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CORPORATE PARTICIPANTS

Allyson Pooley *Financial Profiles - IR*

Leon Holschbach *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Jeff Ludwig *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

Kevin Thompson *Midland States Bancorp, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Michael Perito *Keefe, Bruyette & Woods - Analyst*

Terry McEvoy *Stephens Inc. - Analyst*

Kevin Reevey *D.A. Davidson & Co. - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Midland States Bancorp fourth-quarter 2016 earnings call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the call over to Ms. Allyson Pooley from Financial Profiles. Ma'am, you may begin.

Allyson Pooley - *Financial Profiles - IR*

Thank you, Chelsea. Good morning, everyone, and thank you for joining us today for the Midland States Bancorp fourth-quarter 2016 earnings call. Joining us from Midland's management team today are Leon Holschbach, President and CEO; Jeff Ludwig, Executive Vice President, and Kevin Thompson joins us this quarter, Midland's newest CFO.

We will be using a slide presentation as part of the discussion this morning. If you haven't done so already, please visit the webcast and presentations page of Midland's investor relations website to download a copy of it. Jeff, Leon, and Kevin will discuss the fourth-quarter results and the announced acquisition of Centrue Financial Corporation and then we will open the call up for questions.

Before we begin I would like to remind you that this call contains forward-looking statements with respect to future performance and financial condition at Midland States Bancorp that involve risks and uncertainties. Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors could cause actual results -- sorry, these factors are discussed in the Company's SEC filings which are available on the Company's website. The Company disclaims any obligation to update any forward-looking statements made during the call.

Additionally, management may refer to non-GAAP measures, which are intended to supplement, but not substitute for, the most directly comparable GAAP measures. The press release available on the website contains the financial and other quantitative information to be discussed today, as well as the reconciliation of the GAAP to non-GAAP metrics.

With that I will turn the call over to Leon.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Thank you, Allyson. Good morning, everyone. Most of you on the call have seen our two press releases from yesterday afternoon, so you know that we had a great fourth quarter and that we also signed a deal to acquire Centrue Financial Corporation. On today's call we will walk through the quarter and then we will get into a more substantive discussion of the Centrue acquisition.

With the acquisition of Centrue, we have now done exactly what we set out to do in our IPO: raise and deploy equity capital in a way that will significantly enhance the value of our franchise. Centrue fits all the criteria we were looking for.

It is significant in scale, increases our total assets by $1 billion. It deepens our presence in existing markets and has cost savings assumptions that we feel very confident in. It is highly accretive with an expectation of 8% to 9% EPS accretion in 2018, and it has a short tangible book value earnback of approximately two years.

We feel it is an extremely attractive acquisition with a compelling, strategic, and economic rationale that will be very good for our shareholders. And we will talk more about it after we review the quarter.

Slide 3 summarizes the highlights of the quarter, which we view as having been an important transitional quarter before we undertook further acquisition growth. We generated $11.6 million in net income, or $0.72 per diluted share, in the quarter. These results included a $14.3 million gain from the sale of our CMOs.

Although we can't really take credit for the good timing, we did happen to hit the market just right with the sale of the CMOs, as rates began moving up almost immediately after we sold the portfolio. The timing of the sale enabled us to preserve all of the gain we had built up in these securities for our shareholders and we are very pleased with that decision.

We also incurred one-time charges of $2.1 million related to our branch network optimization actions and $1.6 million in other integration and acquisition-related charges. We had another very strong quarter of loan growth. Our average loan balances increased by more than 20% on an annualized basis. And with the exception of commercial loans, which were impacted by fluctuations in warehouse lines of credit, we generated significant growth across all of our major lending areas.

We were also pleased to further the expansion of our wealth management business with the acquisition of Sterling Trust during the fourth quarter. Not only does this acquisition increase the scale of our wealth management business, but it also adds significant expertise in the areas of special needs and settlement trust. With these expanded capabilities we believe we will have even more opportunities to continue adding new wealth management and trust customers in the future.

One of the other significant events in the quarter was a change we made to our long-term strategic plan. In November, we announced a change to the five pillars that comprise our strategic plan by adopting operational excellence as a new strategic initiative. The adoption of this new initiative reflects our commitment to ensure that we operate in an efficient manner as we continue to grow both organically and through M&A.

