




Midland States Bancorp, Inc.

NASDAQ: MSBI

Second Quarter 2019 Earnings Call



Forward-Looking Statements. This presentation may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements express management’s current expectations, forecasts of future events or long-term goals, including with respect to pending acquisitions, and may be based upon beliefs, expectations and assumptions of Midland’s management, are generally identifiable by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “intend,” “estimate,” “may,” “will,” “would,” “could,” “should” or other similar expressions. All statements in this presentation speak only as of the date they are made, and Midland undertakes no obligation to update any statement. A number of factors, many of which are beyond the ability of Midland to control or predict, could cause actual results to differ materially from those in its forward-looking statements. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning Midland and its respective businesses, including additional factors that could materially affect Midland’s financial results, are included in Midland’s filings with the Securities and Exchange Commission.

Use of Non-GAAP Financial Measures. This presentation may contain certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States (“GAAP”). These non-GAAP financial measures include “Adjusted Earnings,” “Adjusted Diluted Earnings Per Share,” “Adjusted Return on Average Assets,” “Adjusted Return on Average Shareholders’ Equity,” “Adjusted Return on Average Tangible Common Equity,” “Efficiency Ratio,” “Tangible Common Equity to Tangible Assets,” “Tangible Book Value Per Share” and “Return on Average Tangible Common Equity.” The Company believes that these non-GAAP financial measures provide both management and investors a more complete understanding of the Company’s funding profile and profitability. These non-GAAP financial measures are supplemental and are not a substitute for any analysis based on GAAP financial measures. Not all companies use the same calculation of these measures; therefore this presentation may not be comparable to other similarly titled measures as presented by other companies. Reconciliations of these non-GAAP measures are provided in the Appendix section of this presentation.

Overview of 2Q19

2Q19 Earnings

- Net income of \$16.4 million
- Diluted EPS of \$0.67

Strong Capital Generation

- Book value per share increased 2.2% to \$26.66
- Tangible book value per share ⁽¹⁾ increased 3.8% to \$18.36
- Continued increases in all capital ratios

Solid Execution on Strategic Priorities

- Continued strong production in equipment financing
- Diverse business lines generating strong contributions of noninterest income
- Efficiency ratio⁽¹⁾ improves to 61.6% from 64.7% in prior quarter

HomeStar Acquisition

- Closed on July 17, 2019
- Adds attractive low-cost deposit base with excess liquidity
- Expected to be ~9% accretive to EPS in 2020

Notes:

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

Loan Portfolio

- Total loans declined \$18.6 million, or 0.5%, to \$4.07 billion
- Decline in commercial real estate and residential real estate partially offset by continued growth in commercial loans and leases
- Equipment finance balances increased \$74.0 million, or 17.1%, from March 31, 2019

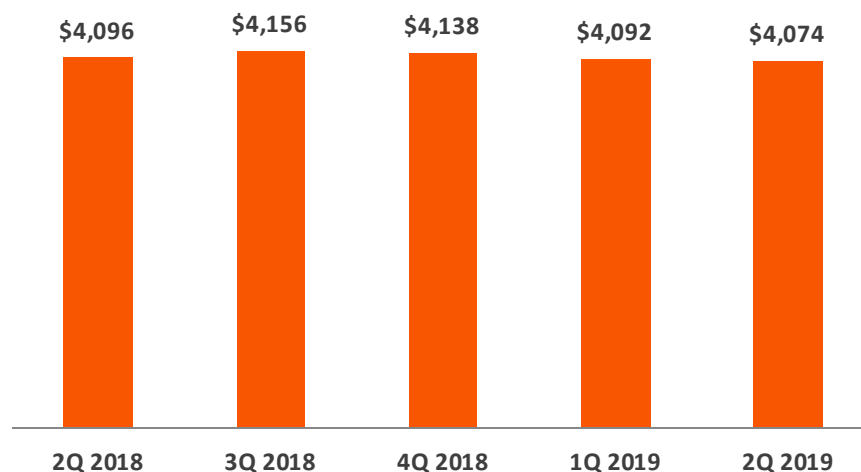
Loan Portfolio Mix

(in millions, as of quarter-end)

