Midland States Bancorp, Inc.
NASDAQ: MSBI

Second Quarter 2020 Earnings Call

Midland
States Bancorp, Inc.

Forward-Looking Statements. This presentation may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements expressing management's current expectations, forecasts of future events or long-term goals may be based upon beliefs, expectations and assumptions of Midland's management, and 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 including the effects of the Coronavirus Disease 2019 (COVID-19) pandemic, including its potential 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. 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 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 2Q20

2Q20 Earnings	• Net income of $12.6 million, or $0.53 diluted EPS • 2Q20 results include a $0.4 million loss on residential MSRs held for sale and $54,000 in integration and acquisition expenses, impacting diluted EPS by $0.02
Strong Balance Sheet Growth	• Loan growth of 10.6% from the end of the prior quarter • Deposit growth of 6.3% from the end of the prior quarter
Stable Asset Quality	• Slight increase in nonperforming loans • Significant decline in new loan deferral requests with most existing modifications not expected to require a second deferral • Allowance for credit losses strengthened to 0.97% of total loans
Positive Trends Across Multiple Business Lines	• Wealth management AUA increased due to improved market performance • Equipment financing group had record quarter of loan closings • Strong quarter of residential mortgage banking revenue driven by demand for refinancings • Commercial FHA loan originations and revenue increased significantly from prior quarter
Continued Progress on Strategic Initiatives	• Further improvement in deposit mix with significant growth in lower-cost categories • Efficiency ratio [1] improved to 58.5% from 63.8% in prior quarter

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

Paycheck Protection Program Overview

Paycheck Protection Program (as of 6/30/20)	
Total Loans Funded	$313.1 million
Number of Loans	2,311
Average Loan Size	$135,482
Loans Outstanding	$276.0 million
Average Fee	3.5%
Total Fees	$9.7 million

Impact on 2Q20 Financials

	At or for the Three Months Ended 6/30/20	Metrics Excluding PPP Impact
Total Loans	$4.84 billion	$4.56 billion
Average Loans	$4.70 billion	$4.46 billion
Net Interest Income FTE[(1)]	$49.4 million	$48.0 million
Net Interest Margin[(1)]	3.32%	3.35%
ACL/Total Loans	0.97%	1.02%

1. Loan fees and deferred loan origination costs being amortized over an estimated 24-month life of PPP loans

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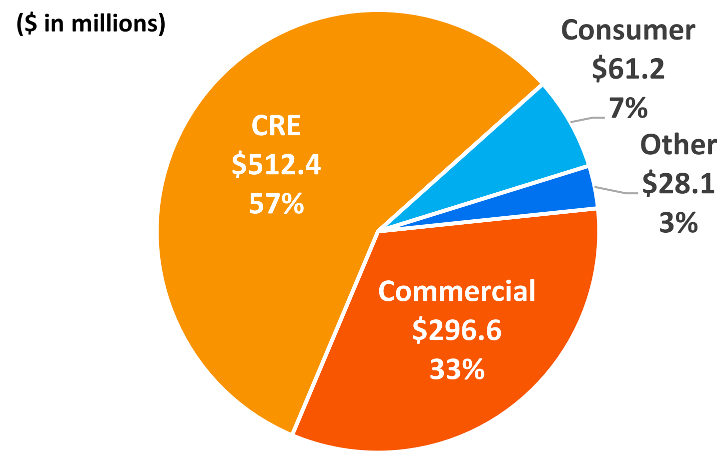
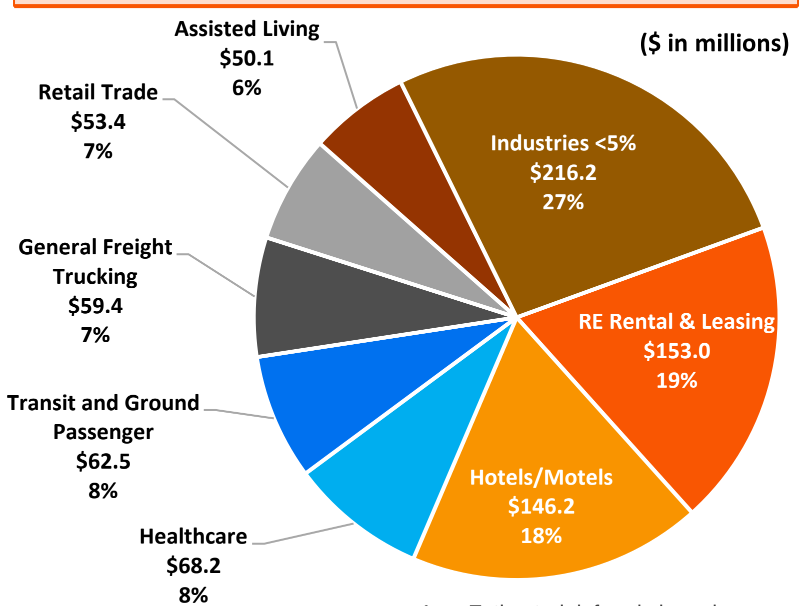
Loan Deferral Overview

C&I and CRE Loan Deferrals (as of 6/30/20)	
Total Loans Deferred	$809.0 million
Number of Loans	2,094
Modification	Generally 90-day payment deferrals
% of Total C&I and CRE Loans	22.7%
Estimated % of Deferred Loans Resuming Payments	60%-65%
Estimated Need for Second Deferral(1)	$299.4 million

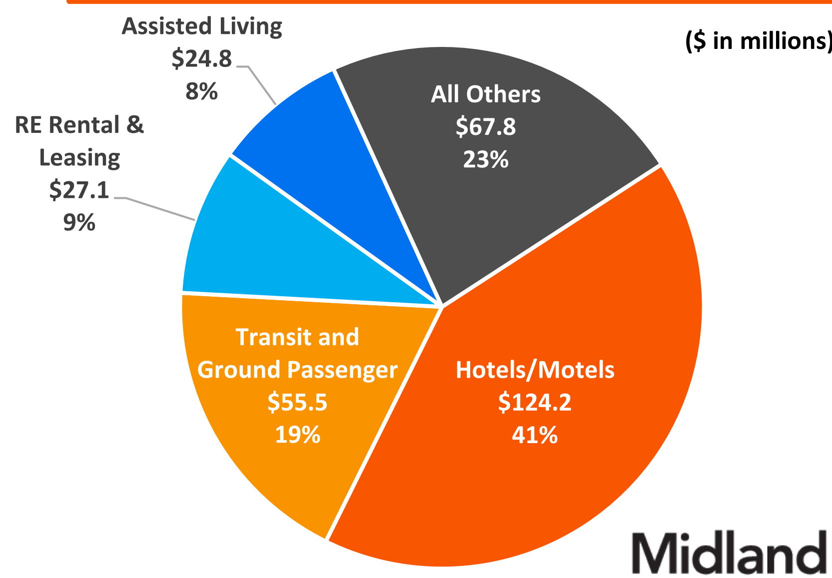
Deferrals by Portfolio



C&I and CRE Deferrals by Industry



Estimated 2nd Deferrals by Industry



1. Estimated deferrals based on survey and discussions with borrowers through July 17, 2020

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Loan Portfolio

- **Total loans increased $463.2 million, or 10.6% from prior quarter, to $4.84 billion**
- **Increase primarily attributable to growth in commercial and consumer portfolios; partially offset by declines in the commercial real estate and residential real estate portfolios**
- **PPP loans contributed $276.0 million to loan growth**
- **Equipment finance balances increased $78.2 million, or 11.6%, from March 31, 2020**
- **$104.8 million increase in warehouse credit line utilization by commercial FHA loan originator**