By formally placing operational excellence at the core of our plan, we are placing greater corporate-wide focus on driving improvements in people, processes, and technology. As Kevin will describe a little later, it is no coincidence that we sold the CMOs at the same time we embarked on a significant cost reduction strategy and the two will balance each other out fairly quickly.

The banking industry is undergoing rapid change and it is impacting the way customers interact with their banks. This initiative will help us keep up with the changing trends and always deploy our people, our branch network, and our online and mobile banking capabilities in an efficient manner and provide a superior customer experience.

Having gone through an extraordinary period of growth over the last nine years, we believe there are many opportunities to enhance efficiencies throughout our organization. The first significant action we have taken under this new initiative is a branch network optimization plan that will consolidate certain branches into other nearby locations, resulting in a total reduction of seven branches.

This plan will enable us to concentrate our branch personnel and services into locations where they are needed most. And due to the proximity of nearby branches, we can make these changes while still providing our customers with convenient access to in-person banking services when they are needed.

In addition to the branch consolidation plan, we are evaluating staffing models and making other changes in the organization, particularly as it pertains to determining whether positions that come open through natural attrition truly need to be filled. Now that we have added Kevin as our new CFO, Jeff Ludwig will be able to devote his full attention to his responsibilities as President of the Bank, and he will be leading our efforts on the operational excellence initiative.

As we execute on this new initiative we believe we can generate steady improvement in our operating efficiency ratio and our overall financial performance. By combining a strong focus on operational excellence with our ongoing M&A and organic growth initiatives, we believe we can enhance our efforts to continue driving shareholder value.

Now I'm going to turn the call over to Jeff, who will take a little bit more of the performance of our major business units -- talk a little bit more about those major business units. Jeff?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

Thanks, Leon. I'm going to start on slide 4 with Love Funding, which is our commercial FHA loan origination and servicing business that focuses on multifamily and healthcare facilities.

We saw a strong increase in production during the fourth quarter with our rate-lock commitments more than doubling over the prior quarter to $159 million. That being said, the production came in below our expectations as certain deals slipped into the first quarter.

There are a number of factors that can contribute to the variance in the gain-on-sale margin in any particular quarter. In the fourth quarter the variance was driven by the mix of loan production, as well as the production largely coming from loan officers that had reached the higher end of their commission schedule due to their strong production over the course of the year. We also recorded $700,000 in mortgage servicing right impairment, which reduced our overall commercial mortgage banking revenue.

Our weighted average cost of funds on servicing deposits in the quarter was 9 basis points. Looking out into 2017, our loan pipeline in this business looks very strong and we expect to see another solid revenue growth year.

Turning to slide 5, we will look at our residential mortgage business. Despite the seasonal slowdown that typically impacts demand for residential mortgages in the fourth quarter, we had a strong quarter with our total production volume increasing 38% over last year. A significant driver of that increase was related to the residential mortgage loans that we retain on our balance sheet, which increased by approximately $37 million during the quarter.

One of the main contributors to the growth in this portfolio is the program we discussed last quarter that focuses on originating residential mortgage loans for doctors in our markets. We continue to be very pleased with the success of this program in helping us to develop relationships with high-value customers that could potentially use a number of our other products and services that we offer, such as wealth management.

From a total production perspective, including the loans we originate for sale, we continue to see a mix that is weighted towards new purchases, which reflects the positive housing trends we are seeing in our local markets. Due to the increase in mortgage rates in the fourth quarter, we were able to recapture $3.6 million of mortgage servicing right impairment, which positively impacted our residential mortgage banking revenue this quarter.

Turning to slide 6, we will look at Heartland Business Credit, our equipment leasing business. This business continues its strong performance and generated $29 million in originations. The total leasing portfolio has grown by 33% over the past year and we continue to see very attractive yields in this business, the average rate on the portfolio being 5.15%, excluding accretion income.

Turning to slide 7, we will take a look at wealth management. From the organic growth perspective, our wealth management unit increased its assets under administration by approximately $20 million, or 2%, in the fourth quarter. As Leon mentioned, we also completed our acquisition of Sterling Trust in mid-November, which contributed just over $400 million in assets under administration.

