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

FORM 10-Q

☒QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2021

☐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**	**62401**
(Address of principal executive offices)	(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	Nasdaq Global Select Market

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, a 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 is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

As of October 22, 2021, the Registrant had 22,016,336 shares of outstanding common stock, $0.01 par value.

MIDLAND STATES BANCORP, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

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

	September 30, 2021	December 31, 2020
	(unaudited)	
Assets		
Cash and due from banks	$ 658,173	$ 337,080
Federal funds sold	4,470	4,560
Cash and cash equivalents	662,643	341,640
Investment securities available for sale, at fair value (allowance for credit losses of $142 and $366 at September 30, 2021 and December 31, 2020, respectively)	890,777	676,711
Equity securities, at fair value	9,542	9,424
Loans	4,915,554	5,103,331
Allowance for credit losses on loans	(55,675)	(60,443)
Total loans, net	4,859,879	5,042,888
Loans held for sale	26,621	138,090
Premises and equipment, net	71,241	74,124
Operating lease right-of-use asset	8,460	9,177
Other real estate owned	11,931	20,247
Nonmarketable equity securities	42,192	56,596
Accrued interest receivable	22,043	23,545
Loan servicing rights, at lower of cost or fair value	30,916	39,276
Goodwill	161,904	161,904
Other intangible assets, net	26,065	28,382
Cash surrender value of life insurance policies	149,146	146,004
Other assets	120,599	100,532
Total assets	$ 7,093,959	$ 6,868,540
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 1,672,901	$ 1,469,579
Interest-bearing	3,928,475	3,631,437
Total deposits	5,601,376	5,101,016
Short-term borrowings	66,666	68,957
FHLB advances and other borrowings	440,171	779,171
Subordinated debt	138,998	169,795
Trust preferred debentures	49,235	48,814
Operating lease liabilities	10,787	11,958
Other liabilities	128,882	67,438
Total liabilities	6,436,115	6,247,149
Shareholders' Equity:		
Common stock, $0.01 par value; 40,000,000 shares authorized; 22,193,141 and 22,325,471 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	222	223
Capital surplus	450,867	453,410
Retained earnings	195,610	156,327
Accumulated other comprehensive income	11,145	11,431
Total shareholders' equity	657,844	621,391
Total liabilities and shareholders' equity	$ 7,093,959	$ 6,868,540

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Interest income:				
Loans:				
Taxable	$ 52,699	$ 54,151	$ 159,743	$ 160,863
Tax exempt	615	770	1,935	2,391
Loans held for sale	107	329	810	1,524
Investment securities:				
Taxable	3,396	3,424	10,127	11,390
Tax exempt	899	850	2,474	2,699
Nonmarketable equity securities	558	672	1,847	1,957
Federal funds sold and cash investments	216	118	454	1,352
Total interest income	58,490	60,314	177,390	182,176
Interest expense:				
Deposits	2,584	4,212	8,759	18,133
Short-term borrowings	21	28	65	157
FHLB advances and other borrowings	1,993	3,220	7,033	9,092
Subordinated debt	2,011	2,365	6,694	7,355
Trust preferred debentures	485	509	1,465	1,819
Total interest expense	7,094	10,334	24,016	36,556
Net interest income	51,396	49,980	153,374	145,620
Provision for credit losses:				
Provision for credit losses on loans	—	10,970	3,950	33,149
Provision for credit losses on unfunded commitments	—	577	(800)	846
Provision for other credit losses	(184)	181	(224)	308
Total provision for credit losses	(184)	11,728	2,926	34,303
Net interest income after provision for credit losses	51,580	38,252	150,448	111,317
Noninterest income:				
Wealth management revenue	7,175	5,559	19,635	16,934
Commercial FHA revenue	411	926	1,045	5,607
Residential mortgage banking revenue	1,287	3,049	4,423	7,527
Service charges on deposit accounts	2,268	2,092	6,010	6,454
Interchange revenue	3,651	3,283	10,823	9,129
Gain on sales of investment securities, net	160	1,721	537	1,721
Impairment on commercial mortgage servicing rights	(3,037)	(1,418)	(5,460)	(9,993)
Company-owned life insurance	869	897	2,592	2,689
Other income	2,359	2,810	7,771	6,845
Total noninterest income	15,143	18,919	47,376	46,913
Noninterest expense:				
Salaries and employee benefits	22,175	21,118	64,774	62,921
Occupancy and equipment	3,701	4,866	11,437	14,021
Data processing	6,495	5,722	18,776	16,657
Professional	1,738	1,861	9,472	5,322
Marketing	860	738	2,037	2,513
Communications	689	916	2,335	3,152
Amortization of intangible assets	1,445	1,557	4,430	4,948
Impairment related to facilities optimization	—	12,651	—	12,857
FHLB advances prepayment fees	—	—	3,677	—
Other expense	4,189	4,472	12,374	14,571
Total noninterest expense	41,292	53,901	129,312	136,962
Income before income taxes	25,431	3,270	68,512	21,268
Income taxes	5,883	3,184	10,302	7,064
Net income	$ 19,548	$ 86	$ 58,210	$ 14,204
Per common share data:				
Basic earnings per common share	$ 0.86	$ 0.00	$ 2.56	$ 0.59
Diluted earnings per common share	$ 0.86	$ 0.00	$ 2.55	$ 0.59
Weighted average common shares outstanding	22,520,499	22,937,837	22,544,898	23,567,000
Weighted average diluted common shares outstanding	22,577,880	22,937,837	22,613,972	23,578,518

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	$ 19,548	$ 86	$ 58,210	$ 14,204
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized gains (losses) that occurred during the period	662	(134)	(5,514)	5,260
Provision for credit loss expense	(184)	181	(224)	308
Reclassification adjustment for realized net gains on sales of investment securities included in net income	(160)	(1,721)	(537)	(1,721)
Income tax effect	(87)	460	1,726	(1,058)
Change in investment securities available for sale, net of tax	231	(1,214)	(4,549)	2,789
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	729	(137)	5,881	(1,120)
Income tax effect	(201)	38	(1,618)	308
Change in cash flow hedges, net of tax	528	(99)	4,263	(812)
Other comprehensive income (loss), net of tax	759	(1,313)	(286)	1,977
Total comprehensive income	$ 20,307	$ (1,227)	$ 57,924	$ 16,181

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

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

	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balances, June 30, 2021	$ 224	$ 455,215	$ 182,361	$ 10,386	$ 648,186
Net income	—	—	19,548	—	19,548
Other comprehensive income	—	—	—	759	759
Common dividends declared ($0.28 per share)	—	—	(6,299)	—	(6,299)
Common stock repurchased	(2)	(5,238)	—	—	(5,240)
Share-based compensation expense	—	438	—	—	438
Issuance of common stock under employee benefit plans	—	452	—	—	452
Balances, September 30, 2021	$ 222	$ 450,867	$ 195,610	$ 11,145	$ 657,844
Balances, December 31, 2020	$ 223	$ 453,410	$ 156,327	$ 11,431	$ 621,391
Net income	—	—	58,210	—	58,210
Other comprehensive loss	—	—	—	(286)	(286)
Common dividends declared ($0.84 per share)	—	—	(18,927)	—	(18,927)
Common stock repurchased	(3)	(6,445)	—	—	(6,448)
Share-based compensation expense	—	1,424	—	—	1,424
Issuance of common stock under employee benefit plans	2	2,478	—	—	2,480
Balances, September 30, 2021	$ 222	$ 450,867	$ 195,610	$ 11,145	$ 657,844
Balances, June 30, 2020	$ 229	$ 462,577	$ 160,051	$ 10,732	$ 633,589
Net income	—	—	86	—	86
Other comprehensive loss	—	—	—	(1,313)	(1,313)
Common dividends declared ($0.2675 per share)	—	—	(6,111)	—	(6,111)
Common stock repurchased	(4)	(5,007)	—	—	(5,011)
Share-based compensation expense	—	406	—	—	406
Issuance of common stock under employee benefit plans	1	233	—	—	234
Balances, September 30, 2020	$ 226	$ 458,209	$ 154,026	$ 9,419	$ 621,880
Balances, December 31, 2019	$ 244	$ 488,305	$ 165,920	$ 7,442	$ 661,911
Cumulative effect of change in accounting principles (Note 2)	—	—	(7,172)	—	(7,172)
Balances, January 1, 2020	244	488,305	158,748	7,442	654,739
Net income	—	—	14,204	—	14,204
Other comprehensive income	—	—	—	1,977	1,977
Common dividends declared ($0.8025 per share)	—	—	(18,926)	—	(18,926)
Common stock repurchased	(19)	(32,711)	—	—	(32,730)
Share-based compensation expense	—	1,624	—	—	1,624
Issuance of common stock under employee benefit plans	1	991	—	—	992
Balances, September 30, 2020	$ 226	$ 458,209	$ 154,026	$ 9,419	$ 621,880

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

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

	Nine months ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income	$ 58,210	$ 14,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,926	34,303
Depreciation on premises and equipment	4,223	5,499
Amortization of intangible assets	4,430	4,948
Amortization of operating lease right-of-use asset	1,281	2,179
Amortization of loan servicing rights	2,497	2,544
Share-based compensation expense	1,424	1,624
Increase in cash surrender value of life insurance	(2,592)	(2,689)
Investment securities amortization, net	3,141	2,445
Gain on sales of investment securities, net	(537)	(1,721)
(Gain) loss on sales of other real estate owned	(418)	6
Impairment on other real estate owned	426	1,282
Origination of loans held for sale	(394,905)	(500,684)
Proceeds from sales of loans held for sale	634,445	855,015
Gain on sale of loans held for sale	(3,799)	(12,128)
Impairment on commercial mortgage servicing rights	5,460	9,993
Impairment on mortgage servicing rights held for sale	222	1,075
Impairment related to facilities optimization	—	12,857
Net change in operating assets and liabilities:		
Accrued interest receivable	1,502	(8,715)
Other assets	(21,279)	(14,292)
Accrued expenses and other liabilities	4,436	(1,885)
Net cash provided by operating activities	301,093	405,860
Cash flows from investing activities:		
Purchases of investment securities available for sale	(338,456)	(134,799)
Proceeds from sales of investment securities available for sale	14,777	—
Maturities and payments on investment securities available for sale	164,213	154,107
Purchases of equity securities	(232)	(3,280)
Net decrease (increase) in loans	55,487	(959,915)
Proceeds from sale of commercial FHA origination platform	—	7,500
Purchases of premises and equipment	(1,853)	(1,989)
Proceeds from sale of premises and equipment	646	7
Purchases of nonmarketable equity securities	—	(6,260)
Proceeds from sales of nonmarketable equity securities	14,405	—
Proceeds from sales of other real estate owned	9,089	1,900
Purchases of company-owned life insurance	(550)	—
Net cash paid on acquisition	(2,715)	—
Net cash used in investing activities	(85,189)	(942,729)
Cash flows from financing activities:		
Net increase in deposits	500,360	484,482
Net decrease in short-term borrowings	(2,291)	(23,404)
Proceeds from FHLB borrowings	350,000	304,000
Payments made on FHLB borrowings and other borrowings	(689,000)	(103,604)
Payments made on subordinated debt	(31,075)	(7,250)
Cash dividends paid on common stock	(18,927)	(18,926)
Common stock repurchased	(6,448)	(32,730)
Proceeds from issuance of common stock under employee benefit plans	2,480	992
Net cash provided by financing activities	105,099	603,560
Net increase in cash and cash equivalents	321,003	66,691
Cash and cash equivalents:		
Beginning of period	341,640	394,505
End of period	$ 662,643	$ 461,196
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest paid on deposits and borrowed funds	$ 25,561	$ 38,905
Income tax paid (net of refunds)	(6,648)	2,562
Supplemental disclosures of noncash investing and financing activities:		
Transfer of loans to loans held for sale	123,117	390,628
Transfer of loans to other real estate owned	583	12,359
Transfer of premises and equipment, net to assets held for sale	—	11,344
Pending settlements on securities (purchased) sold, net	(62,923)	23,151

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

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(UNAUDITED)

NOTE 1 – BUSINESS DESCRIPTION

Midland States Bancorp, Inc. (the “Company,” “we,” “our,” or “us”) is a diversified financial holding company headquartered in Effingham, Illinois. Our wholly owned banking subsidiary, Midland States Bank (the “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 Federal Housing Administration ("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.

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Company are unaudited and should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, filed with the Securities and Exchange Commission (the “SEC”) on February 26, 2021. The consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”) and conform to predominant practices within the banking industry. A discussion of these policies can be found in Note 1 – Summary of Significant Accounting Policies included in the Company's 2020 Annual Report on Form 10-K. Certain reclassifications of 2020 amounts have been made to conform to the 2021 presentation. Management has evaluated subsequent events for potential recognition or disclosure. Operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021 or any other period.

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 unaudited balance sheets.

Accounting Guidance Adopted in 2021

FASB ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes – In December 2019, the Financial Accounting Standard Board ("FASB") issued ASU No. 2019-12 which removes specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: (1) exception to the incremental approach for intraperiod tax allocation; (2) exceptions to accounting for basis differences when there are ownership changes in foreign investments; and (3) exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers’ application of income tax-related guidance and simplifies GAAP for: (1) franchise taxes that are partially based on income; (2) transactions with a government that result in a step up in the tax basis of goodwill; (3) separate financial statements of legal entities that are not subject to tax; and (4) enacted changes in tax laws in interim periods. The amendments in this update became effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The adoption of ASU 2019-12 on January 1, 2021 did not have a material impact on the Company's consolidated financial statements.

FASB ASU No. 2020-01, Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions Between Topic 321, Topic 323 and Topic 815 (a Consensus of the Emerging Issues Task Force) – In January 2020, the FASB issued ASU No. 2020-01 which clarifies the interactions ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and the ASU on equity method investments. ASU 2016-01 provides companies with an alternative to measure certain equity securities without a readily determinable fair value at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs. ASU 2020-01 clarifies that for purposes of applying the Topic 321 measurement alternative, an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting under Topic 323, immediately before applying or upon discontinuing the equity method. In addition, the new ASU provides direction that a company should not consider whether the underlying securities would be accounted for under the equity method or the fair value option when it is determining the accounting for certain forward contracts and purchased options, upon either settlement or exercise. The amendments in this update became effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company does not use the equity method of accounting for any equity securities, and its equity securities without a readily determinable fair value are recorded at cost, minus any impairment; therefore, the adoption of this new guidance did not have an impact on the Company's consolidated financial statements.

Accounting Guidance Issued But Not Yet Adopted

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 to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the London Inter-Bank Offered Rate ("LIBOR") or other interbank offered rates. The new guidance provides the following optional expedients that reduce costs and complexity of account for reference rate reform: (1) simplifies accounting analyses for contract modifications; (2) allows hedging relationships to continue without de-designation if there are qualifying changes in the critical terms of an existing hedging relationship due to reference rate reform; (3) allows a change in the systematic and rational method used to recognize in earnings the compounds excluded from the assessment of hedge effectiveness; (4) allows a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship; (5) allows the shortcut method for a fair value hedging relationship to continue for the remainder of the hedging relationship; (6) simplifies the assessment of hedge effectiveness and provides temporary optional expedients for cash flow hedging relationships affected by reference rate reform; and (7) allows a one-time election to sell or transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and are classified as held to maturity before January 1, 2020.

The amendments in ASU No. 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. Because the guidance is meant to help entities through the transition period, it will be in effect for a limited time and will not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship. The amendments in the ASU are effective March 12, 2020 through December 31, 2022. The Company continues to implement its transition plan toward cessation of LIBOR and the modification of its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Company expects to utilize the LIBOR transition relief allowed under ASU 2020-04, and does not expect such adoption to have a material impact on its accounting and disclosures. The Company will continue to assess the impact as the reference rate transition occurs over the next two years.

NOTE 3 – ACQUISITIONS AND DISPOSITIONS

On June 1, 2021, the Company completed its acquisition of substantially all of the trust assets of ATG Trust Company (“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 $0.3 million of transaction and integration costs associated with the acquisition have been expensed during 2021, and remaining integration costs will be expensed in future periods as incurred.

Management's preliminary valuation of the tangible and intangible assets acquired, which are based on assumptions that are subject to change, and the resulting allocation of the consideration paid is reflected in the table below. Prior to the end of the one-year measurement period for finalizing the consideration paid allocation, if information becomes available which would indicate adjustments are required, such adjustments will be included in the allocation in the reporting period in which the adjustment amounts are determined.

(dollars in thousands)	ATG Trust
Assets acquired:	
Intangible assets	$ 2,113
Other assets	1,003
Total assets acquired and consideration paid	3,116
Liabilities assumed:	
Other liabilities	401
Total liabilities assumed	401
Net assets acquired and consideration paid	$ 2,715
Intangible assets:	
Customer relationship intangible	$ 2,113
Estimated useful life	6 years

On August 28, 2020, the Company announced that it had completed the sale of its commercial FHA origination platform to Dwight Capital, a nationwide mortgage banking firm headquartered in New York.

