, or outstanding that, by its terms, expressly provides that such class or series ranks senior to the Series A Preferred Stock as to dividends and upon liquidation, dissolution, and winding-up of the Corporation, as the case may be.

The Corporation may authorize and issue additional shares of Series A Junior Securities and Series A Parity Securities from time to time without the consent of the holders of the Series A Preferred Stock.

4. Dividends.

(a) Holders of Series A Preferred Stock shall be entitled to receive, only when, as, and if declared by the Board or a duly authorized committee of the Board, on each Series A Dividend Payment Date (as defined below), out of assets legally available for the payment of dividends thereof, non-cumulative cash dividends based on the liquidation preference of the Series A Preferred Stock of $1,000 per share. Dividends on each share of Series A Preferred Stock shall accrue at a rate equal to (i) 7.750% per annum on the liquidation preference of $1,000 per share from the original issue date to, but excluding, the First Reset Date and (ii) from, and including, the First Reset Date, during each Reset Period, a rate per annum equal to the Five-Year Treasury Rate as of the most recent Reset Date, plus 4.713% on the liquidation preference of $1,000 per share. If the Corporation issues additional shares of the Series A Preferred Stock after the original issue date, dividends on such shares may accrue from the original issue date for the initial issuance of shares of Series A Preferred Stock or any other date specified by the Board or a duly authorized committee of the Board at the time such additional shares are issued.

(b) If declared by the Board or a duly authorized committee of the Board, dividends will be payable on the Series A Preferred Stock quarterly in arrears on March 30, June 30, September 30 and December 30 of each year, beginning on December 30, 2022, each such day a "**Series A Dividend Payment Date**"; provided, however, that if any such Series A Dividend Payment Date is not a Business Day, then such date shall nevertheless be a Series A Dividend Payment Date but dividends on the Series A Preferred Stock shall be paid on the next succeeding Business Day (without interest or any other adjustment to the amount of dividends paid in respect of such delayed payment).

(c) Dividends will be payable to holders of record of Series A Preferred Stock as they appear on the Corporation's stock register on the applicable record date, which shall be the 15th calendar day before the applicable Series A Dividend Payment Date, or such other record date, not less than 10 calendar days nor more than 30 calendar days before the applicable Series A Dividend Payment Date, as such record date (the "**Dividend Record Date**") shall be fixed by the Board or a duly authorized committee of the Board. Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

(d) A "**Series A Dividend Period**" is the period from and including a Series A Dividend Payment Date to, but excluding, the next succeeding Series A Dividend Payment Date, except that the initial Series A Dividend Period will commence on and include the original issue date of Series A Preferred Stock and continue to but exclude December 30, 2022. Dividends payable on Series A Preferred Stock will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dollar amounts resulting from the calculation will be rounded to the nearest cent, with one-half cent being rounded upward. Dividends on the Series A Preferred Stock will cease to accrue on the redemption date, if any, with respect to the Series A Preferred Stock redeemed, unless the Corporation defaults in the payment of the redemption price of the Series A Preferred Stock called for redemption.

(e) Dividends on the Series A Preferred Stock will not be cumulative and will not be mandatory. If the Board or a duly authorized committee of the Board does not declare a dividend, in full or otherwise, on the Series A Preferred Stock in respect of a Series A Dividend Period, then such unpaid dividends shall cease to accrue and shall not be payable on the applicable Series A Dividend Payment Date and shall not be cumulative, and the Corporation will have no obligation to pay (and the holders of the Series A Preferred Stock will have no right to receive) dividends accrued for such Series A Dividend Period after the Series A Dividend Payment Date for such Series A Dividend Period, whether or not the Board or a duly authorized committee of the Board declares a dividend for any future Series A Dividend Period with respect to the Series A Preferred Stock, the Common Stock, or any other class or series of the Corporation's Preferred Stock. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not declared.

(f) Payments of cash for dividends will be delivered to holders or, if any interests in the Series A Preferred Stock are held through depositary shares, through the processes set by DTC.

(g) Notwithstanding any other provision hereof, dividends on the Series A Preferred Stock shall not be declared, paid, or set aside for payment to the extent such act would cause the Corporation to fail to comply with the laws and regulations applicable to it, including applicable capital adequacy rules of the Board of Governors of the Federal Reserve System (the "Federal Reserve") or, as and if applicable, the capital adequacy rules or regulations of any Appropriate Federal Banking Agency.

(h) So long as any share of Series A Preferred Stock remains outstanding:

(i) no dividend shall be declared or paid or set aside for payment, and no distribution shall be declared or made or set aside for payment, on any Series A Junior Securities, other than (1) a dividend payable on Series A Junior Securities in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks equal or junior to that stock or is other Series A Junior Securities or (2) any dividend in connection with the implementation of a shareholders' rights plan, or the issuance of rights, stock, or other property under any such plan, or the redemption or repurchase of any rights under any such plan;

(ii) no shares of Series A Junior Securities shall be repurchased, redeemed, or otherwise acquired for consideration by the Corporation, directly or indirectly, other than (1) as a result of a reclassification of Series A Junior Securities for or into other Series A Junior Securities, (2) the exchange or conversion of one share of Series A Junior Securities for or into another share of Series A Junior Securities, (3) through the use of the proceeds of a substantially contemporaneous sale of other shares of Series A Junior Securities, (4) purchases, redemptions, or other acquisitions of shares of Series A Junior Securities in connection with any employment contract, benefit plan, or other similar arrangement with or for the benefit of employees, officers, directors, or consultants, (5) purchases of shares of Series A Junior Securities pursuant to a contractually binding requirement to buy Series A Junior Securities existing prior to the most recently completed Series A Dividend Period, including under a contractually binding stock repurchase plan, (6) the purchase of fractional interests in shares of Series A Junior Securities pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (7) the acquisition by the Corporation or any of the Corporation's subsidiaries of record ownership in Series A Junior Stock for the beneficial ownership of any other persons (other than for the beneficial ownership of the Corporation or any of the Corporation's subsidiaries), including as trustees or custodians; nor shall any monies be paid to or made available for a sinking fund for the redemption of any such Series A Junior Securities by the Corporation; and

(iii) no shares of Series A Parity Securities shall be repurchased, redeemed, or otherwise acquired for consideration by the Corporation, directly or indirectly, other than (1) pursuant to pro rata offers to purchase all, or a pro rata portion, of the Series A Preferred Stock and such Series A Parity Securities, if any, (2) as a result of a reclassification of Series A Parity Securities for or into other Series A Parity Securities, (3) the exchange or conversion of one share of Series A Parity Securities or Series A Junior Securities for or into another share of Series A Parity Securities, (4) through the use of the proceeds of a substantially contemporaneous sale of other shares of Series A Parity Securities, (5) purchases of shares of Series A Parity Securities pursuant to a contractually binding requirement to buy Series A Parity Securities existing prior to the most recently completed Series A Dividend Period, including under a contractually binding stock repurchase plan, (6) the purchase of fractional interests in shares of Series A Parity Securities pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (7) the acquisition by the Corporation or any of the Corporation's subsidiaries of record ownership in Series A Parity Securities for the beneficial ownership of any other persons (other than for the beneficial ownership of the Corporation or any of the Corporation's subsidiaries), including as trustees or custodians; nor shall any monies be paid to or made available for a sinking fund for the redemption of any such securities by the Corporation;

unless, in each case, the full dividends for the most recently completed Series A Dividend Period on all outstanding shares of Series A Preferred Stock have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside). Nothing in sub-sections (h)(ii) or (h)(iii) of this Section 4 shall restrict the ability of the Corporation or any affiliate of the Corporation to engage in any market-making transactions or purchases in connection with the distribution of securities in the ordinary course of business.

(i) When dividends are not paid (or declared and a sum sufficient for payment thereof set aside) on any Series A Dividend Payment Date (or, in the case of Series A Parity Securities having dividend payment dates different from the Series A Dividend Payment Dates, on a dividend payment date falling within a Series A Dividend Period) in full upon the Series A Preferred Stock and any shares of Series A Parity Securities, all dividends declared on the Series A Preferred Stock and all such Series A Parity Securities and payable on such Series A Dividend Payment Date (or, in the case of Series A Parity Securities having dividend payment dates different from the Series A Dividend Payment Dates, on a dividend payment date falling within the Series A Dividend Period related to such Series A Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Series A Preferred Stock and all Series A Parity Securities payable on such Series A Dividend Payment Date (or, in the case of Series A Parity Securities having dividend payment dates different from the Series A Dividend Payment Dates, on a dividend payment date falling within the Series A Dividend Period related to such Series A Dividend Payment Date) bear to each other.

(j) Subject to the foregoing, and not otherwise, dividends (payable in cash, securities, or otherwise), as may be determined by the Board or a duly authorized committee of the Board, may be declared and paid on the Common Stock and any other class or series of capital stock ranking equally with or junior to Series A Preferred Stock from time to time out of any assets legally available for such payment, and the holders of Series A Preferred Stock shall not be entitled to participate in any such dividend.

Section 5. Liquidation.

(a) Upon any voluntary or involuntary liquidation, dissolution, or winding-up of the Corporation, holders of Series A Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, after satisfaction of liabilities and obligations to creditors, if any, and subject to the rights of holders of any securities then outstanding ranking senior to or on parity with Series A Preferred Stock with respect to distributions of assets upon the liquidation, dissolution or winding-up of the Corporation, before any distribution or payment out of the assets of the Corporation is made to holders of Common Stock or any Series A Junior Securities, a liquidating distribution in the amount of the liquidation preference of $1,000 per share plus the per share amount of any declared and unpaid dividends on the Series A Preferred Stock prior to the payment of the liquidating distribution, without accumulation of any dividends that have not been declared prior to the payment of the liquidating distribution. After payment of the full amount of such liquidating distribution, the holders of the Series A Preferred Stock shall not be entitled to any further participation in any distribution of assets of the Corporation.

(b) In any such liquidating distribution, if the assets of the Corporation are not sufficient to pay the liquidation preferences (as defined below) in full to all holders of Series A Preferred Stock and all holders of any Series A Parity Securities, the amounts paid to the holders of Series A Preferred Stock and to the holders of all Series A Parity Securities will be paid pro rata in accordance with the respective aggregate liquidation preferences owed to those holders. In any such distribution, the "liquidation preference" of any holder of Series A Preferred Stock or any Series A Parity Securities means the amount otherwise payable to such holder in such distribution (assuming no limitation on the Corporation's assets available for such distribution), including any declared but unpaid dividends (and, in the case of any holder of stock other than the Series A Preferred Stock on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable).

(c) If the liquidation preference has been paid in full to all holders of Series A Preferred Stock and any Series A Parity Securities, the holders of the Corporation's Series A Junior Securities shall be entitled to receive all remaining assets of the Corporation according to their respective rights and preferences.

(d) For purposes of this Section 5, neither the sale, conveyance, exchange, or transfer of all or substantially all of the assets or business of the Corporation for cash, securities, or other property, nor the merger or consolidation of the Corporation with any other entity, including a merger or consolidation in which the holders of Series A Preferred Stock receive cash, securities, or property for their shares, shall constitute a liquidation, dissolution, or winding-up of the Corporation.

Section 6. Redemption.

(a) The Series A Preferred Stock is perpetual and has no maturity date. The Series A Preferred Stock is not subject to any mandatory redemption, sinking fund, or other similar provision. Except for the redemption upon the occurrence of a Regulatory Capital Treatment Event (as defined below), as described below, the Series A Preferred Stock is not redeemable prior to the First Reset Date. On and after the First Reset Date, shares of the Series A Preferred Stock then outstanding will be redeemable at the option of the Corporation, in whole or in part, from time to time, on any Series A Dividend Payment Date, at a redemption price equal to $1,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends, to, but excluding, the date of redemption. Holders of the Series A Preferred Stock will have no right to require the redemption or repurchase of Series A Preferred Stock. Notwithstanding the foregoing, within 90 days following the occurrence of a Regulatory

Capital Treatment Event, the Corporation, at its option, may redeem, at any time, all (but not less than all) of the shares of the Series A Preferred Stock at the time outstanding, at a redemption price equal to $1,000 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends, upon notice given as provided in sub-section (b) below. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the record date for a Series A Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Series A Dividend Payment Date as provided in Section 4(c) above. In all cases, the Corporation may not redeem shares of the Series A Preferred Stock without having received the prior approval of the Federal Reserve or any Appropriate Federal Banking Agency if then required under capital rules or guidelines applicable to the Corporation.

A "**Regulatory Capital Treatment Event**" means the good faith determination by the Corporation that, as a result of (i) any amendment to, clarification of, or change in, the laws, rules, or regulations of the United States (including, for the avoidance of doubt, any agency or instrumentality of the United States, including the Federal Reserve and other appropriate federal bank regulatory agencies) or any political subdivision of or in the United States (including, for the avoidance of doubt, any agency or instrumentality of the United States, including the Federal Reserve and other federal bank regulatory agencies) that is enacted or becomes effective after the initial issuance of any share of the Series A Preferred Stock; (ii) any proposed change in those laws, rules, or regulations that is announced or becomes effective after the initial issuance of any share of the Series A Preferred Stock; or (iii) any official administrative decision or judicial decision or administrative action or other official pronouncement interpreting or applying those laws, rules, or regulations or policies with respect thereto that is announced or becomes effective after the initial issuance of any share of the Series A Preferred Stock, there is more than an insubstantial risk that the Corporation will not be entitled to treat the full liquidation value of $1,000 per share of the Series A Preferred Stock then outstanding as "Tier 1 Capital" (or its equivalent) for purposes of the capital adequacy guidelines, rules or regulations of the Federal Reserve (or, as and if applicable, the capital adequacy rules, guidelines or regulations of any successor Appropriate Federal Banking Agency), as then in effect and applicable, for so long as any share of the Series A Preferred Stock is outstanding.

(b) If shares of Series A Preferred Stock are to be redeemed, the notice of redemption shall be given to the holders of record of Series A Preferred Stock to be redeemed by first class mail, postage prepaid, addressed to the holders of record of such shares to be redeemed at their respective last addresses appearing on the Corporation's stock register not less than 30 days nor more than 60 days prior to the date fixed for redemption thereof (provided that, if the shares of Series A Preferred Stock or the depositary shares representing Series A Preferred Stock, if any, are held in book-entry form through The Depository Trust Corporation ("**DTC**"), the Corporation may give such notice in any manner permitted by DTC). Each notice of redemption will include a statement setting forth (i) the redemption date; (ii) the number of shares of Series A Preferred Stock to be redeemed and, if less than all the shares are to be redeemed, the number of such shares to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the redemption date. If notice of redemption of any shares of Series A Preferred Stock has been duly given and if the funds necessary for such redemption have been set aside by the Corporation for the benefit of the holders of any shares of Series A Preferred Stock so called for redemption, then, on and after the redemption date, dividends will cease to accrue on such shares of Series A Preferred Stock; such shares of Series A Preferred Stock shall no longer be deemed outstanding; and all rights of the holders of such shares will terminate, except the right to receive the redemption price described in sub-section (a) above, without interest.

(c) In case of any redemption of only part of the shares of Series A Preferred Stock at the time outstanding, the shares to be redeemed shall be selected (1) pro rata from the holders of record of the Series A Preferred Stock in proportion to the number of shares of the Series A Preferred Stock held by such holders, (2) by lot, or (3) in such other manner as the Corporation may determine to be equitable and permitted by DTC and the rules of any national securities exchange on which the Series A Preferred Stock, or the depositary shares representing Series A Preferred Stock, if any, is listed.

Subject to the provisions hereof, the Board (or a duly authorized committee of the Board) shall have full power and authority to prescribe the terms and conditions on which shares of the Series A Preferred Stock shall be redeemed from time to time. If the Corporation shall have issued certificates for the Series A Preferred Stock and fewer than all shares represented by any certificates are redeemed, new certificates shall be issued representing the unredeemed shares without charge to the holders thereof.

Section 7. Voting Rights.

(a) Except as provided below or as expressly required by law, the holders of shares of Series A Preferred Stock shall have no voting power, and no right to vote on any matter at any time, either as a separate series or class or together with any other series or class of shares of capital stock of the Corporation, and shall not be entitled to call a meeting of the holders of any series or class of shares of capital stock of the Corporation for any purpose, nor shall they be entitled to participate in any meeting of the holders of the Common Stock. Each holder of Series A Preferred Stock shall have one vote per share on any matter on which holders of Series A Preferred Stock are entitled to vote.

(b) If and whenever dividends on any shares of the Series A Preferred Stock or any shares of Voting Preferred Stock shall not have been declared and paid for at least six Series A Dividend Periods, whether or not consecutive (a "**Nonpayment Event**"), the number of directors then constituting the Board shall automatically be increased by two and the holders of the Series A Preferred Stock, together with the holders of all outstanding shares of Voting Preferred Stock, voting together as a single class, shall be entitled to elect two additional directors (the "**Preferred Stock Directors**") to the Board of the Corporation, provided that the Board shall at no time include more than two Preferred Stock Directors (including, for purposes of this limitation, all directors that the holders of any series of Voting Preferred Stock are entitled to elect pursuant to like voting rights) and provided, further, that the election of any Preferred Stock Directors shall not cause the Corporation to violate the corporate governance requirements of the Nasdaq Stock Market (or any other exchange on which the Corporation's securities may be listed), including the requirements that listed companies must have a majority of independent directors.

In the event that the holders of the Series A Preferred Stock, and, if applicable, such other holders of Voting Preferred Stock, shall be entitled to vote for the election of the Preferred Stock Directors following a Nonpayment Event, such directors shall be initially elected following such Nonpayment Event only at a special meeting called at the request of any holder of record of Series A Preferred Stock or of any other series of Voting Preferred Stock then outstanding which have the right to exercise voting rights similar to those of the Series A Preferred Stock described above (unless such request for a special meeting is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders of the Corporation, in which event such election shall be held only at such next annual or special meeting of shareholders), and at each subsequent annual meeting of shareholders of the Corporation at which the term of a preferred director would conclude. If, as of the date of election of any Preferred Stock Director, the Corporation's board of directors shall then be divided into two or more classes, then such Preferred Stock Director shall be elected as a member of such class as may be selected by the

Corporation's secretary. Such request to call a special meeting for the initial election of the Preferred Stock Directors after a Nonpayment Event shall be made by written notice, signed by the requisite holders of Series A Preferred Stock or any series of Voting Preferred Stock, and delivered to the Secretary of the Corporation in such manner as provided for in Section 12 below, or as may otherwise be required by law.

When dividends have been paid (or declared and a sum sufficient for the payment of such dividends has been set aside for payment) on the Series A Preferred Stock and any Voting Preferred Stock for at least four consecutive quarterly Series A Dividend Periods after a Nonpayment Event, then the right of the holders of Series A Preferred Stock and Voting Preferred Stock to elect the Preferred Stock Directors shall cease (but subject always to re-vesting of such voting rights in the case of any future Nonpayment Event), and, if and when any rights of holders of Series A Preferred Stock and Voting Preferred Stock to elect the Preferred Stock Directors shall have ceased, the terms of office of all the Preferred Stock Directors shall immediately terminate and the number of directors constituting the Board shall automatically be reduced by two.

Any Preferred Stock Director may be removed at any time without cause by the holders of record of a majority of all of the outstanding shares of the Series A Preferred Stock and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). So long as a Nonpayment Event shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election of Preferred Stock Directors after a Nonpayment Event) may be filled by the written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of all of the outstanding shares of the Series A Preferred Stock and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class), in each case to serve until the next annual meeting of shareholders or, if the Corporation's board of directors shall then be divided into two or more classes, for the term of a class of directors selected by the Corporation's secretary; provided that the filling of any such vacancy shall not cause the Corporation to violate the corporate governance requirements of the Nasdaq Stock Market (or any other exchange on which the Corporation's securities may be listed), including the requirements that listed companies must have a majority of independent directors. Any such vote of shareholders to remove, or to fill a vacancy in the office of, a Preferred Stock Director may be taken only at a special meeting of such shareholders, called as provided above for an initial election of Preferred Stock Director after a Nonpayment Event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders, in which event such election shall be held at such next annual or special meeting of shareholders). The Preferred Stock Directors shall each be entitled to one vote per director on any matter that shall come before the Board for a vote. Each Preferred Stock Director elected at any special meeting of shareholders or by written consent of the other Preferred Stock Director shall hold office until the next annual meeting of the shareholders if such office shall not have previously terminated as above provided.

(c) So long as any shares of Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or by the Articles of Incorporation, the vote or consent of the holders of at least two-thirds of all of the shares of Series A Preferred Stock and Voting Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, shall be necessary for effecting or validating:

(i) Any amendment or alteration of the Articles of Incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series of capital stock of the Corporation ranking senior to the Series A Preferred Stock with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) Any amendment, alteration or repeal of any provision of the Articles of Incorporation so as to materially and adversely affect the special rights, preferences, privileges or voting powers of the Series A Preferred Stock, taken as a whole; *provided*, *however*, that any amendment to authorize, create, or issue, or increase the authorized amount of, any Series A Junior Securities or any Series A Parity Securities, or any securities convertible into or exchangeable for Series A Junior Securities or Series A Parity Securities will not be deemed to materially and adversely affect the powers, preferences, privileges, or rights of Series A Preferred Stock; or

(iii) Any consummation of a binding share exchange or reclassification involving the Series A Preferred Stock, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (1) the shares of Series A Preferred Stock remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (2) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series A Preferred Stock immediately prior to such consummation, taken as a whole;

provided, however, that for all purposes of this Section 7(c), any increase in the amount of the authorized or issued Series A Preferred Stock or authorized Preferred Stock, or the creation and issuance, or an increase in the authorized or issued amount, of any Series A Parity Securities or Series A Junior Securities (whether dividends payable on such securities, if any, are cumulative or non-cumulative) will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of, and shall not require the affirmative vote or consent of, the holders of any outstanding shares of Series A Preferred Stock.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation specified in this Section 7(c) would adversely affect the Series A Preferred Stock and one or more but not all other series of Preferred Stock, then only the Series A Preferred Stock and such series of Preferred Stock as are adversely affected by and entitled to vote on the matter shall vote on the matter together as a single class (in lieu of all other series of Preferred Stock).

(d) Without the consent of the holders of the Series A Preferred Stock, so long as such action does not adversely affect the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series A Preferred Stock, the Corporation may amend, alter, supplement or repeal any terms of the Series A Preferred Stock:

(i) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent; or

(ii) to make any provision with respect to matters or questions arising with respect to the Series A Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation.

(e) No vote or consent of the holders of Series A Preferred Stock shall be required pursuant to Section 7(b), (c) or (d) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series A Preferred Stock shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been set aside for such redemption, in each case pursuant to Section 6 above.

(f) The rules and procedures for calling and conducting any meeting of the holders of Series A Preferred Stock (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules the Board (or any duly authorized committee of the Board), in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Articles of Incorporation, the Bylaws, applicable law and the rules of any national securities exchange or other trading facility on which the Series A Preferred Stock, or the depositary shares representing Series A Preferred Stock, if any, is listed or traded at the time. Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Series A Preferred Stock, Series A Parity Securities and/or Voting Preferred Stock has been cast or given on any matter on which the holders of shares of Series A Preferred Stock are entitled to vote shall be determined by the Corporation by reference to the specified liquidation amounts of the shares voted or covered by the consent.

Section 8. No Conversion Rights. The holders of shares of Series A Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of securities of the Corporation.

Section 9. No Preemptive Rights. The holders of shares of Series A Preferred Stock will have no preemptive rights with respect to any shares of the Corporation’s capital stock or any of its other securities convertible into or carrying rights or options to purchase or otherwise acquire any such capital stock or any interest therein, regardless of how any such securities may be designated, issued, or granted.

Section 10. Certificates. The Corporation may at its option issue shares of Series A Preferred Stock without certificates.

Section 11. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for the Series A Preferred Stock may deem and treat the record holder of any share of Series A Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 12. Notices. All notices or communications in respect of Series A Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designation, in the Articles of Incorporation or Bylaws or by applicable law.

Section 13. No Other Rights. The shares of Series A Preferred Stock shall not have any rights, preferences, privileges, or voting powers or relative, participating, optional, or other special rights, or qualifications, limitations, or restrictions thereof, other than as set forth in this Certificate of Designation, or the Articles of Incorporation, or as provided by applicable law.