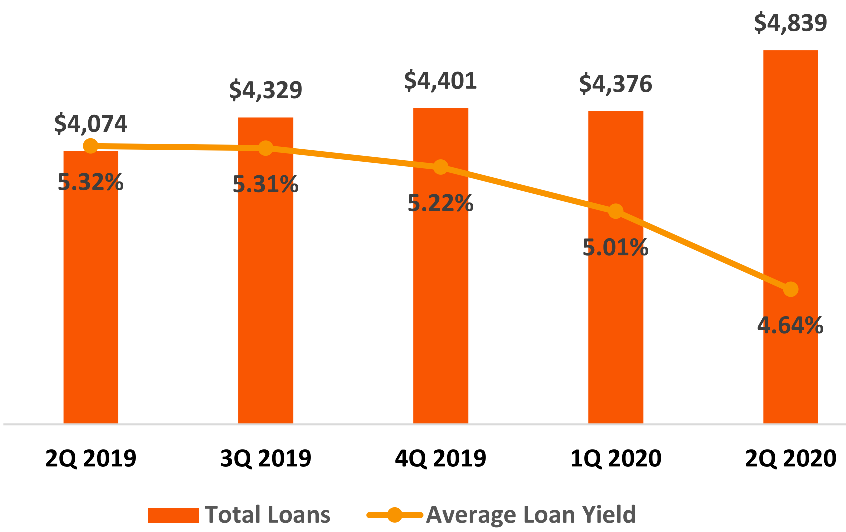
Loan Portfolio Mix

(in millions, as of quarter-end)

	2Q 2020	1Q 2020	2Q 2019
Commercial loans and leases	$ 1,856	$ 1,439	$ 1,149
Commercial real estate	1,495	1,508	1,524
Construction and land development	208	208	250
Residential real estate	509	548	552
Consumer	771	673	597
Total Loans	**$ 4,839**	**$ 4,376**	**$ 4,074**

Total Loans and Average Loan Yield

(in millions, as of quarter-end)



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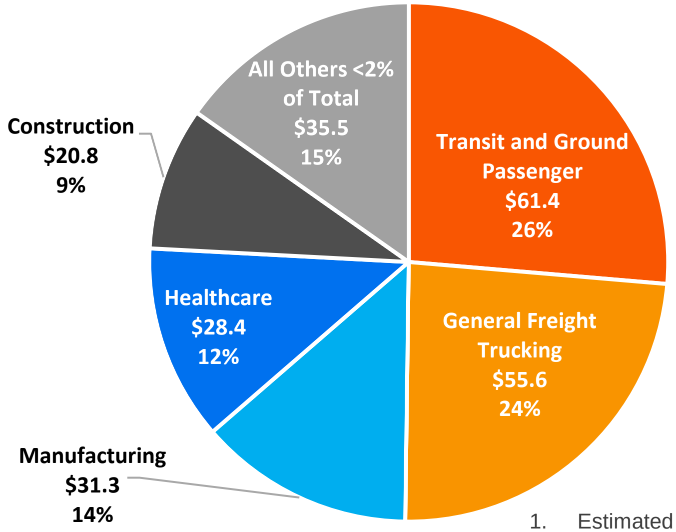
Midland Equipment Finance Portfolio Overview

Portfolio Characteristics (as of 6/30/20)	
Nationwide portfolio providing financing solutions to equipment vendors and end-users	
Total Outstanding Loans and Leases	$750.6 million (15.5% of total loans)
Number of Loans and Leases	5,694
Average Loan/Lease Size	$129,896
Largest Loan/Lease	$1.6 million
Weighted Average Rate	4.84%
Total Deferred Loans/Leases	$233.0 million (31.5% of portfolio)
Average Size of Deferred Loans/Leases	$152,288
Location of Deferred Loans/Leases	16% in CA, 14% in FL; no other state >10%

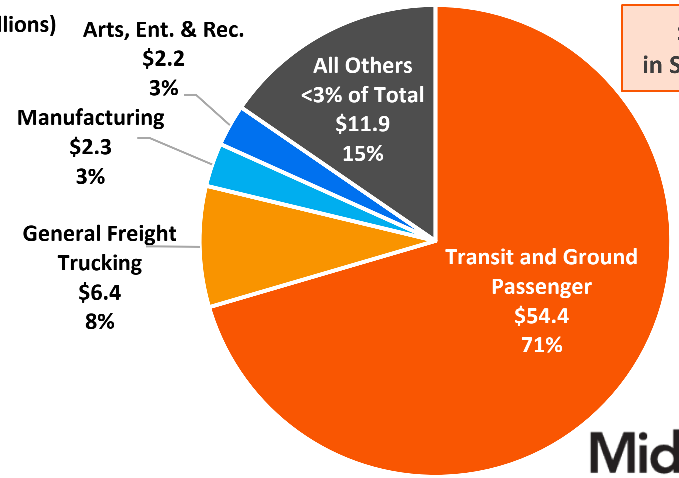
Deferrals by Industry



Estimated 2nd Deferrals by Industry[1]

($ in millions)

$77.2 Million in Second Deferrals



1. Estimated deferrals based on survey and discussions with borrowers through July 17, 2020

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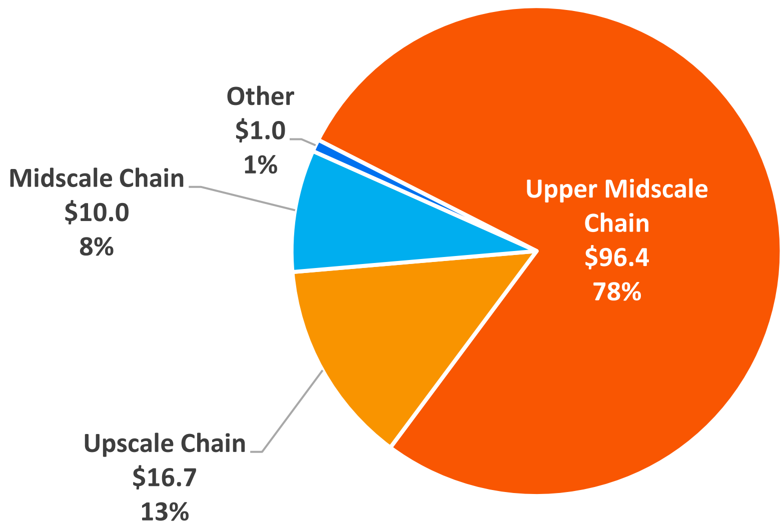
Hotel/Motel Portfolio Overview

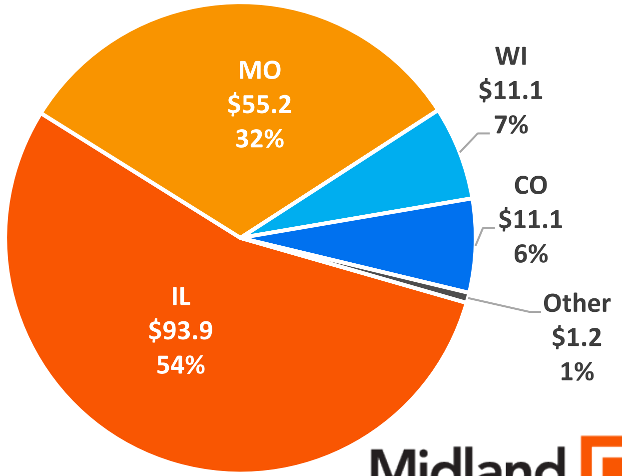
Portfolio Characteristics (CRE & C&I) (as of 6/30/20)	
Total Outstanding	$172.5 million (3.6% of total loans)
Number of Loans	57
Average Loan Size	$3.0 million
Largest Loan	$11.1 million
Average LTV	54%
Total Deferred Loans	$146.2 million (84.8% of portfolio)
Average LTV of Deferred Loans	52%
Estimated Need for 2nd Deferral	$124.1 million

Estimated 2nd Deferrals by Chain Scale

($ in millions)