NOTE 4 – INVESTMENT SECURITIES

Investment Securities Available for Sale

Investment securities available for sale at September 30, 2021 and December 31, 2020 were as follows:

	September 30, 2021				
(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Allowance for credit losses	Fair value
Investment securities available for sale					
U.S. Treasury securities	$ 15,818	$ —	$ 31	$ —	$ 15,787
U.S. government sponsored entities and U.S. agency securities	42,543	133	510	—	42,166
Mortgage-backed securities - agency	454,986	3,339	3,677	—	454,648
Mortgage-backed securities - non-agency	32,406	179	203	—	32,382
State and municipal securities	138,323	6,133	221	—	144,235
Corporate securities	197,753	4,180	232	142	201,559
Total available for sale securities	$ 881,829	$ 13,964	$ 4,874	$ 142	$ 890,777

	December 31, 2020				
(dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Allowance for credit losses	Fair value
Investment securities available for sale					
U.S. government sponsored entities and U.S. agency securities	$ 35,287	$ 377	$ 97	$ —	$ 35,567
Mortgage-backed securities - agency	338,340	6,284	47	—	344,577
Mortgage-backed securities - non-agency	20,411	333	—	—	20,744
State and municipal securities	122,488	7,311	5	29	129,765
Corporate securities	145,187	2,205	997	337	146,058
Total available for sale securities	$ 661,713	$ 16,510	$ 1,146	$ 366	$ 676,711

The following is a summary of the amortized cost and fair value of the investment securities available for sale, by maturity, at September 30, 2021. 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	$ 18,619	$ 18,770
After one year through five years	85,146	87,740
After five years through ten years	250,694	256,065
After ten years	39,978	41,172
Mortgage-backed securities	487,392	487,030
Total available for sale securities	$ 881,829	$ 890,777

Proceeds and gross realized gains on sales of investment securities available for sale for the three and nine months ended September 30, 2021 and 2020, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2021	2020	2021	2020
Investment securities available for sale				
Proceeds from sales	$ 2,160	$ 28,256	$ 14,777	$ 28,256
Gross realized gains on sales	160	1,721	537	1,721

The table below presents a rollforward by security type for the three and nine months ended September 30, 2021 and 2020 of the allowance for credit losses on investment securities available for sale held at period end:

(dollars in thousands)	Mortgage-backed securities - non-agency	State and municipal securities	Corporate securities	Total
Changes in allowance for credit losses on investment securities available for sale:				
For the three months ended September 30, 2021				
Balance, beginning of period	$ 113	$ —	$ 213	$ 326
Current-period provision for expected credit losses	(113)	—	(71)	(184)
Balance, end of period	$ —	$ —	$ 142	$ 142
For the nine months ended September 30, 2021				
Balance, beginning of period	$ —	$ 29	$ 337	$ 366
Current-period provision for expected credit losses	—	(29)	(195)	(224)
Balance, end of period	$ —	$ —	$ 142	$ 142
For the three months ended September 30, 2020				
Balance, beginning of period	$ —	$ 1	$ 126	$ 127
Current-period provision for expected credit losses	—	1	180	181
Balance, end of period	$ —	$ 2	$ 306	$ 308
For the nine months ended September 30, 2020				
Balance, beginning of period	$ —	$ —	$ —	$ —
Current-period provision for expected credit losses	—	2	306	308
Balance, end of period	$ —	$ 2	$ 306	$ 308

Unrealized losses and fair values for investment securities available for sale as of September 30, 2021 and December 31, 2020, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

	September 30, 2021					
	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	$ 15,787	$ 31	$ —	$ —	$ 15,787	$ 31
U.S. government sponsored entities and U.S. agency securities	17,658	92	9,582	418	27,240	510
Mortgage-backed securities - agency	224,007	3,677	—	—	224,007	3,677
Mortgage-backed securities - non-agency	21,357	203	—	—	21,357	203
State and municipal securities	19,041	145	2,167	76	21,208	221
Total available for sale securities	$ 297,850	$ 4,148	$ 11,749	$ 494	$ 309,599	$ 4,642

	December 31, 2020					
	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	$ 9,903	$ 97	$ —	$ —	$ 9,903	$ 97
Mortgage-backed securities - agency	26,172	47	—	—	26,172	47
Corporate securities	20,010	522	—	—	20,010	522
Total available for sale securities	$ 56,085	$ 666	$ —	$ —	$ 56,085	$ 666

At September 30, 2021, 78 investment securities available for sale had unrealized losses with aggregate depreciation of 1.48% from their amortized cost basis. For all of these investment securities, the unrealized losses were generally due to changes in interest rates, and unrealized losses were considered to be temporary as the fair value is expected to recover as the securities approach their respective maturity dates. In analyzing an issuer's financial condition, we consider whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. 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 5 – LOANS

The following table presents total loans outstanding by portfolio class, as of September 30, 2021 and December 31, 2020:

(dollars in thousands)	September 30, 2021	December 31, 2020
Commercial:		
Commercial	$ 799,189	$ 937,382
Commercial other	668,146	748,193
Commercial real estate:		
Commercial real estate non-owner occupied	921,344	871,451
Commercial real estate owner occupied	437,140	423,257
Multi-family	128,961	151,534
Farmland	74,568	79,731
Construction and land development	200,792	172,737
Total commercial loans	3,230,140	3,384,285
Residential real estate:		
Residential first lien	277,819	358,329
Other residential	66,595	84,551
Consumer:		
Consumer	77,132	80,642
Consumer other	851,438	785,460
Lease financing	412,430	410,064
Total loans, gross	$ 4,915,554	$ 5,103,331

Total loans included net deferred loan costs of $4.3 million and $0.7 million at September 30, 2021 and December 31, 2020, respectively, and unearned income of $45.9 million and $46.5 million within the lease financing portfolio as of the same dates.

At September 30, 2021, the Company had commercial real estate and residential real estate loans held for sale totaling $26.6 million compared to commercial real estate and residential real estate loans held for sale totaling $138.1 million at December 31, 2020. The Company sold commercial real estate, residential real estate and consumer loans with proceeds totaling $139.9 million and $634.4 million during the three and nine months ended September 30, 2021, respectively, and $384.7 million and $855.0 million during the comparable periods in 2020, 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. Paycheck Protection Program ("PPP") loans of $82.4 million and $184.4 million as of September 30, 2021 and December 31, 2020, respectively, 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 normal terms, including collateralization and interest rates prevailing at the time. The aggregate loans outstanding to the Company's directors, executive officers, principal shareholders and their affiliates totaled $15.4 million and $19.7 million at September 30, 2021 and December 31, 2020, respectively. The new loans, other additions, repayments and other reductions with respect to such persons for the three and nine months ended September 30, 2021 and 2020, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Beginning balance	$ 18,762	$ 23,806	$ 19,693	$ 22,989
New loans and other additions	21	17	1,045	2,559
Repayments and other reductions	(3,424)	(3,249)	(5,379)	(4,974)
Ending balance	$ 15,359	$ 20,574	$ 15,359	$ 20,574

The following table represents, by loan portfolio segment, a summary of changes in the allowance for credit losses on loans for the three and nine months ended September 30, 2021 and 2020:

	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 three months ended September 30, 2021:							
Balance, beginning of period	$ 14,849	$ 30,718	$ 1,733	$ 3,683	$ 2,292	$ 5,389	$ 58,664
Provision for credit losses on loans	(75)	(2,105)	(538)	(697)	292	3,123	—
Charge-offs	(317)	(1,663)	(138)	(35)	(280)	(1,227)	(3,660)
Recoveries	134	3	74	66	93	301	671
Balance, end of period	$ 14,591	$ 26,953	$ 1,131	$ 3,017	$ 2,397	$ 7,586	$ 55,675
Changes in allowance for credit losses on loans for the nine months ended September 30, 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	(2,091)	4,854	(113)	(806)	429	1,677	3,950
Charge-offs	(3,457)	(3,382)	(410)	(286)	(740)	(1,996)	(10,271)
Recoveries	288	16	221	180	370	478	1,553
Balance, end of period	$ 14,591	$ 26,953	$ 1,131	$ 3,017	$ 2,397	$ 7,586	$ 55,675
Changes in allowance for credit losses on loans for the three months ended September 30, 2020:							
Balance, beginning of period	$ 12,213	$ 20,296	$ 1,512	$ 4,830	$ 2,087	$ 6,155	$ 47,093
Provision for credit losses on loans	6,513	4,518	534	(184)	422	(833)	10,970
Charge-offs	(913)	(3,462)	(250)	(101)	(307)	(628)	(5,661)
Recoveries	47	37	6	34	125	120	369
Balance, end of period	$ 17,860	$ 21,389	$ 1,802	$ 4,579	$ 2,327	$ 4,814	$ 52,771
Changes in allowance for credit losses on loans for the nine months ended September 30, 2020:							
Balance, beginning of period	$ 10,031	$ 10,272	$ 290	$ 2,499	$ 2,642	$ 2,294	$ 28,028
Impact of adopting ASC 326	2,327	4,104	724	1,211	(594)	774	8,546
Impact of adopting ASC 326 - PCD loans	1,045	1,311	809	1,015	57	—	4,237
Provision for credit losses on loans	9,132	18,661	233	226	994	3,903	33,149
Charge-offs	(4,763)	(13,081)	(324)	(496)	(1,271)	(2,414)	(22,349)
Recoveries	88	122	70	124	499	257	1,160
Balance, end of period	$ 17,860	$ 21,389	$ 1,802	$ 4,579	$ 2,327	$ 4,814	$ 52,771

The Company utilizes a combination of models which measure probability of default ("PD") and loss given default ("LGD") methodology in determining expected future credit losses.

PD 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. PD 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 PD 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, unemployment rates, 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 mean, to predict default rates for the twelve month time horizon.

The LGD 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 LGD approach produces segmented LGD 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 PD 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 amortized cost basis of individually evaluated loans on nonaccrual status as of September 30, 2021 and December 31, 2020:

	September 30, 2021			December 31, 2020		
(dollars in thousands)	**Nonaccrual with allowance**	**Nonaccrual with no allowance**	**Total nonaccrual**	**Nonaccrual with allowance**	**Nonaccrual with no allowance**	**Total nonaccrual**
Commercial:						
Commercial	$ 4,629	$ 4,890	$ 9,519	$ 3,498	$ —	$ 3,498
Commercial other	4,501	—	4,501	2,634	—	2,634
Commercial real estate:						
Commercial real estate non-owner occupied	1,961	15,939	17,900	5,509	3,823	9,332
Commercial real estate owner occupied	2,013	1,340	3,353	3,598	3,227	6,825
Multi-family	2,347	—	2,347	7,921	2,325	10,246
Construction and land development	124	—	124	2,131	693	2,824
Total commercial loans	15,575	22,169	37,744	25,291	10,068	35,359
Residential real estate:						
Residential first lien	4,490	885	5,375	8,534	1,071	9,605
Other residential	1,331	—	1,331	2,437	—	2,437
Consumer:						
Consumer	159	—	159	262	—	262
Lease financing	3,449	—	3,449	1,965	—	1,965
Total loans	$ 25,004	$ 23,054	$ 48,058	$ 38,489	$ 11,139	$ 49,628

There was no interest income recognized on nonaccrual loans during the three and nine months ended September 30, 2021 and 2020 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 $0.6 million and $2.1 million for the three and nine months ended September 30, 2021, respectively, and $0.6 million and $2.6 million for the three and nine months ended September 30, 2020, respectively. The Company recognized interest income on commercial and commercial real estate loans modified under troubled debt restructurings of $21,000 and $94,000 for the three and nine months ended September 30, 2021, respectively, and $17,000 and $46,000 for the three and nine months ended September 30, 2020, 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 September 30, 2021 and December 31, 2020:

	Type of Collateral			
(dollars in thousands)	**Real Estate**	**Blanket Lien**	**Equipment**	**Total**
September 30, 2021				
Commercial				
Commercial	$ —	$ 7,088	$ 104	$ 7,192
Commercial Real Estate				
Non-Owner Occupied	17,597	—	—	17,597
Owner Occupied	1,336	—	—	1,336
Multi-Family	2,257	—	—	2,257
Total Collateral Dependent Loans	$ 21,190	$ 7,088	$ 104	$ 28,382
December 31, 2020				
Commercial Real Estate				
Non-Owner Occupied	$ 8,159	$ —	$ —	$ 8,159
Multi-Family	10,121	—	—	10,121
Construction and Land Development	693	—	—	693
Total Collateral Dependent Loans	$ 18,973	$ —	$ —	$ 18,973

The aging status of the recorded investment in loans by portfolio as of September 30, 2021 was as follows:

	Accruing loans						
(dollars in thousands)	**30-59 days past due**	**60-89 days past due**	**Past due 90 days or more**	**Total past due**	**Nonaccrual**	**Current**	**Total**
Commercial:							
Commercial	$ 167	$ 699	$ —	$ 866	$ 9,519	$ 788,804	$ 799,189
Commercial other	3,576	1,761	171	5,508	4,501	658,137	668,146
Commercial real estate:							
Commercial real estate non-owner occupied	99	—	—	99	17,900	903,345	921,344
Commercial real estate owner occupied	315	1,870	—	2,185	3,353	431,602	437,140
Multi-family	38	194	—	232	2,347	126,382	128,961
Farmland	50	26	—	76	—	74,492	74,568
Construction and land development	197	—	—	197	124	200,471	200,792
Total commercial loans	4,442	4,550	171	9,163	37,744	3,183,233	3,230,140
Residential real estate:							
Residential first lien	78	34	—	112	5,375	272,332	277,819
Other residential	30	—	—	30	1,331	65,234	66,595
Consumer:							
Consumer	121	37	—	158	159	76,815	77,132
Consumer other	3,347	2,084	6	5,437	—	846,001	851,438
Lease financing	1,344	705	140	2,189	3,449	406,792	412,430
Total loans	$ 9,362	$ 7,410	$ 317	$ 17,089	$ 48,058	$ 4,850,407	$ 4,915,554

The aging status of the recorded investment in loans by portfolio as of December 31, 2020 was as follows:

	Accruing loans						
(dollars in thousands)	30-59 days past due	60-89 days past due	Past due 90 days or more	Total past due	Nonaccrual	Current	Total
Commercial:							
Commercial	$ 389	$ 27	$ —	$ 416	$ 3,498	$ 933,468	$ 937,382
Commercial other	4,007	3,901	896	8,804	2,634	736,755	748,193
Commercial real estate:							
Commercial real estate non-owner occupied	6,684	—	—	6,684	9,332	855,435	871,451
Commercial real estate owner occupied	2,145	—	—	2,145	6,825	414,287	423,257
Multi-family	61	—	—	61	10,246	141,227	151,534
Farmland	—	—	—	—	—	79,731	79,731
Construction and land development	863	—	—	863	2,824	169,050	172,737
Total commercial loans	14,149	3,928	896	18,973	35,359	3,329,953	3,384,285
Residential real estate:							
Residential first lien	127	207	—	334	9,605	348,390	358,329
Other residential	240	135	—	375	2,437	81,739	84,551
Consumer:			—				
Consumer	325	57	—	382	262	79,998	80,642
Consumer other	4,334	2,874	—	7,208	—	778,252	785,460
Lease financing	4,539	545	645	5,729	1,965	402,370	410,064
Total loans	$ 23,714	$ 7,746	$ 1,541	$ 33,001	$ 49,628	$ 5,020,702	$ 5,103,331

Troubled Debt Restructurings ("TDRs")

Loans modified as TDRs for commercial and commercial real estate loans generally consist of allowing commercial borrowers to defer scheduled principal payments and make interest only payments for a specified period of time at the stated interest rate of the original loan agreement or lower payments due to a modification of the loans' contractual terms. TDRs that continue to accrue interest and are greater than $50,000 are individually evaluated for impairment on a quarterly basis, and transferred to nonaccrual status when it is probable that any remaining principal and interest payments due on the loan will not be collected in accordance with the contractual terms of the loan. TDRs that subsequently default are individually evaluated for impairment at the time of default.

The Coronavirus Aid, Relief, and Economic Security Act, as amended by Section 541 of the Consolidated Appropriations Act, provides all banks with the option to elect either or both of the following from March 1, 2020 until the earlier of January 1, 2022 or the date that is 60 days after the termination of the national emergency declared by President Trump on March 13, 2020:

(i) to suspend the requirements under GAAP for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a TDR; and/or

(ii) to suspend any determination of a loan modified as a result of the effects of the COVID–19 pandemic as being a TDR, including impairment for accounting purposes.

If a bank elects, which the Bank has, a suspension noted above, the suspension (i) will be effective for the term of the loan modification, but solely with respect to any modification, including a forbearance arrangement, an interest rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal or interest, that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019; and (ii) will not apply to any adverse impact on the credit of a borrower that is not related to the COVID–19 pandemic. The outstanding balance of modifications made as a result of COVID-19, that were not considered TDRs, totaled $34.3 million and $209.1 million at September 30, 2021 and December 31, 2020, respectively.

The Company's TDRs are identified on a case-by-case basis in connection with the ongoing loan collection processes. The following table presents TDRs by loan portfolio as of September 30, 2021 and December 31, 2020:

	September 30, 2021			December 31, 2020		
(dollars in thousands)	Accruing (1)	Non-accrual (2)	Total	Accruing (1)	Non-accrual (2)	Total
Commercial	$ 341	$ 1,332	$ 1,673	$ 967	$ 558	$ 1,525
Commercial real estate	2,263	3,707	5,970	866	4,314	5,180
Construction and land development	40	—	40	39	909	948
Residential real estate	3,087	1,352	4,439	988	3,705	4,693
Consumer	32	—	32	41	—	41
Lease financing	481	262	743	—	38	38
Total loans	$ 6,244	$ 6,653	$ 12,897	$ 2,901	$ 9,524	$ 12,425

(1) These loans are still accruing interest.
(2) These loans are included in non-accrual loans in the preceding tables.