Further Resolved, that the statements contained in the foregoing resolutions creating and designating the said issue of 7.750% Fixed Rate Reset Non-Cumulative Perpetual Preferred Stock, Series A and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the articles of incorporation, as amended, of Midland States Bancorp, Inc. pursuant to the provisions of the Illinois Business Corporation Act.

STATEMENT OF RESOLUTION ESTABLISHING SERIES
OF
SERIES G PREFERRED STOCK
OF
MIDLAND STATES BANCORP, INC.

Pursuant to and in accordance with Section 6.10 of the Illinois Business Corporation Act of 1983, the undersigned corporation made the following statement:

ARTICLE 1

The name of the corporation is Midland States Bancorp, Inc. (the "Company").

ARTICLE 2

That pursuant to the authority vested in the board of directors of the Company (the "Board") in accordance with the provisions of the Articles of Incorporation of the Company (the "Articles"), the Board on January 26, 2017, adopted the following resolution creating a series of 209 shares of preferred stock designated as "Series G Preferred Stock":

RESOLVED, that pursuant to the authority vested in the Board in accordance with the provisions of the Articles, a series of preferred stock of the Company is hereby created, such series to be known as Series G Preferred Stock, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series, and the qualifications, limitations and restrictions thereof are as follows:

1. DESIGNATION AND AMOUNT. The Board has designated 209 shares of the Company's authorized and unissued preferred stock as "Series G Preferred Stock," has authorized such shares for issuance (the "Series G Preferred Stock") and has determined that no further shares of Series G Preferred Stock shall be issued.

2. DIVIDENDS.

(a) The holders of record of the then outstanding shares of Series G Preferred Stock shall be entitled to receive when, as and if declared by the Board out of any funds legally available therefor, cumulative dividends at the annual rate of $60.00 per share payable in four equal cash payments on the 20th day (or if not a business day, as defined below, on the next business day thereafter) of April, July, October and January commencing on the first of such date after the issuance of the Series G Preferred Stock, provided, however, that any such quarterly cash payment shall be prorated with respect to any shares of Series G Preferred Stock that were outstanding less than the total number of days in the calendar quarter immediately preceding any such payment date. The amount of any such prorated cash payment shall be computed on the basis of the actual number of days in any calendar quarter during which such shares of Series G Preferred Stock were outstanding. Each such dividend shall be payable to holders of record as they appear on the stock books of the Company on such record dates, not less than 10 and not more than 60 days preceding the dividend payment date, as shall be fixed by the Board. No dividends, other than those payable solely in the Company's common stock, $0.01 par value ("Common Stock"), shall be paid during any fiscal year of the Company with respect to shares of Common Stock or any other security issued by the Company other than Fixed Rate Non-Voting Perpetual Non-Cumulative Preferred Stock, Series H (the "Series H Preferred Stock") until dividends in the total amount of $60.00 per share on Series G Preferred Stock shall have been paid. Such dividends shall accrue on each share of Series G Preferred Stock from the date of issuance and from day to day thereafter, whether or not earned or declared. Notwithstanding the foregoing, such dividends shall be cumulative so that if such dividends in respect of any previous or current annual dividend period, at the annual rate specified above, shall not have been paid or declared and a sum sufficient for the payment thereof set apart, the deficiency for any prior year and the amount owed in the current year shall first be fully paid before any dividend or other distribution shall be paid on or declared and set apart for the shares of Common Stock. A "business day" shall be deemed to be any day when trading of securities occurs on the New York Stock Exchange.

(b) Unless full dividends on Series G Preferred Stock for all past dividend periods and the then current dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart: (i) no dividend whatsoever whether in cash, securities or other property (other than a dividend payable solely in shares of Common Stock) shall be paid or declared and set aside for payment, and no distribution shall be made, on any shares of Common Stock or other class of preferred stock authorized after the date hereof except for the Series H Preferred Stock; and (ii) no shares of Common Stock or other class of preferred stock authorized after the date hereof except the Series H Preferred Stock shall be purchased, redeemed or otherwise acquired by the Company and no funds shall be paid into or set aside or made available for a sinking fund for the purchase, redemption or other acquisition thereof without the approval of the holders of at least a majority of the then outstanding shares of Series G Preferred Stock.

(c) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under Section 2(b), purchase or otherwise acquire such shares at such time and such manner.

3. REDEMPTION.

(a) Each issued and outstanding share of Series G Preferred Stock may be redeemed at the option of the holder or his or her estate for cash as set forth below at any time at a price of $1,000 per share, plus any accrued but unpaid dividends thereon whether or not declared, through the Redemption Date, as defined below (collectively, the "Redemption Price").

(b) Before any holder of shares of Series G Preferred Stock shall be entitled to redeem any such shares for cash, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or of any transfer agent of Series G Preferred Stock or Common Stock, with a written notice that he elects to redeem the same and shall state therein the number of shares of Series G Preferred Stock being redeemed for cash and the name or names to whom such payment shall be made. The date the Company receives such surrendered certificates and written notice shall be deemed to be the Redemption Date. Thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof, and each surrendered certificate shall be cancelled and retired.

(c) If on the Redemption Date the Redemption Price is paid, then the dividends with respect to the shares of Series G Preferred Stock redeemed shall cease to accrue after the Redemption Date.

(d) Notwithstanding anything contained in this Section 3 to the contrary, the Company shall not be obligated to redeem for cash any shares of Series G Preferred Stock if such redemption would cause the Company to be in violation of any statute, rule, order, regulation or agreement to which the Company is a party relating to minimum capital requirements. The

Company shall use its best efforts promptly to remedy any such violation if the same has the effect of preventing the redemption of any shares of Series G Preferred Stock, and shall promptly complete the redemption of shares after such violation has been cured.

4. VOTING RIGHTS.

(a) The holders of each share of Series G Preferred Stock shall not be entitled to vote, except: (i) as required by law; and (ii) to approve the authorization or issuance of any shares of any class or series of stock which ranks senior or on a parity with, the Series G Preferred Stock in respect of dividends and distributions upon the dissolution, liquidation or winding up of the Company.

(b) Notwithstanding anything contained herein to the contrary, the holders of Series G Preferred Stock shall vote as a separate class when required by law and to approve the matters set forth in Section 4(a)(ii). In such circumstances, the affirmative vote of the holders of a majority (or such greater percentage as may be required by law or the Company's articles of incorporation or bylaws) of the voting rights provided in this Section for the Series G Preferred Stock, voting separately as a class, shall be necessary to approve such proposed action by the holders of Series G Preferred Stock.

5. LIQUIDATION. Upon the dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, the holders of shares of Series G Preferred Stock shall be entitled to receive out of the assets of the Company available for distribution to shareholders, the amount of $1,000 per share, plus any dividends whether or not declared or due which have accrued thereon through the date of such distribution, but which remain unpaid, before any payment or distribution shall be made on shares of Common Stock or any other securities issued by the Company, except that holders of shares of Series G Preferred Stock shall share pro rata in any such payment or distribution with the holders of Series H Preferred Stock. In the event the assets of the Company available for distribution to the holders of shares of Series G Preferred Stock upon any dissolution, liquidation or winding up of the Company shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to this Section 5, then all of the assets of the Company to be distributed shall be distributed ratably to the holders of Series G Preferred Stock and Series H Preferred Stock. After the payment to the holders of the shares of Series G Preferred Stock of the full amounts provided for in this Section 5, the holders of shares of Series G Preferred Stock as such shall have no right or claim to any of the remaining assets of the Company.

FURTHER RESOLVED, that the statements contained in the foregoing resolutions creating and designating the said issue of Series G Preferred Stock and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the articles of incorporation, as amended, of the Company pursuant to the provisions of the Illinois Business Corporation Act.

Change Of Control Agreement

This Change Of Control Agreement (this "**Agreement**") is made and entered into as of May 3, 2023 (the "**Effective Date**") by and between Midland States Bank, an Illinois banking corporation (the "**Bank**, and collectively with Midland States Bancorp, Inc. (the "**Company**"), the "**Employer**"), and Daniel Casey (the "**Executive**").

Recitals

A. The Bank is a wholly-owned subsidiary of the Company.

B. Executive and Employer have agreed that this Agreement shall set forth certain terms and conditions of Executive's employment in the event of a Change of Control (as defined herein) and certain restrictive covenants applicable to any termination of Executive's employment with Employer.

C. Executive acknowledges that Employer is not required to provide the Change of Control benefits set forth herein and such benefits are being provided as an inducement for the Executive to remain with the Employer during a change of control process, should such transaction occur during Executive's term of employment, and in consideration of the restrictive covenants set forth in Section 5 of this Agreement.

D. This Agreement shall supersede and replace any prior written agreement between Executive and Employer (or any of its Affiliates) regarding the same subject matter.

Now, therefore, in consideration of the premises and of the covenants and agreements hereinafter contained, the parties hereby agree as follows:

Agreements

1. **Employment Status and Term of Agreement.** This Agreement does not affect Executive's status as an at-will employee of Employer. Executive shall continue to perform services for the Employer customarily performed by persons employed in similar capacities. Executive shall devote full business time, energies, and talents to promote the interests of the Employer and to perform such duties as assigned by the Bank. The term of this Agreement shall commence on the Effective Date and shall continue until December 31, 2023. This Agreement shall automatically renew for additional one year terms from January 1st to December 31st of each year unless either the Employer or the Executive notifies the other party, by written notice delivered no later than 90 days prior to December 31st of each year that this Agreement shall not be extended for an additional year. Notwithstanding anything contained herein to the contrary, if a Change of Control occurs during Executive's employment with the Bank or any Bank Affiliate, this Agreement shall remain in effect for twelve (12) months period following the Change of Control and shall then terminate.

2. **Definitions**. As used throughout this Agreement, all of the terms defined in this **Section 2** shall have the meanings given below.

(a) "**Affiliate**" shall mean each company, corporation, partnership, bank, savings bank, savings and loan association, credit union or other financial institution, directly or indirectly, which is controlled by, controls, or is under common control with, the Company, where "control" means (x) the ownership of 51% or more of the voting securities or other voting interest or other equity interest of any corporation, partnership, joint venture or other business entity, or (y) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such corporation, partnership, joint venture or other business entity.

(b) "**Base Compensation**" shall mean the amount equal to the sum of (i) the greater of Executive's then-current annual base salary or Executive's annual base salary as of the date one (1) day prior to the Change of Control; and (ii) the average of the annual short-term incentive bonus paid (or payable) for the three most recently completed fiscal years of the Company.

(c) "**Change of Control**" shall mean the first to occur of the following:

(i) Any Person, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the beneficial owner (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding Voting Securities; or

(ii) During any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) Consummation of: (i) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) more than fifty percent (50%) of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (ii) a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

However, in no event shall a Change of Control be deemed to have occurred, with respect to the Executive if the Executive is part of a purchasing group that consummates the Change-in-Control transaction. The Executive shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Executive is an equity participant in the purchase company or group (except for (i) passive ownership of less than two percent (2%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change in Control by a majority of the non-employee continuing Directors).

In the event that any benefit under this Agreement constitutes deferred compensation under Section 409A of the Code, and the settlement of, or distribution of such benefits is to be triggered by a Change of Control, then such settlement or distribution shall be subject to the event constituting the Change of Control also constituting a "change in the ownership" or "change in the effective control" of the Company, as permitted under Code Section 409A.

(d) "**Code**" shall mean the Internal Revenue Code of 1986, as amended.

(e) "**Covered Period**" shall mean the period beginning six (6) months prior to a Change of Control and ending twelve (12) months after the Change of Control.

(f) "**Disability**" shall mean that Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer.

(g) "**Good Reason**" shall mean Executive's voluntary termination of employment during a Covered Period for one or more of the following reasons:

(i) a materially adverse change in the nature, scope or status of Executive's position, authorities or duties from those in effect immediately prior to the Covered Period (but a change in title based on an acquirer's organizational system that does not result in an diminishment of duties with respect to the Bank's operations and personnel shall not be deemed a material adverse change);

(ii) a material reduction in Executive's annual base salary, target incentive bonus opportunity, or material reduction in Executive's aggregate compensation and benefits from that in effect immediately following the Effective Date, or if applicable and greater, immediately prior to the Covered Period (in each case excluding a reduction principally resulting from Executive's actual incentive bonus);

(iii) relocation of Executive's primary place of employment of more than twenty-five (25) miles from Executive's primary place of employment immediately prior to the Covered Period, or a requirement that Executive engage in travel that is materially greater than was required prior to the Covered Period;

(iv) failure by an acquirer to assume this Agreement at the time of a Change of Control; or

(v) a material breach by the Employer, or its successor, of this Agreement.

Notwithstanding the foregoing, prior to Executive's Termination for Good Reason, Executive must give the Employer written notice of the existence of any condition set forth in clause (i) – (v) above within thirty (30) days of such initial existence and the Employer shall have thirty (30) days from the date of receipt of such notice in which to cure the condition giving rise to Good Reason, if curable. If, during such thirty (30) day period the Employer cures the condition giving rise to Good Reason, no payments or benefits shall be due under **Section 3** of this Agreement with respect to such occurrence. If, during such thirty (30) day period, the Employer fails or refuses to cure the condition giving rise to Good Reason, Executive shall be entitled to payments or benefits under **Section 3** of this Agreement upon such Termination; *provided* such Termination occurs within 30 days after the end of such cure period.

(h) "**Minimum Payments**" shall mean, as applicable, the following amounts:

(i) Executive's earned but unpaid annual salary for the period ending on the Termination Date;

(ii) Executive's earned but unpaid incentive bonus for the previously completed fiscal year;

(iii) Executive's accrued but unpaid vacation pay for the period ending on the Termination Date; and

(iv) Executive's unreimbursed business expenses and all other items earned and owed to Executive through the Termination Date; and

(v) benefits, incentives and awards described in **Section 3(c)**.

(i) "**Pro Rata Bonus**" means a payment equal to the incentive bonus that Executive would have earned for the year of termination, based upon actual results of the Employer and pro-rated on a per diem basis (by dividing the number of days employed during the applicable performance period by the total number of days in the applicable performance period).

(j) "**Release**" shall mean a general release and waiver substantially in the form attached hereto as **Exhibit A**.

(k) "**Severance Amount**" shall mean:

(i) for any Termination occurring not during a Covered Period while this Agreement is in force, the benefit available under the Company's severance plan or severance policy as is effect from time to time; or

(ii) for any Termination occurring during a Covered Period while this Agreement is in force, an amount equal to one hundred fifty percent (150%) of Executive's Base Compensation.

(l) "**Termination**" shall mean termination of Executive's employment either:

(i) by the Employer or its successor, as the case may be, other than (1) a Termination for Cause or (2) any termination as a result of death or Disability; or

(ii) by Executive for Good Reason.

(m) "**Termination Date**" shall mean the date of employment termination, for any reason or no reason, indicated in the written notice provided by the Employer or Executive to the other.

(n) "**Termination for Cause**" shall mean only a termination by the Employer as a result of:

(i) Executive's willful failure, that is not remedied within twenty (20) days after receipt of written notice of such failure from the Company, to perform his obligations hereunder;

(ii) Executive's willful act or acts of misconduct that are, alone or in the aggregate, demonstrably injurious, monetarily or otherwise, to the Employer or an Affiliate, and/or a violation of Company policy/regulatory requirements as determined in the discretion of the Company; or

(iii) Executive's breach of fiduciary responsibility or any obligation of Executive pursuant to **Section 5**.

(o) "**Voting Securities**" shall mean any securities that ordinarily possess the power to vote in the election of directors without the happening of any pre-condition or contingency.

3. <u>Rights and Payments Upon Termination in a Covered Period</u>.

(a) Subject to **Section 4** below, if Executive is subject to a Termination within a Covered Period, then, in addition to Minimum Payments, which shall be paid as part of the Employer's next payroll date, the Employer shall provide Executive the following benefits:

(i) Within fifteen (15) days after the expiration of any revocation period applicable to the Release described in **Section 4**, the Employer shall pay Executive a lump sum payment in an amount equal to the Severance Amount.

(ii) Executive (and his dependents, as may be applicable) shall be entitled to the medical benefits provided in **Section 3(b)** below.

(iii) Executive shall be entitled to receive a Pro Rata Bonus, when incentive bonuses are paid to other senior management of Employer for the year in which the Termination Date occurred, but in any event no later than March 15 of the year following the year in which the Termination Date occurred.

(b) <u>Medical and Dental Benefits</u>. Subject to **Section 4** below, If Executive's employment by the Employer or any Affiliate or successor of the Employer shall be subject to a Termination during a Covered Period, then to the extent that Executive or any of Executive's dependents may be covered under the terms of any medical and dental plans of the Employer (or any Affiliate) for active employees immediately prior to the termination, then, for as long as Executive is eligible for and elects coverage under the health care continuation rules of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("**COBRA**"), the Employer will provide Executive and those dependents with equivalent coverage, with Executive required to pay the same amount as Executive would pay if Executive continued in employment with the Employer or an Affiliate during such period, but in no event more than twelve (12) months following termination. The coverage may be procured directly by the Employer (or any Affiliate, if appropriate) apart from, and outside of the terms of the plans themselves; provided that Executive and Executive's dependents comply with all of the conditions of the medical or dental plans, with the cost to the Employer not to exceed the cost for continued COBRA coverage. In the event Executive or any of Executive's dependents become eligible for coverage under the terms of any other medical and/or dental plan of a subsequent employer which plan benefits are comparable to Employer (or any Affiliate) plan benefits, coverage under Employer (or any Affiliate) plans will cease for the eligible Executive and/or dependent. Executive and Executive's dependents must notify the Employer (or any Affiliate) of any subsequent employment and provide information regarding medical and/or dental coverage available. In the event the Employer (or any Affiliate) discovers that Executive and/or dependent has become employed and not provided the above notification, all payments and benefits under this subsection (b) will cease.

(c) **Other Benefits.** Executive's rights following a Termination with respect to any benefits, incentives or awards provided to Executive pursuant to the terms and conditions of any plan, program or arrangement sponsored or maintained by the Employer, whether tax-qualified or not, which are not specifically addressed herein, shall be subject to the terms and conditions of such plan, program or arrangement and this Agreement shall have no effect upon such terms and conditions except as specifically provided herein.

4. **Release.** Notwithstanding anything contained in this Agreement to the contrary, except for the Minimum Payments, no payments or benefits payable to Executive under **Section 3(a)** and **3(b)** shall be paid or provided to Executive unless he/she first executes (without subsequent revocation) and delivers to the Employer a Release. To the extent any of the payments and/or benefits due under **Section 3(a)** or **3(b)** are determined to be subject to Section 409A of the Code, the Release must be executed and become irrevocable on or before the 60th day following the Termination Date. Provided that an executed, irrevocable Release has been delivered on or before the 60th day following the Termination Date, any payments and benefits that are determined to be subject to Section 409A of the Code shall become payable, or shall otherwise commence, as of the 60th day following the Termination Date. If an executed, irrevocable Release is not delivered on or before the 60th day following the Termination Date, Executive shall forever forfeit any and all rights to any payment or benefit (to the extent such payment or benefit is determined to be subject to Section 409A of the Code) under **Section 3(a)**, or **3(b)** or any payment or benefit in lieu thereof.

5. **Restrictive Covenants.**

(a) **Confidential Information.** Executive acknowledges that, during the course of his employment with the Employer, Executive may produce and have access to confidential and/or proprietary non-public information concerning the Employer and its Affiliates, including, marketing materials, financial and other information concerning customers and prospective customers, customer lists, records, data, trade secrets, proprietary business information, pricing and profitability information and policies, strategic planning, commitments, plans, procedures, litigation, pending litigation and other information not generally available to the public (collectively, "**Confidential Information**"). Executive agrees not to directly or indirectly use, disclose, copy or make lists of Confidential Information for the benefit of anyone other than the Employer, either during or after his employment with the Employer, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by the Employer, required by law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Executive of his duties hereunder. Executive agrees that, if she receives a subpoena or other court order or is otherwise required by law to provide information to a governmental authority or other person concerning the activities of the Employer or any of its Affiliates, or his activities in connection with the business of the Employer or any of its Affiliates, Executive will immediately notify the Employer of such subpoena, court order or other requirement and deliver forthwith to the Employer a copy thereof and any attachments and non-privileged correspondence related thereto. Executive shall take reasonable precautions to protect against the inadvertent disclosure of Confidential Information. Executive agrees to abide by the Employer's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of the Employer and its Affiliates. In this regard, Executive shall not directly or indirectly render services to any person or entity where Executive's service would involve the use or disclosure of Confidential Information. Executive agrees not to use any Confidential Information to guide his in searching publications or other publicly available information, selecting a series of items of knowledge from unconnected sources and fitting them together to claim that he did not violate any agreements set forth in this Agreement.

(b) **Documents and Property.** All records, files, documents and other materials or copies thereof relating to the business of the Employer and its Affiliates, which Executive shall prepare, receive, or use, shall be and remain the sole property of the Employer and, other than in connection with performance by Executive of his duties hereunder, shall not be removed from the premises of the Employer or any of its Affiliates without the Employer's prior written consent, and shall be promptly returned to the Employer upon Executive's termination of employment together with all copies (including copies or recordings in electronic form), abstracts, notes or reproductions of any kind made from or about the records, files, documents or other materials.

(c) **Non-Solicitation and Non-Competition.** The Employer and Executive have agreed that the primary service area of the Employer's business in which Executive actively participate extends separately to an area that encompasses a twenty-five (25) mile radius from the Company's Effingham, Illinois headquarters (the "**Restricted Area**"). Therefore, as an essential ingredient of and in consideration of this Agreement and his employment by the Employer, Executive agrees that, during his employment with the Employer and for a period of twelve (12) months immediately following the termination of his employment (the "**Restricted Period**"), for whatever reason, where such termination occurs during the term of this Agreement or thereafter, he will not, except with the express prior written consent of the Employer, directly or indirectly, do any of the following (all of which are collectively referred to in this agreement as the "**Restrictive Covenant**"):

(i) Executive will not, directly or indirectly, either for himself/herself, or any Financial Institution: (1) induce or attempt to induce any employee of the Employer or any of its Affiliates to leave the employ of the Employer or any of its Affiliates; (2) in any way interfere with the relationship between the Employer or any of its Affiliates and any employee of the Employer or any of its Affiliates; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer or any of its Affiliates to cease doing business with the Employer or any of its Affiliates or in any way interfere with the relationship between the Employer or any of its Affiliates and their respective customers, suppliers, licensees or business relations.

(ii) Executive will not, directly or indirectly, either for himself/herself, or any Financial Institution, solicit the business of any person or entity known to Executive to be a customer of the Employer or any of its Affiliates, where Executive, or any person reporting to Executive, had personal contact with such person or entity, with respect to products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(iii) If Executive is to receive the payments set forth in Section 3(a)(i)-(iii), Executive will not engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation or control of, be employed by, associated with, or in any manner connected with, serve as a director, officer or consultant to, lend his name or any similar name to, lend his credit to, or render services or advice to, any person, firm, partnership, corporation or trust which owns, operates or is in the process of forming, a bank, savings and loan association, credit union or similar financial institution (a "**Financial Institution**") with an office located, or to be located at an address identified in a filing with any regulatory authority, within the Restricted Area; *provided however,* that the ownership by Executive of shares of the capital stock of any Financial Institution which shares are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System and which do not represent more than five percent (5%) of the institution's outstanding capital stock, shall not violate any terms of this Agreement.

(iv) If Executive is to receive the payments set forth in Section 3(a)(i)-(iii), Executive will not, directly or indirectly, serve as the agent, broker or representative of, or otherwise assist, any person or entity in obtaining services or products from any Financial Institution within the Restricted Area, with respect to the products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(d) Work for Hire Provisions.