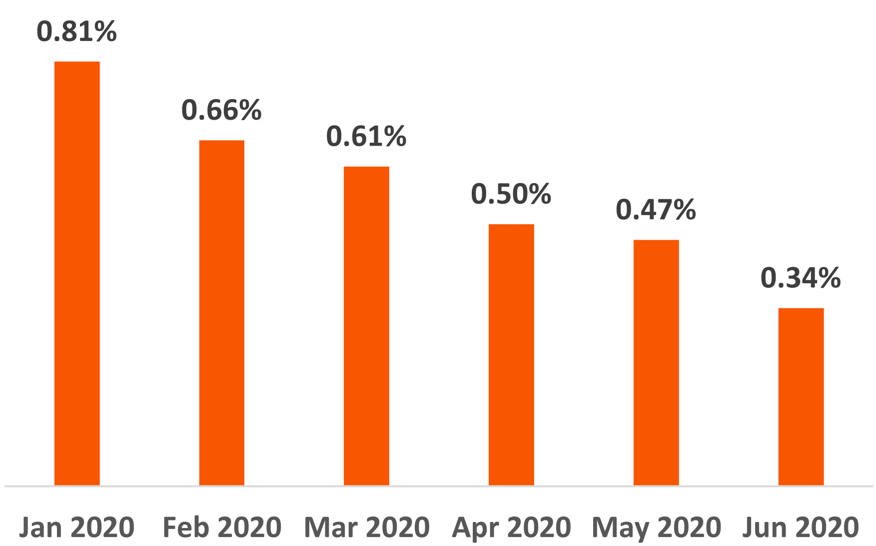
Portfolio by State



GreenSky Consumer Loan Portfolio Overview

Portfolio Characteristics (as of 6/30/20)	
Total Outstanding	$680.5 million (14.1% of total loans)
Number of Loans	297,241
Average Loan Size	$2,289
Average FICO Score	746
Total Deferred Loans	$35.8 million (5.3% of portfolio)

Delinquency Rate (greater than 60 days)



Prime Credit

- Average FICO score of 746
- No losses to MSBI in 9 year history of the portfolio
- Portfolio can be sold to provide liquidity; Loan sales were executed at par in May and June 2020

Credit Enhancement

- Cash flow waterfall structure
  - Cash flow from portfolio covers servicing fee, credit losses and our target margin
  - Excess cash flow is an incentive fee to GreenSky that could be used to cover additional losses
  - GreenSky received incentive fees in 17 of past 18 months including every month in 2020
- Escrow deposits
  - Escrow deposits absorb losses in excess of cash flow waterfall
  - Escrow account totaled $29.5 million at 6/30/20 or 4.3% of the portfolio

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Total Deposits

- **Total deposits increased $292.5 million, or 6.3% from prior quarter, to $4.94 billion**
- **Growth in deposits attributable to increase in core deposits, primarily from commercial customers, partially driven by inflows of PPP-related funds**
- **Continued intentional run-off of higher-cost time deposits, replaced with lower-cost core deposits**
- **Time deposits decreased $76.0 million due to run-off of higher-cost CDs with promotional rates**

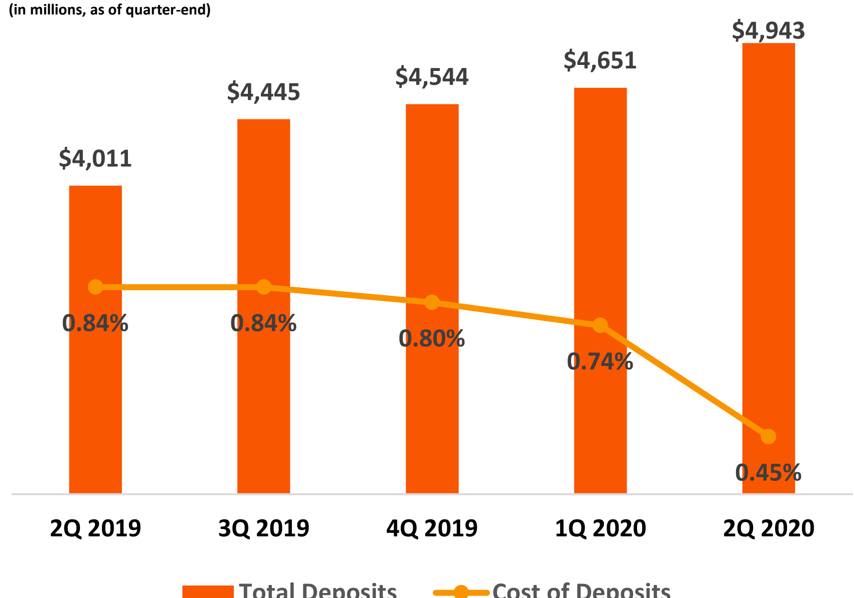
Deposit Mix

(in millions, as of quarter-end)

	2Q 2020	1Q 2020	2Q 2019
Noninterest-bearing demand	$ 1,273	$ 1,053	$ 902
Interest-bearing:			
Checking	1,485	1,425	1,009
Money market	877	850	733
Savings	595	534	442
Time	690	766	785
Brokered time	23	23	140
Total Deposits	**$4,943**	**$4,651**	**$4,011**

Total Deposits and Cost of Deposits

(in millions, as of quarter-end)



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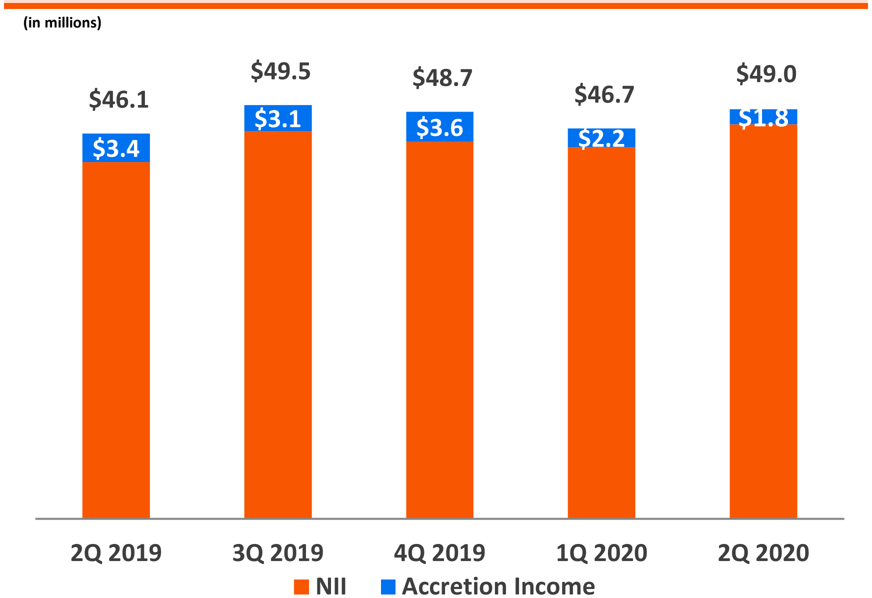
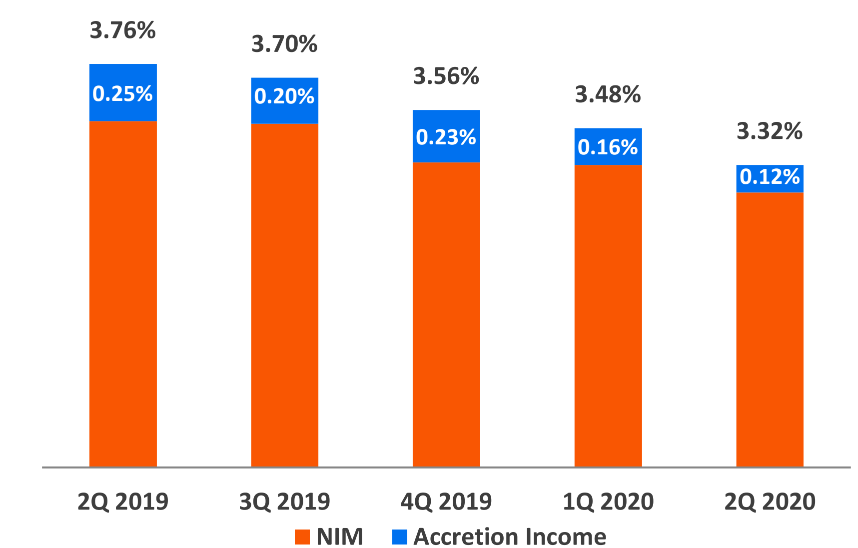
Net Interest Income/Margin