The allowance for credit losses on TDRs totaled $0.7 million and $0.8 million as of September 30, 2021 and December 31, 2020, respectively. The Company had no unfunded commitments in connection with TDRs at September 30, 2021 and December 31, 2020.

The following table presents a summary of loans by portfolio that were restructured during the three and nine months ended September 30, 2021 and 2020. There were no loans modified as TDRs within the previous twelve months that subsequently defaulted during the three and nine months ended September 30, 2021 or 2020:

	Commercial loan portfolio			Other loan portfolio			
(dollars in thousands)	Commercial	Commercial real estate	Construction and land development	Residential real estate	Consumer	Lease financing	Total
For the three months ended September 30, 2021							
Troubled debt restructurings:							
Number of loans	2	1	—	—	—	3	6
Pre-modification outstanding balance	$ 114	$ 152	$ —	$ —	$ —	$ 234	$ 500
Post-modification outstanding balance	114	130	—	—	—	234	478
For the nine months ended September 30, 2021							
Troubled debt restructurings:							
Number of loans	7	2	1	3	3	4	20
Pre-modification outstanding balance	$ 723	$ 1,584	$ 49	$ 191	$ 50	$ 739	$ 3,336
Post-modification outstanding balance	723	1,562	40	195	50	739	3,309
For the three months ended September 30, 2020							
Troubled debt restructurings:							
Number of loans	—	2	1	9	2	—	14
Pre-modification outstanding balance	$ —	$ 164	$ 526	$ 1,037	$ 9	$ —	$ 1,736
Post-modification outstanding balance	—	129	494	1,025	9	—	1,657
For the nine months ended September 30, 2020							
Troubled debt restructurings:							
Number of loans	2	4	3	20	2	—	31
Pre-modification outstanding balance	$ 432	$ 797	$ 1,010	$ 2,055	$ 9	$ —	$ 4,303
Post-modification outstanding balance	429	735	966	1,928	9	—	4,067

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 main regions, which include eastern, northern and southern Illinois and the St. Louis metropolitan area. 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, which includes commercial, commercial real estate and construction and land development loans. 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 of 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 and monitored 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 September 30, 2021 and December 31, 2020:

			September 30, 2021							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			2021	2020	2019	2018	2017	Prior	Revolving loans	Total
Commercial	Commercial	Acceptable credit quality	$ 64,766	$ 89,256	$ 71,662	$ 21,775	$ 25,089	$ 33,736	$ 449,822	$ 756,106
		Special mention	209	76	317	6,624	3	340	1,676	9,245
		Substandard	387	411	1,540	2,112	3,566	8,672	7,631	24,319
		Substandard – nonaccrual	54	—	107	348	349	378	8,283	9,519
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	65,416	89,743	73,626	30,859	29,007	43,126	467,412	799,189
	Commercial other	Acceptable credit quality	215,058	190,770	115,584	34,754	380	325	82,470	639,341
		Special mention	—	1,984	11,047	4,127	6	—	3,392	20,556
		Substandard	160	10	48	464	—	—	3,047	3,729
		Substandard – nonaccrual	—	329	3,406	762	—	—	4	4,501
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	19	—	—	—	—	—	—	19
		Subtotal	215,237	193,093	130,085	40,107	386	325	88,913	668,146
Commercial real estate	Non-owner occupied	Acceptable credit quality	206,696	165,895	122,017	36,011	57,013	167,245	6,562	761,439
		Special mention	146	35	16,896	4,103	339	20,526	—	42,045
		Substandard	6,106	6,927	17,841	19,724	17,680	31,432	250	99,960
		Substandard – nonaccrual	2,219	995	6,283	—	204	8,199	—	17,900
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	215,167	173,852	163,037	59,838	75,236	227,402	6,812	921,344
	Owner occupied	Acceptable credit quality	100,536	67,231	48,901	27,232	29,700	106,364	2,472	382,436
		Special mention	15	1,277	549	221	13,129	7,510	36	22,737
		Substandard	—	4,537	10,140	212	163	13,252	310	28,614
		Substandard – nonaccrual	—	515	130	350	73	2,285	—	3,353
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	100,551	73,560	59,720	28,015	43,065	129,411	2,818	437,140
	Multi-family	Acceptable credit quality	69,504	6,786	3,623	11,025	1,426	19,558	2,404	114,326
		Special mention	—	454	—	—	—	—	—	454
		Substandard	1,001	—	123	510	—	10,200	—	11,834
		Substandard – nonaccrual	—	—	—	—	—	2,347	—	2,347
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	70,505	7,240	3,746	11,535	1,426	32,105	2,404	128,961
	Farmland	Acceptable credit quality	16,404	15,913	4,153	3,393	8,281	20,992	1,407	70,543
		Special mention	—	236	1,236	151	—	241	—	1,864
		Substandard	549	172	143	318	20	909	50	2,161
		Substandard – nonaccrual	—	—	—	—	—	—	—	—
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	16,953	16,321	5,532	3,862	8,301	22,142	1,457	74,568
Construction and land development		Acceptable credit quality	32,195	84,983	24,954	25,584	2,778	4,778	17,986	193,258
		Special mention	—	—	4,386	643	—	—	—	5,029
		Substandard	—	1,337	—	—	—	—	—	1,337
		Substandard – nonaccrual	—	—	43	—	—	81	—	124
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	656	225	—	—	—	163	—	1,044
		Subtotal	32,851	86,545	29,383	26,227	2,778	5,022	17,986	200,792
Total		Acceptable credit quality	705,159	620,834	390,894	159,774	124,667	352,998	563,123	2,917,449
		Special mention	370	4,062	34,431	15,869	13,477	28,617	5,104	101,930
		Substandard	8,203	13,394	29,835	23,340	21,429	64,465	11,288	171,954
		Substandard – nonaccrual	2,273	1,839	9,969	1,460	626	13,290	8,287	37,744
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	675	225	—	—	—	163	—	1,063
Total commercial loans			$ 716,680	$ 640,354	$ 465,129	$ 200,443	$ 160,199	$ 459,533	$ 587,802	$ 3,230,140

(dollars in thousands)			December 31, 2020 Term Loans Amortized Cost Basis by Origination Year 2020	2019	2018	2017	2016	Prior	Revolving loans	Total
Commercial	Commercial	Acceptable credit quality	$ 117,792	$ 107,915	$ 35,649	$ 34,753	$ 22,025	$ 51,593	$ 517,929	$ 887,656
		Special mention	244	201	4,897	3,729	4,968	881	7,721	22,641
		Substandard	544	1,953	1,259	104	248	4,861	14,618	23,587
		Substandard – nonaccrual	2	31	640	936	154	458	1,277	3,498
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	118,582	110,100	42,445	39,522	27,395	57,793	541,545	937,382
	Commercial other	Acceptable credit quality	416,306	157,232	52,843	739	303	677	88,250	716,350
		Special mention	1,871	10,691	3,810	31	79	—	5,315	21,797
		Substandard	255	260	1,078	3	12	—	5,351	6,959
		Substandard – nonaccrual	—	1,984	641	—	4	—	5	2,634
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	453	—	—	—	—	—	—	453
		Subtotal	418,885	170,167	58,372	773	398	677	98,921	748,193
Commercial real estate	Non-owner occupied	Acceptable credit quality	168,788	109,602	63,435	91,763	97,293	156,958	5,248	693,087
		Special mention	3,011	9,107	3,231	483	14,294	17,816	4,279	52,221
		Substandard	7,469	16,306	13,813	23,169	16,897	38,907	250	116,811
		Substandard – nonaccrual	125	325	101	—	3,438	5,343	—	9,332
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	179,393	135,340	80,580	115,415	131,922	219,024	9,777	871,451
	Owner occupied	Acceptable credit quality	68,688	55,502	38,471	55,526	63,105	91,986	4,066	377,344
		Special mention	1,882	3,578	225	4,142	1,038	7,289	—	18,154
		Substandard	4,078	468	1,023	760	5,861	8,430	314	20,934
		Substandard – nonaccrual	373	200	170	241	—	5,441	400	6,825
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	75,021	59,748	39,889	60,669	70,004	113,146	4,780	423,257
	Multi-family	Acceptable credit quality	12,865	6,921	19,204	32,934	10,674	24,375	1,281	108,254
		Special mention	465	—	8,442	—	—	1,323	—	10,230
		Substandard	—	10,945	1,518	—	10,266	75	—	22,804
		Substandard – nonaccrual	—	—	—	—	7,804	2,442	—	10,246
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	13,330	17,866	29,164	32,934	28,744	28,215	1,281	151,534
	Farmland	Acceptable credit quality	18,556	6,846	3,873	8,803	6,013	23,921	1,814	69,826
		Special mention	274	1,387	180	38	298	784	—	2,961
		Substandard	2,241	307	802	127	877	2,435	155	6,944
		Substandard – nonaccrual	—	—	—	—	—	—	—	—
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	—	—	—	—	—	—	—	—
		Subtotal	21,071	8,540	4,855	8,968	7,188	27,140	1,969	79,731
Construction and land development		Acceptable credit quality	36,488	83,440	11,625	3,554	2,506	4,263	15,941	157,817
		Special mention	—	—	454	—	—	—	—	454
		Substandard	1,386	8,875	—	—	—	914	—	11,175
		Substandard – nonaccrual	—	242	—	—	152	2,430	—	2,824
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	467	—	—	—	—	—	—	467
		Subtotal	38,341	92,557	12,079	3,554	2,658	7,607	15,941	172,737
Total		Acceptable credit quality	839,483	527,458	225,100	228,072	201,919	353,773	634,529	3,010,334
		Special mention	7,747	24,964	21,239	8,423	20,677	28,093	17,315	128,458
		Substandard	15,973	39,114	19,493	24,163	34,161	55,622	20,688	209,214
		Substandard – nonaccrual	500	2,782	1,552	1,177	11,552	16,114	1,682	35,359
		Doubtful	—	—	—	—	—	—	—	—
		Not graded	920	—	—	—	—	—	—	920
Total commercial loans			$ 864,623	$ 594,318	$ 267,384	$ 261,835	$ 268,309	$ 453,602	$ 674,214	$ 3,384,285

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, loans past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings 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 September 30, 2021 and December 31, 2020:

			September 30, 2021							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			2021	2020	2019	2018	2017	Prior	Revolving Loans	Total
Residential real estate	Residential first lien	Performing	$ 24,826	$ 32,488	$ 25,216	$ 33,149	$ 53,621	$ 99,989	$ 1,023	$ 270,312
		Nonperforming	—	185	101	985	692	5,544	—	7,507
		Subtotal	24,826	32,673	25,317	34,134	54,313	105,533	1,023	277,819
	Other residential	Performing	713	776	1,880	2,261	1,359	1,823	55,497	64,309
		Nonperforming	—	—	11	18	131	145	1,981	2,286
		Subtotal	713	776	1,891	2,279	1,490	1,968	57,478	66,595
Consumer	Consumer	Performing	23,130	19,180	10,751	10,909	4,026	3,294	5,651	76,941
		Nonperforming	5	25	3	21	44	87	6	191
		Subtotal	23,135	19,205	10,754	10,930	4,070	3,381	5,657	77,132
	Consumer other	Performing	349,481	394,019	68,618	14,062	4,272	6,086	14,894	851,432
		Nonperforming	—	—	—	—	—	—	6	6
		Subtotal	349,481	394,019	68,618	14,062	4,272	6,086	14,900	851,438
Leases financing		Performing	111,349	134,125	96,752	50,787	11,786	3,561	—	408,360
		Nonperforming	193	1,341	1,569	689	229	49	—	4,070
		Subtotal	111,542	135,466	98,321	51,476	12,015	3,610	—	412,430
Total		Performing	509,499	580,588	203,217	111,168	75,064	114,753	77,065	1,671,354
		Nonperforming	198	1,551	1,684	1,713	1,096	5,825	1,993	14,060
Total other loans			$ 509,697	$ 582,139	$ 204,901	$ 112,881	$ 76,160	$ 120,578	$ 79,058	$ 1,685,414

			December 31, 2020							
			Term Loans Amortized Cost Basis by Origination Year							
(dollars in thousands)			2020	2019	2018	2017	2016	Prior	Revolving loans	Total
Residential real estate	Residential first lien	Performing	$ 32,322	$ 27,071	$ 49,039	$ 99,658	$ 81,525	$ 58,107	$ 405	$ 348,127
		Nonperforming	—	196	1,074	933	1,030	6,969	—	10,202
		Subtotal	32,322	27,267	50,113	100,591	82,555	65,076	405	358,329
	Other residential	Performing	975	2,430	3,281	2,091	1,348	1,825	69,773	81,723
		Nonperforming	—	13	21	146	7	165	2,476	2,828
		Subtotal	975	2,443	3,302	2,237	1,355	1,990	72,249	84,551
Consumer	Consumer	Performing	28,449	14,084	16,692	8,737	5,067	3,834	3,476	80,339
		Nonperforming	31	6	57	81	64	63	1	303
		Subtotal	28,480	14,090	16,749	8,818	5,131	3,897	3,477	80,642
	Consumer other	Performing	614,764	117,054	21,394	6,514	6,096	2,480	17,158	785,460
		Nonperforming	—	—	—	—	—	—	—	—
		Subtotal	614,764	117,054	21,394	6,514	6,096	2,480	17,158	785,460
Leases financing		Performing	177,068	125,611	70,059	21,047	12,410	1,259	—	407,454
		Nonperforming	468	192	1,080	600	207	63	—	2,610
		Subtotal	177,536	125,803	71,139	21,647	12,617	1,322	—	410,064
Total										
		Performing	853,578	286,250	160,465	138,047	106,446	67,505	90,812	1,703,103
		Nonperforming	499	407	2,232	1,760	1,308	7,260	2,477	15,943
Total other loans			$ 854,077	$ 286,657	$ 162,697	$ 139,807	$ 107,754	$ 74,765	$ 93,289	$ 1,719,046

NOTE 6 – PREMISES AND EQUIPMENT, NET

A summary of premises and equipment at September 30, 2021 and December 31, 2020 is as follows:

(dollars in thousands)	September 30, 2021	December 31, 2020
Land	$ 15,696	$ 16,158
Buildings and improvements	66,892	65,932
Furniture and equipment	33,683	33,202
Total	116,271	115,292
Accumulated depreciation	(45,030)	(41,168)
Premises and equipment, net	$ 71,241	$ 74,124

Depreciation expense for the three and nine months ended September 30, 2021 was $1.4 million and $4.2 million, respectively, and $2.2 million and $5.5 million for the three and nine months ended September 30, 2020, respectively.

NOTE 7 – LEASES

The Company had operating lease right-of-use assets of $8.5 million and $9.2 million as of September 30, 2021 and December 31, 2020, respectively, and operating lease liabilities of $10.8 million and $12.0 million at the same dates, respectively.

The operating leases, primarily for banking offices and operating facilities, have remaining lease terms of 1 month to 12 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 if they are reasonably certain to be exercised.

Information related to operating leases for the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Operating lease cost	$ 510	$ 883	$ 1,547	$ 2,453
Operating cash flows from leases	589	942	1,975	2,669
Right-of-use assets obtained in exchange for lease obligations	—	96	689	1,536
Right-of-use assets derecognized due to terminations or impairment	—	(4,440)	(210)	(4,453)
Weighted average remaining lease term	7.8 years	8.3 years	7.8 years	8.3 years
Weighted average discount rate	2.88 %	2.89 %	2.88 %	2.89 %

The projected minimum rental payments under the terms of the leases as of September 30, 2021 were as follows:

(dollars in thousands)	**Amount**
Year ending December 31:	
2021 remaining	$ 374
2022	2,244
2023	2,014
2024	1,718
2025	814
Thereafter	4,947
Total future minimum lease payments	12,111
Less imputed interest	(1,324)
Total operating lease liabilities	$ 10,787

NOTE 8 – LOAN SERVICING RIGHTS

Commercial FHA Mortgage Loan Servicing

The Company serviced commercial FHA mortgage loans for others with unpaid principal balances of $2.87 billion and $3.50 billion at September 30, 2021 and December 31, 2020, respectively. Changes in our commercial FHA loan servicing rights for the three and nine months ended September 30, 2021 and 2020 are summarized as follows:

(dollars in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Loan servicing rights:				
Balance, beginning of period	$ 33,732	$ 56,751	$ 38,322	$ 57,637
Originated servicing	—	341	—	998
Amortization	(721)	(814)	(2,284)	(2,357)
Refinancing fee received from third party	165	—	(439)	—
Permanent impairment	(3,037)	—	(5,460)	—
Balance, end of period	30,139	56,278	30,139	56,278
Valuation allowances:				
Balance, beginning of period	—	13,519	—	4,944
Additions	—	1,418	—	9,993
Reductions	—	—	—	—
Balance, end of period	—	14,937	—	14,937
Loan servicing rights, net	$ 30,139	$ 41,341	$ 30,139	$ 41,341
Fair value:				
At beginning of period	$ 34,255	$ 43,232	$ 38,322	$ 52,693
At end of period	$ 31,012	$ 41,341	$ 31,012	$ 41,341

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 considers many factors as appropriate, including lockouts, balloons, prepayment penalties, interest rate ranges, delinquencies and geographic location. The discount rate is 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 was 8.19% and 8.18% at September 30, 2021 and December 31, 2020, respectively, while the weighted average discount rate was 11.77% and 11.48% for the same dates, respectively.