	2Q 2019	1Q 2019	2Q 2018
Commercial loans and leases	\$ 1,149	\$ 1,123	\$ 991
Commercial real estate	1,524	1,560	1,711
Construction and land development	250	239	248
Residential real estate	552	569	602
Consumer	597	601	544
Total Loans	\$ 4,074	\$ 4,092	\$ 4,096

Total Loans

(in millions, as of quarter-end)



Total Deposits

- Total deposits decreased \$25.1 million, or 0.6%, to \$4.01 billion
- Decline in deposits primarily attributable to intentional reduction of brokered money market deposits of \$70.5 million and brokered time deposits of \$41.2 million
- Core funding deposit campaigns replaced the majority of the decrease in brokered deposits

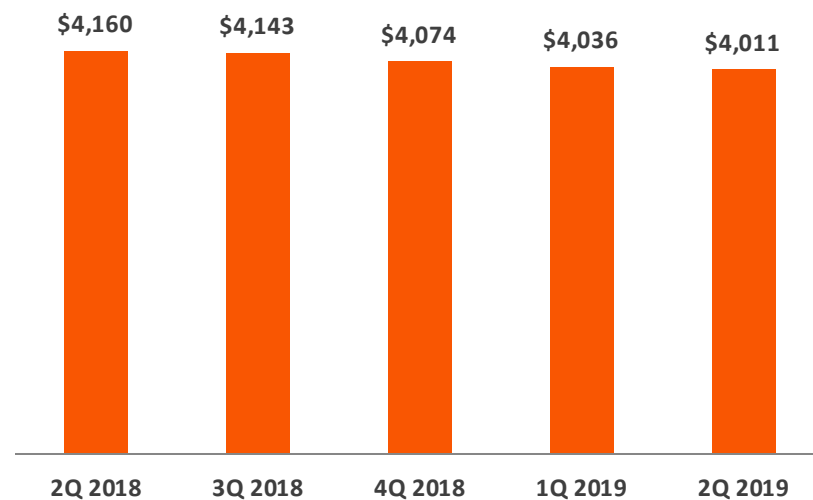
Deposit Mix

(in millions, as of quarter-end)

	2Q 2019	1Q 2019	2Q 2018
Noninterest-bearing demand	\$ 902	\$ 941	\$ 1,002
Interest-bearing:			
Checking	1,009	969	1,025
Money market	733	802	844
Savings	442	457	461
Time	785	686	638
Brokered time	140	181	191
Total Deposits	\$ 4,011	\$ 4,036	\$ 4,160

Total Deposits

(in millions, as of quarter-end)

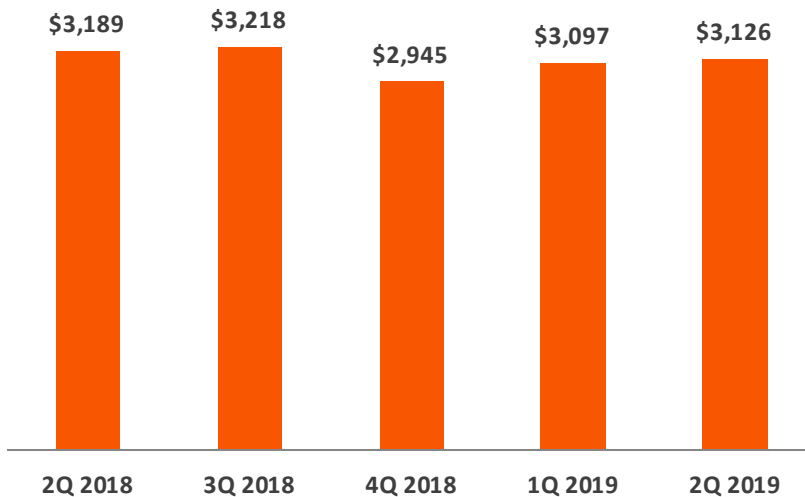


Wealth Management

- Total Wealth Management revenue increased 11.1% from the prior quarter
- Increase attributable to an increase in trust fees
- During 2Q19, assets under administration increased \$28.8 million, primarily due to market performance