(i) **Exclusive Rights of the Employer in Work Product.** The parties acknowledge and agree that all work performed by Executive for the Employer or any of its Affiliates shall be deemed "work for hire." The Employer shall at all times own and have exclusive right, title and interest in and to all Confidential Information and Inventions (as defined below), and the Employer shall retain the exclusive right to license, sell, transfer and otherwise use and dispose of the same. Any and all enhancements of the technology of the Employer or any of its Affiliates that are developed by Executive shall be the exclusive property of the Employer. Executive hereby assigns to the Employer any right, title and interest in and to all Inventions that he/she may have, by law or equity, without additional consideration of any kind whatsoever from the Employer or any of its Affiliates. Executive agrees to execute and deliver any instruments or documents and to do all other things (including the giving of testimony) requested by the Employer (both during and after the termination of his employment with the Employer) in order to vest more fully in the Employer or any of its Affiliates all ownership rights in the Inventions (including obtaining patent, copyright or trademark protection therefore in the United States and/or foreign countries).

(ii) **Definitions and Exclusions.** For purposes of this Agreement, "**Inventions**" means all systems, procedures, techniques, manuals, data bases, plans, lists, inventions, trade secrets, copyrights, patents, trademarks, discoveries, innovations, concepts, ideas and software conceived, compiled or developed by Executive in the course of his employment with the Employer or any of its Affiliates and/or comprised, in whole or part, of Confidential Information. Notwithstanding the foregoing, Inventions shall not include: (i) any inventions independently developed by Executive and not derived, in whole or part, from any Confidential Information or (ii) any invention made by Executive prior to his exposure to any Confidential Information.

(e) Remedies for Breach of Restrictive Covenants. Executive has reviewed the provisions of this Agreement with legal counsel, or has been given adequate opportunity to seek such counsel, and Executive acknowledges and expressly agrees that the covenants contained in this **Section 5** are reasonable with respect to their duration, geographical area and scope. Executive further acknowledges that the restrictions contained in this **Section 5** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer to enter into this Agreement. In the event of any violation or threatened violation of these restrictions, the Employer, in addition to and not in limitation of, any other rights, remedies or damages available to the Employer under this Agreement or otherwise at law or in equity, shall be entitled to terminate any further payments or benefits set forth in Section 3(a)(i)-(iii), preliminary and permanent injunctive relief to prevent or restrain any such violation by Executive and any and all persons directly or indirectly acting for or with her, as the case may be.

(f) In the event of the existence of any other agreement between the parties which (i) is in effect during the Restricted Period, and (ii) which contains restrictive covenants that conflict with any of the provisions of this **Section 5**, then the more restrictive of such provisions from the agreements shall control for the period during which the agreements would otherwise be in effect.

(g) Nothing contained herein shall impede Executive's ability to communicate with the staff of the Securities and Exchange Commission or other governmental agencies regarding possible federal securities law violations (i) without the Company's prior approval, and (ii) without having to forfeit or forgo any resulting whistleblower awards.

(h) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Accordingly, Executive has the right to disclose in confidence trade secrets to federal, state, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. Executive also has the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). Nothing in this Agreement shall be construed to authorize, or limit liability for, an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means.

6. **No Set-Off; No Mitigation.** Except as provided herein, the Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including any set-off, counterclaim, recoupment, defense or other right which the Employer may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

7. **Notices**. Notices and all other communications under this Agreement shall be in writing and shall be deemed given when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Employer (with a copy to the Company):

Midland States Bancorp, Inc.
Attention: Chief Executive Officer and Corporate Counsel

1201 Network Centre Drive
Effingham, Illinois 62401

If to Executive, to such home address or other address as Executive has most recently provided to the Employer.

or to such other address as either party may furnish to the other in writing, except that notices of changes of address shall be effective only upon receipt.

8. **Applicable Law**. All questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction, and any court action commenced to enforce this Agreement shall have as its sole and exclusive venue the County of Effingham, Illinois.

9. **Entire Agreement; Survival.**

(a) This Agreement constitutes the entire agreement between Executive and the Employer concerning the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral, specifically including any prior agreement. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and Executive hereby agrees that such scope may be judicially modified accordingly.

(b) The provisions of **Sections 4, 5, 6, 7** and **8** shall survive the termination of this Agreement.

10. **Withholding of Taxes**. The Employer may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling.

11. **No Assignment**. Executive's rights to receive payments or benefits under this Agreement shall not be assignable or transferable whether by pledge, creation of a security interest or otherwise, other than a transfer by will or by the laws of descent or distribution. In the event of any attempted assignment or transfer contrary to this Section, the Employer shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

12. **Successors**. This Agreement shall be binding upon and inure to the benefit of the Employer, its successors and assigns (including, without limitation, any company into or with which the Employer may merge or consolidate). The Employer agrees that it will not affect the sale or other disposition of all or substantially all of its assets (where such transaction would constitute a Change in Control) unless either (a) the person or entity acquiring the assets, or a substantial portion of the assets, shall expressly assume by an instrument in writing all duties and obligations of the Employer under this Agreement, or (b) the Employer shall provide, through the establishment of a separate reserve, for the payment in full of all amounts which are or may reasonably be expected to become payable to Executive under this Agreement.

13. **Legal Fees**. In the event that either party commences arbitration or litigation to enforce or protect his and/or its rights under this Agreement, the prevailing party in any such action shall be entitled to recover reasonable attorneys' fees and costs (including the costs of experts, evidence and counsel) relating to such action, in addition to all other entitled relief, including but not limited to damages and injunctive relief.

14. **Amendment**. This Agreement may not be amended or modified except by written agreement signed by Executive and the Employer.

15. **Internal Revenue Code Section 409A.**

(a) It is intended that this Agreement be exempt from or comply with the provisions of Section 409A of the Code so as not to subject Executive to the payment of additional taxes and interest under Section 409A of the Code. In furtherance of this intent, this Agreement shall be interpreted, operated and administered in a manner consistent with these intentions, and to the extent that any regulations or other guidance issued under Section 409A of the Code would result in Executive being subject to payment of additional income taxes or interest under Section 409A of the Code, the parties agree to amend this Agreement to maintain to the maximum extent practicable the original intent of the Agreement while avoiding the application of such taxes or interest under Section 409A of the Code.

(b) Notwithstanding any provision in this Agreement to the contrary, if Executive is determined to be a Specified Executive as of the Termination Date, then, to the extent required pursuant to Section 409A(a)(2)(B)(i) of the Code, payments due under this Agreement which are deemed to be deferred compensation shall be subject to a six (6) month delay following the Termination Date. For purposes of Section 409A of the Code, all installment payments of deferred compensation made hereunder, or pursuant to another plan or arrangement, shall be deemed to be separate payments and, accordingly, the aforementioned deferral shall only apply to separate payments which would occur during the six (6) month deferral period and all other payments shall be unaffected. All delayed payments shall be accumulated and paid in a lump-sum catch-up payment as of the first day of the seventh-month following the Termination Date (or, if earlier, the date of death of Executive) with all such delayed payments being credited with interest (compounded monthly) for this period of delay equal to the prime rate in effect on the first day of such six-month period. Any portion of the benefits hereunder that were not otherwise due to be paid during the six-month period following the Termination Date shall be paid to Executive in accordance with the payment schedule established herein.

(c) The term "**Specified Executive**" shall mean any person who is a "key employee" (as defined in Code Section 416(i) of the Code without regard to paragraph (5) thereof), as determined by the Employer based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the "identification period"). If Executive is determined to be a key employee under Section 416(i) of the Code (without regard to paragraph (5) thereof), he/she will be treated as a Specified Executive for purposes of this Agreement during the 12-month period that begins on the April 1 following the close of such identification period. For purposes of determining whether Executive is a key employee under Section 416(i) of the Code, "compensation" shall mean Executive's W-2 compensation as reported by the Employer for a particular calendar year.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

MIDLAND STATES BANK **DANIEL CASEY**

By: /s/ Jeffrey G. Ludwig /s/ Daniel Casey
Name: Jeffrey G. Ludwig
Its: President and Chief Executive Officer

Exhibit A

General Release and Waiver

This General Release and Waiver (the "**Release**") is made and entered into as of this ___ day of __________, 20__, by and between Midland States Bank, an Illinois banking corporation (the "**Employer**"), and __________ ("**Executive**").

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Termination of Employment.** Executive and the Employer agree that Executive's employment with the Employer terminated effective _______________ and that such date is within a Covered Period (as defined in the Agreement). Executive further agrees that without prior written consent of the Employer he/she will not hereafter seek reinstatement, recall or reemployment with the Employer.

2. **Severance Payment.**

(a) A description of the payments to which Executive may be entitled upon termination of employment during a Covered Period are contained in **Section 3** of that certain Change of Control Agreement entered into by and between the Employer and Executive dated ________, which is incorporated by reference herein (the "**Agreement**").

(b) The payments described in this **Section 2** are over and above that to which Executive would be otherwise entitled to upon the termination of his/her employment with the Employer, absent executing this Release, notwithstanding the terms of the Agreement. Executive affirms that he/she has agreed in the Agreement, and again herein, that he/she is only entitled to such payments if he/she executes this Release.

3. **General Release.** In consideration of the payments and benefits to be made by the Employer to Executive in **Section 2** above, Executive, with full understanding of the contents and legal effect of this Release and having the right and opportunity to consult with his/her counsel, releases and discharges the Employer, its shareholders, officers, directors, supervisors, managers, employees, agents, representatives, attorneys, parent companies, divisions, subsidiaries and affiliates, and all related entities of any kind or nature, and its and their predecessors, successors, heirs, executors, administrators, and assigns (collectively, the "**Released Parties**") from any and all claims, actions, causes of action, grievances, suits, charges, or complaints of any kind or nature whatsoever, that he/she ever had or now has, whether fixed or contingent, liquidated or unliquidated, known or unknown, suspected or unsuspected, and whether arising in tort, contract, statute, or equity, before any federal, state, local, or private court, agency, arbitrator, mediator, or other entity, regardless of the relief or remedy, arising prior to the execution of this Release. Without limiting the generality of the foregoing, it being the intention of the parties to make this Release as broad and as general as the law permits, this Release specifically includes any and all subject matters and claims arising from any alleged violation by the Released Parties under the Age Discrimination in Employment Act of 1967, as amended; Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1866, as amended by the Civil Rights Act of 1991 (42 U.S.C. § 1981); the Rehabilitation Act of 1973, as amended; the Executive Retirement Income Security Act of 1974, as amended; the Illinois Human Rights Act, and other similar state or local laws; the Americans with Disabilities Act; the Worker Adjustment and Retraining Notification Act; the Equal Pay Act; Executive Order 11246; Executive Order 11141; and any other statutory claim, employment or other contract or implied contract claim, claim for equity in the Employer, or common law claim for wrongful discharge, breach of an implied covenant of good faith and fair dealing, defamation, or invasion of privacy arising out of or involving his employment with the Employer, the termination of his employment with the Employer, or involving any continuing effects of his employment with the Employer or termination of employment with the Employer; provided, however, that nothing herein waives or releases Executive's rights to any payments or benefits the Employer is required to pay or provide pursuant to the terms of the Agreement or this Release or to indemnification which Executive may have under the Employer's governing documents, by any agreement, under any applicable law or otherwise. Executive further acknowledges that he/she is aware that statutes exist that render null and void releases and discharges of any claims, rights, demands, liabilities, action and causes of action which are unknown to the releasing or discharging part at the time of execution of the release and discharge. Executive hereby expressly waives, surrenders and agrees to forego any protection to which he/she would otherwise be entitled by virtue of the existence of any such statute in any jurisdiction including, but not limited to, the State of Illinois.

4. Covenant Not to Sue. Executive agrees not to bring, file, charge, claim, sue or cause, assist, or permit to be brought, filed, charged or claimed any action, cause of action, or proceeding regarding or in any way related to any of the claims described in **Section 3** hereof, and further agrees that his Release is, will constitute and may be pleaded as, a bar to any such claim, action, cause of action or proceeding. If any government agency or court assumes jurisdiction of any charge, complaint, or cause of action covered by this Release, Executive will not seek and will not accept any personal equitable or monetary relief in connection with such investigation, civil action, suit or legal proceeding.

5. No Disparaging, Untrue Or Misleading Statements. Executive represents that he/she has not made, and agrees that he/she will not make, to any third party any disparaging, untrue, or misleading written or oral statements about or relating to, respectively, the Employer, its products or services (or about or relating to any officer, director, agent, employee, or other person acting on the Employer's behalf), or Executive.

6. Severability. If any provision of this Release shall be found by a court to be invalid or unenforceable, in whole or in part, then such provision shall be construed and/or modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Release, as the case may require, and this Release shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be. The parties further agree to seek a lawful substitute for any provision found to be unlawful; provided, that, if the parties are unable to agree upon a lawful substitute, the parties desire and request that a court or other authority called upon to decide the enforceability of this Release modify the Release so that, once modified, the Release will be enforceable to the maximum extent permitted by the law in existence at the time of the requested enforcement.

7. Waiver. A waiver by the Employer of a breach of any provision of this Release by Executive shall not operate or be construed as a waiver or estoppel of any subsequent breach by Executive. No waiver shall be valid unless in writing and signed by an authorized officer of the Employer.

8. Non-Disclosure. Executive agrees that he/she will keep the terms and amounts set forth in this Release completely confidential and will not disclose any information concerning this Release's terms and amounts to any person other than his/her attorney, accountant, tax advisor, or immediate family, until such time as the information in this Release is disclosed by the Employer as may be required by law.

9. **Restrictive Covenants.** Executive agrees that he/she will abide by the terms set forth in **Section 5** of the Agreement.

10. **Return of Employer Materials.** Executive represents that he/she has returned all Employer property and all originals and all copies, including electronic and hard copy, of all documents, within his possession at the time of the execution of this Release, including but not limited to the laptop computer, printer, Blackberry device, telephone, and credit card, as may be applicable.

11. **Representation.** Executive hereby agrees that this Release is made knowingly and voluntarily and acknowledges that:

(a) this Release is written in a manner understood by Executive;

(b) this Release refers to and waives any and all rights or claims that he/she may have arising under the Age Discrimination in Employment Act, as amended;

(c) Executive has not waived any rights arising after the date of this Release;

(d) Executive has received valuable consideration in exchange for the Release in addition to amounts Executive is already entitled to receive; and

(e) Executive has been advised to consult with an attorney prior to executing this Release.

12. **Consideration and Revocation.** Executive is receiving this Release on __________, ____, and Executive shall be given twenty-one (21) days from receipt of this Release to consider whether to sign the Release. Executive agrees that changes or modifications to this Release do not restart or otherwise extend the above twenty-one (21) day period, unless specifically agreed to in writing by the Employer. Moreover, Executive shall have seven (7) days following execution to revoke this Release in writing to the Secretary of the Employer and the Release shall not take effect until those seven (7) days have ended.

13. **Future Cooperation.** In connection with any and all claims, disputes, negotiations, investigations, lawsuits or administrative proceedings involving the Employer which relate to periods of time during the term of the Agreement (as defined in the Agreement), Executive agrees to make himself/herself reasonably available, upon reasonable notice from the Employer and without the necessity of subpoena, to provide information or documents, provide declarations or statements to the Employer, meet with attorneys or other representatives of the Employer, prepare for and give depositions or testimony, and/or otherwise cooperate in the investigation, defense or prosecution of any or all such matters. Executive shall be reimbursed for reasonable costs and expenses incurred by him as a result of actions taken pursuant to this **Section 13**. It is expressly agreed and understood that Executive will provide only truthful testimony if required to do so, and that any payment to him is solely to reimburse his expenses and costs for cooperation with the Employer. Nothing in this **Section 13** is intended to require Executive to expend an unreasonable period of time in activities required by this Section.

14. **Amendment.** This Release may not be altered, amended, or modified except in writing signed by both Executive and the Employer.

15. **Joint Participation.** The parties hereto participated jointly in the negotiation and preparation of this Release, and each party has had the opportunity to obtain the advice of legal counsel and to review and comment upon the Release. Accordingly, it is agreed that no rule of construction shall apply against any party or in favor of any party. This Release shall be construed as if the parties jointly prepared this Release, and any uncertainty or ambiguity shall not be interpreted against one party and in favor of the other.

16. **Binding Effect; Assignment.** This Release and the various rights and obligations arising hereunder shall inure to the benefit of and be binding upon the parties and their respective successors, heirs, representatives and permitted assigns. Neither party may assign its respective interests hereunder without the express written consent of the other party.

17. **Applicable Law.** All questions concerning the construction, validity and interpretation of this Release and the performance of the obligations imposed by this Release shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction and any court action commenced to enforce this Release shall have as its sole and exclusive venue the County of Effingham, Illinois.

18. **Execution of Release.** This Release may be executed in several counterparts, each of which shall be considered an original, but which when taken together, shall constitute one Release.

PLEASE READ THIS RELEASE AND CAREFULLY CONSIDER ALL OF ITS PROVISIONS BEFORE SIGNING IT. THIS RELEASE CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS, INCLUDING THOSE UNDER THE FEDERAL AGE DISCRIMINATION IN EMPLOYMENT ACT, AND OTHER FEDERAL, STATE AND LOCAL LAWS PROHIBITING DISCRIMINATION IN EMPLOYMENT.

If Executive signs this Release less than 21 days after he/she receives it from the Employer, he/she confirms that he/she does so voluntarily and without any pressure or coercion from anyone at the Employer.

IN WITNESS WHEREOF, the parties have executed this Release as of the date first stated above.

MIDLAND STATES BANK	**[EXECUTIVE'S NAME]**
By: ____________	____________
Name: __________	[Signature]
Its: ____________	

THE AMENDED AND RESTATED
MIDLAND STATES BANCORP, INC.
EMPLOYEE STOCK PURCHASE PLAN

(Amended and Restated May 1, 2023)

1. PURPOSE OF PLAN.

The purpose of the Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan, as may be amended from time to time (the "**Plan**") is to provide eligible employees of Midland States Bancorp, Inc. (the "**Company**") and its Subsidiaries (defined below) with an opportunity to purchase shares of the Company's common stock, par value $0.01 per share ("**Common Stock**"), through after-tax payroll deductions at a discount from the then Fair Market Value of the Common Stock. It is believed that employee participation in ownership of the Company on this basis will be to the mutual benefit of both the employees and the Company. It is intended that the Plan constitute a broadly based employee stock purchase plan, but the Plan is not intended to constitute an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the "**Code**"). The Plan shall be effective May 1, 2023, the date of the approval of the Plan by the Company's shareholders at the Company's 2023 annual shareholder meeting (the "**Effective Date**").

2. EMPLOYEES ELIGIBLE TO PARTICIPATE.

Any employee of the Company or of any wholly-owned subsidiary of the Company (a "**Subsidiary**") who is employed by the Company or any Subsidiary is eligible to participate in the Plan (an "**Eligible Employee**") without a waiting period. The Compensation Committee of the Board shall be the administrator of the Plan (the "**Committee**"), and shall, in its sole discretion, for each employee, determine the completion of the service requirement for purposes of eligibility to participate in the Plan.

After-tax payroll deductions may begin with respect to the first payroll period for which it is administratively feasible under the payroll system in place from time to time, if the employee completes the enrollment procedure outlined in Section 4(b) hereof by the applicable payroll cutoff date.

3. ELIGIBLE COMPENSATION.

Compensation eligible for after-tax payroll deductions ("**Compensation**") shall be only base salary, commissions, bonuses and overtime paid for employment by the Company or any Subsidiary employing such employee (each an "**Employing Corporation**"). Compensation does not include severance pay, post-termination of employment salary continuation, pay in lieu of vacation, imputed income for income tax purposes, patent and award fees, awards and prizes, back pay awards, reimbursement of expenses and living allowances, educational allowances, expense allowances and reimbursements, disability benefits, fringe benefits, deferred compensation, compensation under a Company stock plan, amounts paid for services as an independent contractor, any cash or benefits pursuant to the Plan, or any other compensation excluded by the Committee, in its discretion, applied in a uniform manner. The preceding sentence notwithstanding, Compensation shall be determined before giving effect to any salary reduction agreement pursuant to a qualified cash or deferred arrangement (within the meaning of Section 401(k) of the Code) or to any similar salary reduction agreement pursuant to any cafeteria plan (within the meaning of Section 125 of the Code) or any qualified transportation plan or arrangement (within the meaning of Section 132(f) of the Code).

4. TERMS OF OFFERS.

(a) **Offer Dates**. The Company shall make an offer or offers (an "**Offer**" or "**Offers**") to purchase Common Stock under the Plan. The Committee shall determine the date or dates on which an Offer shall commence and the term of each Offer. Unless otherwise specified by the Committee in advance of an Offer, each Offer shall be made on a quarterly basis on the first business day of each calendar quarter (*e.g.*, January, April, July and October) and shall last until the business day prior to the day the next quarterly Offer is scheduled to be made (the "**Offering Period**"). The Committee may, at any time, determine that an Offer may be longer or shorter than one (1) quarterly period and shall determine the date or dates upon which one (1) or more subsequent Offers, if any, may be made under the Plan.

(b) **Elections to Participate**. In order to participate in an Offer, an Eligible Employee must sign and forward to the Committee an enrollment/payroll deduction authorization form, or complete such other procedures as the Committee may require or permit. Such form shall authorize after-tax payroll deductions from the Compensation of each Eligible Employee who has elected to participate in the Offer (a "**Participating Employee**") and authorize the "**Plan Service Provider**," which shall initially be Midland States Bank, to establish an employee stock purchase plan account for such Participating Employee (the "**ESPP Account**"). The Participating Employee must authorize regular after-tax payroll deductions in any full percentage of Compensation of not less than one percent (1%) or more than the then applicable maximum percentage of such employee's Compensation per pay period. Such deductions shall be applied toward the purchase of Common Stock pursuant to the Offer. The "maximum percentage" means the percent of Compensation available for payroll deductions which shall be specified by the Committee at the beginning of the term of an Offer, and which shall not exceed one-hundred percent (100%). Payroll deductions for an Offer may begin with respect to the first payroll period which is administratively feasible under the payroll system in place from time to time if the signed enrollment/payroll deduction authorization form is submitted to the Committee, or such other procedure as may be required or permitted by the Committee is completed by the applicable payroll cutoff date.

The amount of Compensation to be deducted shall be determined for each payroll period on a basis of the percentage of Compensation authorized for deduction by each Participating Employee, which amount shall be increased or decreased (as applicable) on a prospective basis to reflect changes in such Compensation during the term of the Offer.

5. PARTICIPATION.

(a) **In General**. On the effective date of an Offer, each Participating Employee shall be granted an option to purchase, during the term of the Offer, up to the maximum number of shares of Common Stock provided in Section 6(b) hereof. The number of shares of Common Stock purchased by each Participating Employee during the term of the Offer shall be determined by the employee's payroll deduction elections made in accordance with the terms of the Plan. Once an Eligible Employee has elected to participate in an Offer, such employee's election with respect to participation shall continue in effect with respect to subsequent Offers unless and until changed in accordance with Section 5(c) hereof, or the Participating Employee is no longer eligible to continue participation pursuant to Section 12 or 16 below, or the person is otherwise no longer in the class of employees eligible to participate pursuant to Section 2 hereof.

(b) **Newly Eligible Employees**. Only Eligible Employees on the commencement date of a particular Offer may participate in that Offer. The number of shares of Common Stock purchased by the Participating Employee during the term of the Offer shall be determined by the payroll deduction elections made in accordance with the terms of the Plan. In such cases, payroll deductions may begin with respect to the first Offering Period following the employee's date of eligibility for which it is administratively feasible under the payroll system in place from time to time, if the employee's signed enrollment/payroll deduction authorization form is submitted to the Committee, or such other procedure as may be required or permitted by the Committee is completed prior to the applicable payroll cutoff date for the subsequent Offering Period.

(c) **Changes in Payroll Deduction Authorization**. Participating Employees are permitted to increase or decrease their rate of payroll deduction with respect to an Offer or Offers, subject to the terms and limitations of the Plan and such rules as the Committee may adopt. Any such change shall be effective for the entire Offering Period then in effect provided that the employee's signed enrollment/payroll deduction authorization form has been submitted to the Committee, or such other procedure as may be required or permitted by the Committee has been completed prior to the applicable payroll cutoff date. The Committee shall rely on the most recent effective election submitted for the applicable payroll period. A reduction of the payroll deduction percentage to zero (0) shall be treated as a request to discontinue participation in the Offer; however, unless such action results in the termination (rather than the suspension) of such person's participation in the Plan, such employee may resume participation in any subsequent Offer. To resume participation under the Plan, such employee must reinstate payroll deductions with respect to the first payroll period after the election to resume participation for which it is administratively feasible under the payroll system in place from time to time, by submitting a new enrollment/payroll deduction authorization form or completing such other procedure as may be required or permitted by the Committee prior to the appropriate payroll cutoff date for the subsequent Offering Period.