United States Small Business Administration ("SBA") Loan Servicing

At September 30, 2021 and December 31, 2020, the Company serviced SBA loans for others with unpaid principal balances of $50.8 million and $49.2 million, respectively. At September 30, 2021 and December 31, 2020, SBA loan servicing rights of $0.8 million and $1.0 million, respectively, are reflected in loan servicing rights in the consolidated balance sheet.

Residential Mortgage Loan Servicing Held for Sale

At September 30, 2021 and December 31, 2020, the Company serviced residential mortgage loans for others with unpaid principal balances of $321.6 million and $382.3 million, respectively. At September 30, 2021 and December 31, 2020, residential mortgage servicing rights of $0.7 million and $0.9 million, respectively, were deemed held for sale and were reflected in other assets in the consolidated balance sheet.

NOTE 9 – GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill by segment at September 30, 2021 and December 31, 2020 is summarized as follows:

(dollars in thousands)	September 30, 2021	December 31, 2020
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 September 30, 2021 and December 31, 2020 are summarized as follows:

	September 30, 2021			December 31, 2020		
(dollars in thousands)	Gross carrying amount	Accumulated amortization	Total	Gross carrying amount	Accumulated amortization	Total
Core deposit intangibles	$ 57,012	$ (39,505)	$ 17,507	$ 57,012	$ (36,005)	$ 21,007
Customer relationship intangibles	16,184	(7,626)	8,558	14,071	(6,696)	7,375
Total intangible assets	$ 73,196	$ (47,131)	$ 26,065	$ 71,083	$ (42,701)	$ 28,382

In conjunction with the acquisition of ATG Trust, the Company recorded $2.1 million of customer relationship intangibles, which are being amortized on a straight-line basis over an estimated useful life of 6 years.

Amortization of intangible assets was $1.4 million and $4.4 million for the three and nine months ended September 30, 2021, respectively, and $1.6 million and $4.9 million for the comparable periods in 2020, respectively.

NOTE 10 – DERIVATIVE INSTRUMENTS

As part of the Company's overall management of interest rate sensitivity, 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.

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 commercial FHA revenue and residential mortgage banking revenue 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 September 30, 2021 and December 31, 2020:

	Notional amount		Fair value gain	
(dollars in thousands)	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Derivative instruments (included in other assets):				
Interest rate lock commitments	$ 79,631	$ 136,227	$ 520	$ 2,217
Forward commitments to sell mortgage-backed securities	91,424	218,126	69	—
Total	$ 171,055	$ 354,353	$ 589	$ 2,217

(dollars in thousands)	Notional amount September 30, 2021	Notional amount December 31, 2020	Fair value loss September 30, 2021	Fair value loss December 31, 2020
Derivative instruments (included in other liabilities):				
Forward commitments to sell mortgage-backed securities	$ —	$ 33,240	$ —	$ 309

During the three and nine months ended September 30, 2021, the Company recognized net losses of $0.4 million and $1.3 million, respectively, on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

During the three and nine months ended September 30, 2020, the Company recognized net losses of $1.7 million and $0.4 million, respectively, on derivative instruments in commercial FHA revenue and residential mortgage banking revenue in the consolidated statements of income.

Cash Flow Hedges

The Company entered 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 Federal Home Loan Bank ("FHLB") advances at September 30, 2021 and December 31, 2020:

(dollars in thousands)	September 30, 2021	December 31, 2020
Notional Amount	$ 50,000	$ 100,000
Average remaining life in years	5.5	5.3
Weighted average pay rate	0.60 %	0.57 %
Weighted average receive rate	0.13 %	0.22 %

During the first quarter of 2021, the Company terminated an interest rate swap agreement consisting of a $50.0 million notional amount of receive-fixed, pay-variable interest rate swap in conjunction with the repayment of a $50.0 million FHLB advance. A net gain of $0.3 million was recognized in other income in the consolidated statements of income.

In addition, the Company entered into $140.0 million notional amount of future-starting receive-fixed, pay-variable interest rate swaps on certain FHLB or other fixed-rate advances. These swaps are effective beginning in April 2023. The Company pays or receives the net interest amount quarterly based on the respective hedge agreement and includes the amount as part of FHLB advances interest expense on the consolidated statements of income.

Quarterly, the effectiveness evaluation is based on the fluctuation of the interest the Company pays to the FHLB for the debt as compared to the three-month LIBOR interest received from the counterparty. At September 30, 2021, the $6.3 million fair value of the cash flow hedges was included in other assets in the consolidated balance sheets. At December 31, 2020, the $0.4 million fair value of cash flow hedges was included in other assets in the consolidated balance sheets. The tax effected amounts of $4.6 million and $0.3 million at September 30, 2021 and December 31, 2020, respectively, were included in accumulated other comprehensive income. There were no amounts recorded in the consolidated statements of income for the three and nine months ended September 30, 2021, related to ineffectiveness.

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. The swaps are offset by contracts simultaneously purchased by the Company from other financial dealer institutions with equal and offsetting terms. Because of the equal and offsetting 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 $8.1 million and $8.5 million at September 30, 2021 and December 31, 2020, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $0.5 million and $0.8 million at September 30, 2021 and December 31, 2020, respectively, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets.

NOTE 11 – DEPOSITS

The following table summarizes the classification of deposits as of September 30, 2021 and December 31, 2020:

(dollars in thousands)	September 30, 2021	December 31, 2020
Noninterest-bearing demand	$ 1,672,901	$ 1,469,579
Interest-bearing:		
Checking	1,697,326	1,568,888
Money market	852,836	785,871
Savings	665,710	597,966
Time	712,603	678,712
Total deposits	$ 5,601,376	$ 5,101,016

NOTE 12 – SHORT-TERM BORROWINGS

The following table presents the distribution of short-term borrowings and related weighted average interest rates as of September 30, 2021 and December 31, 2020:

	Repurchase agreements	
(dollars in thousands)	As of and for the Nine Months Ended September 30, 2021	As of and for the Year Ended December 31, 2020
Outstanding at period-end	$ 66,666	$ 68,957
Average amount outstanding	69,764	60,306
Maximum amount outstanding at any month end	77,497	77,136
Weighted average interest rate:		
During period	0.12 %	0.30 %
End of period	0.12 %	0.12 %

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 $79.7 million and $76.5 million at September 30, 2021 and December 31, 2020, respectively, were pledged for securities sold under agreements to repurchase.

The Company had available lines of credit of $53.5 million and $54.4 million at September 30, 2021 and December 31, 2020, respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with respect to a pool of commercial real estate loans totaling $60.7 million and $68.1 million at September 30, 2021 and December 31, 2020, respectively. There were no outstanding borrowings under these lines at September 30, 2021 and December 31, 2020.

At September 30, 2021, the Company had available federal funds lines of credit totaling $45.0 million. These lines of credit were unused at September 30, 2021.

NOTE 13 – FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings as of September 30, 2021 and December 31, 2020:

(dollars in thousands)	September 30, 2021	December 31, 2020
Midland States Bancorp, Inc.		
Series G redeemable preferred stock - 171 shares at $1,000 per share	$ 171	$ 171
Midland States Bank		
FHLB advances – fixed rate, fixed term at rates averaging 0.22% and 0.24% at September 30, 2021 and December 31, 2020, respectively – maturing through October 2021	50,000	304,000
FHLB advances – putable fixed rate at rates averaging 1.90% and 2.01% at September 30, 2021 and December 31, 2020, respectively – maturing through February 2030 with call provisions through November 2021	390,000	475,000
Total FHLB advances and other borrowings	$ 440,171	$ 779,171

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 $2.09 billion and $1.86 billion at September 30, 2021 and December 31, 2020, respectively.

NOTE 14 – SUBORDINATED DEBT

The following table summarizes the Company's subordinated debt as of September 30, 2021 and December 31, 2020:

(dollars in thousands)	September 30, 2021	December 31, 2020
Subordinated debt issued June 2015 – variable interest rate equivalent to three month LIBOR plus 4.35%, which was 4.59% at December 31, 2020	$ —	$ 31,075
Subordinated debt issued June 2015 – fixed interest rate of 6.50%, $550 - maturing June 18, 2025	546	545
Subordinated debt issued October 2017 – fixed interest rate of 6.25% through October 2022 and a variable interest rate equivalent to three month LIBOR plus 4.23% thereafter, $40,000 - maturing October 15, 2027	39,610	39,561
Subordinated debt issued September 2019 – fixed interest rate of 5.00% through September 2024 and a variable interest rate equivalent to three month SOFR plus 3.61% thereafter, $72,750 - maturing September 30, 2029	71,978	71,785
Subordinated debt issued September 2019 – fixed interest rate of 5.50% through September 2029 and a variable interest rate equivalent to three month SOFR plus 4.05% thereafter, $27,250 - maturing September 30, 2034	26,864	26,829
Total subordinated debt	$ 138,998	$ 169,795

During the second quarter of 2021, the Company redeemed the $31.1 million subordinated debentures issued in June 2015. No gain or loss was recognized on the repurchase.

The subordinated debentures may be included in Tier 2 capital (subject to certain limitations and phase-outs) under current regulatory guidelines and interpretations.

NOTE 15 – 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. The diluted earnings per share computation excluded antidilutive stock options of 69,145 for both the three and nine months ended September 30, 2021 and excluded antidilutive stock options of 595,660 and 492,443 for the three and nine months ended September 30, 2020, respectively, because the exercise prices of these stock options exceeded the average market prices of the Company's common shares for those respective periods. Presented below are the calculations for basic and diluted earnings per common share for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	**2021**	**2020**	**2021**	**2020**
Net income	$ 19,548	$ 86	$ 58,210	$ 14,204
Common shareholder dividends	(6,239)	(6,047)	(18,741)	(18,732)
Unvested restricted stock award dividends	(60)	(64)	(186)	(194)
Undistributed earnings to unvested restricted stock awards	(126)	—	(386)	—
Undistributed earnings to common shareholders	$ 13,123	$ (6,025)	$ 38,897	$ (4,722)
Basic				
Distributed earnings to common shareholders	$ 6,239	$ 6,047	$ 18,741	$ 18,732
Undistributed earnings to common shareholders	13,123	(6,025)	38,897	(4,722)
Total common shareholders earnings, basic	$ 19,362	$ 22	$ 57,638	$ 14,010
Diluted				
Distributed earnings to common shareholders	$ 6,239	$ 6,047	$ 18,741	$ 18,732
Undistributed earnings to common shareholders	13,123	(6,025)	38,897	(4,722)
Total common shareholders earnings	19,362	22	57,638	14,010
Add back:				
Undistributed earnings reallocated from unvested restricted stock awards	—	—	1	—
Total common shareholders earnings, diluted	$ 19,362	$ 22	$ 57,639	$ 14,010
Weighted average common shares outstanding, basic	22,520,499	22,937,837	22,544,898	23,567,000
Options	57,381	—	69,074	11,518
Weighted average common shares outstanding, diluted	22,577,880	22,937,837	22,613,972	23,578,518
Basic earnings per common share	$ 0.86	$ 0.00	$ 2.56	$ 0.59
Diluted earnings per common share	0.86	0.00	2.55	0.59

NOTE 16 – 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.

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 September 30, 2021 and December 31, 2020, are summarized below:

	September 30, 2021			
(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	$ 15,787	$ 15,787	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	42,166	—	42,166	—
Mortgage-backed securities - agency	454,648	—	454,648	—
Mortgage-backed securities - non-agency	32,382	—	32,382	—
State and municipal securities	144,235	—	144,235	—
Corporate securities	201,559	—	200,624	935
Equity securities	9,542	9,542	—	—
Loans held for sale	26,621	—	26,621	—
Derivative assets	7,359	—	7,359	—
Total	$ 934,299	$ 25,329	$ 908,035	$ 935
Liabilities				
Derivative liabilities	$ 486	$ —	$ 486	$ —
Total	$ 486	$ —	$ 486	$ —
Assets measured at fair value on a non-recurring basis:				
Loan servicing rights	$ 31,946	$ —	$ —	$ 31,946
Mortgage servicing rights held for sale	705	—	—	705
Nonperforming loans	8,257	82	8,175	—
Other real estate owned	2,195	—	2,195	—
Assets held for sale	2,860	—	2,860	—

(dollars in thousands)	December 31, 2020 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. government sponsored entities and U.S. agency securities	$ 35,567	$ —	$ 35,567	$ —
Mortgage-backed securities - agency	344,577	—	344,577	—
Mortgage-backed securities - non-agency	20,744	—	20,744	—
State and municipal securities	129,765	—	129,765	—
Corporate securities	146,058	—	145,099	959
Equity securities	9,424	9,424	—	—
Loans held for sale	138,090	—	138,090	—
Derivative assets	3,423	—	3,423	—
Total	$ 827,648	$ 9,424	$ 817,265	$ 959
Liabilities				
Derivative liabilities	$ 1,112	$ —	$ 1,112	$ —
Total	$ 1,112	$ —	$ 1,112	$ —
Assets measured at fair value on a non-recurring basis:				
Loan servicing rights	$ 39,276	$ —	$ —	$ 39,276
Mortgage servicing rights held for sale	878	—	—	878
Nonperforming loans	13,333	—	12,054	1,279
Other real estate owned	20,247	—	20,247	—
Assets held for sale	4,157	—	4,157	—

The following table provides a reconciliation of activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2021 and 2020:

(dollars in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Balance, beginning of period	$ 1,008	$ 921	$ 959	$ 955
Total realized in earnings (1)	4	—	10	8
Total unrealized in other comprehensive income (2)	(73)	39	(24)	5
Net settlements (principal and interest)	(4)	—	(10)	(8)
Balance, end of period	$ 935	$ 960	$ 935	$ 960

(1) Amounts included in interest income from investment securities taxable in the consolidated statements of income.
(2) Represents change in unrealized gains or losses for the period included in other comprehensive income for assets held at the end of the reporting period.

The following table provides quantitative information about significant unobservable inputs used in fair value measurements of Level 3 assets measured at fair value on a recurring basis at September 30, 2021 and December 31, 2020:

(dollars in thousands)	Fair value		Valuation technique	Unobservable input / assumptions	Range (weighted average)[(1)]
September 30, 2021					
Corporate securities	$	935	Consensus pricing	Net market price	0.0% - 8.0% (5.4)%
December 31, 2020					
Corporate securities	$	959	Consensus pricing	Net market price	(2.0)% - 4.9% (2.0)%

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

The significant unobservable inputs used in the fair value measurement of the Company’s corporate securities is net market price. The corporate securities are not actively traded, and as a result, fair value is determined utilizing third-party valuation services through consensus pricing. Significant changes in any of the inputs in isolation would result in a significant change to the fair value measurement. Generally, net market price increases when market interest rates decline and declines when market interest rates increase.

The following table presents losses recognized on assets measured on a nonrecurring basis for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2021		2020		2021		2020	
Loan servicing rights	$	3,037	$	1,418	$	5,460	$	9,993
Mortgage servicing rights held for sale		79		188		222		1,075
Nonperforming loans		3,405		5,467		9,677		21,681
Other real estate owned		9		25		426		1,282
Assets held for sale		—		10,197		—		10,403
Total losses on assets measured on a nonrecurring basis	$	6,530	$	17,295	$	15,785	$	44,434

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 September 30, 2021 and December 31, 2020:

(dollars in thousands)	Fair value	Valuation technique	Unobservable input / assumptions	Range (weighted average)[1]
September 30, 2021				
Loan servicing rights:				
Commercial MSR	$ 31,012	Discounted cash flow	Prepayment speed	8.00% - 18.00% (8.19%)
			Discount rate	10.00% - 27.00% (11.77%)
SBA servicing rights	934	Discounted cash flow	Prepayment speed	13.27% - 14.40% (13.56%)
			Discount rate	10.00% - 12.00% (11.00%)
MSR held for sale	705	Discounted cash flow	Prepayment speed	15.66% -30.30% (18.84%)
			Discount rate	9.00% - 11.50% (10.13%)
December 31, 2020				
Loan servicing rights:				
Commercial MSR	$ 38,322	Discounted cash flow	Prepayment speed	8.00% - 18.00% (8.18%)
			Discount rate	10.00% - 27.00% (11.48%)
SBA servicing rights	954	Discounted cash flow	Prepayment speed	12.01% - 12.52% (12.25%)
			Discount rate	No range (11.00%)
MSR held for sale	878	Discounted cash flow	Prepayment speed	14.40% - 26.28% (20.34%)
			Discount rate	9.00% - 11.50% (10.13%)
Other:				
Nonperforming loans	1,279	Fair value of collateral	Discount for type of property, age of appraisal and current status	5.76% - 6.43% (6.14%)

(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 commercial and 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 September 30, 2021 and December 31, 2020:

	September 30, 2021			December 31, 2020		
(dollars in thousands)	Aggregate fair value	Difference	Contractual principal	Aggregate fair value	Difference	Contractual principal
Commercial loans held for sale	$ 17,013	$ —	$ 17,013	$ 126,123	$ 67	$ 126,056
Residential loans held for sale	9,608	499	9,109	11,967	743	11,224
Total loans held for sale	$ 26,621	$ 499	$ 26,122	$ 138,090	$ 810	$ 137,280

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 three and nine months ended September 30, 2021 and 2020:

(dollars in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Commercial loans held for sale	$ —	$ (156)	$ (67)	$ (38)
Residential loans held for sale	(231)	(114)	(294)	555
Total loans held for sale	$ (231)	$ (270)	$ (361)	$ 517

The carrying values and estimated fair value of certain financial instruments not carried at fair value at September 30, 2021 and December 31, 2020 were as follows:

(dollars in thousands)	September 30, 2021 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	$ 658,173	$ 658,173	$ 658,173	$ —	$ —
Federal funds sold	4,470	4,470	4,470	—	—
Loans, net	4,859,879	4,880,572	—	—	4,880,572
Accrued interest receivable	22,043	22,043	—	22,043	—
Liabilities					
Deposits	$ 5,601,376	$ 5,603,773	$ —	$ 5,603,773	$ —
Short-term borrowings	66,666	66,666	—	66,666	—
FHLB and other borrowings	440,171	455,721	—	455,721	—
Subordinated debt	138,998	149,377	—	149,377	—
Trust preferred debentures	49,235	56,506	—	56,506	—

(dollars in thousands)	December 31, 2020 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	$ 337,080	$ 337,080	$ 337,080	$ —	$ —
Federal funds sold	4,560	4,560	4,560	—	—
Loans, net	5,042,888	5,006,223	—	—	5,006,223
Accrued interest receivable	23,545	23,545	—	23,545	—
Liabilities					
Deposits	$ 5,101,016	$ 5,108,360	$ —	$ 5,108,360	$ —
Short-term borrowings	68,957	68,957	—	68,957	—
FHLB and other borrowings	779,171	807,493	—	807,493	—
Subordinated debt	169,795	176,504	—	176,504	—
Trust preferred debentures	48,814	50,165	—	50,165	—

In accordance with our adoption of ASU 2016-1 in 2019, the methods utilized to measure fair value of financial instruments at September 30, 2021 and December 31, 2020 represent an approximation of exit price; however, an actual exit price may differ.