- Net interest income increased 5.0% from the prior quarter due to lower cost of funds and higher average loan balances
- Excluding the impact of accretion income, net interest margin declined 12 basis points
- Decline in net interest margin was primarily attributable to excess liquidity invested in lower-yielding earning assets and the addition of low-interest PPP loans, which collectively had an 18 bps impact on NIM in 2Q20
- 29 basis point decline in cost of deposits partially offset decline in earning asset yields
- PPP loan fees amortized over 24 month term of loans

Net Interest Income



Net Interest Margin



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Factors Impacting Net Interest Margin in 3Q20

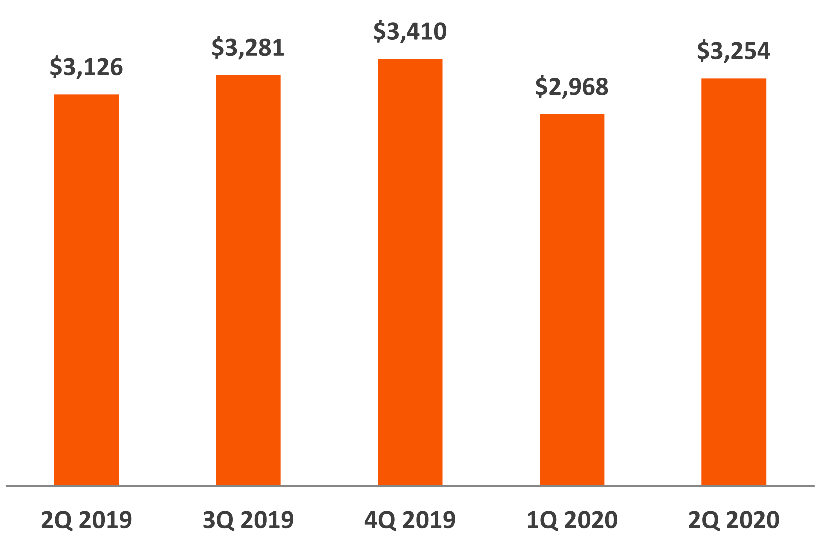
- $107.1 million in time deposits scheduled to mature in 3Q20 with weighted average rate of 1.36%
- $183.3 million in money market accounts at teaser rates of 1.60% scheduled to reprice in 3Q20
- $31.1 million in subordinated debt moved to floating rate in June 2020, resulting in reduction of approximately 130 bps in 3Q20
- Building liquidity on balance sheet will continue to put pressure on NIM going forward
- PPP loans will positively impact NIM upon forgiveness

Wealth Management

- **During 2Q20, assets under administration increased $286.2 million, primarily due to market performance**
- **Total Wealth Management revenue was up slightly from prior quarter**
- **Fees increased due to improved market performance, partially offset by reduction in trust fees related to tax preparation from prior quarter**

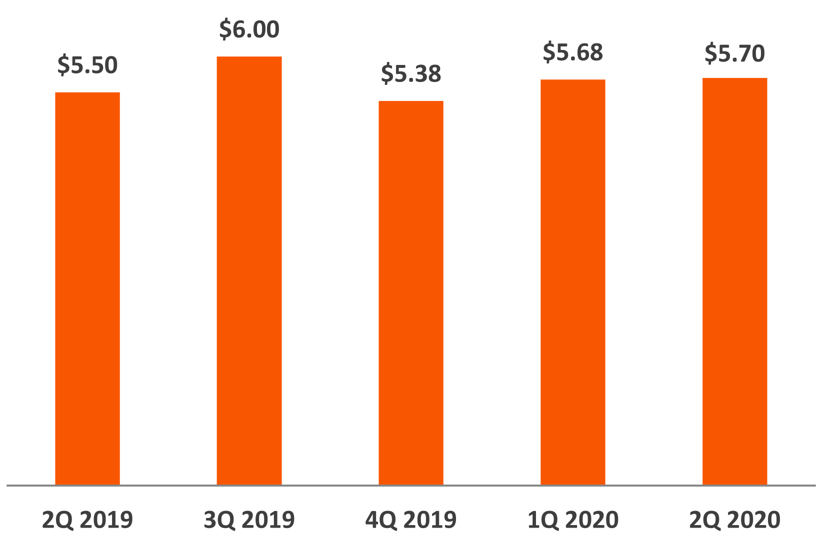
Assets Under Administration

(in millions)



Wealth Management Revenue

(in millions)



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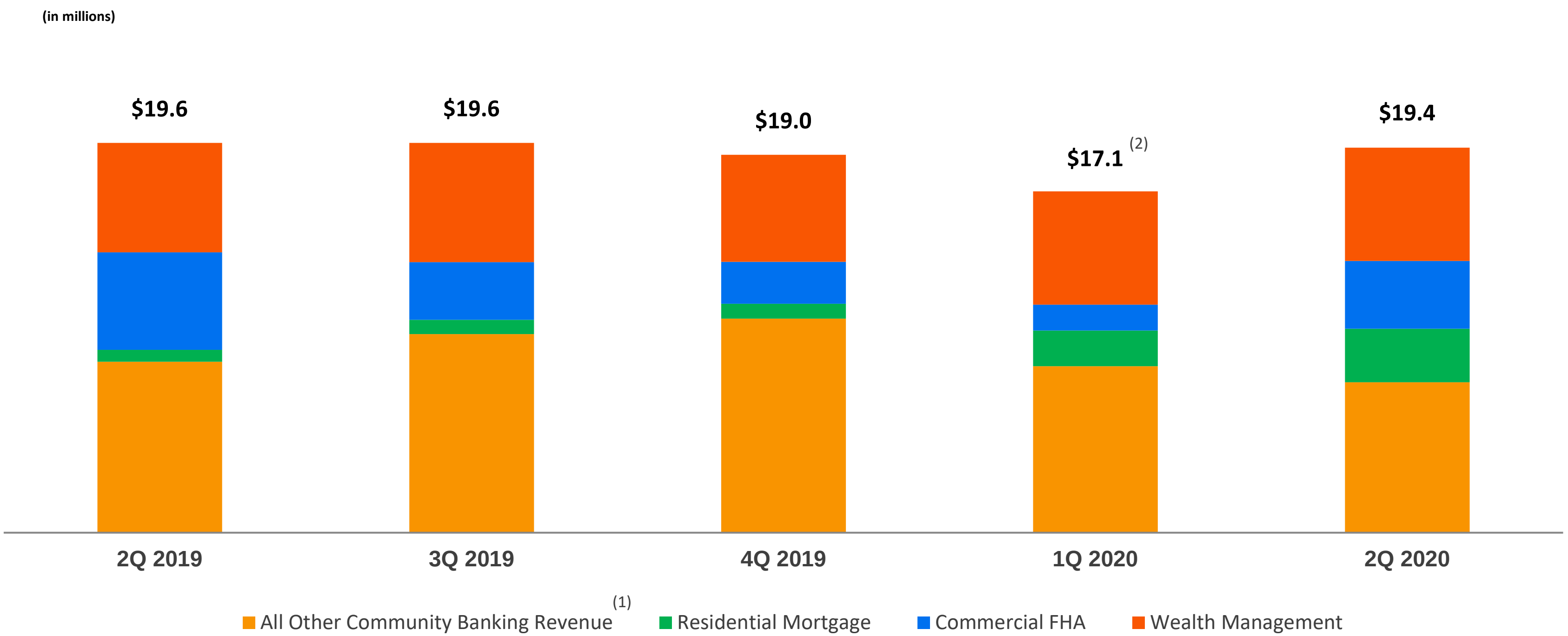
Noninterest Income