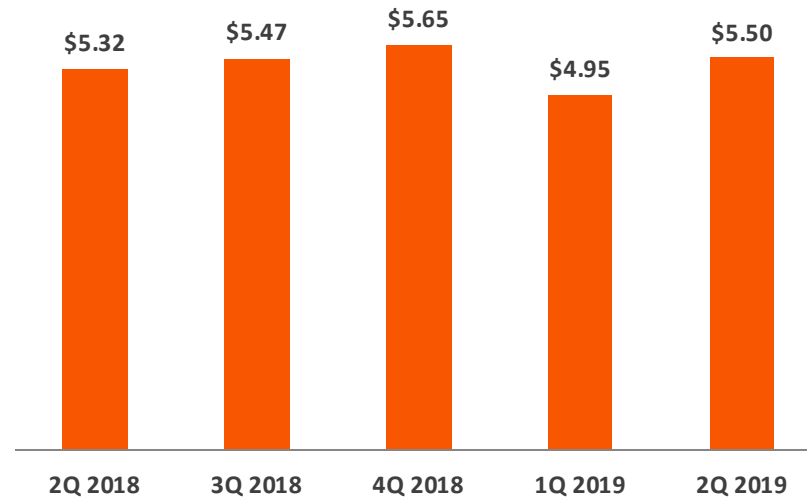
Assets Under Administration

(in millions)



Wealth Management Revenue

(in millions)

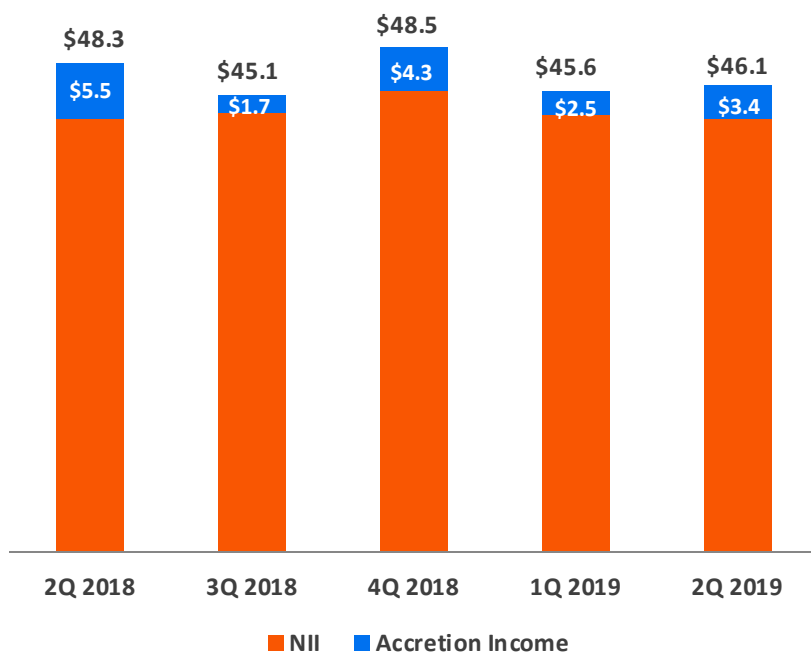


Net Interest Income/Margin

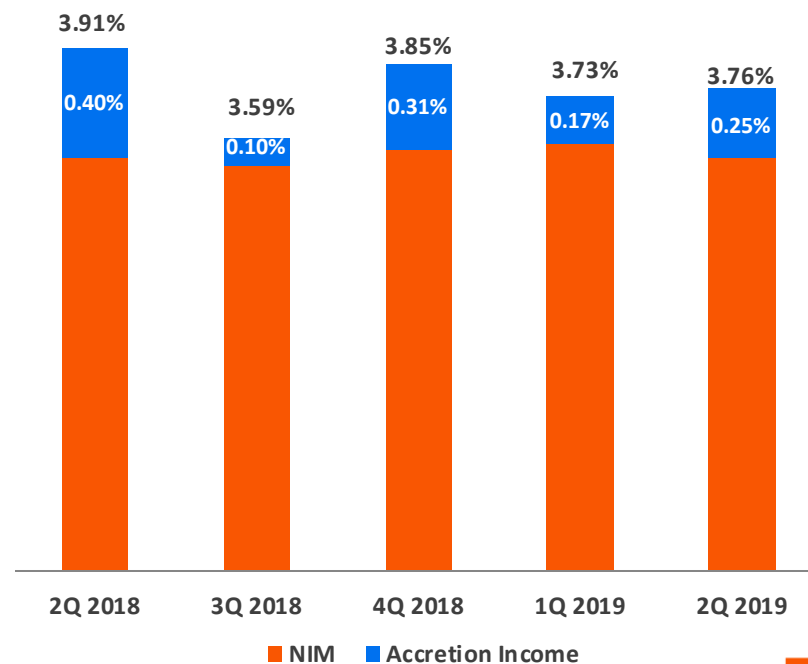
- Net interest income and margin increased due to higher accretion income
- Excluding the impact of accretion income, net interest margin decreased 5 bps, primarily due to higher average deposit costs
- Average rate on new and renewed loans was 5.61%
- Expected scheduled accretion income: \$1.9 million in 3Q19; \$9.5 million in FY 2019 (excluding impact of HomeStar acquisition)