NOTE 17 – COMMITMENTS, CONTINGENCIES AND CREDIT RISK

The spread of the COVID-19 virus had an impact on our operations as of September 30, 2021 and December 31, 2020, and the Company expects that the virus will continue to have an impact on the business, financial condition, and results of operations of the Company and its customers. The COVID-19 pandemic, and governmental policy responses, caused changes in the behavior of customers, businesses, and their employees, including illness, quarantines, social distancing practices, cancellation of events and travel, business and school shutdowns, reduction in commercial activity and financial transactions, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Future effects, including additional actions taken by federal, state, and local governments to contain COVID-19 or treat its impact, are unknown. If these effects worsen, it may adversely impact several industries within our geographic footprint and impair the ability of our customers to fulfill their contractual obligations to the Company. This could cause the Company to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include all or a combination of valuation impairments on our intangible assets, investments, loans, loan servicing rights, deferred tax assets, or counter-party risk derivatives.

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 September 30, 2021 and December 31, 2020 were as follows:

(dollars in thousands)	September 30, 2021	December 31, 2020
Commitments to extend credit	$ 830,763	$ 894,212
Financial guarantees – standby letters of credit	16,912	15,889

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 2021 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 three and nine months ended September 30, 2021 and 2020. The liability for unresolved repurchase demands totaled $0.2 million and $0.3 million at September 30, 2021 and December 31, 2020, respectively.

NOTE 18 – 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 leasing; 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 three and nine months ended September 30, 2021 and 2020 were as follows:

(dollars in thousands)	Banking	Wealth Management	Other	Total
Three Months Ended September 30, 2021				
Net interest income (expense)	$ 53,888	$ —	$ (2,492)	$ 51,396
Provision for credit losses	(184)	—	—	(184)
Noninterest income	7,917	7,175	51	15,143
Noninterest expense	37,055	4,507	(270)	41,292
Income (loss) before income taxes (benefit)	24,934	2,668	(2,171)	25,431
Income taxes	4,973	764	146	5,883
Net income (loss)	$ 19,961	$ 1,904	$ (2,317)	$ 19,548
Total assets	$ 7,092,837	$ 29,617	$ (28,495)	$ 7,093,959
Nine Months Ended September 30, 2021				
Net interest income (expense)	$ 161,514	$ —	$ (8,140)	$ 153,374
Provision for credit losses	2,926	—	—	2,926
Noninterest income	27,649	19,635	92	47,376
Noninterest expense	117,655	12,672	(1,015)	129,312
Income (loss) before income taxes (benefit)	68,582	6,963	(7,033)	68,512
Income taxes (benefit)	9,849	1,967	(1,514)	10,302
Net income (loss)	$ 58,733	$ 4,996	$ (5,519)	$ 58,210
Total assets	$ 7,092,837	$ 29,617	$ (28,495)	$ 7,093,959
Three Months Ended September 30, 2020				
Net interest income (expense)	$ 52,842	$ —	$ (2,862)	$ 49,980
Provision for credit losses	11,728	—	—	11,728
Noninterest income	13,428	5,559	(68)	18,919
Noninterest expense	50,600	3,599	(298)	53,901
Income (loss) before income taxes (benefit)	3,942	1,960	(2,632)	3,270
Income taxes	2,535	541	108	3,184
Net income (loss)	$ 1,407	$ 1,419	$ (2,740)	$ 86
Total assets	$ 6,701,937	$ 27,165	$ (29,057)	$ 6,700,045
Nine Months Ended September 30, 2020				
Net interest income (expense)	$ 154,747	$ —	$ (9,127)	$ 145,620
Provision for credit losses	34,303	—	—	34,303
Noninterest income	30,169	16,934	(190)	46,913
Noninterest expense	126,622	11,110	(770)	136,962
Income (loss) before income taxes (benefit)	23,991	5,824	(8,547)	21,268
Income taxes (benefit)	7,295	1,623	(1,854)	7,064
Net income (loss)	$ 16,696	$ 4,201	$ (6,693)	$ 14,204
Total assets	$ 6,701,937	$ 27,165	$ (29,057)	$ 6,700,045

NOTE 19 – 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 three and nine months ended September 30, 2021 and 2020.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Noninterest income - in-scope of Topic 606				
Wealth management revenue:				
Trust management/administration fees	$ 5,623	$ 4,054	$ 15,054	$ 12,536
Investment advisory fees	907	874	2,668	2,610
Other	645	631	1,913	1,788
Service charges on deposit accounts:				
Nonsufficient fund fees	1,470	1,335	3,814	4,162
Other	798	757	2,196	2,292
Interchange revenues	3,651	3,283	10,823	9,129
Other income:				
Merchant services revenue	405	396	1,137	1,051
Other	925	329	3,135	2,196
Noninterest income - out-of-scope of Topic 606	719	7,260	6,636	11,149
Total noninterest income	$ 15,143	$ 18,919	$ 47,376	$ 46,913

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 by them 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 20 – SUBSEQUENT EVENTS

On October 12, 2021, the Company entered into a loan agreement with another bank for a revolving line of credit in the original principal amount of up to $15.0 million. The loan matures on October 11, 2022 and has a variable rate of interest equal to the Daily Simple Secured Overnight Financing Rate ("SOFR") plus 1.60%. Beginning January 31, 2022, the Company is required to make quarterly interest payments with the principal balance due at maturity. The loan agreement contains financial covenants that require the Company to be well-capitalized at all times, maintain a minimum total capital to risk-weighted assets ratio, a minimum return on average assets and a maximum percentage of nonperforming assets to tangible capital.

On October 22, 2021, the Company terminated an interest rate swap agreement consisting of a $50.0 million notional amount of receive-fixed, pay-variable interest rate swap in conjunction with the prepayment of a $50.0 million FHLB advance. A gain of $1.8 million was recognized on this transaction. In addition, on October 22, 2021, the Company pre-paid longer-term FHLB advances totaling $80.0 million with a weighted average interest rate of 2.56% and maturity dates of July 15, 2025 and August 20. 2025. As a result, we paid prepayment fees of $4.9 million in the fourth quarter of 2021.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion explains our financial condition and results of operations as of and for the three and nine months ended September 30, 2021. Annualized results for these interim periods may not be indicative of results for the full year or future periods. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes presented elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021.

In addition to the historical information contained herein, this Form 10-Q includes “forward-looking statements” within the meaning of such term in the Private Securities Litigation Reform Act of 1995. These statements are subject to many risks and uncertainties, including the effects of the COVID-19 pandemic and its effects on the economic environment, our customers and our operations, as well as any changes to federal, state or local government laws, regulations or orders in connection with the pandemic; changes in interest rates and other general economic, business and political conditions; changes in the financial markets; changes in business plans as circumstances warrant; risks related to mergers and acquisitions and the integration of acquired businesses; developments and uncertainty related to the future use and availability of some reference rates, such as LIBOR, as well as other alternative reference rates, and the adoption of a substitute; changes to U.S. tax laws, regulations and guidance; and other risks detailed from time to time in filings made by the Company with the SEC. Readers should note that the forward-looking statements included herein are not a guarantee of future events, and that actual events may differ materially from those made in or suggested by the forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “will,” “propose,” “may,” “plan,” “seek,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” or “continue,” or similar terminology. Any forward-looking statements presented herein are made only as of the date of this document, and we do not undertake any obligation to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, or otherwise.

Critical Accounting Policies

The preparation of our consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under current circumstances. These estimates form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes have the most effect on the Company’s reported financial position and results of operations are set forth in “Note 1 – Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements, included in our Annual Report on Form 10-K for the year ended December 31, 2020. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since December 31, 2020.

Significant Developments and Transactions

Each item listed below materially affects the comparability of our results of operations for the three and nine months ended September 30, 2021 and 2020, and our financial condition as of September 30, 2021 and December 31, 2020, and may affect the comparability of financial information we report in future fiscal periods.

Impact of COVID-19. The progression of the COVID-19 pandemic in the United States has had an adverse impact on our financial condition and results of operations as of and for the three and nine months ended September 30, 2021 and 2020, and may continue to have a complex and adverse impact on the economy, the banking industry and our Company in future fiscal periods.

Effects on Our Business. The COVID-19 pandemic, federal, state and local government responses to the pandemic, and the effects of the existing and future variants of the disease, including the Delta variant, have had and are expected to continue to have a significant impact on our business. In particular, a significant portion of the Bank’s borrowers in the hotel, restaurant, ground transportation, long-term healthcare and retail industries have endured significant economic distress, which has adversely affected their ability to repay existing indebtedness and adversely impacted the value of collateral. These developments, together with economic conditions generally, are also expected to impact our commercial real estate portfolio, particularly with respect to real estate with exposure to these industries, our equipment leasing business and loan portfolio, our consumer loan business and loan portfolio, and the value of certain collateral securing our loans.

Our Response. We have taken numerous steps in response to the COVID-19 pandemic, including the following:

- The Bank has granted requests for payment deferrals on loans related to the impact of COVID-19 on such borrowers. At September 30, 2021, loans totaling $34.3 million are currently on deferral, the majority of which are for principal for a period of 90 days. Deferrals of $8.0 million related to assisted living facilities, $7.1 million related to the hotel and motel industry and $6.8 million related to transit and ground transportation accounted for 64% of our deferrals at September 30, 2021. Loan deferrals decreased from $107.3 million, or 2.2% of total loans, at June 30, 2021, to $34.3 million, or 0.7% of total loans, at September 30, 2021. We are continuing to work with our customers to address their specific needs.

- The Bank participated as a lender in the PPP and began taking applications on the first day of the program. We funded $418.2 million in PPP loans since its inception, and at September 30, 2021, we had $82.4 million of PPP loans outstanding to 958 customers. Income recognized on PPP loans totaled $2.4 million, including net deferred fee accretion of $2.1 million, in the three months ended September 30, 2021 compared to income of $1.9 million, including net deferred fee accretion of $1.2 million, in the three months ended September 30, 2020. The resulting PPP portfolio yield was 8.28% and 2.69% for the three months ended September 30, 2021 and 2020, respectively. For the nine months ended September 30, 2021, income recognized on PPP loans totaled $7.4 million, including net deferred fee accretion of $6.2 million, compared to income of $3.3 million, including net deferred fee accretion of $2.1 million, in the nine months ended September 30, 2020. The resulting PPP portfolio yield was 6.00% and 2.87% for the nine months ended September 30, 2021 and 2020, respectively.

Tax Settlement. 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 the second quarter of 2021. The Company also recognized approximately $3.6 million in consulting and legal expenses related to the settlement of the tax issue, resulting in an after-tax gain of approximately $2.9 million.

FHLB Advance Prepayments. On June 24, 2021, the Company pre-paid an $85.0 million longer term FHLB advance with an interest rate of 2.54% and a maturity date of May 1, 2023. As a result, we paid a prepayment fee of $3.7 million in the second quarter of 2021.

Redemption of Subordinated Notes. On June 18, 2021, the Company redeemed all of its outstanding fixed-to-floating rate subordinated notes due June 18, 2025, having an aggregate principal amount of $31.1 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. The interest rate on the subordinated notes was 4.54%.

Recent Acquisitions. 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 $399.7 million in assets under management.

Branch Network Optimization Plan. The Company closed 13 branches, or 20% of its branch network, and vacated approximately 23,000 square feet of corporate office space between September 3, 2020 and December 31, 2020. The Company estimates that the branch and corporate office reductions will result in annual cost savings of approximately $5.0 million beginning on January 1, 2021. Additionally, the Company plans to renovate and upgrade five other branches to reduce the size of and better utilize those facilities to serve retail and commercial customers. These renovations and upgrades are expected to cost approximately $4.0 million. The Company estimates that these renovations and upgrades will result in annual cost savings of approximately $1.0 million beginning in 2022. We had $2.9 million of facility-related assets classified as held for sale in other assets on the consolidated balance sheet at September 30, 2021.

Sale of Commercial FHA Origination Platform. On August 28, 2020, the Company announced that it had completed the sale of its commercial FHA origination platform to Dwight Capital, a nationwide mortgage banking firm headquartered in New York. The Bank continues to service the commercial FHA servicing portfolio of approximately $2.87 billion as of September 30, 2021.

Purchased Loans. Our net interest margin benefits from accretion income associated with purchase accounting discounts established on the purchased loans included in our acquisitions. Our reported net interest margin for the three months ended September 30, 2021 and 2020 was 3.34% and 3.33%, respectively. Accretion income associated with accounting discounts established on loans acquired totaled $1.0 million and $2.1 million for the three months ended September 30, 2021 and 2020, respectively, increasing the reported net interest margin by 7 basis points and 14 basis points for each respective period.

The reported net interest margin for the nine months ended September 30, 2021 and 2020 was 3.36% and 3.37%, respectively. Accretion income associated with accounting discounts established on loans acquired totaled $3.5 million and $6.1 million for the nine months ended September 30, 2021 and 2020, respectively, increasing the reported net interest margin by 8 basis points and 13 basis points for each respective period.

Results of Operations

Overview. The following table sets forth condensed income statement information of the Company for the three and nine months ended September 30, 2021 and 2020:

(dollars in thousands, except per share data)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Income Statement Data:				
Interest income	$ 58,490	$ 60,314	$ 177,390	$ 182,176
Interest expense	7,094	10,334	24,016	36,556
Net interest income	51,396	49,980	153,374	145,620
Provision for credit losses	(184)	11,728	2,926	34,303
Noninterest income	15,143	18,919	47,376	46,913
Noninterest expense	41,292	53,901	129,312	136,962
Income before income taxes	25,431	3,270	68,512	21,268
Income taxes	5,883	3,184	10,302	7,064
Net income	$ 19,548	$ 86	$ 58,210	$ 14,204
Basic earnings per common share	$ 0.86	$ —	$ 2.56	$ 0.59
Diluted earnings per common share	$ 0.86	$ —	$ 2.55	$ 0.59

During the three months ended September 30, 2021, we generated net income of $19.5 million, or diluted earnings per common share of $0.86, compared to net income of $0.1 million, or diluted earnings per common share of $0.00 in the three months ended September 30, 2020. Earnings for the third quarter of 2021 compared to the third quarter of 2020 increased primarily due to a $1.4 million increase in net interest income, an $11.9 million decrease in provision for credit losses and a $12.6 million decrease in noninterest expense. These results were partially offset by a $3.8 million decrease in noninterest income and a $2.7 million increase in income tax expense.

During the nine months ended September 30, 2021, we generated net income of $58.2 million, or diluted earnings per common share of $2.55, compared to net income of $14.2 million, or diluted earnings per common share of $0.59 in the nine months ended September 30, 2020. Earnings for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 increased primarily due to a $7.8 million increase in net interest income, a $31.4 million decrease in provision for credit losses, a $0.5 million increase in noninterest income and a $7.7 million decrease in noninterest expense. These results were partially offset by a $3.2 million increase in income tax 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 the three and nine months ended September 30, 2021 and 2020.

During the three months ended September 30, 2021, net interest income, on a tax-equivalent basis, increased to $51.8 million compared to $50.4 million for the three months ended September 30, 2020. The tax-equivalent net interest margin increased to 3.34% for the third quarter of 2021 compared to 3.33% in the third quarter of 2020.

During the nine months ended September 30, 2021, net interest income, on a tax-equivalent basis, increased to $154.5 million with a tax-equivalent net interest margin of 3.36% compared to net interest income, on a tax-equivalent basis, of $147.0 million and a tax-equivalent net interest margin of 3.37% for the nine months ended September 30, 2020.

Average Balance Sheet, Interest and Yield/Rate Analysis. The following table presents the average balance sheets, interest income, interest expense and the corresponding average yields earned and rates paid for the three and nine months ended September 30, 2021 and 2020. 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.