As a result of this acquisition, our wealth management revenue increased by approximately $500,000 over the prior quarter, bringing us to $2.5 million. With a full quarter of Sterling Trust, we should see our wealth management revenue increase by another $500,000 per quarter in 2017.

Now I am going to turn the call over to Kevin to walk through some additional detail on our fourth-quarter performance. Kevin?

Kevin Thompson - *Midland States Bancorp, Inc. - CFO*

Thanks, Jeff. Starting with slide 8, I will review our net interest income and net interest margin.

Our net interest income declined by 4.8% from the third quarter, primarily due to a $1.7 million decrease in interest income on investment securities as a result of the sale of the CMO portfolio. We also had a $400 million -- $400,000 decrease in accretion income. This was partially offset by strong growth in our interest income from loans. Excluding accretion income, our interest income from loans increased by $1 million due to our strong growth in average loan balances in the fourth quarter.

Our net interest margin declined by 30 basis points on a reported basis and by 22 basis points excluding accretion income. The decrease was due to a decline in yield on investment securities due to the sale of the CMO portfolio and the reinvestment of those proceeds into higher-quality, lower-yielding investments.

Although the timing won't match up on a quarter-to-quarter basis, we anticipate that the impact of the lower interest income resulting from the sale of the CMO portfolio will be fully offset over the course of 2017 by the cost savings produced by the operational excellence initiative.

Moving to our noninterest income slide on slide 9. Excluding the gain on sale of the CMOs, our noninterest income was 8.4% higher than last quarter. All of our major fee-generating businesses were up over the prior quarter. Once again, even excluding the gain on sale of the CMOs, our noninterest income accounted for more than a third of total revenue.

Turning to slide 10, we will take a look at our expenses and efficiency ratio. We incurred $2.1 million in charges in the fourth quarter related to our branch network optimization actions. We also incurred $1.6 million in other integration and acquisition-related expense.

Excluding these items, our noninterest expense was up 6.2% from the prior quarter. This was primarily due to higher salaries and benefits expenses resulting from higher bonus accruals and the addition of employees through the Sterling Trust acquisition, as well as an increase in professional fees.

Our operating efficiency ratio was 77% in the fourth quarter, up from 65% last quarter, which was attributable to the absence of the CMO income and the increase in noninterest expense. All of the branches impacted by the branch network optimization actions are scheduled to be closed by the end of February.

Once these closures are completed and combined with other cost-saving measures under the operational excellence initiative, we expect our run rate for the noninterest expense to range between $29 million and $30 million per quarter and our operating efficiency ratio to return below 70%, excluding integration and acquisition-related expenses and prior to the completion of the acquisition of Centrue Financial Corporation. This run rate reflects both the cost savings from the operational excellence initiative, as well as ongoing investments in other areas of the Company to support our continued growth.

Moving to the balance sheet on slide 11, we will take a look about our loan portfolio. As we mentioned on our last call, we had an unusually high level of advances outstanding at September 30 on a warehouse line of credit to a customer that originates commercial FHA loans, similar to our

Love Funding business. The lower level of advances on this line at December 31 skews our overall loan growth in the fourth quarter, particularly in our commercial portfolio which was down $87.2 million.

Outside of the commercial portfolio we saw nice increases across all of our other major portfolios with the strongest growth coming in our residential real estate, consumer, construction, and commercial real estate portfolios. On an average basis, our total loans were up 20.7% annualized in the quarter. On a period-end basis, excluding the advances on the commercial FHA line that I just discussed, our total loan portfolio increased at an annualized rate of 12.5% in the fourth quarter, which is more in line with the normalized growth rate in the portfolio.

Turning to slide 12, we will take a look at our deposits which were down from the end of the prior quarter. As with total loans, our period-end deposit balances were also impacted by the fluctuations that occur in the ordinary course of business of this warehouse line customer. The deposit balances of this customer were down $73 million from the end of the prior quarter. The fluctuation in this customer's deposit balances occurs on a regular basis and can skew the period-end to period-end comparisons from time to time.