Net Interest Income

(in millions)



Net Interest Margin

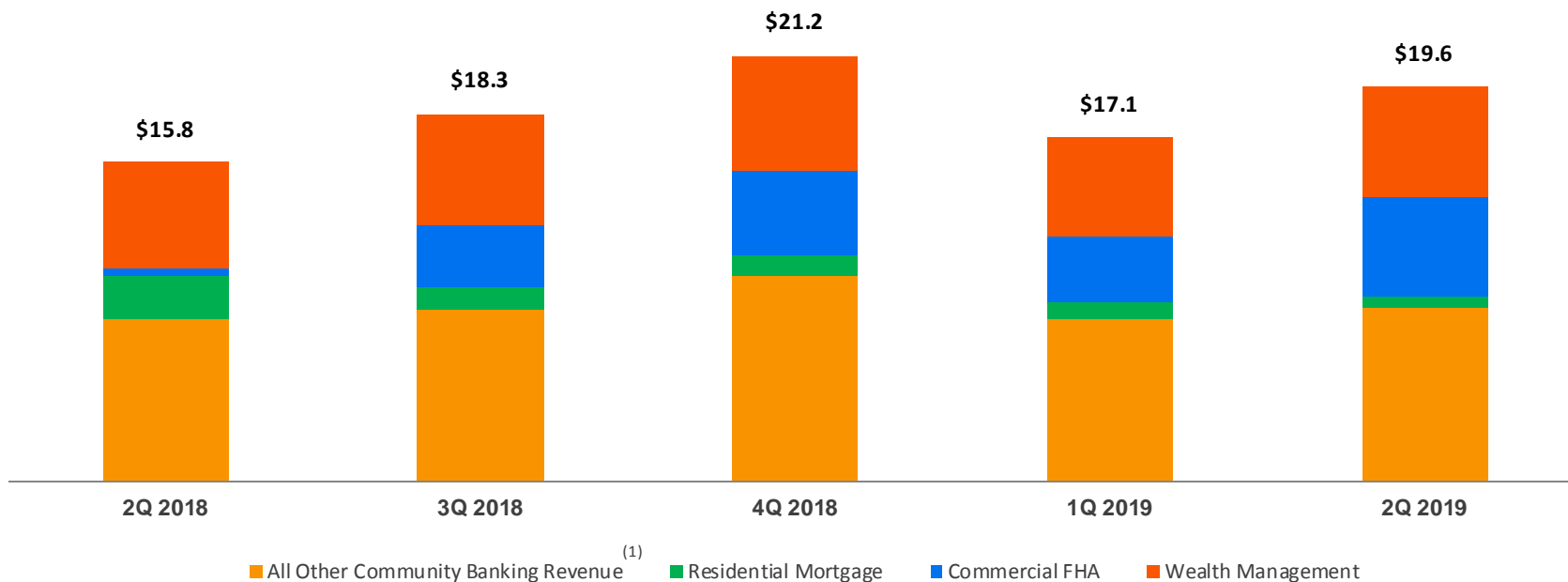


Noninterest Income

- Noninterest income increased 14.7% from prior quarter
- Wealth management remains largest single contributor to noninterest income
- Commercial FHA revenue positively impacted by \$0.6 million recapture of MSR impairment, lower loan costs and an increase in gain premiums

Noninterest Income

(in millions)



■ All Other Community Banking Revenue ⁽¹⁾
■ Residential Mortgage
 ■ Commercial FHA
 ■ Wealth Management