- **Noninterest income increased 125.6% from prior quarter, which included an $8.5 million impairment of commercial mortgage servicing rights ("MSRs")**
- **Excluding the impact of the impairment of commercial MSRs, noninterest income increased 13.5% primarily due to higher commercial FHA and residential mortgage banking revenue**
- **Increase was offset by lower retail banking fees including service charges and overdraft fees due to the impact of COVID-19 pandemic**

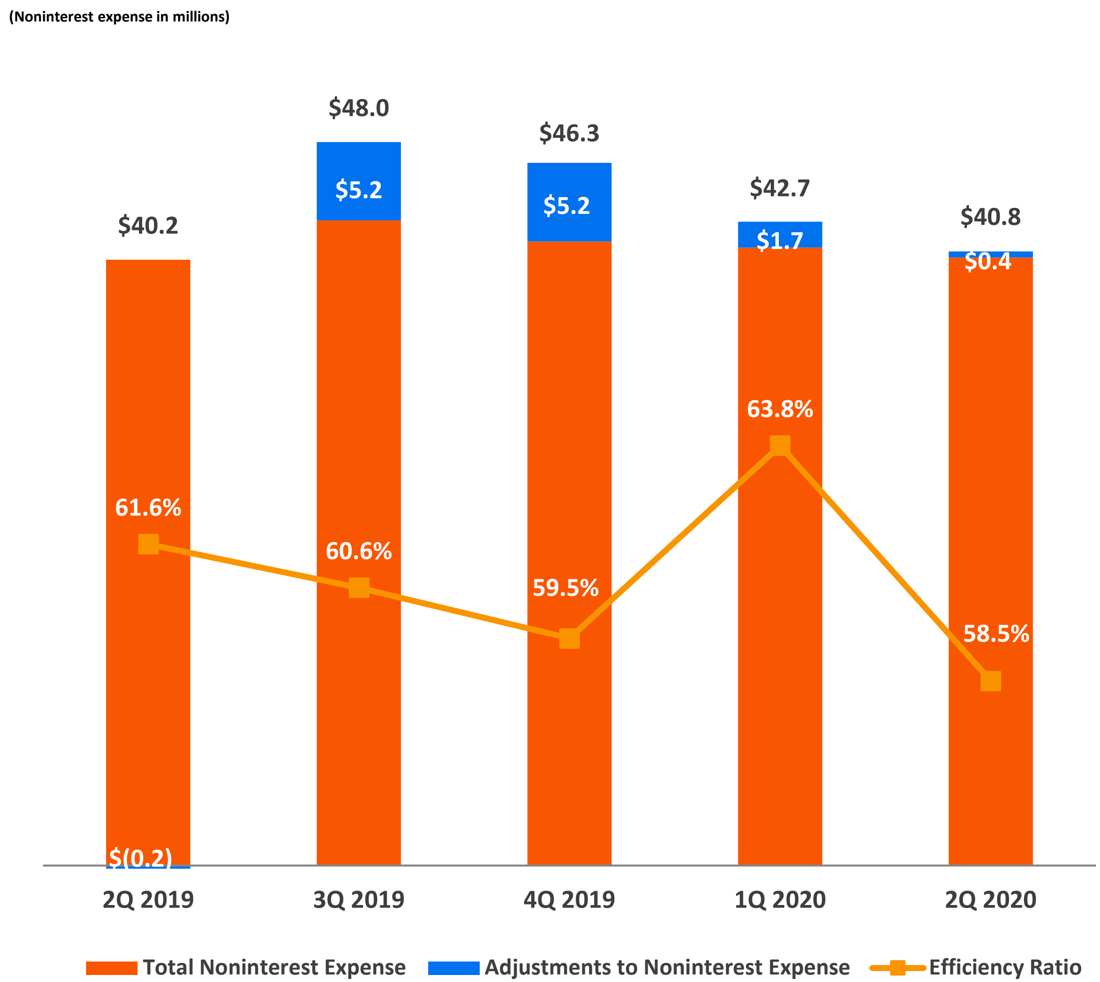
Noninterest Income



Notes:
(1) Represents service charges, interchange revenue, net gain (loss) on sale of investment securities, and other income
(2) Excludes $8.5 million impairment of commercial mortgage servicing rights

Noninterest Expense and Operating Efficiency

Noninterest Expense and Efficiency Ratio [1]



- **Efficiency Ratio [1] was 58.5% in 2Q20 vs. 63.8% in 1Q20**
- **Adjustments to non-interest expense:**

($ in millions)	2Q20	1Q20
Integration and acquisition related expenses	($0.05)	($1.0)
Loss on repurchase of subordinated debt	-	($0.2)
Loss on MSRs held for sale	$(0.4)	$(0.5)

- **Excluding these adjustments, noninterest expense declined $0.6 million on a linked-quarter basis**
- **Decrease in noninterest expense was primarily attributable to lower salaries and employee benefits expense resulting from staffing level adjustments made in 1Q20**

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

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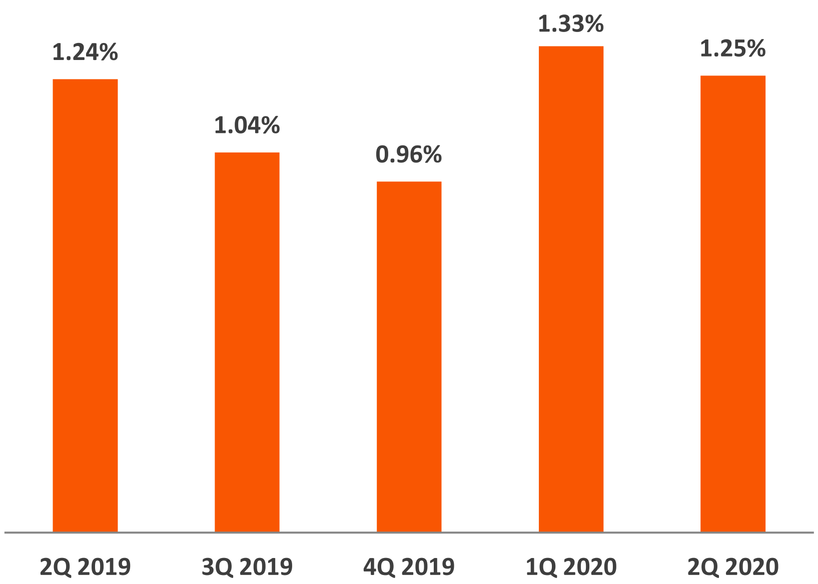
Asset Quality

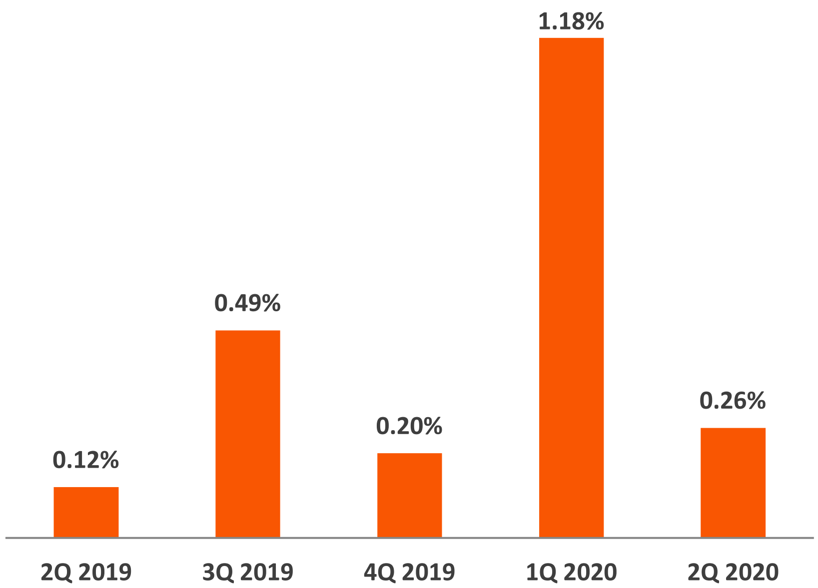
- Nonperforming loans/total loans declined to 1.25% from 1.33% at the end of the prior quarter
- Net charge-offs of $3.1 million, or 0.26% of average loans
- Provision for loan losses of $11.6 million in 2Q20 primarily reflects changes in portfolio and a continued downgrade in economic forecast due to the impact of COVID-19 pandemic
- At 6/30/20, approximately 96% of ACL was allocated to general reserves