(d) **Dividend Reinvestment**. Cash dividends, if any, paid with respect to the Common Stock held in each ESPP Account under the Plan shall be automatically reinvested in Common Stock, and shall continue to be held in the respective ESPP Account.

6. PARTICIPATION LIMITATIONS.

(a) **Five Percent Owners**. Notwithstanding anything herein to the contrary, no employee otherwise eligible to participate shall be entitled to participate in the Plan, and no employee shall be granted an option to purchase any shares of Common Stock under the Plan pursuant to any Offer if the employee, immediately after the option is granted, owns or would own shares (including all shares which may be purchased under outstanding options under the Plan) possessing five percent (5%) or more of the total combined voting power or value of all classes of shares of Common Stock of the Company, the Employing Corporation or any Subsidiary. For purposes of the foregoing limitation, the rules of Section 424(d) of the Code (relating to attribution of stock ownership) shall apply in determining share ownership, and Common Stock which the employee may purchase under outstanding options shall be treated as stock owned by such employee.

(b) **Contribution Limitation**. No Eligible Employee shall be granted any option or other right to purchase Common Stock under this Plan to the extent that the Option Price (defined below) for such option (the "**Subject Option**"), when added to the total Option Price of all other options to purchase Common Stock under the Plan for such Participating Employee granted since the beginning of the calendar year in which the Subject Option would otherwise be granted, exceeds twenty-five thousand dollars ($25,000).

(c) **Fair Market Value**. "**Fair Market Value**" means, on any date, the officially-quoted closing selling price of the shares on such date on the principal national securities exchange on which such shares are listed or admitted to trading (including the New York Stock Exchange, Nasdaq Stock Market, Inc. or such other market or exchange in which such prices are regularly quoted) or, if there have been no sales with respect to shares on such date, or if the shares are not so listed or admitted to trading, the Fair Market Value shall be the value established by the Committee in good faith and in accordance with Sections 422 and 409A of the Code. Additionally, the Committee will adjust the Fair Market Value as it deems necessary upon the occurrence of an equity event or transaction that it deems to be material.

7. OPTION PRICE.

The price at which shares of Common Stock may be purchased with respect to any Offer made under the Plan shall be the Fair Market Value on the first day of the Offering Period, subject to any discount as may be determined by the Committee. In the absence of any such determination by the Committee, the price shall be ninety percent (90%) of the Fair Market Value of a share of Common Stock, determined as of the first day of each Offering Period (the "**Option Price**").

8. EXERCISE OF OPTIONS.

(a) **Purchase of Common Stock**. At the end of each payroll period, each Participating Employee shall have deducted from his/her after-tax pay the amount authorized pursuant to Sections 4 or 5 hereof, as applicable. This amount shall be held for the credit of such Participating Employee by the Company as part of its general funds and shall not accrue any interest. On the last business day of each Offering Period (each, a "**Purchase Date**") (*e.g.*, March 31, June 30, September 30 and December 31 of each year), an Eligible Employee shall be deemed to have exercised the option to purchase, at the Option Price, that number of shares of Common Stock which may be purchased from the Company by the Plan Service Provider, to be held of record by the Plan Service Provider for the benefit of the Eligible Employees, with the amount deducted from such participant's Compensation during that Offer. Notwithstanding the foregoing, if the Fair Market Value of the Common Stock on the Purchase Date is less than the Option Price, then each Eligible Employee shall be deemed to have purchased from the Company the number of shares of Common Stock, at the Fair Market Value as of the Purchase Date, that may be purchased with the amount deducted from such participant's Compensation during that Offering Period. No fractional shares of Common Stock shall be issued, provided, however, that the Plan Service Provider may allocate fractional shares to the ESPP Account of Participating Employees to the extent it aggregates unused funds remaining in the accounts of multiple Participating Employees to purchase whole shares of Common Stock as of a Purchase Date.

(b) **Plan Service Provider**. A Plan Service Provider shall be designated by the Committee and shall serve at the pleasure of the Committee. On each Purchase Date, the Plan Service Provider shall receive from the Company or acquire on the open market, at the Option Price, as many full shares of Common Stock as may be purchased with the funds received from the Participating Employees during the Offering Period. Upon receipt of the Common Stock so purchased, the Plan Service Provider shall allocate to the credit of each Participating Employee the number of full shares of Common Stock to which such Participating Employee is entitled. Common Stock purchased under the Plan shall be held by and in the name of, or in the name of a nominee of, the Plan Service Provider for the benefit of each participant, who shall thereafter be a beneficial shareholder of the Company.

(c) **Rights as a Shareholder**. A Participating Employee's rights as a shareholder of the Company shall begin when the Plan Service Provider receives the shares of Common Stock from the Company on behalf of such Participating Employee with respect to the participant's purchase of such shares pursuant to the Plan. As such, a Participating Employee shall have the right to vote full shares of Common Stock held in such participant's ESPP Account and the right to receive annual reports, proxy statements and other documents sent to shareholders of the Company generally; provided, however, that so long as such shares are held for such participant by the Plan Service Provider, if the participant fails to respond in a timely manner to requests for instructions with respect to voting, the Plan Service Provider shall have the authority to vote the shares with respect to which no specific voting instructions are given in accordance with the recommendations of the Board.

9. NUMBER OF SHARES TO BE OFFERED.

The maximum number of shares of Common Stock that may be purchased under the Plan is six hundred thousand (600,000) shares (which includes the 500,000 shares previously subject to the Plan and an additional 100,000 shares approved as of the Effective Date), subject to adjustment pursuant to Section 15 hereof. The Common Stock that may be delivered under this Plan may be treasury shares, authorized and unissued shares, or shares acquired on the open market, as the Committee may determine in its sole discretion.

10. ADMINISTRATION AND INTERPRETATION OF THE PLAN.

(a) **Administration**. The authority to control and manage the operation and administration of the Plan shall be vested in the Committee in accordance with this Section 10. The Committee shall be selected by the Board, provided that the Committee shall consist of two (2) or more members of the Board, each of whom are (each as may be applicable to the Company) (i) a "non-employee director" (within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), and (ii) an "independent director" (within the meaning of the applicable principal stock exchange of the Company). Subject to applicable stock exchange rules, if the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

(b) **Powers of Committee**. The Committee's administration of the Plan shall be subject to the following:

(i) The Committee shall have the authority and discretion to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(ii) The Committee shall have the authority to define terms not otherwise defined herein.

(iii) Any interpretation of the Plan by the Committee and any decision made by it under the Plan shall be final and binding on all persons.

(iv) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the articles and bylaws of the Company and applicable state corporate law.

(c) **Delegation by Committee**. Except to the extent prohibited by applicable law, the applicable rules of a stock exchange or the Plan, or as necessary to comply with the exemptive provisions of Rule 16b-3 of the Exchange Act, if applicable, the Committee may allocate all or any portion of its responsibilities and powers to any one (1) or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. The acts of such delegates shall be treated hereunder as acts of the Committee and such delegates shall report regularly to the Committee regarding the delegated duties and responsibilities and any awards so granted. Any such allocation or delegation may be revoked by the Committee at any time.

(d) **Information to be Furnished to Committee**. As may be permitted by applicable law, the Company and any Subsidiary shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and any Subsidiary as to an employee's employment, termination of employment, leave of absence, reemployment and compensation shall be conclusive on all persons unless determined by the Committee to be manifestly incorrect. Subject to applicable law, Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

(e) **Expenses and Liabilities**. All expenses and liabilities incurred by the Committee in the administration and interpretation of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration and interpretation of the Plan. The Company, and its officers and directors, shall be entitled to rely upon the advice, opinions or valuations of any such persons.

11. RIGHTS NOT TRANSFERABLE.

Options granted under the Plan shall not be transferable by a participant other than by will or the laws of descent and distribution, and shall be exercisable during a participant's lifetime only by the participant.

12. SUSPENSION OR TERMINATION OF PARTICIPATION.

(a) A Participating Employee may elect at any time, in the manner prescribed by the Committee, to suspend his or her participation in the Plan, provided that such election is received by the Committee prior to the date specified for suspension of participation during the Offering Period for which such suspension is to be effective. Upon any such suspension of participation, the Participating Employee's payroll deductions shall cease, and such employee who elects to suspend his or her participation in the Plan shall be permitted to resume participation in the Plan by making a new request at the time and in the manner described and subject to the limitations set forth in Section 5 hereof.

(b) A Participating Employee's participation in the Plan shall terminate upon the Participating Employee's: (i) ceasing to be employed by the Company or any Subsidiary, whether by reason of death or otherwise, (ii) ceasing to meet the eligibility requirements set forth in Section 2 hereof, or (iii) becoming an independent contractor.

(c) For purposes of the Plan, if a participating Subsidiary ceases to be a Subsidiary, each person employed by that Subsidiary will be deemed to have terminated employment for purposes of the Plan and will no longer be an Eligible Employee, unless the person continues as an Eligible Employee of another Employing Corporation. A former Participating Employee who is re-employed shall not resume participation in the Plan unless he or she is otherwise eligible and again enrolls for participation pursuant to Section 4(b) hereof.

13. REDEMPTION AND DISTRIBUTION OF PARTICIPANT'S ESPP ACCOUNT

(a) Upon request for redemption by a Participating Employee for whom shares of Common Stock have been credited to his or her ESPP Account under the Plan, such Participating Employee shall be entitled to sell to the Company any number of whole shares so beneficially held on his or her behalf under the Plan. Such redemption shall occur as soon as practicable but in no event more than thirty (30) days following such participant's election and the consideration to be received by the Participating Employee shall be the value of the shares of Common Stock to be redeemed using the Fair Market Value determination on the date of redemption. The number of elections by a Participating Employee to redeem shares of Common Stock credited to his or her ESPP Account shall be limited to two (2) times per calendar year.

(b) Should any Participating Employee cease to be employed by the Company or any Subsidiary, pursuant to Sections 12(b) or 12(c) hereof (a "**Terminated Participant**"), and the number of shares of Common Stock credited to such Terminated Participant's ESPP Account at the time of such termination is less than ten thousand (10,000), then the Company may, at its option, satisfy its requirements hereunder by delivering to such Terminated Participant cash in the amount equal to the then Fair Market Value of such shares in lieu of the shares of Common Stock being held under the Plan for the benefit of such Terminating Participant.

(c) Notwithstanding the foregoing, should any Participating Employee become a Terminated Participant, and the number of shares of Common Stock credited to such Terminated Participant's ESPP Account at the time of such termination is ten thousand (10,000) or more shares of Common Stock, such Terminating Participant shall be entitled to receive a distribution of the number of whole shares so beneficially held on his or her behalf under the Plan; provided, however, that the Company, at its sole discretion, is granted the right to purchase all or any part of such Common Stock upon the termination of such Terminated Participant's employment. Such right, if exercised by the Company, shall be at the then-prevailing Fair Market Value price of the Common Stock.

14. LEAVES OF ABSENCE AND PERIODS OF INACTIVE EMPLOYMENT.

A participant may elect to continue to make payroll deductions under the Plan for the first ninety (90) days of any period of inactive employment or leave of absence if the participant continues to receive Compensation from the Company as defined in Section 3 hereof. If a participant does not receive Compensation from the Company during a period of inactive employment or leave of absence, the participant's payroll deductions shall immediately cease; however, such deductions shall resume automatically if the participant returns to active employment from inactive status or a leave of absence within ninety (90) days. In either case, the amount previously contributed by the participant (together with any additional amounts contributed pursuant to the first sentence of this Section 14) shall be used to purchase shares under the Plan in the applicable Offer(s) pursuant to Section 8 hereof. A participant on inactive employment or leave of absence status for more than ninety (90) days who returns to active employment must again, if otherwise eligible, enroll pursuant to Section 4(b) hereof to again participate in the Plan.

15. REORGANIZATION.

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, offering of rights, or any other change in the structure of Common Stock, the Committee shall make such adjustments, if any, as it may deem appropriate in the number, kind, and price of shares available for purchase under the Plan, and in the minimum and maximum number of shares which a participant is entitled to purchase.

16. TERMINATION OF PLAN.

The Plan and all rights of Participating Employees hereunder shall terminate upon the earlier occurrence of (i) the date as of which Participating Employees have exercised options to purchase a number of shares equal to or greater than the number of shares then subject to the Plan, (ii) the date as of which the Board terminates the Plan, or (iii) the tenth anniversary of the Effective Date of the Plan. Upon termination, all payroll deductions shall cease and all amounts then credited to participants' accounts and not previously used for the purchase of shares shall, in the Committee's or Board's discretion, be refunded in cash (without interest) or be equitably applied to the purchase of full shares of Common Stock then available under the Plan. In either case, the participants shall be issued checks for any amounts contributed that were insufficient to purchase whole shares.

17. AMENDMENTS.

The Board may review and modify the operation and administration of the Plan from time to time and may amend the terms of the Plan at any time without obtaining the approval of the shareholders of the Company unless shareholder approval is required by applicable law, regulation or rule. The Board may not amend the Plan in any manner which would materially and adversely affect an option previously granted to a participant without the consent of such participant. Adjustments contemplated by Section 15 hereof shall not constitute Plan amendments for such purposes.

18. REQUIRED GOVERNMENTAL APPROVALS.

The Plan, all options granted under the Plan and all other rights inherent in the Plan are subject to receipt by the Company of all necessary approvals or consents of governmental agencies which the Company, in its sole discretion, shall deem necessary or advisable. Notwithstanding any other provision of the Plan, all options granted under the Plan and all other rights inherent in the Plan are subject to such termination and/or modification as may be required or advisable in order to obtain any such approval or consent, or which, as a result of consequences attaching to any such approval or consent, may be required or advisable in the judgment of the Committee in order to avoid adverse impact on the Company's overall wage and salary policy.

19. TAX WITHHOLDING.

To the extent any grant of an option to purchase shares hereunder or the purchase of shares hereunder gives rise to any tax withholding obligation, the Company may implement appropriate procedures to ensure that such tax withholding obligations are met.

20. NO EMPLOYMENT RIGHTS.

The Plan does not, directly or indirectly, create in any employee or class of employees any right with respect to continuation of employment by any Employing Corporation, and it shall not be deemed to interfere in any way with the Company's or any Employing Corporation's right to terminate, or otherwise modify, an employee's employment at any time with or without cause.

21. GENDER.

Pronouns shall be deemed to include both the masculine and feminine gender, and words used in the singular shall be deemed to include both the singular and the plural, unless the context indicates otherwise.

22. EXPENSES.

Expenses of administering the Plan, including any expenses incurred in connection with the purchase by the Company of shares for sale to participating employees, shall be paid by the Employing Corporations. Each participant shall be responsible for all expenses associated with certificating and selling shares purchased by the participant under the Plan, expenses related to requests for cash settlements of fractional shares acquired under the Plan, and for the tax consequences of participation in the Plan.

23. GOVERNING LAW.

All rights and obligations under the Plan shall be construed and interpreted in accordance with the laws of the State of Illinois, without giving effect to principles of conflict of laws.

IN WITNESS WHEREOF, the Board of Directors of the Company has adopted the standards and guidelines set forth in this Plan, subject to approval of the Plan by the shareholders of the Company, as of February 7, 2023.

The Amended and Restated

Midland States Bancorp, Inc.

2019 Long-Term Incentive Plan

(Amended and Restated May 1, 2023)

Article 1
INTRODUCTION

Section 1.1 **Purpose, Effective Date and Term.** The purpose of the **Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan** is to promote the long-term financial success of Midland States Bancorp, Inc. and its Subsidiaries by providing a means to attract, retain and reward individuals who can and do contribute to such success, and to further align their interests with those of the Shareholders. The "**Effective Date**" of the Plan is May 1, 2023, the date of the approval of the Plan by the Shareholders. The Plan shall remain in effect as long as any Awards are outstanding; *provided, however,* that no Awards may be granted after the 10-year anniversary of the Effective Date.

Section 1.2 **Participation.** Each employee and director of, and service provider (with respect to which issuances of securities may be registered under Form S-8) to, the Company and each Subsidiary who is granted, and currently holds, an Award in accordance with the provisions of the Plan shall be a "**Participant**" in the Plan. Award recipients shall be limited to employees and directors of, and service providers (with respect to which issuances of securities may be registered under Form S-8) to, the Company and its Subsidiaries; *provided, however,* that an Award (other than an ISO) may be granted to an individual prior to the date on which he or she first performs services as an employee, director or service provider, *provided* that such Award does not become vested prior to the date such individual commences such services.

Section 1.3 **Definitions.** Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of **Article 8**).

Article 2
AWARDS

Section 1.1 **General.** Any Award may be granted singularly, in combination with another Award (or Awards), or in tandem whereby the exercise or vesting of one Award held by a Participant cancels another Award held by the Participant. Each Award shall be subject to the provisions of the Plan and such additional provisions as the Committee may provide with respect to such Award and as may be evidenced in a particular Award Agreement or other documentation. Subject to the provisions of **Section 3.4(b)**, an Award may be granted as an alternative to or replacement of an existing award under the Plan, any other plan of the Company or a Subsidiary, a Prior Plan, or as the form of payment for grants or rights earned or due under any other compensation plan or arrangement of the Company or a Subsidiary, including the plan of any entity acquired by the Company or a Subsidiary. The types of Awards that may be granted include the following:

(a) *Stock Options*. A stock option represents the right to purchase Shares at an exercise price established by the Committee. Any stock option may be either an ISO or a nonqualified stock option that is not intended to be an ISO. No ISOs may be (i) granted after the 10-year anniversary of the Effective Date or (ii) granted to a non-employee. To the extent the aggregate Fair Market Value (determined at the time of grant) of Shares with respect to which ISOs are exercisable for the first time by any Participant during any calendar year under all plans of the Company and its Subsidiaries exceeds $100,000, the stock options or portions thereof that exceed such limit shall be treated as nonqualified stock options. Unless otherwise specifically provided by the Award Agreement, any stock option granted under the Plan shall be a nonqualified stock option. All or a portion of any ISO granted under the Plan that does not qualify as an ISO for any reason shall be deemed to be a nonqualified stock option. In addition, any ISO granted under the Plan may be unilaterally modified by the Committee to disqualify such stock option from ISO treatment such that it shall become a nonqualified stock option.

(b) *Stock Appreciation Rights.* A stock appreciation right (a "**SAR**") is a right to receive, in cash, Shares or a combination of both (as shall be reflected in the respective Award Agreement), an amount equal to or based upon the excess of (i) the Fair Market Value at the time of exercise of the SAR over (ii) an exercise price established by the Committee. Each SAR granted under the Plan shall only convey the right to receive Shares unless the Committee expressly provides otherwise in the Award Agreement.

(c) *Stock Awards.* A stock award is a grant of Shares or a right to receive Shares (or their cash equivalent or a combination of both, as shall be reflected in the respective Award Agreement) in the future, excluding Awards designated as stock options, SARs or cash incentive awards by the Committee. Such Awards may include bonus shares, stock units, performance shares, performance units, restricted stock, restricted stock units or any other equity-based Award as determined by the Committee. Each stock award granted under the Plan (including but not limited to restricted stock units) shall only convey Shares or the right to receive Shares unless the Committee expressly provides otherwise in the Award Agreement.

(d) *Cash Incentive Awards*. A cash incentive award is the grant of a right to receive a payment of cash (or Shares having a value equivalent to the cash otherwise payable, excluding Awards designated as stock options, SARs or stock awards by the Committee, all as shall be reflected in the respective Award Agreement) determined on an individual basis or as an allocation of an incentive pool that is contingent on the achievement of performance objectives established by the Committee. For the avoidance of doubt, any annual retainer fee, per meeting fee, or other such similar fee paid in cash to a Director Participant for service on the Board or the board of directors of an affiliate of the Company (or any committee of the Board or the board of directors of an affiliate) shall not be considered a cash incentive award under the Plan, unless such fee is specifically designated as an Award under the Plan by the Committee.

Section 1.2 **Exercise of Stock Options and SARs.** A stock option or SAR shall be exercisable in accordance with such provisions as may be established by the Committee; *provided*, *however*, that a stock option or SAR shall expire no later than 10 years after its grant date (five years in the case of an ISO granted to a 10% Shareholder). The exercise price of each stock option and SAR shall be not less than 100% of the Fair Market Value on the grant date; *provided, however,* that the exercise price of an ISO shall not be less than 110% of Fair Market Value on the grant date in the case of a 10% Shareholder; and *provided, further*, that, to the extent permitted under Code Section 409A, and subject to **Section 3.4(b)**, the exercise price may be higher or lower in the case of stock options and SARs granted in replacement of existing awards held by an employee, director or service provider granted by an acquired entity or under a Prior Plan. The payment of the exercise price of a stock option shall be by cash or, subject to limitations imposed by applicable law, by any of the following means unless otherwise determined by the Committee from time to time: (a) by tendering, either actually or by attestation, Shares acceptable to the Committee and valued at Fair Market Value as of the day of exercise; (b) by irrevocably authorizing a third party, acceptable to the Committee, to sell Shares acquired upon exercise of the stock option and to remit to the Company no later than the third business day following exercise of a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise; (c) by payment through a net exercise such that, without the payment of any funds, the Participant may exercise the option and receive the net number of Shares equal in value to (i) the number of Shares as to which the option is being exercised, multiplied by (ii) a fraction, the numerator of which is the Fair Market Value (on the date of exercise) less the exercise price, and the denominator of which is such Fair Market Value (the number of net Shares to be received shall be rounded down to the nearest whole number of Shares); (d) by personal, certified or cashier's check; (e) by other property deemed acceptable by the Committee or (f) by any combination thereof.

Section 1.3 **Minimum Vesting Period**. If the right to become vested in an Award granted to an employee Participant is conditioned on the completion of a specified period of service with the Company or its Subsidiaries, without achievement of performance measures or other performance objectives (whether or not related to the performance measures) being required as a condition of vesting, and without it being granted in lieu of, or in exchange for, other compensation, or other Awards, then the required period of service for full vesting shall not be less than one year (subject to acceleration of vesting, to the extent permitted by the Committee, as provided herein); *provided, however*, that the required period of service for full vesting shall not apply to Awards granted to Director Participants provided that the aggregate of such director grants do not exceed 5% of the total Share reserve set forth in **Section 3.2(a)**.

Section 1.4 **Dividends and Dividend Equivalents.** Any Award may provide the Participant with the right to receive dividend payments or dividend equivalent payments with respect to Shares subject to the Award, which payments may be either made currently or credited to an account for the Participant, may be settled in cash or Shares, and may be subject to restrictions similar to the underlying Award.

Section 1.5 **Forfeiture of Awards.** Unless specifically provided to the contrary in an Award Agreement, upon notification of Termination of Service for Cause, any outstanding Award, whether vested or unvested, held by a Participant shall terminate immediately, such Award shall be forfeited and the Participant shall have no further rights thereunder.

Section 1.6 **Deferred Compensation.** The Plan is, and all Awards are, intended to be exempt from (or, in the alternative, to comply with) Code Section 409A, and each shall be construed, interpreted and administered accordingly. The Company does not guarantee that any benefits that may be provided under the Plan will satisfy all applicable provisions of Code Section 409A. If any Award would be considered "deferred compensation" under Code Section 409A ("**Deferred Compensation**"), the Committee reserves the absolute right (including the right to delegate such right) to unilaterally amend the Plan or the applicable Award Agreement, without the consent of the Participant, to avoid the application of, or to maintain compliance with, Code Section 409A.

Article 3
SHARES SUBJECT TO PLAN

Section 1.1 **Available Shares.** The Shares with respect to which Awards may be granted shall be Shares currently authorized but unissued, currently held or, to the extent permitted by applicable law, subsequently acquired by the Company, including Shares purchased in the open market or in private transactions.