Outside of the deposits related to this one customer, we saw increases in non-interest-bearing, money market, and savings deposits from other customers.

Moving to slide 13, our nonperforming loans increased by $1.7 million from the end of the prior quarter. This increase was primarily attributable to one commercial relationship. Our net charge-offs were $3.1 million. Approximately half of our net charge-offs this quarter were related to one commercial credit that was fully reserved for in a prior period. We recorded a provision for loan losses of $2.4 million in the quarter, which primarily reflected the higher level of net charge-offs.

With that I will turn the call back over to Leon. Leon?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Thank you, Mr. Thompson. Now I would like to take a few minutes and talk about the acquisition of Centrue Financial Corporation which we announced yesterday. We will start on slide 15 with an overview of the transaction.

We have competed with Centrue Bank for a long time and I have personally known their CEO, Kurt Stevenson, for many years. So we are very familiar with their operations and their markets, their customer base, and how they run their business and I think that Kurt has done an excellent job.

For those of you who are unfamiliar with Centrue, they are a $1 billion bank that has operated in Illinois for more than 140 years offering a broad selection of commercial, retail, and mortgage banking services. Similar to Midland, their corporate culture is rooted in a commitment to superior customer service and being deeply invested in the well-being of the communities that they serve.

This transaction provides us with a high-quality, low-cost core deposit franchise that will strengthen our presence in our existing markets in northern Illinois. In the process, it will make Midland the sixth-largest Illinois-based bank by total assets.

It is a financially attractive deal for our shareholders and our assumptions do not include any revenue enhancements. We have significant branch overlap so, as we consolidate branches, we anticipate approximately 40% cost savings from their current noninterest expense run rate. We are projecting approximately 8% to 9% EPS accretion in 2018, our first full year of combined operations.

The tangible book value per share dilution will be less than 1.5% and the payback period will be approximately two years, using the crossover method. And we are projecting an IRR greater than 16%.

Turning to slide 16 and providing a little bit more information on Centrue; they have 20 branches and have built a solid market share in their core markets of Kankakee and LaSalle Counties. Their high-touch approach to customer service has enabled them to build an attractive core deposit base with a total cost of deposits of just 18 basis points over the last 12 months. And they have a healthy and growing loan portfolio, with NPLs representing just 24 basis points of total loans.

Looking at slide 17, Centrue underwent a recapitalization in early 2015, which served as the impetus for a significant improvement in the bank's performance. Since the recap, they have been able to drive significant growth in loans and core deposits while improving credit quality. This has led to improved earnings power that we believe can increase even further as we capitalize on the synergies we project for this merger.

The bank is now well capitalized and free of any regulatory enforcement actions. And Centrue has deferred tax assets of $35 million that will be 100% available to us to offset future taxable income.

Moving to slide 18; on a pro forma basis, the combined franchise will have 52 branches in Illinois, 13 in Missouri, and one in Colorado. The transaction will significantly increase our scale and take us over $4 billion in total assets and more than $3 billion in both loans and deposits.

Turning to slide 19, we will take a closer look at Centrue's loan portfolio. It is well diversified and the majority of the commercial real estate loans are owner-occupied. Centrue has done an excellent job of cleaning up its balance sheet over the past few years and has worked NPLs down to just 24 basis points of total loans, as I mentioned earlier.

Looking at slide 20, Centrue's deposit base, very attractive. It is primarily comprised of low-cost core deposits with non-time deposits accounting for 73% of their total deposits. On a pro forma basis, the addition of this deposit base will reduce our overall cost of deposits to 33 basis points, using the last 12 months as the reference period.

Moving to slide 21, I'm going to quickly summarize some of the key deal terms. The total consideration is $175 million with 65% being paid in stock and 35% in cash. The pricing makes economic sense, particularly when factoring in the cost savings and impact on our 2018 earnings. And we expect to close the transaction in mid-2017.

Turning to slide 22, we will look at the assumptions for the transaction.

We are projecting 40% cost saves, which will be fully realized in 2018. The loan portfolio is in good shape; we are projecting a loan mark of 1.5%. On a pro forma basis, we will continue to have very strong capital ratios to support our continued growth.