Nonperforming Loans / Total Loans

(Total Loans as of quarter-end)



NCO / Average Loans



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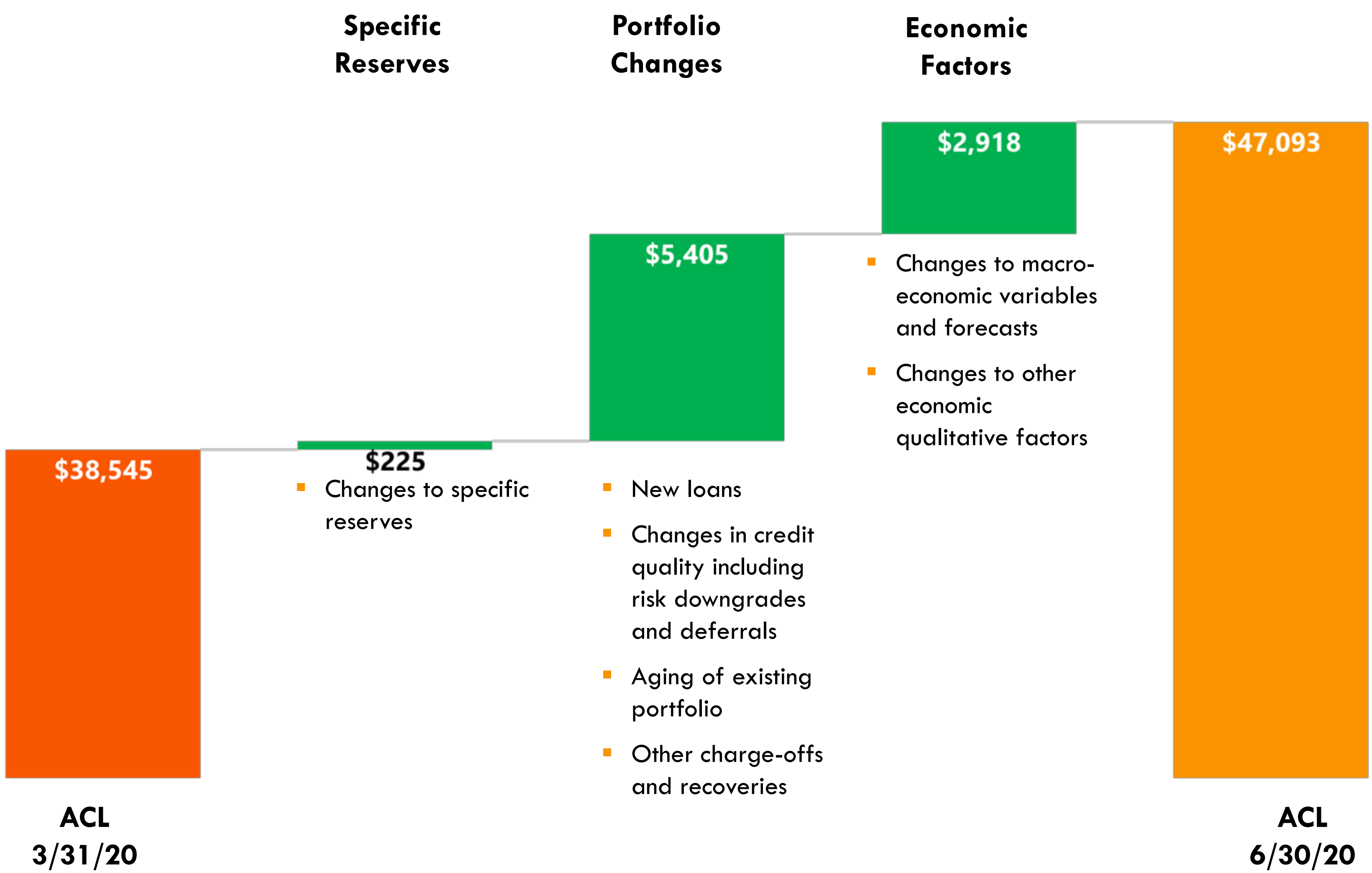
Changes in Allowance for Credit Losses

($ in thousands)



ACL by Portfolio

($ in thousands)

Portfolio	Total Loans at 6/30/20	ACL	% of Total Loans	Total Loans at 3/31/20	ACL	% of Total Loans
Commercial	$ 715,206	$ 4,916	0.69%	$ 649,403	$ 4,900	0.75%
Warehouse Lines	127,568	-	0.00%	22,772	-	0.00%
Commercial Other	767,175	7,297	0.95%	443,376	6,840	1.54%
Equipment Finance	376,499	6,553	1.74%	326,004	6,431	1.97%
Paycheck Protection Program	276,007	414	0.15%	-	-	-
Lease Financing	374,054	6,155	1.65%	346,366	5,309	1.53%
CRE non-owner occupied	804,147	10,247	1.27%	809,628	6,285	0.78%
CRE owner occupied	465,217	6,378	1.37%	471,360	4,330	0.92%
Multi-family	142,194	2,982	2.10%	142,770	2,486	1.74%
Farmland	83,625	689	0.82%	83,522	482	0.58%
Construction and Land Development	207,593	1,512	0.73%	208,361	1,321	0.63%
Residential RE First Lien	411,635	3,960	0.96%	441,495	3,825	0.87%
Other Residential	97,818	870	0.89%	106,519	813	0.76%
Consumer	81,447	354	0.43%	85,162	472	0.55%
Consumer Other(1)	689,312	1,733	0.25%	588,242	1,482	0.25%
Total Loans	**4,839,423**	**47,093**	**0.97%**	**4,376,204**	**38,545**	**0.88%**
Loans (excluding GreenSky, PPP and warehouse lines)	**3,698,092**	**44,835**	**1.21%**	**3,715,229**	**36,949**	**0.99%**

Notes:
(1) Primarily consists of loans originated through GreenSky relationship

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Outlook and Near-Term Priorities

- **Maintain strong capital and liquidity positions to continue supporting clients and communities through the duration of the COVID-19 pandemic**
- **Continue executing on technology initiatives to improve customer experience, reduce expenses and increase operational efficiencies**
  - **New online residential mortgage application portal**
  - **Improvements to mobile banking app**
  - **Implementation of new customer experience tool to gather and evaluate customer survey data**
  - **New online account opening tool launching in 3Q20**
- **Continued evaluation of all areas of operations to reduce expenses**