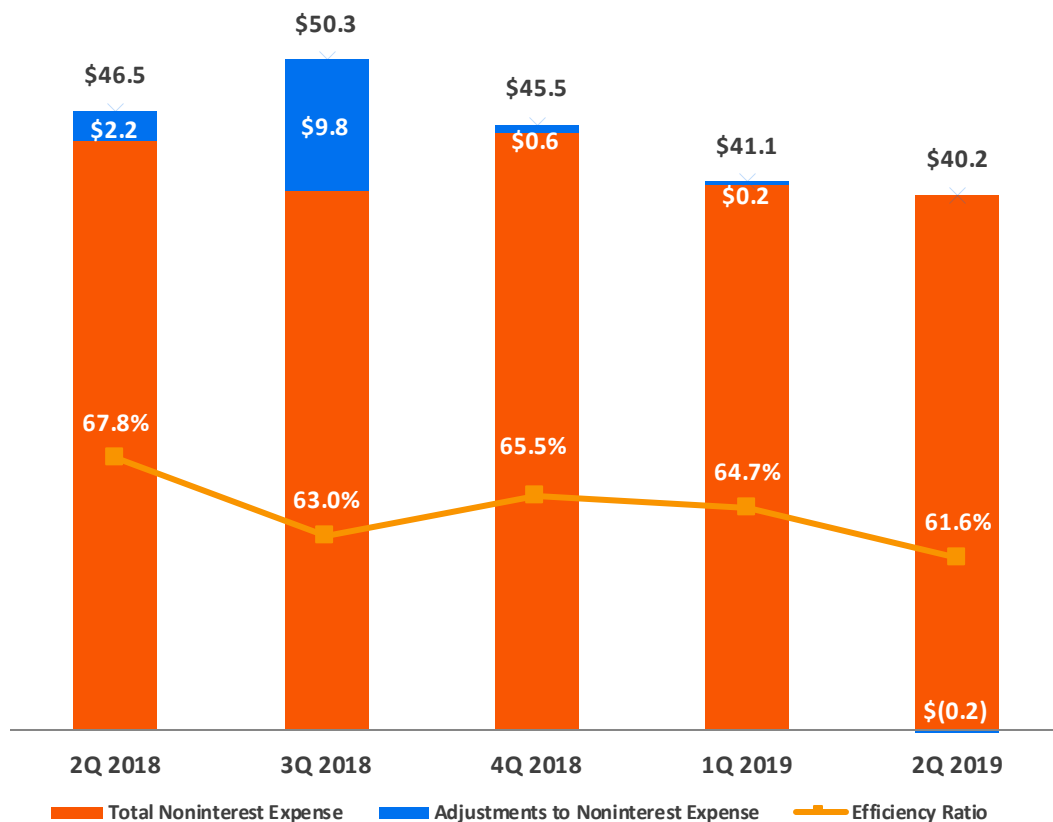
Notes:

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

Noninterest Expense and Operating Efficiency

Noninterest Expense and Efficiency Ratio ⁽¹⁾

(Noninterest expense in millions)



- Efficiency Ratio ⁽¹⁾ was 61.6% in 2Q19 vs. 64.7% in 1Q19
- Adjustments to non-interest expense:

(\$ in millions)	2Q19	1Q19
Integration and acquisition related expenses	(\$0.3)	(\$0.2)
Gain on MSRs held for sale	\$0.5	

- Excluding these adjustments, noninterest expense decreased 1.3% on a linked-quarter basis
- Decrease in noninterest expense primarily attributable to lower salaries and benefits, partially offset by an increase in professional fees

Notes:

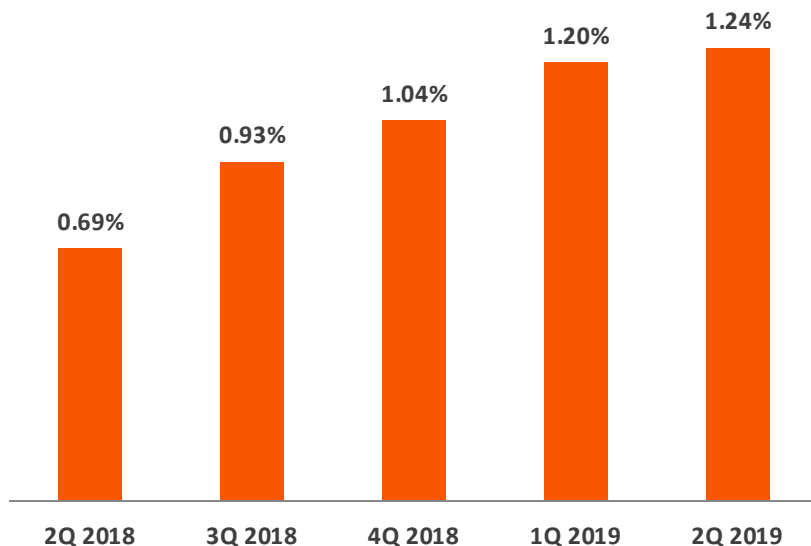
(1) Represents a non-GAAP financial measure. See "Non-GAAP Reconciliation" in the appendix.

Asset Quality

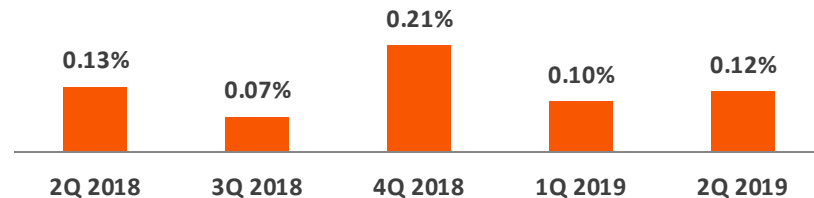
- Net charge-offs for 2Q19 was 0.12% of average loans on an annualized basis
- Provision for loan losses of \$4.1 million in 2Q19 includes a specific reserve related to one credit placed on non-accrual during the prior quarter
- ALLL/total loans of 0.64% and credit marks/total loans of 0.39% at June 30, 2019

Nonperforming Loans / Total Loans

(Total Loans as of quarter-end)



NCO / Average Loans





Outlook

- **Continued execution on protecting margin and controlling expenses resulting in solid financial performance**
- **Low-single-digit organic loan growth expected in 2019**
- **HomeStar acquisition provides additional liquidity that will enhance our funding profile and increase flexibility in loan production going forward**
- **HomeStar acquisition to be ~9% accretive to EPS in 2020, which provides foundation for solid year of earnings growth**



APPENDIX

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

Adjusted Earnings Reconciliation

	For the Quarter Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
<i>(dollars in thousands, except per share data)</i>					
Income before income taxes - GAAP	\$ 21,394	\$ 18,336	\$ 20,863	\$ 10,933	\$ 15,827
Adjustments to noninterest income:					
Gain (loss) on sales of investment securities, net	14	-	469	-	(70)
Other	(23)	-	(1)	(12)	(48)
Total adjustments to noninterest income	(9)	-	468	(12)	(118)
Adjustments to noninterest expense:					
(Gain) loss on mortgage servicing rights held for sale	(515)	-	-	270	188
Integration and acquisition expenses	286	160	553	9,559	2,019
Total adjustments to noninterest expense	(229)	160	553	9,829	2,207
Adjusted earnings pre tax	21,174	18,496	20,948	20,774	18,152
Adjusted earnings tax	4,978	4,398	4,551	5,142	3,683
Adjusted earnings - non-GAAP	16,196	14,098	16,397	15,632	14,469
Preferred stock dividends, net	34	34	34	35	36
Adjusted earnings available to common shareholders - non-GAAP	\$ 16,162	\$ 14,064	\$ 16,363	\$ 15,597	\$ 14,433
Adjusted diluted earnings per common share	\$ 0.66	\$ 0.58	\$ 0.67	\$ 0.64	\$ 0.59
Adjusted return on average assets	1.16 %	1.02 %	1.14 %	1.09 %	1.03 %
Adjusted return on average shareholders' equity	10.33 %	9.31 %	10.85 %	10.45 %	9.93 %
Adjusted return on average tangible common equity	15.19 %	13.90 %	16.46 %	16.02 %	15.27 %