Section 1.2 **Share Limitations.**

(a) *Share Reserve*. Subject to the following provisions of this **Section 3.2**, the maximum number of Shares that may be delivered under the Plan shall be 1,550,000 Shares (which includes the 1,000,000 Shares previously subject to the Plan and an additional 550,000 Shares approved as of the Effective Date) (all of which may be granted as ISOs). As of the Effective Date, no further awards shall be granted pursuant to the Prior Plans. The maximum number of Shares available for delivery under the Plan and the number of Shares subject to outstanding Awards shall be subject to adjustment as provided in **Section 3.4**.

(b) *Reuse of Shares.* Any Shares subject to an Award that is canceled, forfeited or expires prior to exercise or realization, either in full or in part, shall again become available for issuance under the Plan. Notwithstanding anything to the contrary contained herein: shares subject to an Award under the Plan shall not again be made available for issuance or delivery under the Plan if such shares are (a) shares tendered in payment of a stock option, (b) shares delivered or withheld by the Company to satisfy any tax withholding obligation, (c) shares added back that have been repurchased by the Company using stock option exercise proceeds, or (d) shares covered by a stock-settled SAR or other Awards that were not issued upon the settlement of the Award.

Section 1.3 **Limitations on Grants to Individuals.** The following limitations shall apply with respect to Awards:

(a) *Awards to Director Participants*. With respect to any Award to a Director Participant:

(i) *Share-Based Awards.* The maximum number of Shares that may be subject to Share-based Awards, including nonqualified stock options, SARs, or stock awards, granted to any one Director Participant during any calendar year shall not exceed a value of $100,000. For purposes of this **Section 3.3(a)**, the value of any Share-based Awards shall be determined based on the grant date fair value of such Awards computed in accordance with FASB ASC Topic 718 (or any successor provision in accordance with GAAP). For purposes of this **Section 3.3(a)**, if a stock option is granted in tandem with a SAR, such that the exercise of the option or SAR with respect to a Share cancels the tandem SAR or option right, respectively, with respect to such Share, the tandem option and SAR rights with respect to each Share shall be counted as covering one Share for purposes of applying the limitations of this **Section 3.3(a)**.

(ii) *Cash Incentive Awards and Share-Based Awards Settled in Cash.* The maximum dollar amount that may be payable to any one Director Participant pursuant to cash incentive awards and cash-settled Share-based Awards that are granted to any one Director Participant during any calendar year shall be $100,000.

(iii) *Exclusions.* The foregoing limitations of this **Section 3.3(a)** shall not apply to (A) cash-based director fees that the Director Participant elects to receive in the form of Shares or Share-based units equal in value to the cash-based director fees, (B) the amount of any distributions paid to the Director Participant pursuant to the Deferred Compensation Plan for Directors of Midland States Bancorp, Inc. (Effective November 8, 2018) or such other non-qualified deferred compensation plan sponsored by the Company, or (C) any annual retainer fee, per meeting fee, or other such similar fee paid in cash to a Director Participant for service on the Board or the board of directors of an affiliate of the Company (or any committee of the Board or the board of directors of an affiliate) unless such fee is specifically designated as an Award under the Plan by the Committee.

Section 1.4 **<u>Corporate Transactions; No Repricing</u>.**

(a) *Adjustments*. To the extent permitted under Code Section 409A, to the extent applicable, in the event of a corporate transaction involving the Company or the Shares (including any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), all outstanding Awards, the number of Shares available for delivery under the Plan under **Section 3.2** and each of the specified limitations set forth in **Section 3.3** shall be adjusted automatically to proportionately and uniformly reflect such transaction; *provided, however,* that, subject to **Section 3.4(b)**, the Committee may otherwise adjust Awards (or prevent such automatic adjustment) as it deems necessary, in its sole discretion, to preserve the benefits or potential benefits of the Awards and the Plan. Action by the Committee under this **Section 3.4(a)** may include: (i) adjustment of the number and kind of shares that may be delivered under the Plan; (ii) adjustment of the number and kind of shares subject to outstanding Awards; (iii) adjustment of the exercise price of outstanding stock options and SARs; and (iv) any other adjustments that the Committee determines to be equitable (which may include (A) replacement of an Award with another award that the Committee determines has comparable value and that is based on the stock of a company resulting from a corporate transaction, and (B) cancellation of an Award in return for cash payment of the current value of the Award, determined as though the Award were fully vested at the time of payment, *provided* that in the case of a stock option or SAR, the amount of such payment shall be the excess of the value of the stock subject to the option or SAR at the time of the transaction over the exercise price, and *provided*, *further*, that no such payment shall be required in consideration for the cancellation of the Award if the exercise price is greater than the value of the stock at the time of such corporate transaction).

(b) *No Repricing*. Notwithstanding any provision of the Plan to the contrary, no adjustment or reduction of the exercise price of any outstanding stock option or SAR in the event of a decline in Stock price shall be permitted without approval by the Shareholders or as otherwise expressly provided under **Section 3.4(a)**. The foregoing prohibition includes (i) reducing the exercise price of outstanding stock options or SARs, (ii) cancelling outstanding stock options or SARs in connection with the granting of stock options or SARs with a lower exercise price to the same individual, (iii) cancelling stock options or SARs with an exercise price in excess of the current Fair Market Value in exchange for a cash or other payment, and (iv) taking any other action that would be treated as a repricing of a stock option or SAR under the rules of the primary securities exchange or similar entity on which the Shares are listed.

Section 1.5 **Delivery of Shares.** Delivery of Shares or other amounts under the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any provision of the Plan to the contrary, the Company shall have no obligation to deliver any Shares or make any other distribution of benefits under the Plan unless such delivery or distribution complies with all applicable laws and the applicable requirements of any securities exchange or similar entity.

(b) *No Certificates Required.* To the extent that the Plan provides for the delivery of Shares, the delivery may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any securities exchange or similar entity.

Article 4
CHANGE IN CONTROL

Section 1.1 **Consequence of a Change in Control**. Subject to the provisions of **Section 3.4** (relating to the adjustment of shares), and except as otherwise provided in the Plan or in any Award Agreement, at the time of a Change in Control:

(a) Subject to any forfeiture and expiration provisions otherwise applicable to the respective Awards, all stock options and SARs under the Plan then held by the Participant shall become fully exercisable immediately if, and all stock awards and cash incentive awards under the Plan then held by the Participant shall become fully earned and vested immediately if, (i) the Plan and the respective Award Agreements are not the obligations of the entity, whether the Company, a successor thereto or an assignee thereof, that conducts following a Change in Control substantially all of the business conducted by the Company and its Subsidiaries immediately prior to such Change in Control or (ii) the Plan and the respective Award Agreements are the obligations of the entity, whether the Company, a successor thereto or an assignee thereof, that conducts following a Change in Control substantially all of the business conducted by the Company and its Subsidiaries immediately prior to such Change in Control and the Participant incurs a Termination of Service without Cause or by the Participant for Good Reason following such Change in Control.

(b) Notwithstanding the foregoing provisions of this **Section 4.1**, if the vesting of an outstanding Award is conditioned upon the achievement of performance measures, then such vesting shall be subject to the following:

(i) If, at the time of the Change in Control, the established performance measures are less than 50% attained (as determined in the sole discretion of the Committee, but in any event, based pro rata in accordance with time lapsed through the date of the Change in Control in the event of any period-based performance measures), then such Award shall become vested and exercisable on a fractional basis with the numerator being equal to the percentage of attainment and the denominator being 50% upon the Change in Control.

(ii) If, at the time of the Change in Control, the established performance measures are at least 50% attained (as determined in the sole discretion of the Committee, but in any event based pro rata in accordance with time lapsed through the date of the Change in Control in the event of any period-based performance measures), then such Award shall become fully earned and vested immediately upon the Change in Control.

Section 1.2 **Definition of Change in Control.**

(a) For purposes of the Plan, "**Change in Control**" means the first to occur of the following:

(i) The consummation of the acquisition by any "person" (as such term is defined in Sections 13(d) or 14(d) of the Exchange Act) of "beneficial ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the combined voting power of the then outstanding Voting Securities of the Company;

(ii) During any 12-month period, the individuals who, as of the Effective Date, are members of the Board cease for any reason to constitute a majority of the Board, unless either the election of, or the nomination for election by, the Shareholders of any new director was approved by a vote of a two-thirds (2/3) majority of the Board, in which case such new director shall for purposes of the Plan be considered as a member of the Board; or

(iii) The consummation by the Company of (i) a merger, consolidation or other similar transaction if the Shareholders immediately before such merger, consolidation or other similar transaction do not, as a result of such merger, consolidation or other similar transaction, own, directly or indirectly, more than 50% of the combined voting power of the then outstanding Voting Securities of the entity resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the Voting Securities of the Company outstanding immediately before such merger or consolidation or (ii) a complete liquidation or dissolution of, or an agreement for the sale or other disposition of, all or substantially all of the assets of the Company.

(b) Notwithstanding any provision in the foregoing definition of Change in Control to the contrary, a Change in Control shall not be deemed to occur solely because 50% or more of the combined voting power of the then outstanding securities of the Company are acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the entity or (ii) any corporation that, immediately prior to such acquisition, is owned directly or indirectly by the Shareholders in the same proportion as their ownership of Shares immediately prior to such acquisition.

(c) Further notwithstanding any provision in the foregoing definition of Change in Control to the contrary, in the event that any Award constitutes Deferred Compensation, and the settlement of, or distribution of benefits under such Award is to be triggered by a Change in Control, then such settlement or distribution shall be subject to the event constituting the Change in Control also constituting a "change in control event" under Code Section 409A.

Article 5
COMMITTEE

Section 1.1 Administration. The authority to control and manage the operation and administration of the Plan shall be vested in the Committee in accordance with this **Article 5**. The Committee shall be selected by the Board, *provided* that the Committee shall consist of two or more members of the Board, each of whom is a "non-employee director" (within the meaning of Rule 16b-3 promulgated under the Exchange Act) and an "independent director" (within the meaning of the rules of the securities exchange which then constitutes the principal listing for the Stock), in each case to the extent required by the Exchange Act or the applicable rules of the securities exchange which then constitutes the principal listing for the Stock, respectively. Subject to the applicable rules of any securities exchange or similar entity, if the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

Section 1.2 Powers of Committee. The Committee's administration of the Plan shall be subject to the other provisions of the Plan and the following:

(a) The Committee shall have the authority and discretion to select from among the Company's and each Subsidiary's employees, directors and service providers those persons who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of Shares covered by the Awards, to establish the terms of Awards, to cancel or suspend Awards and to reduce or eliminate any restrictions or vesting requirements applicable to an Award at any time after the grant of the Award.

(b) The Committee shall have the authority and discretion to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(c) The Committee shall have the authority to define terms not otherwise defined in the Plan.

(d) Any interpretation of the Plan by the Committee and any decision made by it under the Plan shall be final and binding on all persons.

(e) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the articles and bylaws of the Company and to all applicable law.

Section 1.3 **Delegation by Committee.** Except to the extent prohibited by applicable law, the applicable rules of any securities exchange or similar entity, the Plan, the charter of the Committee, or as necessary to comply with the exemptive provisions of Rule 16b-3 of the Exchange Act, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers under the Plan to any person or persons selected by it. The acts of such delegates shall be treated under the Plan as acts of the Committee and such delegates shall report regularly to the Committee regarding the delegated duties and responsibilities and any Awards granted. Any such allocation or delegation may be revoked by the Committee at any time.

Section 1.4 **Information to be Furnished to Committee.** As may be permitted by applicable law, the Company and each Subsidiary shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties under the Plan. The records of the Company and each Subsidiary as to an employee's or Participant's employment, termination of employment, leave of absence, reemployment and compensation shall be conclusive with respect to all persons unless determined by the Committee to be manifestly incorrect. Subject to applicable law, Participants and other persons entitled to benefits under the Plan shall furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

Section 1.5 **Expenses and Liabilities.** All expenses and liabilities incurred by the Committee in the administration and interpretation of the Plan or any Award Agreement shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration and interpretation of the Plan, and the Company, and its officers and directors, shall be entitled to rely upon the advice, opinions and valuations of any such persons.

Article 6
AMENDMENT AND TERMINATION

Section 1.1 **General.** The Board may, as permitted by law, at any time, amend or terminate the Plan, and may amend any Award Agreement; *provided*, *however*, that no amendment or termination may (except as provided in **Section 2.6**, **Section 3.4** and **Section 6.2**), in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), impair the rights of any Participant or beneficiary under any Award granted prior to the date such amendment or termination is adopted by the Board; and *provided, further*, that, no amendment may (a) materially increase the benefits accruing to Participants under the Plan; (b) materially increase the aggregate number of securities that may be delivered under the Plan, other than pursuant to **Section 3.4**, or (c) materially modify the requirements for participation in the Plan, unless the amendment under (a), (b) or (c) immediately above is approved by the Shareholders.

Section 1.2 **Amendment to Conform to Law.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, the Committee may amend the Plan or any Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or the Award Agreement to any applicable law. By accepting an Award, the Participant shall be deemed to have acknowledged and consented to any amendment to an Award made pursuant to this **Section 6.2**, **Section 2.6** or **Section 3.4** without further consideration or action.

Article 7
GENERAL TERMS

Section 1.1 No Implied Rights.

(a) *No Rights to Specific Assets.* No person shall by reason of participation in the Plan acquire any right in or title to any assets, funds or property of the Company or any Subsidiary, including any specific funds, assets, or other property that the Company or a Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the Shares or amounts, if any, distributable in accordance with the provisions of the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan or an Award Agreement shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to provide any benefits to any person.

(b) *No Contractual Right to Employment or Future Awards.* The Plan does not constitute a contract of employment, and selection as a Participant shall not give any person the right to be retained in the service of the Company or a Subsidiary or any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the Plan. No individual shall have the right to be selected to receive an Award, or, having been so selected, to receive a future Award.

(c) *No Rights as a Shareholder*. Except as otherwise provided in the Plan, no Award shall confer upon the holder thereof any rights as a Shareholder prior to the date on which the individual fulfills all conditions for receipt of such rights.

Section 1.2 Transferability. Except as otherwise provided by the Committee, Awards are not transferable except as designated by the Participant by will or by the laws of descent and distribution or pursuant to a domestic relations order. The Committee shall have the discretion to permit the transfer of Awards; *provided, however,* that such transfers shall be limited to immediate family members of Participants, trusts, partnerships, limited liability companies and other entities that are permitted to exercise rights under Awards in accordance with Form S-8 established for the primary benefit of such family members or to charitable organizations; and *provided, further,* that such transfers shall not be made for value to the Participant.

Section 1.3 Designation of Beneficiaries. A Participant hereunder may file with the Company a designation of a beneficiary or beneficiaries under the Plan and may from time to time revoke or amend any such designation. Any designation of beneficiary under the Plan shall be controlling over any other disposition, testamentary or otherwise; *provided, however,* that if the Committee is in doubt as to the entitlement of any such beneficiary to any Award, the Committee may determine to recognize only the legal representative of the Participant in which case the Company, the Committee and the members thereof shall not have any further liability to anyone.

Section 1.4 Non-Exclusivity. Neither the adoption of the Plan by the Board nor the submission of the Plan to the Shareholders for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as either may deem desirable.

Section 1.5 Award Agreement. Each Award shall be evidenced by an Award Agreement. A copy of the Award Agreement, in any medium chosen by the Committee, shall be made available to the Participant, and the Committee may require that the Participant sign a copy of the Award Agreement.

Section 1.6 Form and Time of Elections. Unless otherwise specified in the Plan, each election required or permitted to be made by any Participant or other person entitled to benefits under the Plan, and any permitted modification, or revocation thereof, shall be filed with the Company at such times, in such form, and subject to such terms or conditions, not inconsistent with the provisions of the Plan, as the Committee may require.

Section 1.7 **Evidence.** Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information that the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

Section 1.8 **Tax Withholding.** All distributions under the Plan shall be subject to withholding of all applicable taxes and the Committee may condition the delivery of any Shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. Except as otherwise provided by the Committee, such withholding obligations may be satisfied (a) through cash payment by the Participant; (b) through the surrender of Shares that the Participant already owns or (c) through the surrender of Shares to which the Participant is otherwise entitled under the Plan; *provided, however,* that except as otherwise specifically provided by the Committee, such Shares under clause (c) may not be used to satisfy more than the maximum individual statutory tax rate for each applicable tax jurisdiction, or such lesser amount as established by the Company.

Section 1.9 **Successors.** All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company.

Section 1.10 **Indemnification.** To the fullest extent permitted by law, each person who is or shall have been a member of the Committee or the Board, or an officer of the Company to whom authority was delegated in accordance with **Section 5.3**, or an employee of the Company shall be indemnified and held harmless by the Company against and from any loss (including amounts paid in settlement), cost, liability or expense (including reasonable attorneys' fees) that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her (*provided* that he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf), unless such loss, cost, liability or expense is a result of his or her own willful misconduct or except as expressly provided by statute. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's charter or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Section 1.11 **No Fractional Shares.** Unless otherwise permitted by the Committee, no fractional Shares shall be delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, Shares or other property shall be delivered or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

Section 1.12 **Governing Law.** The Plan, all Awards, and all actions taken in connection herewith and therewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 1.13 **Benefits Under Other Plans.** Except as otherwise provided by the Committee, Awards granted to a Participant (including the grant and the receipt of benefits) shall be disregarded for purposes of determining the Participant's benefits under, or contributions to, any qualified retirement plan, nonqualified plan and any other benefit plan maintained by the Participant's employer.

Section 1.14 **Validity.** If any provision of the Plan is determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if such illegal or invalid provision had never been included in the Plan.

Section 1.15 **Notice.** Unless provided otherwise in an Award Agreement or policy adopted from time to time by the Committee, all communications to the Company provided for in the Plan, or any Award Agreement, shall be delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid (*provided* that international mail shall be sent via overnight or two-day delivery), or sent by facsimile or prepaid overnight courier to the Company at the address set forth below:

Midland States Bancorp, Inc.
Attn: Jeffrey G. Ludwig, President and Chief Executive Officer
1201 Network Centre Drive
Effingham, IL 62401
Fax: (217) 342-7397

Such communications shall be deemed given:

(a) In the case of delivery by overnight service with guaranteed next day delivery, the next day or the day designated for delivery;

(b) In the case of certified or registered U.S. mail, five days after deposit in the U.S. mail; or

(c) In the case of facsimile, the date upon which the transmitting party receives confirmation of receipt by facsimile, telephone or otherwise;

provided, however, that in no event shall any communication be deemed to be given later than the date it is actually received, *provided* it is actually received. In the event a communication is not received, it shall be deemed received only upon the showing of an original of the applicable receipt, registration or confirmation from the applicable delivery service provider. Communications that are to be delivered by facsimile, U.S. mail or by overnight service to the Company shall be directed to the attention of the Company's Chief Executive Officer.

Section 1.16 **Clawback Policy.** Any Award, amount or benefit received under the Plan shall be subject to potential cancellation, recoupment, rescission, payback or other similar action in accordance with any applicable Company clawback policy (the "**Policy**") or any applicable law that is in effect at the time such Award is granted. A Participant's receipt of an Award shall be deemed to constitute the Participant's acknowledgment of and consent to the Company's application, implementation and enforcement of (i) the Policy and any similar policy established by the Company that may apply to the Participant, adopted prior to the making of any Award and (ii) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, as well as the Participant's express agreement that the Company may take such actions as are necessary to effectuate the Policy, any similar policy and applicable law, without further consideration or action.

Section 1.17 **Breach of Restrictive Covenants.** Except as otherwise provided by the Committee, notwithstanding any provision of the Plan to the contrary, if the Participant breaches a non-competition, non-solicitation, non-disclosure, non-disparagement or other restrictive covenant set forth in an Award Agreement, whether before or after the Participant's Termination of Service, in addition to and not in limitation of any other rights, remedies, damages, penalties or restrictions available to the Company under the Plan, an Award Agreement, any other agreement between the Participant and the Company or a Subsidiary, or otherwise at law or in equity, the Participant shall forfeit or pay to the Company:

(a) Any and all outstanding Awards granted to the Participant, including Awards that have become vested or exercisable;

(b) Any Shares held by the Participant in connection with the Plan that were acquired by the Participant after the Participant's Termination of Service and within the 12-month period immediately preceding the Participant's Termination of Service;

(c) The profit realized by the Participant from the exercise of any stock options and SARs that the Participant exercised after the Participant's Termination of Service and within the 12-month period immediately preceding the Participant's Termination of Service, which profit is the difference between the exercise price of the stock option or SAR and the Fair Market Value of any Shares or cash acquired by the Participant upon exercise of such stock option or SAR; and

(d) The profit realized by the Participant from the sale, or other disposition for consideration, of any Shares received by the Participant in connection with the Plan after the Participant's

Termination of Service and within the 12-month period immediately preceding the Participant's Termination of Service and where such sale or disposition occurs in such similar time period.

Article 8
DEFINED TERMS; CONSTRUCTION

Section 1.1 **Definitions.** In addition to the other definitions contained in the Plan, unless otherwise specifically provided in an Award Agreement, the following definitions shall apply:

(a) "**10% Shareholder**" means an individual who, at the time of grant, owns Voting Securities possessing more than 10% of the total combined voting power of the Voting Securities.

(b) "**Award**" means an award under the Plan.

(c) "**Award Agreement**" means the document that evidences the terms and conditions of an Award. Such document shall be referred to as an agreement regardless of whether a Participant's signature is required.

(d) "**Board**" means the Board of Directors of the Company.

(e) If the Participant is subject to an employment agreement (or other similar agreement) with the Company or a Subsidiary that provides a definition of termination for "cause" (or the like), then, for purposes of the Plan, the term "**Cause**" has the meaning set forth in such agreement; and in the absence of such a definition, "**Cause**" means (i) any act of (A) fraud or intentional misrepresentation or (B) embezzlement, misappropriation or conversion of assets or opportunities of the Company or a Subsidiary, (ii) willful violation of any law, rule or regulation in connection with the performance of the Participant's duties to the Company or a Subsidiary (other than traffic violations or similar offenses), (iii) with respect to any employee of the Company or a Subsidiary, commission of any act of moral turpitude or conviction of a felony or (iv) the willful or negligent failure of the Participant to perform the Participant's duties to the Company or a Subsidiary in any material respect.

Further, the Participant shall be deemed to have terminated for Cause if, after the Participant's Termination of Service, facts and circumstances arising during the course of the Participant's employment with the Company are discovered that would have constituted a termination for Cause.

Further, all rights a Participant has or may have under the Plan shall be suspended automatically during the pendency of any investigation by the Board or its designee or during any negotiations between the Board or its designee and the Participant regarding any actual or alleged act or omission by the Participant of the type described in the applicable definition of "Cause."

(f) "**Change in Control**" has the meaning ascribed to it in **Section 4.2**.

(g) "**Code**" means the Internal Revenue Code of 1986.

(h) "**Code Section 409A**" means the provisions of Section 409A of the Code and any rules, regulations and guidance promulgated thereunder.

(i) "**Committee**" means the Committee acting under **Article 5**, and in the event a Committee is not currently appointed, the Board.

(j) "**Company**" means Midland States Bancorp, Inc., an Illinois corporation.

(k) "**Director Participant**" means a Participant who is a member of the Board or the board of directors of a Subsidiary that is not otherwise an employee of the Company or a Subsidiary.

(l) "**Disability**" means the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of not less than 12 months, or is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident or health plan covering the Company's or a Subsidiary's employees.

(m) "**Effective Date**" has the meaning ascribed to it in **Section 1.1**.

(n) "**Exchange Act**" means the Securities Exchange Act of 1934.

(o) "**Fair Market Value**" means, as of any date, the officially-quoted closing selling price of the Shares on such date on the principal national securities exchange on which Shares are listed or admitted to trading or, if there have been no sales with respect to Shares on such date, or if the Shares are not so listed or admitted to trading, the Fair Market Value shall be the value established by the Committee in good faith and, to the extent required, in accordance with Code Section 409A and Section 422 of the Code.

(p) "**Form S-8**" means a Registration Statement on Form S-8 promulgated by the U.S. Securities and Exchange Commission or any successor thereto.