APPENDIX

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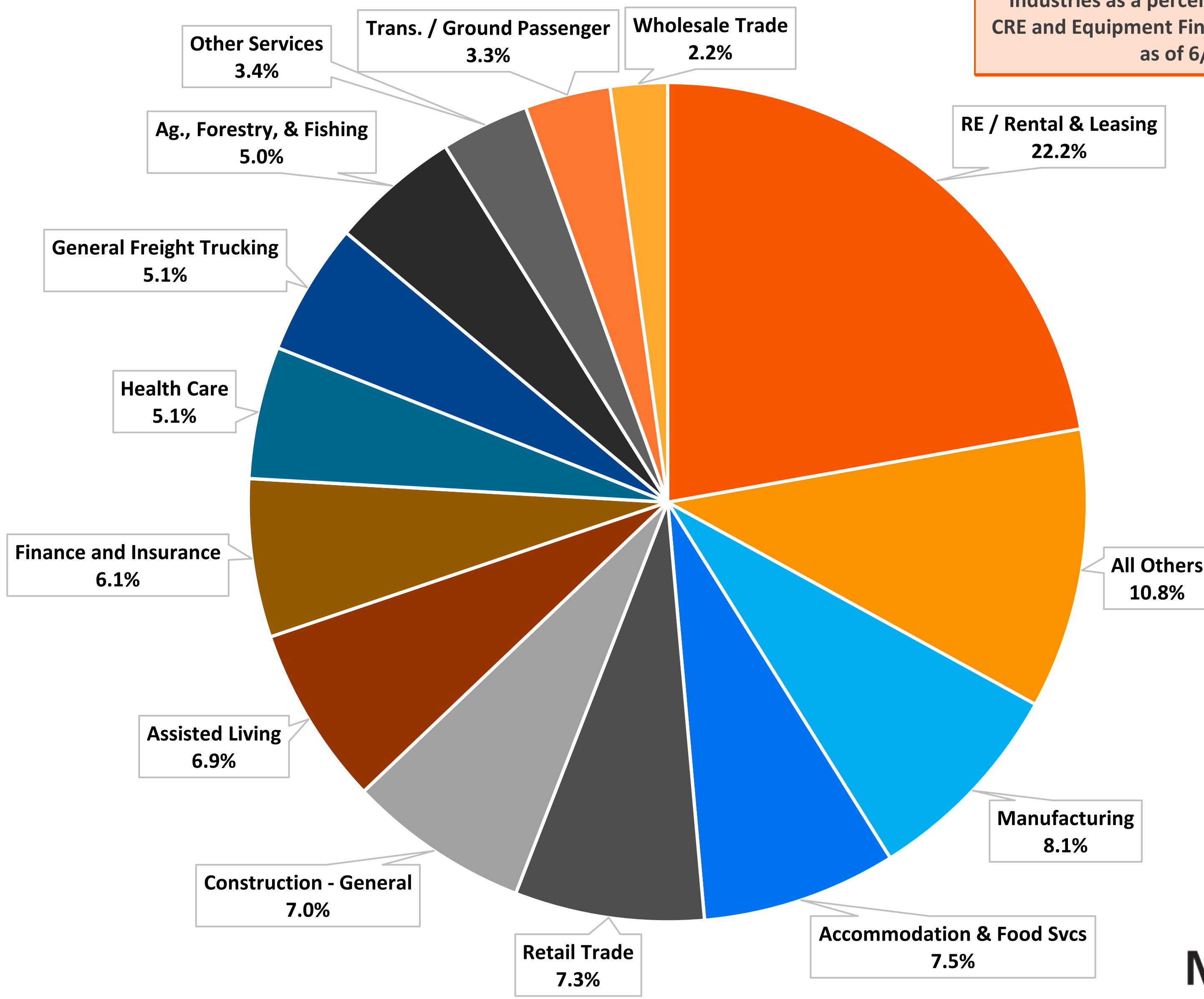
Commercial Loans and Leases by Industry

Industries as a percentage of Commercial, CRE and Equipment Finance Loans and Leases as of 6/30/20



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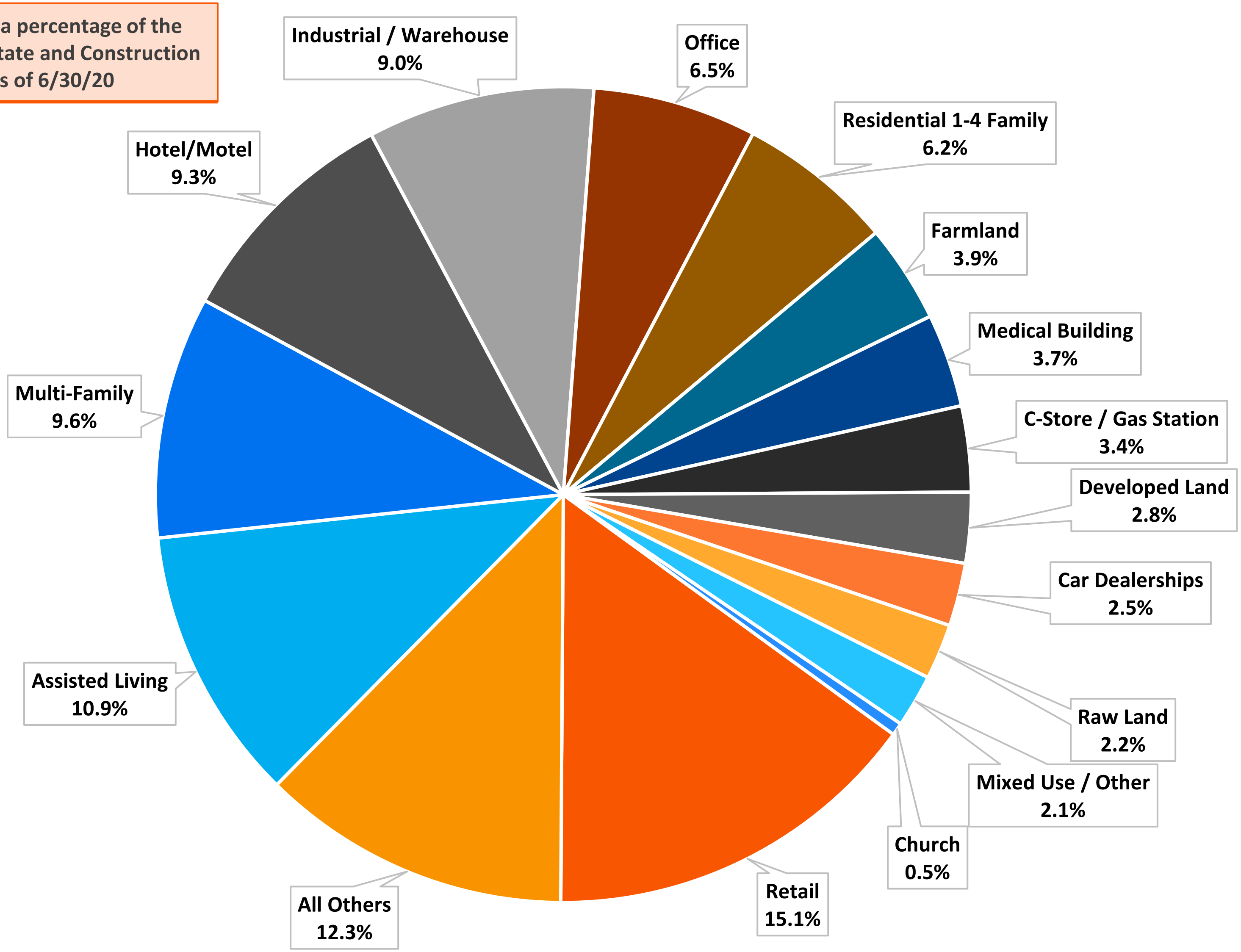
Commercial Real Estate Portfolio by Collateral Type

Collateral type as a percentage of the Commercial Real Estate and Construction Portfolio as of 6/30/20