	Three Months Ended September 30,					
	2021			2020		
(tax-equivalent basis, dollars in thousands)	**Average balance**	**Interest & fees**	**Yield/ Rate**	**Average balance**	**Interest & fees**	**Yield/ Rate**
Interest-earning assets:						
Federal funds sold and cash investments	$ 525,848	$ 216	0.16 %	$ 491,728	$ 118	0.10 %
Investment securities:						
Taxable investment securities	632,485	3,396	2.15	509,432	3,424	2.69
Investment securities exempt from federal income tax (1)	140,887	1,138	3.23	119,273	1,076	3.61
Total securities	773,372	4,534	2.34	628,705	4,500	2.86
Loans:						
Loans (2)	4,720,466	52,699	4.43	4,706,180	54,151	4.58
Loans exempt from federal income tax (1)	79,597	778	3.88	97,760	974	3.96
Total loans	4,800,063	53,477	4.42	4,803,940	55,125	4.57
Loans held for sale	15,204	107	2.79	44,880	329	2.92
Nonmarketable equity securities	43,873	558	5.05	50,765	672	5.26
Total interest-earning assets	6,158,360	58,892	3.79	6,020,018	60,744	4.01
Noninterest-earning assets	597,153			625,522		
Total assets	$ 6,755,513			$ 6,645,540		
Interest-bearing liabilities:						
Deposits:						
Checking and money market deposits	$ 2,501,254	$ 703	0.11 %	$ 2,382,535	$ 1,310	0.22 %
Savings deposits	664,354	32	0.02	584,944	36	0.02
Time deposits	704,090	1,767	1.00	666,172	2,720	1.62
Brokered deposits	26,272	82	1.23	23,182	146	2.49
Total interest-bearing deposits	3,895,970	2,584	0.26	3,656,833	4,212	0.46
Short-term borrowings	68,103	21	0.12	64,010	28	0.17
FHLB advances and other borrowings	440,171	1,993	1.80	693,721	3,220	1.85
Subordinated debt	138,954	2,011	5.79	169,657	2,365	5.58
Trust preferred debentures	49,167	485	3.92	48,618	509	4.16
Total interest-bearing liabilities	4,592,365	7,094	0.61	4,632,839	10,334	0.89
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,434,193			1,303,963		
Other noninterest-bearing liabilities	77,204			75,859		
Total noninterest-bearing liabilities	1,511,397			1,379,822		
Shareholders' equity	651,751			632,879		
Total liabilities and shareholders' equity	$ 6,755,513			$ 6,645,540		
Net interest income / net interest margin (3)		$ 51,798	3.34 %		$ 50,410	3.33 %

(1) Interest income and average rates for tax-exempt loans and securities are presented on a tax-equivalent basis, assuming a federal income tax rate of 21%. Tax-equivalent adjustments totaled $402,000 and $430,000 for the three months ended September 30, 2021 and 2020, 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.

(tax-equivalent basis, dollars in thousands)	Nine Months Ended September 30, 2021 Average balance	2021 Interest & fees	2021 Yield/ Rate	2020 Average balance	2020 Interest & fees	2020 Yield/ Rate
Interest-earning assets:						
Federal funds sold and cash investments	$ 462,576	$ 454	0.13 %	$ 440,102	$ 1,352	0.41 %
Investment securities:						
Taxable investment securities	602,090	10,127	2.24	527,659	11,390	2.88
Investment securities exempt from federal income tax (1)	127,597	3,131	3.27	119,444	3,417	3.81
Total securities	729,687	13,258	2.42	647,103	14,807	3.05
Loans:						
Loans (2)	4,788,940	159,743	4.46	4,528,947	160,863	4.47
Loans exempt from federal income tax (1)	83,387	2,449	3.93	99,839	3,026	4.05
Total loans	4,872,327	162,192	4.45	4,628,786	163,889	4.73
Loans held for sale	38,772	810	2.79	54,595	1,524	3.73
Nonmarketable equity securities	49,688	1,847	4.97	48,857	1,957	5.35
Total interest-earning assets	6,153,050	178,561	3.88	5,819,443	183,529	4.21
Noninterest-earning assets	595,733			623,112		
Total assets	$ 6,748,783			$ 6,442,555		
Interest-bearing liabilities:						
Deposits:						
Checking and money market deposits	$ 2,434,480	$ 2,024	0.11 %	$ 2,303,857	$ 7,190	0.42 %
Savings deposits	650,323	121	0.02	560,434	200	0.05
Time deposits	702,973	6,280	1.19	730,321	10,274	1.88
Brokered deposits	35,485	334	1.26	24,776	469	2.52
Total interest-bearing deposits	3,823,261	8,759	0.31	3,619,388	18,133	0.67
Short-term borrowings	69,764	65	0.12	59,592	157	0.35
FHLB advances and other borrowings	525,072	7,033	1.79	639,839	9,092	1.90
Subordinated debt	157,871	6,694	5.65	169,748	7,355	5.78
Trust preferred debentures	49,028	1,465	4.00	48,488	1,819	5.01
Total interest-bearing liabilities	4,624,996	24,016	0.69	4,537,055	36,556	1.08
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,405,641			1,190,789		
Other noninterest-bearing liabilities	78,883			75,553		
Total noninterest-bearing liabilities	1,484,524			1,266,342		
Shareholders' equity	639,263			639,158		
Total liabilities and shareholders' equity	$ 6,748,783			$ 6,442,555		
Net interest income / net interest margin (3)		$ 154,545	3.36 %		$ 146,973	3.37 %

(1) Interest income and average rates for tax-exempt loans and securities are presented on a tax-equivalent basis, assuming a federal income tax rate of 21%. Tax-equivalent adjustments totaled $1.2 million and $1.4 million for the nine months ended September 30, 2021 and 2020, 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 that are not due solely to volume or rate have been allocated proportionally to the change due to volume and the change due to rate.

	Three Months Ended September 30, 2021 compared with Three Months Ended September 30, 2020			Nine Months Ended September 30, 2021 compared with Nine Months Ended September 30, 2020		
	Change due to:			Change due to:		
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Interest Variance	Volume	Rate	Interest Variance
Interest-earning assets:						
Federal funds sold and cash investments	$ 12	$ 86	$ 98	$ 45	$ (943)	$ (898)
Investment securities:						
Taxable investment securities	744	(772)	(28)	1,429	(2,692)	(1,263)
Investment securities exempt from federal income tax	185	(123)	62	216	(502)	(286)
Total securities	929	(895)	34	1,645	(3,194)	(1,549)
Loans:						
Loans	236	(1,688)	(1,452)	8,875	(9,995)	(1,120)
Loans exempt from federal income tax	(178)	(18)	(196)	(492)	(85)	(577)
Total loans	58	(1,706)	(1,648)	8,383	(10,080)	(1,697)
Loans held for sale	(213)	(9)	(222)	(387)	(327)	(714)
Nonmarketable equity securities	(89)	(25)	(114)	31	(141)	(110)
Total interest-earning assets	$ 697	$ (2,549)	$ (1,852)	$ 9,717	$ (14,685)	$ (4,968)
Interest-bearing liabilities:						
Deposits:						
Checking and money market deposits	$ 51	$ (658)	$ (607)	$ 255	$ (5,421)	$ (5,166)
Savings deposits	4	(8)	(4)	24	(103)	(79)
Time deposits	129	(1,082)	(953)	(319)	(3,675)	(3,994)
Brokered deposits	15	(79)	(64)	151	(286)	(135)
Total interest-bearing deposits	199	(1,827)	(1,628)	111	(9,485)	(9,374)
Short-term borrowings	1	(8)	(7)	18	(110)	(92)
FHLB advances and other borrowings	(1,160)	(67)	(1,227)	(1,587)	(472)	(2,059)
Subordinated debt	(436)	82	(354)	(509)	(152)	(661)
Trust preferred debentures	6	(30)	(24)	17	(371)	(354)
Total interest-bearing liabilities	$ (1,390)	$ (1,850)	$ (3,240)	$ (1,950)	$ (10,590)	$ (12,540)
Net interest income	$ 2,087	$ (699)	$ 1,388	$ 11,667	$ (4,095)	$ 7,572

Interest Income. Interest income, on a tax-equivalent basis, decreased $1.9 million to $58.9 million in the three months ended September 30, 2021 as compared to the same quarter in 2020 primarily due to a decrease in the yields on most earning asset categories. The yield on earning assets decreased 22 basis points to 3.79% from 4.01%, primarily due to the impact of lower market interest rates and a reduction in accretion income associated with accounting discounts established on loans acquired, which totaled $1.0 million and $2.1 million for the three months ended September 30, 2021 and 2020, respectively.

Average earning assets increased to $6.16 billion in the third quarter of 2021 from $6.02 billion in the same quarter in 2020. Investment securities increased $144.7 million, accounting for the majority of the increase in average earning assets.

Average loans decreased $3.9 million in the third quarter of 2021 compared to the same quarter one year prior. Average commercial loans decreased $36.8 million. Included in commercial loans are HUD warehouse lines and PPP loans. HUD warehouse lines increased $43.6 million and other commercial loans increased $83.4 million, which partially offset the $163.8 million decrease in PPP loans. PPP loan balances averaged $114.2 million in third quarter of 2021 and generated income of $2.4 million in this period, including net deferred fee accretion of $2.1 million. The PPP loan portfolio yield was 8.28% for the three months ended September 30, 2021. In the third quarter of 2020, the PPP loan portfolio averaged $278.0 million, generated income of $1.9 million, including net deferred fee accretion of $1.2 million, and yielded 2.69%.

Average consumer loans increased $89.9 million in the third quarter of 2021 compared to the third quarter of 2020, primarily as a result of our relationship with GreenSky. Average balances in our commercial real estate loans and lease portfolios also increased this quarter by $53.4 million and $22.6 million, respectively, compared to the prior year quarter. These increases were partially offset by payoffs and repayments in the residential real estate portfolio.

For the nine months ended September 30, 2021, interest income, on a tax-equivalent basis, decreased $5.0 million to $178.6 million as compared to the same period in 2020, primarily due to a decrease in the yields on all earning asset categories. The yield on earning assets decreased 33 basis points to 3.88% from 4.21%, primarily due to the impact of lower market interest rates and a reduction in accretion income associated with accounting discounts established on loans acquired, which totaled $3.5 million and $6.1 million for the nine months ended September 30, 2021 and 2020, respectively.

Average earning assets increased to $6.15 billion in the first nine months of 2021 from $5.82 billion in the same period in 2020. Increases in average loans and investment securities of $243.5 million and $82.6 million, respectively, accounted for the majority of the $333.6 million increase in average earning assets. Average commercial loans and consumer loans increased $210.0 million and $128.4 million, respectively, for the nine months ended September 30, 2021 compared to the same period of 2020. Increases in HUD warehouse lines accounted for $118.9 million of the increase in average commercial loan balances. PPP loan balances averaged $152.7 million in the nine months ended September 30, 2021 and generated income of $7.4 million, including net deferred fee accretion of $6.2 million. The PPP loan portfolio yield was 6.00% for the nine months ended September 30, 2021. For the nine months ended September 30, 2020, the PPP loan portfolio averaged $165.7 million, generated income of $3.3 million, including net deferred fee accretion of $2.1 million, and yielded 2.87%. These increases were partially offset by payoffs and repayments in the residential real estate portfolio.

Interest Expense. Interest expense decreased $3.2 million to $7.1 million for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. The cost of interest-bearing liabilities decreased to 0.61% for the third quarter of 2021 compared to 0.89% for the third quarter of 2020 primarily due to the continued reduction in rates paid on interest-bearing deposit accounts.

Interest expense on deposits decreased $1.6 million to $2.6 million for the three months ended September 30, 2021 from the comparable period in 2020. The decrease was primarily due to a decrease in rates paid on deposits. Average balances of interest-bearing deposit accounts increased $239.1 million, or 6.5%, to $3.90 billion for the three months ended September 30, 2021 compared to the same period one year earlier. The increase in volume was primarily attributable to increases of commercial deposits and retail deposits of $100.0 million and $88.8 million, respectively, due to new and expanded relationships with commercial clients and customers maintaining additional liquidity.

For the nine month period ended September 30, 2021, interest expense decreased $12.5 million to $24.0 million compared to the nine months ended September 30, 2020. The cost of interest-bearing liabilities decreased to 0.69% for the first nine months of 2021 compared to 1.08% for the same period of 2020. Interest expense on deposits decreased $9.4 million to $8.8 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to the continued reduction in rates paid on interest-bearing deposit accounts. Average balances of interest-bearing deposit accounts increased $203.9 million, or 5.6%, to $3.82 billion for the nine months ended September 30, 2021 compared to the same period one year earlier. The increase in volume was primarily attributable to increases of retail deposits and from our Insured Cash Sweep product offering of $87.7 million and $79.0 million, respectively.

Interest expense on FHLB advances and other borrowings decreased $1.2 million and $2.1 million for the three and nine months ended September 30, 2021, respectively, from the comparable periods in 2020. The Company repaid FHLB advances totaling $200.0 million in accordance with contract terms and prepaid a $50.0 million FHLB advance in the first quarter of 2021, and prepaid an $85.0 million longer term FHLB advance in the second quarter of 2021.

Interest expense on subordinated debt decreased $0.4 million and $0.7 million for the three and nine months ended September 30, 2021, respectively, from the comparable periods in 2020 primarily due to the redemption of $31.1 million of subordinated debt on June 18, 2021. The interest rate on the redeemed subordinated notes was 4.54%, equating to approximately $1.4 million of annual interest expense.

Provision for Credit Losses. The Company's provision for credit losses was a benefit of $0.2 million for the three months ended September 30, 2021. No provision for credit losses on loans was recorded in the quarter, while a benefit of $0.2 million was recorded for credit losses related to investment securities. Provision expense for the three months ended September

30, 2020 totaled $11.7 million, with $11.0 million attributable to loans, $0.5 million related to unfunded loan commitments and $0.2 million related to investment securities. For the nine months ended September 30, 2021 and 2020, the Company recorded provision expense of $2.9 million and $34.3 million, respectively. The decrease in the provision for credit losses for the three and nine months ended September 30, 2021 compared to prior year periods was primarily due to favorable changes in the mix of our loan portfolio and improved economic forecasts as a result of increasing vaccination rates and the lifting of restrictions on businesses by states and municipalities.

The provision for credit losses on loans made during the three and nine months ended September 30, 2021 were 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 three and nine months ended September 30, 2021 and 2020:

(dollars in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Increase (decrease)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Increase (decrease)
Noninterest income:						
Wealth management revenue	$ 7,175	$ 5,559	$ 1,616	$ 19,635	$ 16,934	$ 2,701
Commercial FHA revenue	411	926	(515)	1,045	5,607	(4,562)
Residential mortgage banking revenue	1,287	3,049	(1,762)	4,423	7,527	(3,104)
Service charges on deposit accounts	2,268	2,092	176	6,010	6,454	(444)
Interchange revenue	3,651	3,283	368	10,823	9,129	1,694
Gain on sales of investment securities, net	160	1,721	(1,561)	537	1,721	(1,184)
Impairment on commercial mortgage servicing rights	(3,037)	(1,418)	(1,619)	(5,460)	(9,993)	4,533
Company-owned life insurance	869	897	(28)	2,592	2,689	(97)
Other income	2,359	2,810	(451)	7,771	6,845	926
Total noninterest income	$ 15,143	$ 18,919	$ (3,776)	$ 47,376	$ 46,913	$ 463

Wealth management revenue. Income from our wealth management business increased $1.6 million and $2.7 million for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. Assets under administration increased to $4.06 billion at September 30, 2021 from $3.26 billion at September 30, 2020, primarily due to the addition of $399.7 million of assets under administration from the acquisition of ATG Trust at June 1, 2021 and an increase in the market performance as a result of the economic recovery between the two periods.

Commercial FHA revenue. Commercial FHA revenue decreased $0.5 million and $4.6 million for the three and nine months ended September 30, 2021, respectively, as compared to the same periods in 2020. The decline in revenue was attributable to the sale of the loan origination platform in August 2020, resulting in a decline in interest rate locks.

Residential mortgage banking revenue. Residential mortgage banking revenue for the three months ended September 30, 2021 decreased to $1.3 million, compared to $3.0 million for the same period in 2020, primarily attributable to a decrease in production. Loans originated in the third quarter of 2021 totaled $60.1 million, with 28% representing refinance transactions versus purchase transactions, compared to loans originated during the same period one year prior, which totaled $94.6 million, with 56% representing refinance transactions.

For the nine months ended September 30, 2021, residential mortgage banking revenue totaled $4.4 million, compared to $7.5 million for the same period in 2020. Loans originated in the first three quarters of 2021 totaled $199.8 million, with 50% representing refinance transactions versus purchase transactions. Loans originated during the same period one year prior totaled $241.9 million, with 59% representing refinance transactions.

Impairment of Commercial Mortgage Servicing Rights. Impairment of commercial mortgage servicing rights was $3.0 million and $5.5 million for the three and nine months ended September 30, 2021, respectively. The impairment resulted from loan prepayments as borrowers refinanced their loans in the current low interest rate environment. Loans serviced for others totaled $2.87 billion and $3.73 billion at September 30, 2021 and 2020, respectively.