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

Efficiency Ratio Reconciliation

	For the Quarter Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
<i>(dollars in thousands)</i>					
Noninterest expense - GAAP	\$ 40,194	\$ 41,097	\$ 45,375	\$ 50,317	\$ 46,452
Gain (loss) on mortgage servicing rights held for sale	515	-	-	(270)	(188)
Integration and acquisition expenses	(286)	(160)	(553)	(9,559)	(2,019)
Adjusted noninterest expense	<u>\$ 40,423</u>	<u>\$ 40,937</u>	<u>\$ 44,822</u>	<u>\$ 40,488</u>	<u>\$ 44,245</u>
Net interest income - GAAP	\$ 46,077	\$ 45,601	\$ 48,535	\$ 45,081	\$ 48,286
Effect of tax-exempt income	526	543	574	585	541
Adjusted net interest income	<u>46,603</u>	<u>46,144</u>	<u>49,109</u>	<u>45,666</u>	<u>48,827</u>
Noninterest income - GAAP	\$ 19,587	\$ 17,075	\$ 21,170	\$ 18,272	\$ 15,847
Mortgage servicing rights (recapture) impairment	(559)	25	(1,380)	297	500
(Gain) loss on sales of investment securities, net	(14)	-	(469)	-	70
Other	23	-	1	12	48
Adjusted noninterest income	<u>19,037</u>	<u>17,100</u>	<u>19,322</u>	<u>18,581</u>	<u>16,465</u>
Adjusted total revenue	<u>\$ 65,640</u>	<u>\$ 63,244</u>	<u>\$ 68,431</u>	<u>\$ 64,247</u>	<u>\$ 65,292</u>
Efficiency ratio	61.58 %	64.73 %	65.50 %	63.02 %	67.76 %

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

Tangible Common Equity to Tangible Assets Ratio and Tangible Book Value Per Share

	As of				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
<i>(dollars in thousands, except per share data)</i>					
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	\$ 639,888	\$ 624,168	\$ 608,525	\$ 594,146	\$ 592,535
Adjustments:					
Preferred stock	(2,684)	(2,733)	(2,781)	(2,829)	(2,876)
Goodwill	(164,673)	(164,673)	(164,673)	(164,044)	(164,044)
Other intangibles	(33,893)	(35,566)	(37,376)	(39,228)	(41,081)
Tangible common equity	<u>\$ 438,638</u>	<u>\$ 421,196</u>	<u>\$ 403,695</u>	<u>\$ 388,045</u>	<u>\$ 384,534</u>
Total Assets to Tangible Assets:					
Total assets—GAAP	\$ 5,546,055	\$ 5,641,780	\$ 5,637,673	\$ 5,724,612	\$ 5,730,600
Adjustments:					
Goodwill	(164,673)	(164,673)	(164,673)	(164,044)	(164,044)
Other intangibles	(33,893)	(35,566)	(37,376)	(39,228)	(41,081)
Tangible assets	<u>\$ 5,347,489</u>	<u>\$ 5,441,541</u>	<u>\$ 5,435,624</u>	<u>\$ 5,521,340</u>	<u>\$ 5,525,475</u>
Common Shares Outstanding	23,897,038	23,827,438	23,751,798	23,694,637	23,664,596
Tangible Common Equity to Tangible Assets	8.20 %	7.74 %	7.43 %	7.03 %	6.96 %
Tangible Book Value Per Share	\$ 18.36	\$ 17.68	\$ 17.00	\$ 16.38	\$ 16.25

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
<i>(dollars in thousands)</i>					
Net income available to common shareholders	\$ 16,321	\$ 13,948	\$ 16,302	\$ 8,462	\$ 12,746
Average total shareholders' equity—GAAP	\$ 628,730	\$ 614,210	\$ 599,723	\$ 593,457	\$ 584,653
Adjustments:					
Preferred stock	(2,708)	(2,759)	(2,812)	(2,859)	(2,905)
Goodwill	(164,673)	(164,673)	(164,051)	(164,044)	(158,461)
Other intangibles	(34,689)	(36,438)	(38,394)	(40,228)	(44,098)
Average tangible common equity	<u>\$ 426,660</u>	<u>\$ 410,340</u>	<u>\$ 394,466</u>	<u>\$ 386,326</u>	<u>\$ 379,189</u>
ROATCE	15.34 %	13.79 %	16.40 %	8.69 %	13.48 %