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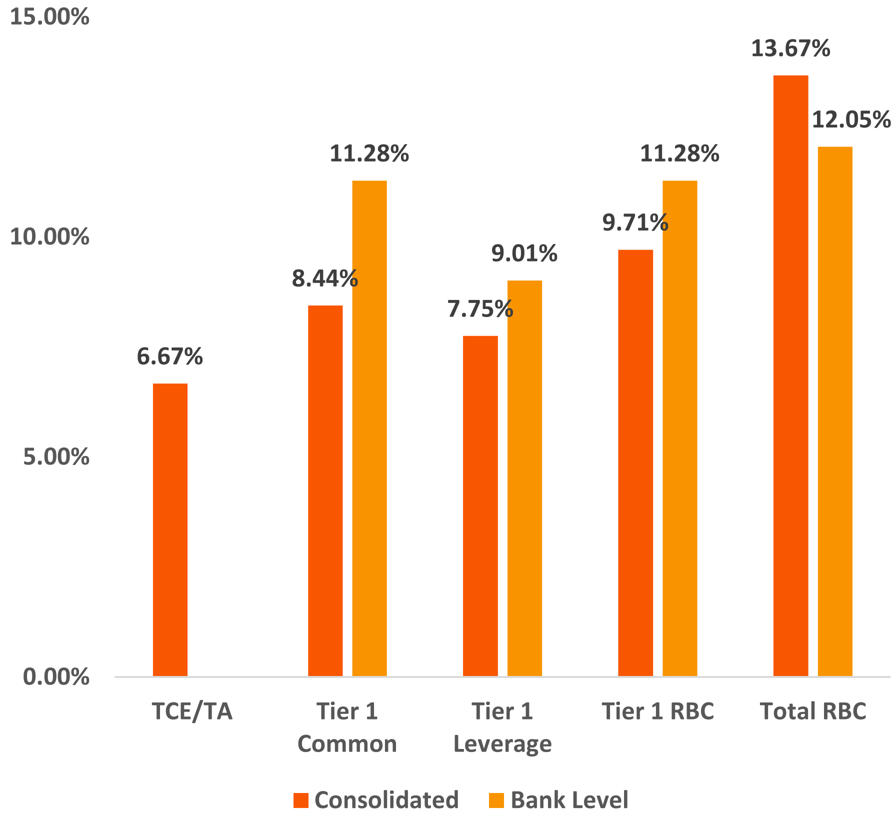
Capital and Liquidity Overview

Capital Ratios
(as of 6/30/20)



Liquidity Sources
(as of 6/30/20)

($ in millions)		
Cash and Cash Equivalents	$	519.9
Unpledged Securities		435.0
FHLB Committed Liquidity		329.4
FRB Discount Window Availability		57.2
Primary Liquidity		**1,341.5**
FRB – PPP Liquidity Facility[1]		250.0
Secondary Liquidity		**250.0**
Total Estimated Liquidity	**$**	**1,591.5**
Conditional Funding Based on Market Conditions		
Additional Credit Facility	$	250.0
Brokered CDs (additional capacity)	$	500.0

(1) Enrolled in PPP facility – loans available to submit

Other Liquidity
Holding Company Cash Position of $62.9 Million

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RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

Adjusted Earnings Reconciliation

	For the Quarter Ended				
(dollars in thousands, except per share data)	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**
Income before income taxes - GAAP	$ 15,993	$ 2,005	$ 16,071	$ 16,670	$ 21,394
Adjustments to noninterest income:					
Gain on sales of investment securities, net	-	-	635	25	14
Other	11	(13)	(6)	-	(23)
Total adjustments to noninterest income	11	(13)	629	25	(9)
Adjustments to noninterest expense:					
Loss (gain) on mortgage servicing rights held for sale	391	496	95	(70)	(515)
Loss on repurchase of subordinated debt	-	193	1,778	-	-
Integration and acquisition expenses	54	1,031	3,332	5,292	286
Total adjustments to noninterest expense	445	1,720	5,205	5,222	(229)
Adjusted earnings pre tax	16,427	3,738	20,647	21,867	21,174
Adjusted earnings tax	3,543	932	4,537	5,445	4,978
Adjusted earnings - non-GAAP	12,884	2,806	16,110	16,422	16,196
Preferred stock dividends, net	-	-	-	(22)	34
Adjusted earnings available to common shareholders - non-GAAP	$ 12,884	$ 2,806	$ 16,110	$ 16,444	$ 16,162
Adjusted diluted earnings per common share	$ 0.55	$ 0.11	$ 0.64	$ 0.66	$ 0.66
Adjusted return on average assets	0.78 %	0.19 %	1.04 %	1.09 %	1.16 %
Adjusted return on average shareholders' equity	8.20 %	1.73 %	9.71 %	10.01 %	10.33 %
Adjusted return on average tangible common equity	12.14 %	2.53 %	14.15 %	14.52 %	15.19 %

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RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES (continued)

Efficiency Ratio Reconciliation

	For the Quarter Ended				
(dollars in thousands)	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**
Noninterest expense - GAAP	$ 40,782	$ 42,675	$ 46,325	$ 48,025	$ 40,194
(Loss) gain on mortgage servicing rights held for sale	(391)	(496)	(95)	70	515
Loss on repurchase of subordinated debt	-	(193)	(1,778)	-	-
Integration and acquisition expenses	(54)	(1,031)	(3,332)	(5,292)	(286)
Adjusted noninterest expense	$ 40,337	$ 40,955	$ 41,120	$ 42,803	$ 40,423
Net interest income - GAAP	$ 48,989	$ 46,651	$ 48,687	$ 49,450	$ 46,077
Effect of tax-exempt income	438	485	474	502	526
Adjusted net interest income	49,427	47,136	49,161	49,952	46,603
Noninterest income - GAAP	$ 19,396	$ 8,598	$ 19,014	$ 19,606	$ 19,587
Loan servicing rights impairment (recapture)	107	8,468	1,613	1,060	(559)
Gain on sales of investment securities, net	-	-	(635)	(25)	(14)
Other	(11)	13	6	-	23
Adjusted noninterest income	19,492	17,079	19,998	20,641	19,037
Adjusted total revenue	$ 68,919	$ 64,215	$ 69,159	$ 70,593	$ 65,640
Efficiency ratio	58.53 %	63.78 %	59.46 %	60.63 %	61.58 %

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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				
(dollars in thousands, except per share data)	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**
Shareholders' Equity to Tangible Common Equity					
Total shareholders' equity—GAAP	$ 633,589	$ 631,160	$ 661,911	$ 655,522	$ 639,888
Adjustments:					
Preferred stock	-	-	-	-	(2,684)
Goodwill	(172,796)	(172,796)	(171,758)	(171,074)	(164,673)
Other intangibles, net	(31,495)	(33,124)	(34,886)	(36,690)	(33,893)
Tangible common equity	$ 429,298	$ 425,240	$ 455,267	$ 447,758	$ 438,638
Total Assets to Tangible Assets:					
Total assets—GAAP	$ 6,644,498	$ 6,208,230	$ 6,087,017	$ 6,113,904	$ 5,546,055
Adjustments:					
Goodwill	(172,796)	(172,796)	(171,758)	(171,074)	(164,673)
Other intangibles, net	(31,495)	(33,124)	(34,886)	(36,690)	(33,893)
Tangible assets	$ 6,440,207	$ 6,002,310	$ 5,880,373	$ 5,906,140	$ 5,347,489
Common Shares Outstanding	22,937,296	23,381,496	24,420,345	24,338,748	23,897,038
Tangible Common Equity to Tangible Assets	6.67 %	7.08 %	7.74 %	7.58 %	8.20 %
Tangible Book Value Per Share	$ 18.72	$ 18.19	$ 18.64	$ 18.40	$ 18.36

Return on Average Tangible Common Equity (ROATCE)

	For the Quarter Ended				
(dollars in thousands)	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**
Net income available to common shareholders	$ 12,569	$ 1,549	$ 12,792	$ 12,677	$ 16,321
Average total shareholders' equity—GAAP	$ 631,964	$ 652,701	$ 658,497	$ 651,162	$ 628,730
Adjustments:					
Preferred stock	-	-	-	(814)	(2,708)
Goodwill	(172,796)	(171,890)	(171,082)	(166,389)	(164,673)
Other intangibles, net	(32,275)	(33,951)	(35,745)	(34,519)	(34,689)
Average tangible common equity	$ 426,893	$ 446,860	$ 451,670	$ 449,440	$ 426,660
ROATCE	11.84 %	1.39 %	11.24 %	11.19 %	15.34 %

Midland States Bancorp, Inc.