Noninterest Expense. The following table sets forth the major components of noninterest expense for the three and nine months ended September 30, 2021 and 2020:

(dollars in thousands)	**Three Months Ended September 30, 2021**	**Three Months Ended September 30, 2020**	**Increase (decrease)**	**Nine Months Ended September 30, 2021**	**Nine Months Ended September 30, 2020**	**Increase (decrease)**
Noninterest expense:						
Salaries and employee benefits	$ 22,175	$ 21,118	$ 1,057	$ 64,774	$ 62,921	$ 1,853
Occupancy and equipment	3,701	4,866	(1,165)	11,437	14,021	(2,584)
Data processing	6,495	5,722	773	18,776	16,657	2,119
Professional	1,738	1,861	(123)	9,472	5,322	4,150
Marketing	860	738	122	2,037	2,513	(476)
Communications	689	916	(227)	2,335	3,152	(817)
Amortization of intangible assets	1,445	1,557	(112)	4,430	4,948	(518)
Impairment related to facilities optimization	—	12,651	(12,651)	—	12,857	(12,857)
FHLB advances prepayment fees	—	—	—	3,677	—	3,677
Other expense	4,189	4,472	(283)	12,374	14,571	(2,197)
Total noninterest expense	$ 41,292	$ 53,901	$ (12,609)	$ 129,312	$ 136,962	$ (7,650)

Salaries and employee benefits. For the three and nine months ended September 30, 2021, salaries and employee benefits expense increased $1.1 million and $1.9 million, respectively, as compared to the same periods in 2020, primarily due to higher incentive and bonus expense in 2021. The Company employed 905 employees at September 30, 2021 compared to 939 employees at September 30, 2020. The reduction in staff was primarily due to the sale of our commercial FHA loan origination platform in August 2020 and the closure of 13 banking facilities in December 2020, partially offset by the 15 employees added as a result of the ATG acquisition in the second quarter of 2021.

Occupancy and equipment expense. For the three and nine months ended September 30, 2021, occupancy and equipment expense decreased $1.2 million and $2.6 million, respectively, as compared to the same periods in 2020. In the third quarter of 2020, we vacated the Love Funding offices as a result of the sale of the commercial FHA loan origination platform, and in December 2020, we closed 13 branches and vacated approximately 23,000 square feet of corporate office space. At September 30, 2021, the Company operated 52 full-service banking centers compared to 65 banking centers at September 30, 2020.

Data processing fees. The $0.8 million and $2.1 million increases in data processing fees for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, respectively, were primarily the result of our continuing investments in technology to better serve our growing customer base.

Professional fees. For the nine months ended September 30, 2021, professional fees increased $4.2 million, as compared to the same period in 2020. The increase was primarily the result of $3.6 million of consulting and legal expenses incurred in the second quarter of 2021 related to the settlement of a tax issue, as previously discussed. Increased business activity, including recruiting expenses, and legal expenses related to the purchase of assets from ATG Trust also contributed to the increased fees in 2021.

Other expense. For the three and nine months ended September 30, 2021, other expense decreased $0.3 million and $2.2 million, respectively, as compared to the same periods in 2020. The Company incurred higher expenses in the first nine months of 2020 compared to 2021 related to OREO expenses and impairment of mortgage servicing rights held for sale.

Income Tax Expense. Income tax expense was $5.9 million for the three months ended September 30, 2021 compared to income tax expense of $3.2 million for the three months ended September 30, 2020. The resulting effective tax rates of were 23.1% and 97.4%, for the three months ended September 30, 2021 and 2020, respectively. The significant increase in the third quarter of 2020 effective tax rate resulted from Love Funding's asset sale, as goodwill of $10.9 million was derecognized and was not deductible for tax purposes, generating tax expense of $3.0 million.

Income tax expense was $10.3 million for the nine months ended September 30, 2021 compared to income tax expense of $7.1 million for the comparable period of 2020. The resulting effective tax rates of were 15.0% and 33.2%, for the nine months ended September 30, 2021 and 2020, respectively. The Company's income tax expense and related effective tax rate for the nine months ended September 30, 2021 benefited from the $6.8 million in settlements related to the treatment of gains recognized on FDIC-assisted transactions discussed earlier. Tax expense and the effective tax rates for the comparable period of 2020 were negatively impacted by Love Funding's asset sale in the third quarter of 2020.

Financial Condition

Assets. Total assets increased to $7.09 billion at September 30, 2021, as compared to $6.87 billion at December 31, 2020.

Loans. The loan portfolio is the largest category of our assets. At September 30, 2021, total loans were $4.92 billion compared to $5.10 billion at December 31, 2020. The following table shows loans by category as of September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
(dollars in thousands)	**Book Value**	**%**	**Book Value**	**%**
Loans:				
Commercial	$ 1,467,335	29.9 %	$ 1,685,575	33.0 %
Commercial real estate	1,562,013	31.8	1,525,973	29.9
Construction and land development	200,792	4.1	172,737	3.4
Total commercial loans	3,230,140	65.7	3,384,285	66.3
Residential real estate	344,414	7.0	442,880	8.7
Consumer	928,570	18.9	866,102	17.0
Lease financing	412,430	8.4	410,064	8.0
Total loans, gross	$ 4,915,554	100.0	$ 5,103,331	100.0
Allowance for credit losses on loans	(55,675)		(60,443)	
Total loans, net	$ 4,859,879		$ 5,042,888	

Total loans decreased $187.8 million to $4.92 billion at September 30, 2021 as compared to December 31, 2020. The decrease was primarily attributable to decreased HUD warehouse line utilization and forgiveness of PPP loans. Advances on our HUD warehouse lines of credit decreased $93.1 million to $180.2 million at September 30, 2021, compared to $273.3 million at December 31, 2020. PPP loans decreased $102.0 million to $82.4 million at September 30, 2021, compared to $184.4 million at December 31, 2020.

Total commercial loans totaled $3.23 billion at September 30, 2021, a decline of $154.1 million from December 31, 2020, due primarily to the decreases in the HUD warehouse line and PPP loan portfolios. Our equipment financing business, which is booked in the commercial loans and lease financing portfolios, showed growth of $37.6 million from December 31, 2020 to September 30, 2021. Consumer loans increased $62.5 million as a result of our relationship with GreenSky. These increases were offset in part by payoffs and repayments in the residential real estate portfolio.

On September 15, 2021, The Goldman Sachs Group, Inc. and GreenSky, Inc. announced that they had entered into a definitive agreement pursuant to which Goldman Sachs will acquire GreenSky. We believe there will be a gradual wind down of our GreenSky relationship over the next two years and expect that new loan originations through this partnership will continue through the second or third quarter of 2022, which will enable us to keep outstanding balances in the consumer loan portfolio relatively stable over that time period. After the new loan originations end, we expect the portfolio to begin running off at a rate of approximately $400 million to $450 million over the first 12 months.

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.

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.

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 September 30, 2021:

	September 30, 2021						
	Within One Year		One Year to Five Years		After Five Years		
(dollars in thousands)	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Total
Commercial	$ 71,063	$ 472,451	$ 661,934	$ 68,378	$ 101,055	$ 92,454	$ 1,467,335
Commercial real estate	276,843	111,675	553,239	291,887	145,278	183,091	1,562,013
Construction and land development	15,400	46,534	40,481	80,339	4,789	13,249	200,792
Total commercial loans	363,306	630,660	1,255,654	440,604	251,122	288,794	3,230,140
Residential real estate	2,798	7,978	13,277	24,424	157,291	138,646	344,414
Consumer	6,138	1,890	909,242	10,274	1,026	—	928,570
Lease financing	10,229	—	365,755	—	36,446	—	412,430
Total loans	$ 382,471	$ 640,528	$ 2,543,928	$ 475,302	$ 445,885	$ 427,440	$ 4,915,554

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. In addition to our allowance for credit losses on loans, our purchase discounts on acquired loans provide additional protections against credit losses.

Analysis of the Allowance for Credit Losses on Loans. The allowance for credit losses on loans decreased $4.8 million to $55.7 million at September 30, 2021, or 1.13% of total loans. The following table allocates the allowance for credit losses on loans, or the allowance, by loan category:

	September 30, 2021		December 31, 2020	
(dollars in thousands)	**Allowance**	**% (1)**	**Allowance**	**% (1)**
Commercial	$ 14,591	0.99%	$ 19,851	1.18%
Commercial real estate	26,953	1.73	25,465	1.67
Construction and land development	1,131	0.56	1,433	0.83
Total commercial loans	42,675	1.32	46,749	1.38
Residential real estate	3,017	0.88	3,929	0.89
Consumer	2,397	0.26	2,338	0.27
Lease financing	7,586	1.84	7,427	1.81
Total allowance for credit losses on loans	$ 55,675	1.13	$ 60,443	1.18

(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.

The allowance allocated to commercial loans totaled $14.6 million, or 0.99% of total commercial loans, at September 30, 2021, decreasing $5.3 million from $19.9 million at December 31, 2020. Modeled expected credit losses decreased $6.2 million and qualitative factor ("Q-Factor") adjustments related to commercial loans decreased $0.1 million. Specific allocations for commercial loans that were evaluated for expected credit losses on an individual basis increased from $1.2 million at December 31, 2020 to $2.2 million at September 30, 2021.

The allowance allocated to commercial real estate loans totaled $27.0 million, or 1.73% of total commercial real estate loans, at September 30, 2021, increasing $1.5 million, from $25.5 million, or 1.67% of total commercial real estate loans, at December 31, 2020. Modeled expected credit losses related to commercial real estate loans decreased $4.4 million and Q-Factor adjustments related to commercial real estate loans increased $7.0 million. Specific allocations for commercial real estate loans that were evaluated for expected credit losses on an individual basis decreased from $1.4 million at December 31, 2020 to $0.2 million at September 30, 2021.

The allowance allocated to the lease portfolio totaled $7.6 million, or 1.84% of total commercial leases, at September 30, 2021, increasing $0.2 million, from $7.4 million, or 1.81% of total commercial leases at December 31, 2020. Modeled expected credit losses related to commercial leases increased $1.1 million and Q-Factor adjustments related to commercial leases decreased $0.8 million. Specific allocations for commercial leases that were evaluated for expected credit losses on an individual basis decreased from $0.2 million at December 31, 2020 to $0 at September 30, 2021.

As previously stated, the overall loan portfolio decreased $187.8 million, or 3.7%, which included a $218.2 million, or 12.9%, decrease in commercial loans partially offset by a $36.0 million, or 2.4%, increase in commercial real estate loans and a $28.1 million, or 16.2%, increase in construction and land development loans. The weighted average risk grade for commercial loans of 4.63 at September 30, 2021, improved from 4.68 at December 31, 2020. Commercial loans graded “special mention” (risk grade 7) decreased $26.2 million while classified commercial loans (risk grade of 8 or 9) decreased $39.1 million. The weighted-average risk grade for commercial real estate loans improved to 5.22 at September 30, 2021 from 5.42 at December 31, 2020.

In estimating expected credit losses as of September 30, 2021, we utilized certain forecasted macroeconomic variables from Oxford Economics in our models. The forecasted projections included, among other things, (i) year over year change in U.S. gross domestic product ranging from 4.4% to 5.0% during 2021; (ii) U.S. unemployment rate improving to 4.0% by the third quarter of 2022 with Illinois unemployment rates slightly higher at 4.5%; and (iii) an average 10 year Treasury rate forecasted at 2.20% in the third quarter of 2022. These economic metrics forecast an improving economy in 2022.

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. 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 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 September 30, 2021, modeled expected credit losses were adjusted upwards with a Q-Factor adjustment of approximately 44 basis points of total loans, increasing slightly from 30 basis points at December 31, 2020. The Q-Factor adjustment at September 30, 2021 was based on an expected positive impact associated with changes in loan portfolio attributes, and a negative impact from other risk factors associated with our commercial real estate portfolio, particularly the risks related to continued decline in commercial real estate prices, and, to a certain level, change in the volume and severity of delinquent commercial real estate loans.

Management also made certain other qualitative adjustments for loans within certain industries that are expected to be more significantly impacted by the COVID-19 pandemic. As of December 31, 2020, we provided an additional qualitative adjustment of $2.3 million for our hotel and motel and our transit and ground transportation loan portfolios. This adjustment was estimated based on continued customer requests for loan modifications, and increased slightly to $2.5 million at September 30, 2021.

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 three and nine months ended September 30, 2021 and 2020:

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Balance, beginning of period	$ 58,664	$ 47,093	$ 60,443	$ 28,028
Charge-offs:				
Commercial	317	913	3,457	4,763
Commercial real estate	1,663	3,462	3,382	13,081
Construction and land development	138	250	410	324
Residential real estate	35	101	286	496
Consumer	280	307	740	1,271
Lease financing	1,227	628	1,996	2,414
Total charge-offs	3,660	5,661	10,271	22,349
Recoveries:				
Commercial	134	47	288	88
Commercial real estate	3	37	16	122
Construction and land development	74	6	221	70
Residential real estate	66	34	180	124
Consumer	93	125	370	499
Lease financing	301	120	478	257
Total recoveries	671	369	1,553	1,160
Net charge-offs	2,989	5,292	8,718	21,189
Provision for credit losses on loans	—	10,970	3,950	33,149
Impact of Adopting ASC 326	—	—	—	12,783
Balance, end of period	$ 55,675	$ 52,771	$ 55,675	$ 52,771
Gross loans, end of period	$ 4,915,554	$ 4,941,466	$ 4,915,554	$ 4,941,466
Average total loans	$ 4,800,063	$ 4,803,940	$ 4,872,327	$ 4,628,786
Net charge-offs to average loans	0.25 %	0.44 %	0.24 %	0.61 %
Allowance to total loans	1.13 %	1.07 %	1.13 %	1.07 %

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.

Net charge-offs for the three months ended September 30, 2021 totaled $3.0 million, compared to $5.3 million for the same period one year ago. For the nine months ended September 30, 2021, net charge-offs totaled $8.7 million, compared to $21.2 million for the same period one year ago. Approximately $10.2 million of the net charge-offs in the first quarter of 2020 were related to three loans that had been on non-performing status with specific reserves held against them for at least one year. These charge-offs were unrelated to the impact of the COVID-19 pandemic.

Nonperforming Loans. The following table sets forth our nonperforming assets by asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. Deferrals related to COVID-19 are not included as TDRs as of September 30, 2021 and December 31, 2020. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

(dollars in thousands)	September 30, 2021	December 31, 2020
Nonperforming loans:		
Commercial	$ 14,532	$ 7,995
Commercial real estate	25,863	27,269
Construction and land development	164	2,863
Residential real estate	9,793	13,030
Consumer	197	303
Lease financing	4,070	2,610
Total nonperforming loans	54,619	54,070
Other real estate owned and other repossessed assets	14,642	21,362
Nonperforming assets	$ 69,261	$ 75,432
Nonperforming loans to total loans	1.11 %	1.06 %
Nonperforming assets to total assets	0.98 %	1.10 %

We did not recognize interest income on nonaccrual loans during the three and nine months ended September 30, 2021 or 2020 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 $0.6 million and $2.1 million for the three and nine months ended September 30, 2021, respectively, and $0.6 million and $2.6 million for the three and nine months ended September 30, 2020, respectively. The Company recognized interest income on commercial and commercial real estate loans modified under troubled debt restructurings of $21,000 and $94,000 for the three and nine months ended September 30, 2021, respectively, and $17,000 and $46,000 for the comparable periods in 2020, respectively.

We use a ten grade risk rating system to categorize and determine the credit risk of our loans. Potential problem loans include loans with a risk grade of 7, which are "special mention," and loans with a risk grade of 8, which are "substandard" loans that are not considered to be nonperforming. These loans generally require more frequent loan officer contact and receipt of financial data to closely monitor borrower performance. Potential problem loans are managed and monitored regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive officers and other members of the Bank's senior management team.

The following table presents the recorded investment of potential problem commercial loans by loan category at the dates indicated:

	Commercial		Commercial real estate		Construction & land development		
	Risk category		Risk category		Risk category		
(dollars in thousands)	7	8 [(1)]	7	8 [(1)]	7	8 [(1)]	Total
September 30, 2021	$ 29,801	$ 27,708	$ 66,963	$ 140,488	$ 5,028	$ 1,336	$ 271,324
December 31, 2020	43,890	29,708	83,424	166,769	454	11,176	335,421

(1) Includes only those 8-rated loans that are not included in nonperforming loans.

Commercial loans with a risk rating of 7 or 8 decreased to $57.5 million as of September 30, 2021, compared to $73.6 million as of December 31, 2020, primarily due to risk rating upgrades of several hotel-related relationships totaling $34.2 million, and a $7.1 million relationship moving to nonaccrual status. Commercial real estate loans with a risk rating of 7 or 8 decreased to $207.5 million as of September 30, 2021, compared to $250.2 million as of December 31, 2020, primarily due to risk rating upgrades of several hotel-related relationships totaling $23.2 million.

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.

The following table sets forth the book value and percentage of each category of investment securities at September 30, 2021 and December 31, 2020. The book value for investment securities classified as available for sale is equal to fair market value.

	September 30, 2021		December 31, 2020	
(dollars in thousands)	Book Value	% of Total	Book Value	% of Total
Investment securities available for sale:				
U.S. Treasury securities	$ 15,787	1.8 %	$ —	— %
U.S. government sponsored entities and U.S. agency securities	42,166	4.7	35,567	5.2
Mortgage-backed securities - agency	454,648	51.1	344,577	50.9
Mortgage-backed securities - non-agency	32,382	3.6	20,744	3.1
State and municipal securities	144,235	16.2	129,765	19.2
Corporate securities	201,559	22.6	146,058	21.6
Total investment securities, available for sale, at fair value	$ 890,777	100.0 %	$ 676,711	100.0 %

The following table sets forth the book value, maturities and weighted average yields for our investment portfolio at September 30, 2021. The book value for investment securities classified as available for sale is equal to fair market value.