Looking at slide 23; this will be our 11th announced acquisition since 2008, so we have a very good process in place for evaluating, negotiating, and integrating acquisitions that add value to our franchise. We have used our established process for conducting our due diligence on Centrue, which has included an extensive credit review covering 71% of their total loans. We have also spent a great deal of time analyzing their cost structure and we feel very comfortable with our projected cost savings. Overall, we are very excited about the transaction.

We have demonstrated in the past that we can create value for shareholders through our M&A strategy. The acquisition of Centrue will be our largest transaction to date, but given the proximity, market overlap, and similar corporate cultures and operating models, we view it as a low-risk acquisition of a franchise that is an excellent strategic fit while also providing strong economic benefits. We are looking forward to welcoming the customers, employees, and shareholders of Centrue to the Midland family.

I will wrap up on slide 21 with some comments on our outlook. Economic conditions continue to be healthy in our market. A recent survey from the national Federation of Independent Business showed that small business confidence has surged now and stands at its highest level since 2004.

More small business owners are indicating that they plan to increase investment in their companies and keep hiring, which certainly bodes well for Midland, given our strong focus on banking small and middle-market businesses. With a healthy economy and a good environment for small business expansion, we expect that we will be able to generate 8% to 12% loan growth in 2017. Across the board we are expecting to see solid loan and/or revenue growth in all of our key business areas: traditional community banking, commercial FHA, residential mortgage, equipment leasing, and wealth management.

And the pending acquisition of Centrue will add another catalyst for increasing our earnings power. We believe that 2017 will be a good representation of the effective model we have built for generating growth and shareholder value at Midland. We have numerous catalysts for driving organic growth.

On top of the organic growth, we believe we can layer on accretive acquisitions in a number of different areas of the Bank, whether that is in traditional community banking, as in the Centrue acquisition, or in more specialized businesses such as wealth management. And with the actions we are taking under the operational excellence initiative, we believe we can drive incremental earnings growth through improved efficiencies.

Collectively, we believe our execution on organic growth, M&A, and improved operational efficiencies will result in another strong year of earnings growth in 2017 and further value creation for our shareholders.

With that we will be happy to answer any questions you might have. Operator, would you please open up the call line?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Perito, KBW.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Good morning, gentlemen. Leon, maybe a quick question for you to start off. Appreciate the outlook commentary on the loan growth for 2017. I was looking at my notes for last quarter and it looked like the range was a little higher than the 8% to 12% provided.

Is there anything I guess that you guys are seeing? It sounds like economically things are well. But I guess is there anything in the pipeline or that you are seeing that makes that new range the reality versus what was discussed last quarter?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Sure. So as we stand here today -- and we do look at the pipeline across these production units to project growth and they all look very strong. The principal reason of tightening up the loan growth projection is simply that the larger our absolute base is the greater amount of production it takes to grow in those double digits.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay. Do you happen to just -- even if you don't have the specific dollar amount, just the pipeline relative today to maybe three months ago and 12 months ago?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Kevin is scooting through our deck here for that, Mike. We will get you that in just a second.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

All right. And then maybe while he is looking it up, question for Jeff.

As we look at the commercial FHA, I mean -- the comment I believe that you had mentioned in the prepared remarks is you expect that revenue to grow again. I guess as we try to think about some of the moving pieces that could drive some year-over-year growth there, would you say --? I mean, one thing I struggle with is trying to understand how the commercial FHA platform is impacted by rates relative to a more traditional mortgage platform. Would you say that some of the slowdown -- was it more the uncertainty around the 10-year rising that drove some of the slowdown or was it the actual rates moving up that drove some of the slowdown?

And I guess secondly off that, if it was the latter, what are realistic production goals for next year, if we are assuming a baseline of rates continuing to rise?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

I think it is a little bit of both. There is a couple different things, big picture things that Love does. We have rate modifications that are going on -- they are more rate sensitive -- and then we have the bulk of the business, which is the traditional business, of more permanent financing for properties.

As we move through the fourth quarter, rate modifications in the quarter definitely were impacted by rate and pushed to the first quarter. And depending on where rates go, may or may not happen. The good thing with modification business its lower margin, not -- you could almost look at it as the refi business in residential, so not necessarily a real core part of what we are doing.