(q) If the Participant is subject to an employment agreement (or other similar agreement) with the Company or a Subsidiary that provides a definition of termination for "good reason" (or the like), then, for purposes of the Plan, the term "**Good Reason**" has the meaning set forth in such agreement; and in the absence of such a definition, "**Good Reason**" means the occurrence of any one of the following events, unless the Participant agrees in writing that such event shall not constitute Good Reason:

(i) A material, adverse change in the nature, scope or status of the Participant's position, authorities or duties from those in effect immediately prior to the applicable Change in Control;

(ii) A material reduction in the Participant's aggregate compensation or benefits in effect immediately prior to the applicable Change in Control; or

(iii) Relocation of the Participant's primary place of employment of more than 50 miles from the Participant's primary place of employment immediately prior to the applicable Change in Control, or a requirement that the Participant engage in travel that is materially greater than prior to the applicable Change in Control.

Notwithstanding any provision of this definition to the contrary, prior to the Participant's Termination of Service for Good Reason, the Participant must give the Company written notice of the existence of any condition set forth in clause (i) – (iii) immediately above within 90 days of its initial existence and the Company shall have 30 days from the date of such notice in which to cure the condition giving rise to Good Reason, if curable. If, during such 30-day period, the Company cures the condition giving rise to Good Reason, the condition shall not constitute Good Reason. Further notwithstanding any provision of this definition to the contrary, in order to constitute a termination for Good Reason, such termination must occur within 12 months of the initial existence of the applicable condition.

(r) "**ISO**" means a stock option that is intended to satisfy the requirements applicable to an "incentive stock option" described in Section 422(b) of the Code.

(s) "**Participant**" has the meaning ascribed to it in **Section 1.2**.

(t) "**Plan**" means the Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan, as may be amended from time to time.

(u) “**Policy**” has the meaning ascribed to it in **Section 7.16**.

(v) “**Prior Plan**” means, collectively, the Midland States Bancorp, Inc. Second Amended and Restated 2010 Long-Term Incentive Plan, the Midland States Bancorp, Inc. Omnibus Stock Ownership and Long-Term Incentive Plan, and the Third Amendment and Restatement of Midland States Bancorp, Inc. 1999 Stock Option Plan.

(w) “**SAR**” has the meaning ascribed to it in **Section 2.1(b)**.

(x) “**Securities Act**” means the Securities Act of 1933.

(y) “**Share**” means a share of Stock.

(z) “**Shareholders**” means the shareholders of the Company.

(aa) “**Stock**” means the common stock of the Company, $0.01 par value per share.

(ab) “**Subsidiary**” means any corporation or other entity that would be a “subsidiary corporation,” as defined in Section 424(f) of the Code, with respect to the Company.

(ac) “**Termination of Service**” means the first day occurring on or after a grant date on which the Participant ceases to be an employee of, or service provider to (which, for purposes of this definition, includes directors), the Company or any Subsidiary, regardless of the reason for such cessation, subject to the following:

(i) The Participant’s cessation as an employee or service provider shall not be deemed to occur by reason of the transfer of the Participant between the Company and a Subsidiary or between two Subsidiaries.

(ii) The Participant’s cessation as an employee or service provider shall not be deemed to occur by reason of the Participant’s being on a leave of absence from the Company or a Subsidiary approved by the Company or Subsidiary otherwise receiving the Participant’s services.

(iii) If, as a result of a sale or other transaction, the Subsidiary for whom Participant is employed (or to whom the Participant is providing services) ceases to be a Subsidiary, and the Participant is not, following the transaction, an employee of or service provider to the Company or an entity that is then a Subsidiary, then the occurrence of such transaction shall be treated as the Participant’s Termination of Service caused by the Participant being discharged by the entity for whom the Participant is employed or to whom the Participant is providing services.

(iv) A service provider whose services to the Company or a Subsidiary are governed by a written agreement with the service provider will cease to be a service provider at the time the term of such written agreement ends (without renewal); and a service provider whose services to the Company or a Subsidiary are not governed by a written agreement with the service provider will cease to be a service provider on the date that is ninety (90) days after the date the service provider last provides services requested by the Company or any Subsidiary (as determined by the Committee).

(v) Unless otherwise provided by the Committee, an employee who ceases to be an employee, but becomes or remains a director, or a director who ceases to be a director, but becomes or remains an employee, shall not be deemed to have incurred a Termination of Service.

(vi) Notwithstanding the foregoing, in the event that any award under the Plan constitutes Deferred Compensation, the term Termination of Service shall be interpreted by the Committee in a manner not to be inconsistent with the definition of “Separation from Service” as defined under Code Section 409A.

(ad) **Voting Securities**" means any securities that ordinarily possess the power to vote in the election of directors without the happening of any precondition or contingency.

Section 1.2 **<u>Construction</u>.** In the Plan, unless otherwise stated, the following uses apply:

(a) Actions permitted under the Plan may be taken at any time in the actor's reasonable discretion;

(b) References to a statute shall refer to the statute and any amendments and any successor statutes, and to all regulations promulgated under or implementing the statute, as amended, or its successors, as in effect at the relevant time;

(c) In computing periods from a specified date to a later specified date, the words "from" and "commencing on" (and the like) mean "from and including," and the words "to," "until" and "ending on" (and the like) mean "to, and including";

(d) References to a governmental or quasi-governmental agency, authority or instrumentality shall also refer to a regulatory body that succeeds to the functions of the agency, authority or instrumentality;

(e) Indications of time of day shall be based upon the time applicable to the location of the principal headquarters of the Company;

(f) The words "include," "includes" and "including" mean "include, without limitation," "includes, without limitation" and "including, without limitation," respectively;

(g) All references to articles and sections are to articles and sections in the Plan unless otherwise specified;

(h) All words used shall be construed to be of such gender or number as the circumstances and context require;

(i) The captions and headings of articles and sections appearing in the Plan have been inserted solely for convenience of reference and shall not be considered a part of the Plan, nor shall any of them affect the meaning or interpretation of the Plan or any of its provisions;

(j) Any reference to an agreement, plan, policy, form, document or set of documents, and the rights and obligations of the parties under any such agreement, plan, policy, form, document or set of documents, shall mean such agreement, plan, policy, form, document or set of documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof; and

(k) All accounting terms not specifically defined in the Plan shall be construed in accordance with GAAP.

Exhibit 10.11

THE AMENDED AND RESTATED MIDLAND STATES BANCORP, INC.

<u>2019 LONG-TERM INCENTIVE PLAN</u>

<u>INCENTIVE STOCK OPTION AWARD AGREEMENT</u>

The Participant specified below is hereby granted an incentive stock option (the "**Option**") by **Midland States Bancorp, Inc.**, an Illinois corporation (the "**Company**"), under the **The Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan** (the "**Plan**"). The Option shall be subject to the terms of the Plan and the terms set forth in this Incentive Stock Option Award Agreement ("**Award Agreement**").

Section 1. **<u>Award</u>.** In accordance with the Plan, and in recognition of the Participant's role in the business of the Company, as an employee of the Company or one of the Company's affiliates (collectively, including Midland States Bank and its subsidiaries and affiliated entities, the "**Employer**"), the Company hereby grants to the Participant the Option, which represents the right of the Participant to purchase the number of Covered Shares at the Exercise Price set forth in **Section 2** below, subject to the terms of this Award Agreement and the Plan. This Option is in all respects limited and conditioned as provided herein, including the restrictive covenants set forth in **Section 4(e)** below.

Section 2. **<u>Terms of Option Award</u>.** The following words and phrases relating to the Option shall have the following meanings:

(a) The "**Participant**" is **[______________________________]**.

(b) The "**Grant Date**" is **[______________________________]**.

(c) The number of "**Covered Shares**" is **[____________________]** Shares.

(d) The "**Exercise Price**" is $**[____________________]** per Covered Share.

Except for words and phrases otherwise defined in this Award Agreement, any capitalized word or phrase in this Award Agreement shall have the meaning ascribed to it in the Plan.

Section 3. **<u>Incentive Stock Option</u>.** The Option is intended to satisfy the requirements applicable to an "incentive stock option" described in Code Section 422(b) (an "**ISO**"). If the Option, in whole or in part, fails for any reason to satisfy the requirements applicable to an ISO, then the Option, or that portion which fails to satisfy the requirements applicable to an ISO, shall be treated as a nonqualified stock option.

Section 4. **<u>Vesting</u>.**

(a) Each installment of Covered Shares set forth in the table immediately below (each, an "**Installment**") shall become vested and exercisable on the "**Vesting Date**" for such Installment set forth in the table immediately below; *provided* that the Participant's Termination of Service has not occurred prior thereto:

Installment	Vesting Date applicable to Installment
__ Covered Shares	[Date/Event/Other Condition]
__ Covered Shares	[Date/Event/Other Condition]
__ Covered Shares	[Date/Event/Other Condition]
__ Covered Shares	[Date/Event/Other Condition]

(b) Notwithstanding the foregoing provisions of this **Section 4**, all the Covered Shares shall become fully vested and immediately exercisable upon the Participant's Termination of Service due to the Participant's [Retirement,] Disability or death. [For purposes of this Award Agreement, "**Retirement**" shall mean a Termination of Service, other than for Cause, upon or after the Participant's attainment of age sixty-five (65).]

(c) Upon a Change in Control, the Option shall be treated in accordance with Section 4.1 of the Plan.

(d) The Option shall not be exercisable on or after the Participant's Termination of Service, except as to that portion of Covered Shares for which it was exercisable immediately prior to such Termination of Service or became exercisable on the date of such Termination of Service.

(e) In consideration of receiving the Option, the Participant agrees to the following restrictive covenants during Participant's employment and for a period of one year after any Termination of Service:

(i) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer: (1) induce or attempt to induce any employee of the Employer with whom Participant had significant contact to leave the employ of the Employer; (2) in any way interfere with the relationship between the Employer and any employee of the Employer with whom the Participant had significant contact; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer with whom the Participant had significant contact to cease doing business with the Employer or in any way interfere with the relationship between the Employer and its respective customers, suppliers, licensees or business relations with whom the Participant had significant contact.

(ii) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer, solicit the business of, or provide any products, activities or services which compete in whole or in part with the products, activities or services of the Employer to any person or entity known to the Participant to be a customer of the Employer, where the Participant, or any person reporting to the Participant, had significant contact with such person or entity during his/her employment with the Employer.

(iii) The Participant agrees not to directly or indirectly use, disclose, copy or make lists of any confidential information, including customer names and any personal financial information, for the benefit of anyone other than the Employer except to the extent that such information is or thereafter becomes lawfully available from public sources, such disclosure is authorized in writing by the Employer, or required by law or any competent administrative agency or judicial authority. All records, files, documents and other materials or copies thereof relating to the business of the Employer remain the sole property of the Employer and the Participant shall return and not otherwise use such materials following termination of Employment.

(iv) By accepting this Option, the Participant acknowledges that the restrictions contained in this **Section 4(e)** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer entering into this Award Agreement. In the event the Participant breaches or threatens to breach any of the foregoing covenants, the Employer shall be entitled to seek any appropriate legal or equitable relief, including injunctive relief.

(v) If a court of competent jurisdiction determines that any provision of this **Section 4(e)** is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Award Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Award Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Award Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and such scope may be judicially modified accordingly.

Section 5. <u>Expiration</u>. Notwithstanding any term of this Award Agreement to the contrary, the Participant shall forfeit the Option in its entirety as of the Company's close of business on the last business day that occurs prior to the Expiration Date. The "**Expiration Date**" shall be the earliest to occur of the following:

(a) the [six-month] anniversary of the Participant's Termination of Service other than a Termination of Service for Cause or due to the Participant's Disability or death; *provided*, *however*, that if the Participant shall die after the date of Termination of Service but before the [six-month] anniversary of the Participant's Termination of Service, the Expiration Date shall automatically be extended to the [one-year] anniversary of Participant's Termination of Service;

(b) the [one-year] anniversary of the Participant's Termination of Service due to the Participant's [Retirement,] Disability or death;

(c) the date of notice of the Participant's Termination of Service for Cause; or

(d) the 10-year anniversary of the Grant Date.

Section 6. <u>Exercise</u>.

(a) *Method of Exercise*. The vested portion of the Option may be exercised by the Participant in whole or in part by providing notice of option exercise in the manner prescribed by the Company, including through any electronic stock compensation platform utilized by the Company at the time of exercise, or by satisfying such other procedures as shall be set forth by the Committee from time to time. Such notice shall specify the number of Covered Shares that the Participant elects to purchase, and shall be accompanied by payment of the Exercise Price for such Covered Shares as further set forth in **Section 6(b)** below.

(b) *Payment of Exercise Price*. Without limitation of **Section 8** below, the payment of the Exercise Price shall be by cash or, subject to limitations imposed by applicable law, by any of the following means unless otherwise determined by the Committee from time to time: (i) by tendering, either actually or by attestation, Shares acceptable to the Committee and valued at Fair Market Value as of the day of exercise; (ii) by irrevocably authorizing a third party, acceptable to the Committee, to sell Shares acquired upon exercise of the Option and to remit to the Company no later than the third business day following exercise of a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise; (iii) by personal, certified or cashiers' check; (v) by other property deemed acceptable by the Committee; or (iv) by any combination thereof.

(c) *Restrictions*. The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate any applicable laws or the applicable rules of any securities exchange or similar entity, and shall not be exercisable during any blackout period established by the Company from time to time.

Section 7. **<u>Delivery of Shares</u>.** Delivery of Shares or other amounts under this Award Agreement and the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other term of this Award Agreement or the Plan, the Company shall have no obligation to deliver any Shares or make any other distribution of benefits under this Award Agreement or the Plan unless such delivery or distribution complies with all applicable laws and the applicable rules of any securities exchange or similar entity.

(b) *Certificates Not Required.* To the extent that this Award Agreement and the Plan provide for the issuance of Shares, such issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any securities exchange or similar entity.

(c) *Prohibition on Settlement in Cash.* For the avoidance of doubt, the Covered Shares granted pursuant to this Option shall only be delivered in Shares and the Participant shall not have a right to have any portion of the Covered Shares settled or delivered in cash (except to the extent required by Section 7.11 of the Plan with respect to fractional Shares).

Section 8. **<u>Withholding</u>.** The exercise of the Option, and the Company's obligation to issue Shares upon exercise, is subject to withholding of all applicable taxes. Except as otherwise provided by the Committee, such withholding obligations may be satisfied (a) through cash payment by the Participant, (b) through the surrender of Shares that the Participant already owns or (c) through the surrender of Shares to which the Participant is otherwise entitled under the Plan; *provided*, *however*, that except as otherwise specifically provided by the Committee, such Shares under clause (c) may not be used to satisfy more than the maximum individual statutory tax rate for each applicable tax jurisdiction, or such lesser amount as may be established by the Company.

Section 9. **<u>Non-Transferability of Option</u>.** The Option, or any portion thereof, is not transferable except as designated by the Participant by will or by the laws of descent and distribution or pursuant to a domestic relations order. Except as provided in the immediately preceding sentence, the Option shall not be assigned, transferred, pledged, hypothecated or otherwise disposed of by the Participant in any way whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge, hypothecation or other disposition of the Option contrary to the provisions hereof, or the levy of any attachment or similar process upon the Option, shall be null and void and without effect.

Section 10. **<u>Heirs and Successors</u>.** This Award Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring all or substantially all of the Company's assets or business. If any rights of the Participant or benefits distributable to the Participant under this Award Agreement have not been settled or distributed at the time of the Participant's death, such rights shall be settled for and such benefits shall be distributed to the Designated Beneficiary in accordance with the provisions of this Award Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form as the Committee may require. The Participant's designation of beneficiary may be amended or revoked from time to time by the Participant in accordance with any procedures established by the Committee. If a Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any benefits that would have been provided to the Participant shall be provided to the legal representative of the estate of the Participant. If a Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the provision of the Designated Beneficiary's benefits under this Award Agreement, then any benefits that would have been provided to the Designated Beneficiary shall be provided to the legal representative of the estate of the Designated Beneficiary.

Section 11. **Administration.** The authority to manage and control the operation and administration of this Award Agreement and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to this Award Agreement as it has with respect to the Plan. Any interpretation of this Award Agreement or the Plan by the Committee and any decision made by the Committee with respect to this Award Agreement or the Plan shall be final and binding on all persons.

Section 12. **Plan Governs.** Notwithstanding anything in this Award Agreement to the contrary, this Award Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Corporate Secretary of the Company. This Award Agreement shall be subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time. Notwithstanding any term of this Award Agreement to the contrary, in the event of any discrepancy between the corporate records of the Company (which shall include any employment agreement pursuant to which the Company is a party) and this Award Agreement, the corporate records of the Company shall control.

Section 13. **Not an Employment Contract.** Neither the Option nor this Award Agreement shall confer on the Participant any rights with respect to continuance of employment or other service with the Company or a Subsidiary, nor shall they interfere in any way with any right the Company or a Subsidiary may otherwise have to terminate or modify the terms of the Participant's employment or other service at any time.

Section 14. **No Rights as Shareholder.** The Participant shall not have any rights of a Shareholder with respect to the Covered Shares until a stock certificate or its equivalent has been duly issued following exercise of the Option as provided herein.

Section 15. **Amendment.** Without limitation of **Section 18** and **Section 19** below, this Award Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended in writing by the Participant and the Company without the consent of any other person.

Section 16. **Governing Law.** This Award Agreement, the Plan and all actions taken in connection herewith and therewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 17. **Validity.** If any provision of this Award Agreement is determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Award Agreement shall be construed and enforced as if such illegal or invalid provision had never been included herein.

Section 18. **Section 409A Amendment.** The Option is intended to be exempt from Code Section 409A and this Award Agreement shall be administered and interpreted in accordance with such intent. The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Award Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A; and the Participant hereby acknowledges and consents to such rights of the Committee.

Section 19. **Clawback.** The Option and any amount or benefit received under the Plan shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any applicable Company or Subsidiary clawback policy (the "**Policy**") or any applicable law that is in effect as of the Grant Date. The Participant hereby acknowledges and consents to the Company's or a Subsidiary's application, implementation and enforcement of (a) the Policy and any similar policy established by the Company or a Subsidiary that may apply to the Participant adopted prior to the date of this Award Agreement and (b) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, and agrees that the Company or a Subsidiary may take such actions as may be necessary to effectuate the Policy, any similar policy and applicable law without further consideration or action.

* * * * *

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IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in its name and on its behalf, and the Participant acknowledges understanding and acceptance of, and agrees to, the terms of the Plan and this Award Agreement, all as of the Grant Date.

Midland States Bancorp, Inc.

By: __

Print Name: __

Title: __

Participant

__

Print Name: __

THE AMENDED AND RESTATED MIDLAND STATES BANCORP, INC.

2019 LONG-TERM INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AWARD AGREEMENT

The Participant specified below is hereby granted a nonqualified stock option (the "**Option**") by **Midland States Bancorp, Inc.**, an Illinois corporation (the "**Company**"), under the **The Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan** (the "**Plan**"). The Option shall be subject to the terms of the Plan and the terms set forth in this Nonqualified Stock Option Award Agreement ("**Award Agreement**").

Section 1. Award. In accordance with the Plan, and in recognition of the Participant's role in the business of the Company, as an employee of the Company or one of the Company's affiliates (collectively, including Midland States Bank and its subsidiaries and affiliated entities, the "**Employer**"), the Company hereby grants to the Participant the Option, which represents the right of the Participant to purchase the number of Covered Shares at the Exercise Price set forth in **Section 2** below, subject to the terms of this Award Agreement and the Plan. This Option is in all respects limited and conditioned as provided herein, including the restrictive covenants set forth in **Section 4(e)** below.

Section 2. Terms of Option Award. The following words and phrases relating to the Option shall have the following meanings:

(a) The "**Participant**" is ______________________________.

(b) The "**Grant Date**" is ______________________________.

(c) The number of "**Covered Shares**" is ____________________ Shares.

(d) The "**Exercise Price**" is $____________________ per Covered Share.

Except for words and phrases otherwise defined in this Award Agreement, any capitalized word or phrase in this Award Agreement shall have the meaning ascribed to it in the Plan.

Section 3. Nonqualified Stock Option. The Option is not intended to satisfy the requirements applicable to an "incentive stock option" described in Code Section 422(b).

Section 4. Vesting.

(a) Each installment of Covered Shares set forth in the table immediately below (each, an "**Installment**") shall become vested and exercisable on the "**Vesting Date**" for such Installment set forth in the table immediately below; *provided* that the Participant's Termination of Service has not occurred prior thereto:

Installment	Vesting Date applicable to Installment
___ Covered Shares	[Date/Event/Other Condition]
___ Covered Shares	[Date/Event/Other Condition]
___ Covered Shares	[Date/Event/Other Condition]

(b) Notwithstanding the foregoing provisions of this **Section 4**, all the Covered Shares shall become fully vested and immediately exercisable upon the Participant's Termination of Service due to the Participant's [Retirement,] Disability or death. [For purposes of this Award Agreement, "**Retirement**" shall mean a Termination of Service, other than for Cause, upon or after the Participant's attainment of age sixty-five (65).]

(c) Upon a Change in Control, the Option shall be treated in accordance with Section 4.1 of the Plan.

(d) The Option shall not be exercisable on or after the Participant's Termination of Service, except as to that portion of Covered Shares for which it was exercisable immediately prior to such Termination of Service or became exercisable on the date of such Termination of Service.

(e) In consideration of receiving the Option, the Participant agrees to the following restrictive covenants during Participant's employment and for a period of one year after any Termination of Service:

(i) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer: (1) induce or attempt to induce any employee of the Employer with whom Participant had significant contact to leave the employ of the Employer; (2) in any way interfere with the relationship between the Employer and any employee of the Employer with whom the Participant had significant contact; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer with whom the Participant had significant contact to cease doing business with the Employer or in any way interfere with the relationship between the Employer and its respective customers, suppliers, licensees or business relations with whom the Participant had significant contact.

(ii) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer, solicit the business of, or provide any products, activities or services which compete in whole or in part with the products, activities or services of the Employer to any person or entity known to the Participant to be a customer of the Employer, where the Participant, or any person reporting to the Participant, had significant contact with such person or entity during his/her employment with the Employer.

(iii) The Participant agrees not to directly or indirectly use, disclose, copy or make lists of any confidential information, including customer names and any personal financial information, for the benefit of anyone other than the Employer except to the extent that such information is or thereafter becomes lawfully available from public sources, such disclosure is authorized in writing by the Employer, or required by law or any competent administrative agency or judicial authority. All records, files, documents and other materials or copies thereof relating to the business of the Employer remain the sole property of the Employer and the Participant shall return and not otherwise use such materials following termination of Employment.

(iv) By accepting this Option, the Participant acknowledges that the restrictions contained in this **Section 4(e)** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer entering into this Award Agreement. In the event the Participant breaches or threatens to breach any of the foregoing covenants, the Employer shall be entitled to seek any appropriate legal or equitable relief, including injunctive relief.

(v) If a court of competent jurisdiction determines that any provision of this **Section 4(e)** is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Award Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Award Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Award Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and such scope may be judicially modified accordingly.

Section 5. **<u>Expiration</u>.** Notwithstanding any term of this Award Agreement to the contrary, the Participant shall forfeit the Option in its entirety as of the Company's close of business on the last business day that occurs prior to the Expiration Date. The "**Expiration Date**" shall be the earliest to occur of the following:

(a) the [six-month] anniversary of the Participant's Termination of Service other than due to the Participant's Disability or death or Termination of Service for Cause; *provided*, *however*, that if the Participant shall die after the date of Termination of Service but before the [six-month] anniversary of the Participant's Termination of Service, the Expiration Date shall automatically be extended to the [one-year] anniversary of Participant's Termination of Service;

(b) the [one-year] anniversary of the Participant's Termination of Service due to the Participant's [Retirement,] Disability or death;

(c) the date of notice of the Participant's Termination of Service for Cause; or

(d) the 10-year anniversary of the Grant Date.

Section 6. **<u>Exercise</u>.**

(a) *Method of Exercise*. The vested portion of the Option may be exercised by the Participant in whole or in part by providing notice of option exercise in the manner prescribed by the Company, including through any electronic stock compensation platform utilized by the Company at the time of exercise, or by satisfying such other procedures as shall be set forth by the Committee from time to time. Such notice shall specify the number of Covered Shares that the Participant elects to purchase, and shall be accompanied by payment of the Exercise Price for such Covered Shares as further set forth in **Section 6(b)** below.