(dollars in thousands)	Book value	% of total	Weighted average yield
Investment securities available for sale:			
U.S. Treasury securities:			
Maturing within one year	$ 325	0.1 %	0.08 %
Maturing in one to five years	15,462	1.7	0.95
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	$ 15,787	1.8 %	0.93 %
U.S. government sponsored entities and U.S. agency securities:			
Maturing within one year	$ 8,802	1.0 %	2.55 %
Maturing in one to five years	5,738	0.6	1.14
Maturing in five to ten years	27,383	3.1	1.27
Maturing after ten years	243	—	2.58
Total U.S. government sponsored entities and U.S. agency securities	$ 42,166	4.7 %	1.52 %
Mortgage-backed securities - agency:			
Maturing within one year	$ 16,078	1.8 %	2.61 %
Maturing in one to five years	182,942	20.5	1.85
Maturing in five to ten years	190,423	21.4	1.58
Maturing after ten years	65,205	7.3	1.83
Total mortgage-backed securities - agency	$ 454,648	51.0 %	1.76 %
Mortgage-backed securities - non-agency:			
Maturing within one year	$ 5,392	0.6 %	2.73 %
Maturing in one to five years	26,990	3.0	1.91
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total mortgage-backed securities - non-agency	$ 32,382	3.6 %	2.05 %
State and municipal securities (1):			
Maturing within one year	$ 6,070	0.7 %	4.14 %
Maturing in one to five years	47,385	5.3	4.04
Maturing in five to ten years	49,851	5.6	3.08
Maturing after ten years	40,929	4.6	2.74
Total state and municipal securities	$ 144,235	16.2 %	3.34 %
Corporate securities:			
Maturing within one year	$ 3,573	0.4 %	3.51 %
Maturing in one to five years	19,155	2.2	2.22
Maturing in five to ten years	178,831	20.1	3.64
Maturing after ten years	—	—	—
Total corporate securities	$ 201,559	22.7 %	3.50 %
Total investment securities, available for sale	$ 890,777	100.0 %	2.40 %

(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 September 30, 2021.

(dollars in thousands)	Amortized cost	Estimated fair value	Average credit rating AAA	AA+/-	A+/-	BBB+/-	<BBB-	Not Rated
Investment securities available for sale:								
U.S. Treasury securities	$ 15,818	$ 15,787	$ 15,787	$ —	$ —	$ —	$ —	$ —
U.S. government sponsored entities and U.S. agency securities	42,543	42,166	36,042	6,124	—	—	—	—
Mortgage-backed securities - agency	454,986	454,648	2,520	452,128	—	—	—	—
Mortgage-backed securities - non-agency	32,406	32,382	32,382	—	—	—	—	—
State and municipal securities	138,323	144,235	16,182	111,654	5,984	2,067	—	8,348
Corporate securities	197,753	201,559	—	—	71,768	125,954	—	3,837
Total investment securities, available for sale	$ 881,829	$ 890,777	$ 102,913	$ 569,906	$ 77,752	$ 128,021	$ —	$ 12,185

Cash and Cash Equivalents. Cash and cash equivalents increased $321.0 million to $662.6 million at September 30, 2021 compared to December 31, 2020. Excess liquidity has been utilized to purchase additional investment securities and reduce FHLB borrowings and subordinated debt. In October 2021, $468.9 million in low-cost servicing deposits were received from Dwight Capital, increasing cash balances. Also in October 2021, the Company used a portion of its excess liquidity to repay $130.0 million of FHLB advances. The Company continues to evaluate prudent alternatives to manage its liquidity.

Loans Held for Sale. Loans held for sale totaled $26.6 million at September 30, 2021, comprised of $17.0 million of commercial real estate loans and $9.6 million of residential real estate loans, compared to $138.1 million at December 31, 2020, comprised of $126.1 million of commercial real estate loans and $12.0 million of residential real estate loans. The commercial real estate loans represented modified loans, originated by Love Funding, that were sold into the secondary market.

Liabilities. Total liabilities totaled $6.44 billion at September 30, 2021, as compared to $6.25 billion at December 31, 2020.

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 increased $500.4 million to $5.60 billion at September 30, 2021, as compared to December 31, 2020. Commercial deposits increased $225.6 million from year end due, primarily from funds from PPP loan advances. Retail deposits increased $62.1 million during the same period due in large part to customers' receipt of payments from the American Rescue Plan Act of 2021 stimulus package. Servicing deposits increased $110.5 million. An additional $468.9 million in servicing deposits were received from Dwight Capital in October 2021, in accordance with the commercial FHA origination platform sales agreement.

Deposit mix remained consistent at September 30, 2021 compared to December 31, 2020. At September 30, 2021, total deposits were comprised 29.9% of noninterest-bearing demand accounts, 57.4% of interest-bearing transaction accounts and 12.7% of time deposits.

The following table summarizes our average deposit balances and weighted average rates for the three months ended September 30, 2021 and 2020:

	Three Months Ended September 30,			
	2021		2020	
(dollars in thousands)	Average balance	Weighted average rate	Average balance	Weighted average rate
Deposits:				
Noninterest-bearing demand	$ 1,434,193	—	$ 1,303,963	—
Interest-bearing:				
Checking	1,672,599	0.12 %	1,549,668	0.17 %
Money market	828,655	0.09	832,867	0.31
Savings	664,354	0.02	584,944	0.02
Time, less than $250,000	554,119	1.04	577,812	1.63
Time, $250,000 and over	149,971	0.83	88,360	1.60
Time, brokered	26,272	1.23	23,182	2.49
Total interest-bearing	$ 3,895,970	0.26 %	$ 3,656,833	0.46 %
Total deposits	$ 5,330,163	0.19 %	$ 4,960,796	0.34 %

The following table sets forth the maturity of time deposits of $250,000 or more and brokered time deposits as of September 30, 2021:

	Maturity within:				
(dollars in thousands)	Three months or less	Three to six months	Six to twelve months	After twelve months	Total
Time, $250,000 and over	$ 31,883	$ 11,527	$ 51,211	$ 55,401	$ 150,022
Time, brokered	693	4,386	4,787	14,044	23,910
Total	$ 32,576	$ 15,913	$ 55,998	$ 69,445	$ 173,932

FHLB Advances and Other Borrowings. FHLB advances and other borrowings totaled $440.2 million and $779.2 million as of September 30, 2021 and December 31, 2020, respectively. The decrease in borrowings was due to FHLB advances totaling $200.0 million being repaid in accordance with contract terms, the prepayment of a $50.0 million FHLB advance in the first quarter of 2021 in conjunction with the termination of an interest rate swap and the prepayment of an $85.0 million longer term FHLB advance in the second quarter of 2021. None of these advances were replaced due to the Company's excess liquidity. As previously mentioned, the Company prepaid FHLB advances totaling $130.0 million on October 22, 2021.

Subordinated Debt. Subordinated debt totaled $139.0 million and $169.8 million as of September 30, 2021 and December 31, 2020, respectively. On June 18, 2021, the Company redeemed all of its outstanding fixed-to-floating rate subordinated notes due June 18, 2025, having an aggregate principal amount of $31.1 million, in accordance with the terms of the notes. The interest rate on the redeemed subordinated notes was 4.54%.

Other Liabilities. Other liabilities totaled $128.9 million and $67.4 million as of September 30, 2021 and December 31, 2020, respectively. The Company had $63.0 million of accrued liabilities at September 30, 2021, related to securities purchased that had not yet settled.

Capital Resources and Liquidity Management

Capital Resources. Shareholders’ equity is influenced primarily by earnings, dividends, issuances and redemptions of common 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 $36.5 million to $657.8 million at September 30, 2021 as compared to December 31, 2020. The Company generated net income of $58.2 million during the first nine months of 2021 and issued $2.5 million of common stock related to employee benefit plans. Offsetting these increases to shareholders’ equity were $18.9 million of dividends to common shareholders and $6.4 million in stock repurchases.

On August 6, 2019, the Company announced that its Board of Directors authorized the Company to repurchase up to $25.0 million of its common stock, which was increased to $50.0 million on March 11, 2020 by an amendment approved by the Board of Directors. On December 2, 2020, the Company announced that the Board had extended the term of the repurchase program from December 31, 2020 to December 31, 2021. At the time of the extension, the program had approximately $6.4 million of remaining repurchase authority. On September 7, 2021, the Company announced that the Board approved modifications to the Company's stock repurchase program, which increased the aggregate repurchase authority to $75.0 million from $50.0 million, and extend the expiration date of the program to December 31, 2022. At the time of the extension, the program had approximately $1.3 million of remaining repurchase authority.

Stock repurchases under the program 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 program 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. As of September 30, 2021, $50.1 million, or 2,748,753 shares of the Company's common stock, had been repurchased under the program, with approximately $24.9 million of remaining repurchase authority.

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 $79.7 million and $76.5 million at September 30, 2021 and December 31, 2020, respectively, were pledged for securities sold under agreements to repurchase.

The Company had available lines of credit of $53.5 million and $54.4 million at September 30, 2021 and December 31, 2020, respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with respect to a pool of commercial real estate loans totaling $60.7 million and $68.1 million at September 30, 2021 and December 31, 2020, respectively. There were no outstanding borrowings under these lines at September 30, 2021 and December 31, 2020.

At September 30, 2021, the Company had available federal funds lines of credit totaling $45.0 million, which were unused.

On October 12, 2021, the Company entered into a loan agreement with another bank for a revolving line of credit in the original principal amount of up to $15.0 million. The loan matures on October 11, 2022 and has a variable rate of interest equal to Daily Simple SOFR plus 1.60%.

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 us 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 September 30, 2021, 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 September 30, 2021, 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 September 30, 2021:

Ratio	**Actual**	**Minimum Regulatory Requirements** [(1)]	**Well Capitalized**
Total risk-based capital ratio			
Midland States Bancorp, Inc.	13.10 %	10.50 %	N/A
Midland States Bank	12.03	10.50	10.00 %
Tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	9.73	8.50	N/A
Midland States Bank	11.17	8.50	8.00
Common equity tier 1 risk-based capital ratio			
Midland States Bancorp, Inc.	8.55	7.00	N/A
Midland States Bank	11.17	7.00	6.50
Tier 1 leverage ratio			
Midland States Bancorp, Inc.	8.16	4.00	N/A
Midland States Bank	9.38	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%.

Contractual Obligations

The following table contains supplemental information regarding our total contractual obligations at September 30, 2021:

	Payments due				
(dollars in thousands)	**Less than one year**	**One to three years**	**Three to five years**	**More than five years**	**Total**
Deposits without a stated maturity	$ 4,888,773	$ —	$ —	$ —	$ 4,888,773
Time deposits	454,797	205,600	52,182	24	712,603
Securities sold under repurchase agreements	66,666	—	—	—	66,666
FHLB advances and other borrowings	50,000	180,000	110,000	100,171	440,171
Operating lease obligations	1,801	3,487	1,464	4,035	10,787
Subordinated debt	—	—	546	138,452	138,998
Trust preferred debentures	—	—	—	49,235	49,235
Total contractual obligations	$ 5,462,037	$ 389,087	$ 164,192	$ 291,917	$ 6,307,233

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

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

Overview. Interest rate risk is the risk to earnings and value 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 LIBOR (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 and capital 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 mortgage price risk and its effect on net interest income and capital. Responsibility for measuring and the management of interest rate risk resides with Corporate Treasury. Our Risk Policy and Compliance 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.

Income Simulation and Economic Value Analysis. 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 two approaches to model interest rate risk: Net Interest Income at Risk ("NII at Risk") and Economic Value of Equity ("EVE"). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

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. The assumptions used in the models are our best estimates based on studies conducted by the treasury group. The treasury group uses a data warehouse to study interest rate risk at a transactional level and uses 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.

We also have longer-term interest rate risk exposure, which may not be appropriately measured by earnings sensitivity analysis. The Risk Policy and Compliance Committee uses EVE to study the impact of long-term cash flows on earnings and on capital. EVE involves discounting present values of all cash flows of on and off-balance sheet items under different interest rate scenarios. The discounted present value of all cash flows represents our EVE. The analysis requires modifying the expected cash flows in each interest rate scenario, which will impact the discounted present value. The amount of base-case measurement and its sensitivity to shifts in the yield curve allow us to measure longer-term repricing and option risk in the balance sheet.

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

	Net interest income sensitivity (Shocks)		
	Immediate change in rates		
(dollars in thousands)	**-100**	**+100**	**+200**
September 30, 2021:			
Dollar change	$ (6,747)	$ 5,078	$ 9,000
Percent change	(3.4)%	2.6 %	4.5 %
December 31, 2020:			
Dollar change	$ (6,585)	$ 5,790	$ 10,376
Percent change	(3.1)%	2.7 %	4.9 %

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 −100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next twelve months. We were within Board policy limits for the -100, +100 and +200 basis point scenarios at September 30, 2021.

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 September 30, 2021, projected that our earnings exhibit reduced sensitivity to changes in interest rates except in the -100 basis point scenario compared to December 31, 2020.

The following table shows EVE at the dates indicated:

	Economic value of equity sensitivity (Shocks)		
	Immediate change in rates		
(dollars in thousands)	**-100**	**+100**	**+200**
September 30, 2021:			
Dollar change	$ (93,797)	$ 39,917	$ 69,670
Percent change	(14.6)%	6.2 %	10.8 %
December 31, 2020:			
Dollar change	$ (90,487)	$ 74,568	$ 131,224
Percent change	(13.9)%	11.5 %	20.2 %

The EVE results included in the table above reflect the analysis used quarterly by management. It models immediate −100, +100 and +200 basis point parallel shifts in market interest rates.

The EVE reported at September 30, 2021 projected that as interest rates increase, the economic value of equity position will increase, and as interest rates decrease, the economic value of equity position will decrease. When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

We were within board policy limits for the +100 and +200 basis point scenarios at September 30, 2021 and out of compliance for the -100 basis point scenario. The Company is continuing to monitor its compliance with this policy limit.

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.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk are included under “Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures About Market Risk”.

ITEM 4 – 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 Securities Exchange Act of 1934 ("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.

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 fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – 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 1A – RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the "Risk Factors" section included in our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

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 third quarter of 2021.

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]
July 1 - 31, 2021	53,917	$ 24.88	53,917	$ 3,815,779
August 1 - 31, 2021	102,730	24.95	102,500	1,258,517
September 1 - 30, 2021	53,760	24.94	53,760	24,917,548
Total	210,407	$ 24.93	210,177	$ 24,917,548

(1) Represents shares of the Company's common stock repurchased under the employee stock purchase program, shares withheld to satisfy tax withholding obligations upon the vesting of awards of restricted stock and/or pursuant to a publicly announced repurchase plan or program, as discussed in footnote 2 below.

(2) On August 6, 2019, the board of directors of the Company approved a stock repurchase program authorizing the Company to repurchase up to $25.0 million of its common stock. On March 11, 2020, the Company announced that its Board of Directors authorized the Company to repurchase up to an additional $25.0 million of its common stock in addition to the amount remaining under the prior authorization. On December 2, 2020, the Company announced that the Board had extended the expiration date of the repurchase program from December 31, 2020 to December 31, 2021. At the time of the extension, the program had approximately $6.4 million of remaining repurchase authority. On September 7, 2021, the Company announced that the Board approved modifications to the Company's stock repurchase program, which increased the aggregate repurchase authority to $75.0 million from $50.0 million, and extend the expiration date of the program to December 31, 2022. At the time of the extension, the program had approximately $1.3 million of remaining repurchase authority. Stock repurchases under these 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. As of September 30, 2021, $50.1 million, or 2,748,753 shares of the Company's common stock, had been repurchased under the program, with approximately $24.9 million of remaining repurchase authority.

ITEM 6 – EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation of Midland States Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-210683), filed with the SEC on April 11, 2016).
3.2	Articles of Amendment to the Articles of Incorporation of Midland States Bancorp, Inc., effective May 8, 2018 (incorporated by reference to Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2018).
3.3	Statement of Resolution Establishing Series of Series G Preferred Stock of Midland States Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 12, 2017).
3.4	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).
31.1	Chief Executive Officer's Certification required by Rule 13(a)-14(a) – filed herewith.
31.2	Chief Financial Officer's Certification required by Rule 13(a)-14(a) – filed herewith.
32.1	Chief 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	Chief 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.
101	Financial information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements – filed herewith.
104	The cover page from Midland States Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended September 30, 2021 formatted in inline XBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements 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: November 4, 2021	By:	/s/	Jeffrey G. Ludwig
			Jeffrey G. Ludwig *President and Chief Executive Officer* (Principal Executive Officer)
Date: November 4, 2021	By:	/s/	Eric T. Lemke
			Eric T. Lemke *Chief Financial Officer* (Principal Financial Officer)

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 Quarterly Report on Form 10-Q (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: November 4, 2021

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 Quarterly Report on Form 10-Q (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: November 4, 2021

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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2021 (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: November 4, 2021

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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2021 (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: November 4, 2021

By: /s/ Eric T. Lemke
Eric T. Lemke
Chief Financial Officer
(Principal Financial Officer)