And then on the permanent side, just a little bit of insight. It is less rate sensitive. Once a permanent loan is getting through the process the customers are going to lock and they are going to close.

Just to give you a sense, we are rate-locking loans today that are 35-year fixed rates for borrowers still under 4%. We are making five-year fixed-rate commercial loans here, traditional bank finance loans, more in that 4.5% range. So still very attractive to the borrowers as they are moving their permanent properties through the pipeline.

Those are still going to close and rate lock. So more rate sensitive on the mod business which is lower margin. Does that kind of help?

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Yes, yes. I guess just one last question on that topic. You guys did rate locks of about $740 million, I believe, in 2016. I mean to see revenue growth in 2017 is that the rate locks potentially increasing year over year, or is that maybe seeing some more consistent gain on sale margin expansion? Any thoughts on the drivers there?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

So I think there is a couple of things. We are going into the current year with the pipeline I won't say materially bigger than it was last year, but it is bigger, so that bodes well for another good year. And in my comments said we should be able to grow revenue.

We also had over $1 million of impairment on mortgage servicing rights that pulled revenue down for the full year. You know this; that is hard to predict, but you miss impairments and you have a natural lift in the revenue line.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

I'd give just an extra thing on that, Michael. Given -- as Jeff was suggesting earlier, given the much lower profitability of the mods, a same-level of rate-lock business in 2017, but with less of a percentage of mods in it, will in fact make us more money. So the top-line volume can be a little tricky.

The mix, which we will try to talk to each quarter, the mix can make a big difference though. Same volume, but with less of a mix of mods itself will produce greater revenue.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay. And do you know what the percent of loan modifications were in the fourth quarter of the $159 million?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

22%, I think.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Then one last question for me and then I will hop back into the queue. On the Centrue transaction I noticed -- and I appreciate the color in the deck on the DTA, which seems like a pretty disproportionate size of the total equity of the company. It seems like the tax benefit and the earnback are taking into account some of the benefits of that DTA.

Did you guys -- is there any concern? And obviously there is a big if here, but is there any concern on some of the metrics provided; if we do get some fairly significant corporate tax reform, how that could impact the value of that DTA and the earnback and what the potential future earnings benefit could be?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Sure. Again, this is Leon and then I will turn it over to Mr. Ludwig. But, sure, we've modeled it both ways. We are all expecting some kind of a federal tax rate change, probably a significant one.

So if there is none, then it's as the numbers that we have reported. If there is, then we and others with DTAs and DTLs across the Company will be making adjustments. However, the power of that same tax break going forward is going to be so significant that, yes, there may be a recognition period for an impairment on a DTA when that federal tax rate goes down. But the future value of it against our pretax income is so powerful.

Jeff, you want to add?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

Yes. So, Mike, you can imagine we spent a lot of time on this topic with our tax advisors to ensure that -- the usage of the DTA, so we are real comfortable with that. We have done a lot of modeling around a tax rate change going forward and how that would impact this acquisition.

And as it relates to an earnback, our earnback goes up slightly, less than a year, if there is a tax rate change, so we earn that back fairly quickly. And, obviously, nice earnings per share lift, if it happens in 2018, will be powerful for us.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Not to beat a dead horse here, but just curious; are you able to disclose what the corporate tax reform that you are assuming to bring that earn back from two to three years?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

We modeled anywhere from 15%, 20%, 25%. Once the initial reduction happens, from there it is fairly incremental.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

We feel good that it is nicely under a year of additional earnback if it would happen.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

So I guess a fair summarization of that, yes, it could certainly modestly negatively impact some of the metrics in here. But even with that said, it would still be within a lot of the metrics you guys communicated during the IPO process, etc., that are within your comfort range?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

Yes, we would still be under three-year earnback in those scenarios.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay. All right. Great; thanks, guys. Appreciate it.

Operator

Terry McEvoy, Stephens.