(b) *Payment of Exercise Price*. Without limitation of **Section 8** below, the payment of the Exercise Price shall be by cash or, subject to limitations imposed by applicable law, by any of the following means unless otherwise determined by the Committee from time to time: (i) by tendering, either actually or by attestation, Shares acceptable to the Committee and valued at Fair Market Value as of the day of exercise; (ii) by irrevocably authorizing a third party, acceptable to the Committee, to sell Shares acquired upon exercise of the Option and to remit to the Company no later than the third business day following exercise of a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise; (iii) by payment through a net exercise such that, without the payment of any funds, the Participant may exercise the Option and receive the net number of Shares equal in value to (A) the number of Shares as to which the Option is being exercised, multiplied by (B) a fraction, the numerator of which is the Fair Market Value (on the date of exercise) less the Exercise Price, and the denominator of which is such Fair Market Value (the number of net Shares to be received shall be rounded down to the nearest whole number of Shares); (iv) by personal, certified or cashiers' check; (v) by other property deemed acceptable by the Committee; or (vi) by any combination thereof.

(c) *Restrictions*. The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate any applicable laws or the applicable rules of any securities exchange or similar entity, and shall not be exercisable during any blackout period established by the Company from time to time.

Section 7. **<u>Delivery of Shares</u>.** Delivery of Shares or other amounts under this Award Agreement and the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other term of this Award Agreement or the Plan, the Company shall have no obligation to deliver any Shares or make any other distribution of benefits under this Award Agreement or the Plan unless such delivery or distribution complies with all applicable laws and the applicable rules of any securities exchange or similar entity.

(b) *Certificates Not Required.* To the extent that this Award Agreement and the Plan provide for the issuance of Shares, such issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any securities exchange or similar entity.

(c) *Prohibition on Settlement in Cash.* For the avoidance of doubt, the Covered Shares granted pursuant to this Option shall only be delivered in Shares and the Participant shall not have a right to have any portion of the Covered Shares settled or delivered in cash (except to the extent required by Section 7.11 of the Plan with respect to fractional Shares).

Section 8. Withholding. The exercise of the Option, and the Company's obligation to issue Shares upon exercise, is subject to withholding of all applicable taxes. Except as otherwise provided by the Committee, such withholding obligations may be satisfied (a) through cash payment by the Participant, (b) through the surrender of Shares that the Participant already owns or (c) through the surrender of Shares to which the Participant is otherwise entitled under the Plan; *provided*, *however*, that except as otherwise specifically provided by the Committee, such Shares under clause (c) may not be used to satisfy more than the maximum individual statutory tax rate for each applicable tax jurisdiction, or such lesser amount as may be established by the Company.

Section 9. Non-Transferability of Option. The Option, or any portion thereof, is not transferable except as designated by the Participant by will or by the laws of descent and distribution or pursuant to a domestic relations order. Except as provided in the immediately preceding sentence, the Option shall not be assigned, transferred, pledged, hypothecated or otherwise disposed of by the Participant in any way whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge, hypothecation or other disposition of the Option contrary to the provisions hereof, or the levy of any attachment or similar process upon the Option, shall be null and void and without effect.

Section 10. Heirs and Successors. This Award Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring all or substantially all of the Company's assets or business. If any rights of the Participant or benefits distributable to the Participant under this Award Agreement have not been settled or distributed at the time of the Participant's death, such rights shall be settled for and such benefits shall be distributed to the Designated Beneficiary in accordance with the provisions of this Award Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form as the Committee may require. The Participant's designation of beneficiary may be amended or revoked from time to time by the Participant in accordance with any procedures established by the Committee. If a Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any benefits that would have been provided to the Participant shall be provided to the legal representative of the estate of the Participant. If a Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the provision of the Designated Beneficiary's benefits under this Award Agreement, then any benefits that would have been provided to the Designated Beneficiary shall be provided to the legal representative of the estate of the Designated Beneficiary.

Section 11. Administration. The authority to manage and control the operation and administration of this Award Agreement and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to this Award Agreement as it has with respect to the Plan. Any interpretation of this Award Agreement or the Plan by the Committee and any decision made by the Committee with respect to this Award Agreement or the Plan shall be final and binding on all persons.

Section 12. Plan Governs. Notwithstanding anything in this Award Agreement to the contrary, this Award Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Corporate Secretary of the Company. This Award Agreement shall be subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time. Notwithstanding any term of this Award Agreement to the contrary, in the event of any discrepancy between the corporate records of the Company (which shall include any employment agreement pursuant to which the Company is a party) and this Award Agreement, the corporate records of the Company shall control.

Section 13. **Not an Employment Contract.** Neither the Option nor this Award Agreement shall confer on the Participant any rights with respect to continuance of employment or other service with the Company or a Subsidiary, nor shall they interfere in any way with any right the Company or a Subsidiary may otherwise have to terminate or modify the terms of the Participant's employment or other service at any time.

Section 14. **No Rights as Shareholder.** The Participant shall not have any rights of a Shareholder with respect to the Covered Shares until a stock certificate or its equivalent has been duly issued following exercise of the Option as provided herein.

Section 15. **Amendment.** Without limitation of **Section 18** and **Section 19** below, this Award Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended in writing by the Participant and the Company without the consent of any other person.

Section 16. **Governing Law.** This Award Agreement, the Plan and all actions taken in connection herewith and therewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 17. **Validity.** If any provision of this Award Agreement is determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Award Agreement shall be construed and enforced as if such illegal or invalid provision had never been included herein.

Section 18. **Section 409A Amendment.** The Option is intended to be exempt from Code Section 409A and this Award Agreement shall be administered and interpreted in accordance with such intent. The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Award Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A; and the Participant hereby acknowledges and consents to such rights of the Committee.

Section 19. **Clawback.** The Option and any amount or benefit received under the Plan shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any applicable Company or Subsidiary clawback policy (the "**Policy**") or any applicable law that is in effect as of the Grant Date. The Participant hereby acknowledges and consents to the Company's or a Subsidiary's application, implementation and enforcement of (a) the Policy and any similar policy established by the Company or a Subsidiary that may apply to the Participant adopted prior to the date of this Award Agreement and (b) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, and agrees that the Company or a Subsidiary may take such actions as may be necessary to effectuate the Policy, any similar policy and applicable law without further consideration or action.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in its name and on its behalf, and the Participant acknowledges understanding and acceptance of, and agrees to, the terms of the Plan and this Award Agreement, all as of the Grant Date.

Midland States Bancorp, Inc.

By: __

Print Name: __

Title: __

Participant

__

Print Name: __

THE AMENDED AND RESTATED MIDLAND STATES BANCORP, INC.

2019 LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

The Participant specified below is hereby granted a restricted stock unit award (the "**Award**") by **Midland States Bancorp, Inc.**, an Illinois corporation (the "**Company**"), under the **The Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan** (the "**Plan**"). The Award shall be subject to the terms of the Plan and the terms set forth in this Restricted Stock Unit Award Agreement ("**Award Agreement**").

Section 1. **Award.** In accordance with the Plan, and in recognition of the Participant's role in the business of the Company, as an employee of the Company or one of the Company's affiliates (collectively, including Midland States Bank and its subsidiaries and affiliated entities, the "**Employer**"), the Company hereby grants to the Participant the Award of restricted stock units (each such unit, an "**RSU**"), where each RSU represents the right of the Participant to receive one Share in the future once the Restricted Period ends, subject to the terms of this Award Agreement and the Plan. This Award is in all respects limited and conditioned as provided herein, including the restrictive covenants set forth in **Section 3(e)** below.

Section 2. **Terms of Restricted Stock Unit Award.** The following words and phrases relating to the Award shall have the following meanings:

(a) The "**Participant**" is **[________________________________]**.

(b) The "**Grant Date**" is **[________________________________]**.

(c) The number of "**RSUs**" is **[________________________]**.

Except for words and phrases otherwise defined in this Award Agreement, any capitalized word or phrase in this Award Agreement shall have the meaning ascribed to it in the Plan.

Section 3. **Restricted Period.**

(a) The "**Restricted Period**" for each installment of RSUs set forth in the table immediately below (each, an "**Installment**") shall begin on the Grant Date and end as described in the schedule set forth in the table immediately below; *provided* that the Participant's Termination of Service has not occurred prior thereto:

Installment	Restricted Period will end on:
__ RSUs	[Date/Event/Other Condition]
__ RSUs	[Date/Event/Other Condition]
__ RSUs	[Date/Event/Other Condition]
__ RSUs	[Date/Event/Other Condition]

(b) Notwithstanding the foregoing provisions of this **Section 3**, the Restricted Period for all the RSUs shall cease immediately and such RSUs shall become fully vested immediately upon the Participant's Termination of Service due to the Participant's [Retirement,] Disability or death. [For purposes of this Award Agreement, "**Retirement**" shall mean a Termination of Service, other than for Cause, upon or after the Participant's attainment of age sixty-five (65).]

(c) Upon a Change in Control, the Award shall be treated in accordance with Section 4.1 of the Plan.

(d) Except as set forth in **Section 3(b)** or **Section 3(c)** above, if the Participant's Termination of Service occurs prior to the expiration of one or more Restricted Periods, the Participant shall forfeit all right, title and interest in and to any Installment(s) still subject to a Restricted Period as of such Termination of Service.

(e) In consideration of receiving the Award, the Participant agrees to the following restrictive covenants during Participant's employment and for a period of one year after any Termination of Service:

(i) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer: (1) induce or attempt to induce any employee of the Employer with whom Participant had significant contact to leave the employ of the Employer; (2) in any way interfere with the relationship between the Employer and any employee of the Employer with whom the Participant had significant contact; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer with whom the Participant had significant contact to cease doing business with the Employer or in any way interfere with the relationship between the Employer and its respective customers, suppliers, licensees or business relations with whom the Participant had significant contact.

(ii) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer, solicit the business of, or provide any products, activities or services which compete in whole or in part with the products, activities or services of the Employer to any person or entity known to the Participant to be a customer of the Employer, where the Participant, or any person reporting to the Participant, had significant contact with such person or entity during his/her employment with the Employer.

(iii) The Participant agrees not to directly or indirectly use, disclose, copy or make lists of any confidential information, including customer names and any personal financial information, for the benefit of anyone other than the Employer except to the extent that such information is or thereafter becomes lawfully available from public sources, such disclosure is authorized in writing by the Employer, or required by law or any competent administrative agency or judicial authority. All records, files, documents and other materials or copies thereof relating to the business of the Employer remain the sole property of the Employer and the Participant shall return and not otherwise use such materials following termination of Employment.

(iv) By accepting this Award, the Participant acknowledges that the restrictions contained in this **Section 3(e)** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer entering into this Award Agreement. In the event the Participant breaches or threatens to breach any of the foregoing covenants, the Employer shall be entitled to seek any appropriate legal or equitable relief, including injunctive relief.

(v) If a court of competent jurisdiction determines that any provision of this **Section 3(e)** is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Award Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Award Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Award Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and such scope may be judicially modified accordingly.

Section 4. **<u>Settlement of RSUs</u>.** Delivery of Shares or other amounts under this Award Agreement and the Plan shall be subject to the following:

(a) *Delivery of Shares*. The Company shall deliver to the Participant one Share free and clear of any restrictions in settlement of each of the vested and unrestricted RSUs within 30 days following the end of the respective Restricted Period or the date on which the Award otherwise vests under the Plan. For the avoidance of doubt, the RSUs granted pursuant to this Award shall only be settled in Shares and the Participant shall not have a right to have any portion of the RSUs settled in cash (except to the extent required by Section 7.11 of the Plan with respect to fractional Shares).

(b) *Compliance with Applicable Laws.* Notwithstanding any other term of this Award Agreement or the Plan, the Company shall have no obligation to deliver any Shares or make any other distribution of benefits under this Award Agreement or the Plan unless such delivery or distribution complies with all applicable laws and the applicable rules of any securities exchange or similar entity.

(c) *Certificates Not Required.* To the extent that this Award Agreement and the Plan provide for the issuance of Shares, such issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any securities exchange or similar entity.

(d) *Nonqualified Deferred Compensation Plan.* Notwithstanding anything in this **Section 4** to the contrary, in the event the vested and unrestricted RSUs are subject to a valid deferral election under the Deferred Compensation Plan for Directors of Midland States Bancorp, Inc. (Effective November 8, 2018) or such other non-qualified deferred compensation plan sponsored by the Company (a "**Nonqualified Deferred Compensation Plan**"), settlement of the RSUs shall be made at the time and in the form as prescribed under the Nonqualified Deferred Compensation Plan.

Section 5. **<u>Withholding</u>.** All deliveries of Shares pursuant to the Award shall be subject to withholding of all applicable taxes. The Company shall have the right to require the Participant (or if applicable, permitted assigns, heirs and Designated Beneficiaries) to remit to the Company an amount sufficient to satisfy any tax requirements prior to the delivery date of any Shares in connection with the Award. Except as otherwise provided by the Committee, such withholding obligations may be satisfied (a) through cash payment by the Participant, (b) through the surrender of Shares that the Participant already owns or (c) through the surrender of Shares to which the Participant is otherwise entitled under the Plan; *provided*, *however*, that except as otherwise specifically provided by the Committee, such Shares under clause (c) may not be used to satisfy more than the maximum individual statutory tax rate for each applicable tax jurisdiction, or such lesser amount as may be established by the Company.

Section 6. **<u>Non-Transferability of Award</u>.** The Award, or any portion thereof, is not transferable except as designated by the Participant by will or by the laws of descent and distribution or pursuant to a domestic relations order. Except as provided in the immediately preceding sentence, the Award shall not be assigned, transferred, pledged, hypothecated or otherwise disposed of by the Participant in any way whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge, hypothecation or other disposition of the Award contrary to the provisions hereof, or the levy of any attachment or similar process upon the Award, shall be null and void and without effect.

Section 7. **<u>Dividend Equivalents</u>.** The Participant shall be entitled to receive any cash dividends and property distributions paid with respect to the RSUs (other than dividends or distributions of securities of the Company which may be issued with respect to Shares by virtue of any corporate transaction, to the extent adjustment is made pursuant to Section 3.4 of the Plan) that become payable during the Restricted Period ("**Dividend Equivalents**"); *provided, however*, that no Dividend Equivalents shall be payable to or for the benefit of the Participant with respect to record dates for such dividends or distributions occurring prior to the Grant Date, or with respect to record dates for such dividends or distributions occurring on or after the date, if any, on which the Participant has forfeited the RSUs. Dividend Equivalents shall be paid at the time of settlement of each of the vested and unrestricted RSUs and shall be subject to the same restrictions applicable to the underlying RSUs. Notwithstanding anything in this **Section 7** to the contrary, in the event the RSUs are subject to a valid deferral election under a

Nonqualified Deferred Compensation Plan, the Dividend Equivalents shall be paid at the time of the settlement of the underlying RSUs pursuant to the provisions of the Nonqualified Deferred Compensation Plan.

Section 8. **No Rights as Shareholder.** The Participant shall not have any rights of a Shareholder with respect to the RSUs, including but not limited to, voting rights, prior to the settlement of the RSUs pursuant to **Section 4(a)** above.

Section 9. **Heirs and Successors.** This Award Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring all or substantially all of the Company's assets or business. If any rights of the Participant or benefits distributable to the Participant under this Award Agreement have not been settled or distributed at the time of the Participant's death, such rights shall be settled for and such benefits shall be distributed to the Designated Beneficiary in accordance with the provisions of this Award Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form as the Committee may require. The Participant's designation of beneficiary may be amended or revoked from time to time by the Participant in accordance with any procedures established by the Committee. If a Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any benefits that would have been provided to the Participant shall be provided to the legal representative of the estate of the Participant. If a Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the provision of the Designated Beneficiary's benefits under this Award Agreement, then any benefits that would have been provided to the Designated Beneficiary shall be provided to the legal representative of the estate of the Designated Beneficiary.

Section 10. **Administration.** The authority to manage and control the operation and administration of this Award Agreement and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to this Award Agreement as it has with respect to the Plan. Any interpretation of this Award Agreement or the Plan by the Committee and any decision made by the Committee with respect to this Award Agreement or the Plan shall be final and binding on all persons.

Section 11. **Plan Governs.** Notwithstanding any provision of this Award Agreement to the contrary, this Award Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Corporate Secretary of the Company. This Award Agreement shall be subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time. Notwithstanding any provision of this Award Agreement to the contrary, in the event of any discrepancy between the corporate records of the Company (which shall include any employment agreement pursuant to which the Company is a party) and this Award Agreement, the corporate records of the Company shall control.

Section 12. **Not an Employment Contract.** Neither the Award nor this Award Agreement shall confer on the Participant any rights with respect to continuance of employment or other service with the Company or a Subsidiary, nor shall they interfere in any way with any right the Company or a Subsidiary may otherwise have to terminate or modify the terms of the Participant's employment or other service at any time.

Section 13. **Amendment.** Without limitation of **Section 16** and **Section 17** below, this Award Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended in writing by the Participant and the Company without the consent of any other person.

Section 14. **Governing Law.** This Award Agreement, the Plan and all actions taken in connection herewith and therewith shall be governed by and construed in accordance with the laws of the State of Illinois, without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 15. **Validity.** If any provision of this Award Agreement is determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this

Award Agreement shall be construed and enforced as if such illegal or invalid provision had never been included herein.

Section 16. **<u>Section 409A Amendment</u>.** The Award is intended to be exempt from Code Section 409A and this Award Agreement shall be administered and interpreted in accordance with such intent. The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Award Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A; and the Participant hereby acknowledges and consents to such rights of the Committee.

Section 17. **<u>Clawback</u>.** The Award and any amount or benefit received under the Plan shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any applicable Company or Subsidiary clawback policy (the "**Policy**") or any applicable law that is in effect as of the Grant Date. The Participant hereby acknowledges and consents to the Company's or a Subsidiary's application, implementation and enforcement of (a) the Policy and any similar policy established by the Company or a Subsidiary that may apply to the Participant adopted prior to the date of this Award Agreement and (b) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, and agrees that the Company or a Subsidiary may take such actions as may be necessary to effectuate the Policy, any similar policy and applicable law, without further consideration or action.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in its name and on its behalf, and the Participant acknowledges understanding and acceptance of, and agrees to, the terms of the Plan and this Award Agreement, all as of the Grant Date.

Midland States Bancorp, Inc.

By: __

Print Name: __

Title: __

Participant

__

Print Name: __

THE AMENDED AND RESTATED MIDLAND STATES BANCORP, INC.

2019 LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

The Participant specified below is hereby granted a restricted stock award (the "**Award**") by **Midland States Bancorp, Inc.**, an Illinois corporation (the "**Company**"), under the **The Amended and Restated Midland States Bancorp, Inc. 2019 Long-Term Incentive Plan** (the "**Plan**"). The Award shall be subject to the terms of the Plan and the terms set forth in this Restricted Stock Award Agreement ("**Award Agreement**").

Section 1. **Award.** In accordance with the Plan, and in recognition of the Participant's role in the business of the Company, as an employee of the Company or one of the Company's affiliates (collectively, including Midland States Bank and its subsidiaries and affiliated entities, the "**Employer**"), the Company hereby grants to the Participant the Award of restricted stock, which represents the right of the Participant to enjoy the number of Covered Shares set forth in **Section 2** below free of restrictions once the Restricted Period ends, subject to the terms of this Award Agreement and the Plan. This Award is in all respects limited and conditioned as provided herein, including the restrictive covenants set forth in **Section 3(e)** below.

Section 2. **Terms of Restricted Stock Award.** The following words and phrases relating to the Award shall have the following meanings:

(a) The "**Participant**" is ________________________________.

(b) The "**Grant Date**" is ________________________________.

(c) The number of "**Covered Shares**" is ________________________ Shares.

Except for words and phrases otherwise defined in this Award Agreement, any capitalized word or phrase in this Award Agreement shall have the meaning ascribed to it in the Plan.

Section 3. **Restricted Period.**

(a) The "**Restricted Period**" for each installment of Covered Shares set forth in the table immediately below (each, an "**Installment**") shall begin on the Grant Date and end as described in the schedule set forth in the table immediately below; *provided* that the Participant's Termination of Service has not occurred prior thereto:

Installment	Restricted Period will end on:
___ Covered Shares	[Date/Event/Other Condition]
___ Covered Shares	[Date/Event/Other Condition]
___ Covered Shares	[Date/Event/Other Condition]

(b) Notwithstanding the foregoing provisions of this **Section 3**, the Restricted Period for all the Covered Shares shall cease immediately and completely upon the Participant's Termination of Service due to the Participant's Disability or death.

(c) Upon a Change in Control, the Award shall be treated in accordance with Section 4.1 of the Plan.

(d) Except as set forth in **Section 3(b)** and **Section 3(c)** above, if the Participant's Termination of Service occurs prior to the expiration of one or more Restricted Periods, the Participant shall forfeit all rights, title and interest in and to any Installment(s) still subject to a Restricted Period as of such Termination of Service.

(e) In consideration of receiving the Award, the Participant agrees to the following restrictive covenants during Participant's employment and for a period of one year after any Termination of Service:

(i) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer: (1) induce or attempt to induce any employee of the Employer with whom Participant had significant contact to leave the employ of the Employer; (2) in any way interfere with the relationship between the Employer and any employee of the Employer with whom the Participant had significant contact; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer with whom the Participant had significant contact to cease doing business with the Employer or in any way interfere with the relationship between the Employer and its respective customers, suppliers, licensees or business relations with whom the Participant had significant contact.

(ii) The Participant will not, directly or indirectly, either for himself/herself, or any entity which competes with the Employer, solicit the business of, or provide any products, activities or services which compete in whole or in part with the products, activities or services of the Employer to any person or entity known to the Participant to be a customer of the Employer, where the Participant, or any person reporting to the Participant, had significant contact with such person or entity during his/her employment with the Employer.

(iii) The Participant agrees not to directly or indirectly use, disclose, copy or make lists of any confidential information, including customer names and any personal financial information, for the benefit of anyone other than the Employer except to the extent that such information is or thereafter becomes lawfully available from public sources, such disclosure is authorized in writing by the Employer, or required by law or any competent administrative agency or judicial authority. All records, files, documents and other materials or copies thereof relating to the business of the Employer remain the sole property of the Employer and the Participant shall return and not otherwise use such materials following termination of Employment.

(iv) By accepting this Award, the Participant acknowledges that the restrictions contained in this **Section 3(e)** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer entering into this Award Agreement. In the event the Participant breaches or threatens to breach any of the foregoing covenants, the Employer shall be entitled to seek any appropriate legal or equitable relief, including injunctive relief.

(v) If a court of competent jurisdiction determines that any provision of this **Section 3(e)** is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Award Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Award Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Award Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and such scope may be judicially modified accordingly.

Section 4. **<u>Delivery of Shares</u>.** Delivery of Shares or other amounts under this Award Agreement and the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other provision of this Award Agreement or the Plan, the Company shall have no obligation to deliver any Shares or make any other distribution of benefits under this Award Agreement or the Plan unless such delivery or distribution complies with all applicable laws and the applicable rules of any securities exchange or similar entity.

(b) *Certificates Not Required.* To the extent that this Award Agreement and the Plan provide for the issuance of Shares, such issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any securities exchange or similar entity.

(c) *Prohibition on Settlement in Cash.* For the avoidance of doubt, the Covered Shares granted pursuant to this Award shall only be delivered in Shares and the Participant shall not have a right to have any portion of the Covered Shares settled or delivered in cash (except to the extent required by Section 7.11 of the Plan with respect to fractional Shares).

Section 5. **<u>Withholding</u>.** All deliveries of Covered Shares shall be subject to withholding of all applicable taxes. The Company shall have the right to require the Participant (or if applicable, permitted assigns, heirs and Designated Beneficiaries) to remit to the Company an amount sufficient to satisfy any tax requirements prior to the delivery date of any Shares in connection with the Award. Except as otherwise provided by the Committee, such withholding obligations may be satisfied (a) through cash payment by the Participant, (b) through the surrender of Shares that the Participant already owns or (c) through the surrender of Shares to which the Participant is otherwise entitled under the Plan; *provided*, *however*, that except as otherwise specifically provided by the Committee, such Shares under clause (c) may not be used to satisfy more than the maximum individual statutory tax rate for each applicable tax jurisdiction, or such lesser amount as established by the Company.

Section 6. **<u>Non-Transferability of Award</u>.** The Award, or any portion thereof, is not transferable except as designated by the Participant by will or by the laws of descent and distribution or pursuant to a domestic relations order. Except as provided in the immediately preceding sentence, the Award shall not be assigned, transferred, pledged, hypothecated or otherwise disposed of by the Participant in any way whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge, hypothecation or other disposition of the Award contrary to the provisions hereof, or the levy of any attachment or similar process upon the Award, shall be null and void and without effect.

Section 7. **<u>Dividends</u>.** The Participant shall be entitled to receive dividends and distributions paid on any Installment during the Restricted Period applicable to such Installment (other than dividends and distributions that may be issued with respect to Shares by virtue of any corporate transaction, to the extent adjustment is made pursuant to Section 3.4 of the Plan); *provided, however*, that no dividends or distributions shall be payable to or for the benefit of the Participant with respect to record dates for such dividends or distributions occurring before the Grant Date or on or after the date, if any, on which the Participant has forfeited the respective Covered Shares.

Section 8. **<u>Voting Rights</u>.** The Participant shall be entitled to vote the Covered Shares during the Restricted Period applicable to each Installment; *provided, however*, that the Participant shall not be entitled to vote Covered Shares with respect to record dates occurring before the Grant Date or on or after the date, if any, on which the Participant has forfeited those Covered Shares.

Section 9. **<u>Deposit of Restricted Stock Award</u>.** All Shares issued with respect to Covered Shares shall be registered in the name of the Participant and shall be retained by the Company, or an agent of the Company, until the end of the Restricted Period applicable to such Covered Shares. Upon expiration of a Restricted Period with respect to any Covered Shares, such Shares shall be delivered to the Participant in accordance with **Section 4** hereof.

Section 10. **<u>Heirs and Successors</u>.** This Award Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring all or substantially all of the Company's assets or business. If any rights of the Participant or benefits distributable to the Participant under this Award Agreement have not been settled or distributed at the time of the Participant's death, such rights shall be settled for and such benefits shall be distributed to the

Designated Beneficiary in accordance with the provisions of this Award Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form as the Committee may require. The Participant's designation of beneficiary may be amended or revoked from time to time by the Participant in accordance with any procedures established by the Committee. If a Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any benefits that would have been provided to the Participant shall be provided to the legal representative of the estate of the Participant. If a Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the provision of the Designated Beneficiary's benefits under this Award Agreement, then any benefits that would have been provided to the Designated Beneficiary shall be provided to the legal representative of the estate of the Designated Beneficiary.

Section 11. **Administration.** The authority to manage and control the operation and administration of this Award Agreement and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to this Award Agreement as it has with respect to the Plan. Any interpretation of this Award Agreement or the Plan by the Committee and any decision made by the Committee with respect to this Award Agreement or the Plan shall be final and binding on all persons.

Section 12. **Plan Governs.** Notwithstanding any provision of this Award Agreement to the contrary, this Award Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Corporate Secretary of the Company. This Award Agreement shall be subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time. Notwithstanding any provision of this Award Agreement to the contrary, in the event of any discrepancy between the corporate records of the Company (which shall include any employment agreement pursuant to which the Company is a party) and this Award Agreement, the corporate records of the Company shall control.

Section 13. **Not an Employment Contract.** Neither the Award nor this Award Agreement shall confer on the Participant any rights with respect to continuance of employment or other service with the Company or a Subsidiary, nor shall they interfere in any way with any right the Company or a Subsidiary may otherwise have to terminate or modify the terms of the Participant's employment or other service at any time.

Section 14. **Amendment.** Without limitation of **Section 17** and **Section 18** below, this Award Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended in writing by the Participant and the Company without the consent of any other person.

Section 15. **Governing Law.** This Award Agreement, the Plan and all actions taken in connection herewith and therewith shall be governed by and construed in accordance with the laws of the State of Illinois, without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 16. **Validity.** If any provision of this Award Agreement is determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Award Agreement shall be construed and enforced as if such illegal or invalid provision had never been included herein.

Section 17. **Section 409A Amendment.** The Award is intended to be exempt from Code Section 409A and this Award Agreement shall be administered and interpreted in accordance with such intent. The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Award Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A; and the Participant hereby acknowledges and consents to such rights of the Committee.

Section 18. **Clawback.** The Award and any amount or benefit received under the Plan shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any applicable Company or Subsidiary clawback policy (the "**Policy**") or any applicable law that is in effect as of the Grant Date. The Participant hereby acknowledges and consents to the Company's or a Subsidiary's application, implementation and enforcement of (a) the Policy and any similar policy established by the Company or a Subsidiary that may apply to the Participant adopted prior to the date of this Award Agreement and (b) any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation, and agrees that the Company or a Subsidiary may take such actions as may be necessary to effectuate the Policy, any similar policy and applicable law, without further consideration or action.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in its name and on its behalf, and the Participant acknowledges understanding and acceptance of, and agrees to, the terms of the Plan and this Award Agreement, all as of the Grant Date.

Midland States Bancorp, Inc.

By: __

Print Name: __

Title: __

Participant

__

Print Name: __

Midland States Bancorp, Inc. Insider Trading Policy

This Insider Trading Policy (this "**Policy**") sets forth certain mandatory restrictions and provides certain additional guidelines to employees, officers, and directors of, and contractors and consultants to, Midland States Bancorp, Inc. and its subsidiaries, including Midland States Bank (collectively, the "**Company**") with respect to transactions in the Company's securities.

I. Background

Federal and state securities laws provide severe penalties for both individuals and companies for trading in securities based upon "**Material Nonpublic Information**" (as defined in Section VI).

(a) Liability for Insider Trading. Section 32(a) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), provides that Insiders (as defined in Section II.(a)) may be subject to penalties of up to $5 million and up to 20 years in jail for engaging in transactions in the Company's securities at a time when they have knowledge of Material Nonpublic Information regarding the Company. Although responsibility for compliance with this Policy and liability for noncompliance are primarily personal to the individuals involved, violations may also result in civil and criminal liability for the Company. Criminal penalties for corporations may be assessed up to as much as $25 million.

(b) Liability for Tipping. Insiders also may be liable for improper transactions by any person (commonly referred to as a "tippee") to whom they have disclosed Material Nonpublic Information regarding the Company or to whom they have made recommendations or expressed opinions on the basis of such information as to trading in the Company's securities. The Securities and Exchange Commission (the "**SEC**") has imposed large penalties even when the disclosing person did not profit from the trading. The SEC, the national stock exchanges and the Financial Industry Regulatory Authority use sophisticated electronic surveillance techniques to uncover insider trading.

(c) Company Interests. In addition to the need to comply with applicable law, the Company has also determined that it is in the best interest of the Company for its directors, officers, employees, consultants and contractors to conduct their trading of Company securities, as well as the securities of the Company's business partners (both existing and those companies with which the Company is considering entering into a material business transaction), in a manner that avoids the appearance of impropriety even if in technical compliance with applicable law.

(d) Section 16. Following an IPO or certain other events the Company will be required to comply with the reporting obligations and limitations on "short swing" transactions set forth in Section 16 of the Exchange Act ("**Section 16**"). Under Section 16, directors and certain officers of the Company who purchase and sell the Company's securities within a six-month period must disgorge all profits to the Company whether or not they had knowledge of any Material Nonpublic Information. Moreover, under Section 16 no officer or director may ever make a short sale of the Company's stock. The Company has provided, or will provide, separate memoranda and other appropriate materials to its directors and officers regarding Section 16 prior to Section 16 becoming applicable to the Company.

II. Applicability of Policy

(a) Persons Covered by this Policy. This Policy applies to all officers and senior management personnel of the Company; all members of the Company's board of directors; and all other employees of, and consultants and contractors to, the Company who receive or have access to Material Nonpublic Information regarding the Company. This group of people, members of their immediate families and members of their households are sometimes referred to in this Policy as "**Insiders**." Any person who possesses Material Nonpublic Information regarding the Company is an Insider for so long as the information is not publicly known. Any employee can be an Insider from time to time, and would at those times be subject to this Policy. This Policy also applies to any person who receives Material Nonpublic Information from any Insider.

(b) Transactions Covered by this Policy. This Policy applies to all transactions in the Company's securities, including common stock, preferred stock, warrants, options, subordinated debentures and any other securities the Company may issue from time to time. The transactions covered by this Policy specifically include any transactions designed to hedge or offset any decrease in the market value of any of the Company's securities described in the preceding sentence.

(c) Applicability to Trading in Securities of Business Partners. This Policy and the restrictions and guidelines described herein also apply to Material Nonpublic Information relating to other companies, including the Company's customers, vendors or suppliers, when that information is obtained in the course of employment with, or other services performed on behalf of, the Company.

III. General Policy

(a) Statement of Policy. It is the policy of the Company to oppose the unauthorized disclosure of any nonpublic information acquired in the workplace and the misuse of Material Nonpublic Information in securities trading.

(b) Possible Disciplinary Actions. Insiders who violate this Policy shall be subject to disciplinary action by the Company, which may include ineligibility for future participation in the Company's equity incentive plans, reduction or elimination of annual or other bonuses and/or termination of employment.

(c) Individual Responsibility. Every Insider has the individual responsibility to comply with this Policy against insider trading, even if such Insider only trades outside the Black-out Period (as defined in Section IV(d)). An Insider may, from time to time, have to forego a proposed transaction in the Company's securities even if he or she planned to make the transaction before learning of the Material Nonpublic Information and even though the Insider believes he or she may suffer an economic loss or forego anticipated profit by waiting.

IV. Mandatory Restrictions

(a) Trading on Material Nonpublic Information. No Insider shall engage in any transaction involving a purchase or sale of the Company's securities, including any offer to purchase or offer to sell, during any period commencing with the date that he or she possesses Material Nonpublic Information concerning the Company, and ending at the close of business on the **second Trading Day** following the date of public disclosure of that information, or at such time as such Material Nonpublic Information is no longer material, unless such transfer is made pursuant to an approved 10b5-1 Trading Plan, as described below. As used herein, the term "Trading Day" shall mean a day on which national stock exchanges are open for trading.

(b) Tipping. No Insider shall disclose ("tip") any Material Nonpublic Information with respect to the Company's securities to any other person (including family members), nor shall such Insider or related person make recommendations or express opinions on the basis of Material Nonpublic Information as to trading in the Company's securities.

(c) Confidentiality of Nonpublic Information. Nonpublic information relating to the Company is the property of the Company and the unauthorized disclosure of such information is forbidden.

(d) Mandatory Black-out Period for Officers, Directors and Certain Employees. The period beginning two weeks before the end of each fiscal quarter and ending two Trading Days following the date of public disclosure of the financial results for each fiscal quarter is a particularly sensitive period of time for transactions in the Company's securities from the perspective of compliance with applicable securities laws. This sensitivity is due to the fact that officers, directors and certain other employees will, during that period, often possess Material Nonpublic Information about the expected financial results for the quarter.

Accordingly, to ensure compliance with this Policy and applicable federal and state securities laws, all directors and officers and other employees who have access to the Company's internal financial statements or other Material Nonpublic Information shall refrain from conducting transactions involving the purchase or sale of the Company's securities during the period beginning two weeks before the last day of the fiscal quarter and ending two Trading Days following the date of public disclosure of the financial results for each fiscal quarter (the "**Black-out Period**"). The purpose behind the Black-out Period is to establish a diligent effort to avoid any improper transaction or any transaction that has the appearance of impropriety. At times when the Company is not filing reports with the SEC or otherwise making its financial results know to the general public, the Black-Out period shall be deemed to end five business days after the Company has mailed its financial results to shareholders.

From time to time, the Company also may require that Insiders and others suspend trading because of developments known to the Company and not yet disclosed to the public. In such event, such persons are prohibited from engaging in any transaction involving the purchase or sale of the Company's securities during such period and may not disclose to others the fact of such suspension of trading.

It should be noted, however, that even outside the Black-out Period, any person possessing Material Nonpublic Information concerning the Company should not engage in any transactions in the Company's securities until such information has been known publicly for at least two Trading Days, whether or not the Company has called for a suspension of trading by that person. Assuming the absence of Material Nonpublic Information, trading in the Company's securities outside of the Black-out Period should not be considered a "safe harbor," and all directors, officers and other persons should use good judgment at all times.

(e) Pre-Clearance of Trades. The Company has determined that Insiders should refrain from trading in the Company's securities without first complying with the Company's "pre-clearance" process. Each Insider should contact the Company's Corporate Counsel no less than two business days prior to seeking to commence any trade in the Company's securities. The Company may find it necessary, from time to time, to require compliance with the pre-clearance process from certain other persons. Any employee with any questions regarding trading in the Company's securities is encouraged to contact the Company's Corporate Counsel.

(f) Prohibition Against Short Sales. No director, officer or other senior management personnel of the Company shall enter into any "short" position with respect to any equity security of the Company, including as set forth in Section 16(c) of the Exchange Act.

(g) Prohibition Against Hedging. No director, officer or employee is permitted to enter into any hedging transaction with respect to the Company's securities, including, but not limited to, the purchase or use of, directly or indirectly through any other persons or entities, any stock option, prepaid variable forward contracts, equity swaps, collars, exchange funds or any other instruments to directly offset any decrease in the market value of the Company's securities; provided, however, that such prohibition shall not apply to positions in broad based exchange traded mutual funds or ETFs containing stocks in the financial or banking sector.

V. Section 16 Reporting Persons

When applicable, each year the Company's board will identify the Section 16 reporting insiders and notify them of their status as such. These individuals will be required to comply with Section 16 of the Exchange Act, and the Company will inform them of these obligations.

VI. Definition of Material Nonpublic Information

It is not possible to define all categories of "material" information. Information should be regarded as material, however, if there is a reasonable likelihood that it would be considered important to a reasonable investor in making an investment decision regarding the purchase or sale of the Company's securities. While it may be difficult under this standard to determine whether particular information is material, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information may include, but is not limited to:

- financial results;
- projections of future earnings or losses;
- dividend declarations;
- news of a pending or proposed merger or joint venture;
- news of the disposition of a subsidiary;
- gain or loss of a substantial customer;
- stock splits or consolidations;
- new equity or debt offerings;
- acquisitions;
- significant litigation exposure due to actual or threatened litigation; and
- major changes in senior management.

Either positive or negative information may be material. Nonpublic information is information that has not been previously disclosed to the general public and is otherwise not available to the general public.

VII. Certain Exemptions from the Policy

(a) Exercise of Stock Options. For the purposes of this Policy, the Company considers that the exercise of stock options for cash under the Company's stock options plans (***but not the sale of any shares acquired upon exercise***) is exempt from this Policy, since the other party to the transaction is the Company itself and the price does not vary with the market, but is fixed by the terms of the option agreement or the plan.

(b) Pre-Existing/10b5-1 Trading Plans. An Insider may have trades in the Company's securities made on his or her behalf during a restricted period or when the Insider is in possession of Material Nonpublic Information if the Insider enters into a plan, contract or instruction at a time that is not during a restricted period and while the Insider is not in possession of Material Nonpublic Information. In accordance with the foregoing restrictions, trades may be made pursuant to the trading plan despite the fact that the Insider may be in possession of Material Nonpublic Information, or the Company is in a restricted period, at the actual time of the trade. Generally, a trading plan must specify the amount of securities to buy or sell, the price at which to buy or sell, as well as specific time periods for the trades. However, please note that some brokers require use of their own form trading plan. Should you wish to review the Company's form of trading plan, please contact the Company's Corporate Counsel. **You must notify the Company's Corporate Counsel no later than two business days prior to entering into a trading plan with respect to the Company's securities.**

(c) Bona Fide Gifts of Company Stock. Bona fide gifts of the Company's securities made by Insiders to family members and charities also are generally exempt from this Policy. Whether a gift is bona fide, however, will depend on the circumstances surrounding the gift. For example, gifts to dependent children followed by a sale of the "gift" shares by the donee in close proximity to the time of the gift may imply some economic benefit to the donor and, therefore, make the gift non-bona fide. Insiders should also be aware that there may be some exposure to tax liability based on the timing and value of the gift.

(d) 401(k) Plan. This Policy does not apply to periodic contributions to the Company's 401(k) Plan which are used to purchase Company stock pursuant to an individual's advance instructions. The Policy does apply, however, to certain elections Insiders may make under the 401(k) Plan, including: (i) an election to increase or decrease the amount or percentage of the periodic contributions that will be allocated to the Company stock fund; (ii) an election to make an intra-plan transfer of an existing account balance into or out of the Company stock fund; (iii) an election to borrow money against the 401(k) Plan account, if the loan will result in a liquidation of some or all of the Insider's Company stock fund balance; and (iv) an election to prepay a plan loan if the prepayment will result in a change in the Insider's Company stock fund balance.

Exhibit 21.1

LIST OF SUBSIDIARIES OF MIDLAND STATES BANCORP, INC.

Subsidiary	Organized Under Laws of	Percent Owned by the Company
Midland States Bank	State of Illinois	100%
Midland Wealth Advisors LLP	State of Illinois	100%
Midland States Preferred Securities Trust	State of Delaware	100% of common securities
Love Savings/Heartland Capital Trust III	State of Delaware	100% of common securities
Love Savings/Heartland Capital Trust IV	State of Delaware	100% of common securities
Grant Park Statutory Trust I	State of Delaware	100% of common securities
Centrue Statutory Trust II	State of Connecticut	100% of common securities
Love Funding Corporation	State of Virginia	100% owned by Midland States Bank
Midland Trust Company	State of Illinois	100% owned by Midland States Bank
Midland States Investments	State of Nevada	100% owned by Midland States Bank

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-211963 and 333-231323 on Form S-8 and the Registration Statement No. 333-264370 on Form S-3 of Midland States Bancorp, Inc. of our report dated February 23, 2024 relating to the consolidated financial statements and effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K.

Crowe LLP

Crowe LLP

Oak Brook, Illinois
February 23, 2024

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 Annual Report on Form 10-K (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: February 23, 2024

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 Annual Report on Form 10-K (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: February 23, 2024

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 Annual Report on Form 10-K of the Company for the annual period ended December 31, 2023 (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: February 23, 2024

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 Annual Report on Form 10-K of the Company for the annual period ended December 31, 2023 (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: February 23, 2024

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

MIDLAND STATES BANCORP, INC.
CLAWBACK POLICY
(adopted November 6, 2023)

1. **<u>Introduction</u>.** The Board of Directors (the "**Board**") of Midland States Bancorp, Inc. (the "**Company**") believes that it is in the best interests of the Company and its shareholders to adopt this Clawback Policy (the "**Policy**"), which provides for the recovery of certain incentive compensation in the event of an Accounting Restatement (as defined below). This Policy is designed to comply with, and shall be interpreted consistent with, Section 10D of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), Rule 10D-1 promulgated under the Exchange Act ("**Rule 10D-1**") and Nasdaq Listing Rule 5608 (the "**Listing Standards,** and collectively, the "**Requirements**").

2. **<u>Administration</u>.** Except as specifically set forth herein, this Policy shall be administered by the Audit Committee of the Board (the "**Administrator**"). The Administrator is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. Any determinations made by the Administrator need not be uniform with respect to each individual covered by the Policy.

3. **<u>Definitions</u>.** As used in this Policy, the following definitions shall apply:

   a. "**Accounting Restatement**" means an accounting restatement of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

   b. "**Applicable Period**" means the three completed fiscal years immediately preceding the date on which the Company is required to prepare an Accounting Restatement, as well as any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period that comprises a period of at least nine months shall count as a completed fiscal year). The "date on which the Company is required to prepare an Accounting Restatement" is the earlier to occur of (a) the date the Board concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement or (b) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement, in each case regardless of if or when the restated financial statements are filed.

   c. "**Covered Executives**" means the Company's current and former executive officers, as determined by the Administrator in accordance with the definition of executive officer set forth in the Requirements.

   d. A "**Financial Reporting Measure**" is any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure.

   e. "**Incentive-Based Compensation**" means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive-Based Compensation is "received" for purposes of this Policy in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based

Compensation award is attained, even if the payment or grant of such Incentive-Based Compensation occurs after the end of that period.

4. **Covered Executives; Incentive-Based Compensation.** This Policy applies to Incentive-Based Compensation received by a Covered Executive (a) after beginning services as a Covered Executive; (b) if that person served as a Covered Executive at any time during the performance period for such Incentive- Based Compensation; and (c) while the Company had a listed class of securities on a national securities exchange.

5. **Required Recoupment.** In the event the Company is required to prepare an Accounting Restatement, the Company shall promptly recoup the amount of any Erroneously Awarded Compensation received by any Covered Executive, as calculated pursuant to Section 7 and in the manner set forth in Section 7 hereof.

6. **Erroneously Awarded Compensation: Amount Subject to Recovery.** The amount of "**Erroneously Awarded Compensation**" subject to recovery under the Policy, as determined by the Administrator, is the amount of Incentive-Based Compensation received by the Covered Executive that exceeds the amount of Incentive-Based Compensation that would have been received by the Covered Executive had it been determined based on the restated amounts. Notwithstanding anything to the contrary contained in this Policy, only amounts of Incentive-Based Compensation explicitly required to be recovered pursuant the Requirements shall be subject to recovery under this Policy.

Erroneously Awarded Compensation shall be computed by the Administrator without regard to any taxes paid by the Covered Executive in respect of the Erroneously Awarded Compensation.

For Incentive-Based Compensation based on stock price or total shareholder return ("**TSR**"): (a) the Administrator shall determine the amount of Erroneously Awarded Compensation based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive- Based Compensation was received; and (b) the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to The Nasdaq Stock Market ("**Nasdaq**").

7. **Method of Recoupment.** Subject to compliance with any applicable law, the Administrator may affect recovery under this Policy from any amount otherwise payable to the Covered Executive, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Covered Executive; *provided, however*, (i) if the excess compensation to be recovered was received by the Covered Executive in the form of cash, the Covered Executive may elect to pay such recovery in the form of cash or shares of the Company's common stock or other equity award, based on the current fair market value of the equity award at the time of forfeiture, or a combination thereof, and (ii) if the excess compensation to be recovered was received by the Covered Executive in the form of an equity award, the Covered Executive may elect to pay such recovery in cash or by agreeing to forfeit the excess portion of the equity award, in kind, in which case such equity forfeiture shall be the sole compensation recoverable from such Covered Executive for the Accounting Restatement; *provided, further*, a Covered Executive shall be solely liable for any tax implications of any such designation.

The Company is authorized and directed pursuant to this Policy to recoup Erroneously Awarded Compensation in compliance with this Policy unless the Audit Committee of the Board has determined that recovery would be impracticable solely for the following limited reasons, and subject to the following procedural and disclosure requirements:

a. The direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Administrator must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover and provide that documentation to Nasdaq;

b. Recovery would violate home country law of the issuer where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law of the issuer, the Administrator must satisfy the applicable opinion and disclosure requirements of Rule 10D-1 and the Listing Standards; or

c. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

8. **No Indemnification of Covered Executives.** Notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement with any Covered Executive that may be interpreted to the contrary, the Company shall not indemnify any Covered Executives against the loss of any Erroneously Awarded Compensation, including any payment or reimbursement for the cost of third-party insurance purchased by any Covered Executives to fund potential clawback obligations under this Policy.

9. **Indemnification of Administrator.** Any members of the Administrator, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company to the fullest extent under applicable law and Company policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Company policy.

10. **Effective Date.** This Policy shall be effective as of October 2, 2023 (the "**Effective Date**"). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by Covered Executives on or after the Effective Date.

11. **Amendment; Termination.** The Board may, in its sole discretion, amend or terminate this Policy at any time. Additionally, to the extent any of the Requirements are rescinded or determined by a court having competent jurisdiction to be partially or wholly unenforceable, each provision of this Policy shall be deemed, without further action of the Board or the Administrator, to be so rescinded or unenforceable.

12. **Exhibit Filing Requirement.** A copy of this Policy and any amendments thereto shall be posted on the Company's website and filed as an exhibit to the Company's annual report on Form 10-K.

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