Terry McEvoy - *Stephens Inc. - Analyst*

Thanks. Good morning, guys. First question, can you just talk about the warehouse customer? That $65 million swing in commercial loans seemed to be relatively large. Did that customer go somewhere else, to a competitor? Or do you expect, as the volume comes back in that business, you would expect to recoup that loan and we will see it sometime in 2017?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

I will take this, Terry; it is Jeff. So this is a customer that originates and sells FHA loans, just like our Love Funding subsidiary. So as it is closing loans it is drawing on our warehouse line; as it sells the loan, it pays down on our warehouse line. That line moves up and down by tens of millions of dollars regularly.

And then what happens at end of the quarter it skews the end-of-period balances. That customer is still a customer of ours, a very good customer of ours. And it happened that at the end of the third quarter they had about fully drawn up on their line and, by the end of the year, had essentially fully paid down their line. There was still a little bit left on the line at the end of the year.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

And then, Jeff, the deposit swing that Kevin was explaining is the flipside of the ledger on those transactions as they clear that warehouse line and build it up.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

Yes. So they will draw on the line and that line goes into deposits initially if they are rate modifying loans and doing certain things. They will put it in deposits; those deposits will go out, pay off the loan. Those funds will come back to the customer; they will pay down the line.

We are trying to be as clear as we can that those balances are moving. It's still a core customer of ours. We make money as they are doing that, but it can skew -- as Kevin said, it skews period-to-period end-balances and we are trying, as you take it out, what does it look like? What is the average balances look like?

And if you look at it excluding that customer, we're -- average loans were up on an annualized basis 20% and period over period I think it was like 12.5%. So still a core customer of ours.

Terry McEvoy - *Stephens Inc. - Analyst*

Okay, great. Then I guess not a question I would normally ask, but there was a lot of moving parts in the fourth quarter. You have got some businesses, one of which you have already talked about, that are volatile or can be volatile around rates.

So I guess my question is if you look at the range of estimates that are out there for 2017 or specifically that consensus of around 240, could you provide some thoughts in terms of your comfort within that range one way or another? And I think it is important, again given what happened in the fourth quarter and maybe as we try to gauge the financial impact in 2018 of the acquisition that was announced.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Sure. Terry, this is Leon. That is a good and fair question because, for sure, lots of stuff going on in the fourth quarter.

I guess, although I want to be careful as a new public company not to get everybody in the habit of giving too much forward-looking earnings coaching, but in this circumstance I think it is reasonable. Looking at a couple of the main components, our normalized noninterest expense we expect to be in line with previous quarters and in line with estimates.

Interest margin dollars, as we have seen in the consensus estimates, looks like what we expect in our budgeting process. Loan provisioning spiked a little bit in the fourth quarter -- we can talk about that if somebody wants to -- but isolated incident. We expect normalized provision in line with what we have done before.

And on the fee income basis, with some lumpiness, on a year basis we expect that to look good across all of our fee-income-generating businesses. All of that to say we are -- as a management team, we are comfortable with that sort of consensus estimates going forward into 2017.

Terry McEvoy - *Stephens Inc. - Analyst*

Great. Then just one last question so I understand correctly. When will you receive the full benefits of the cost savings, in terms of what quarter in 2018? And I just want to make sure that 8% to 9% EPS accretion in 2018 is that for the full year or is that, once you hit that run rate on the cost savings, at that point you will get to 8% to 9%?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Sure, I will give a little poke at it and then, Jeff, you take it over. You know this, but I will still say it: it depends on when we can close. If everything moves as we expect and we close something like midyear, then what would we expect, Jeff?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

I think we will be able to get -- the key to it is getting the core conversion of systems done. If we can get that done late third quarter, which is kind of where we would expect at this point, we should be able to get all of our cost saves in play to start 2018. We start 2018 with the cost saves, if you will, behind us so that 8% to 9% is starting at the beginning of 2018.

Terry McEvoy - *Stephens Inc. - Analyst*

That is helpful. Thanks so much.

Operator

(Operator Instructions) Kevin Reevey, D.A. Davidson.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Good morning, guys. With respect to the Centrue acquisition, can you give us some guidance as to how much of, first of all, the goodwill pickup you are modeling? And then, number two, how much we should allocate to core deposit intangible and how you will amortize your core deposit intangibles?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

One second; Kevin and Jeff are flipping our investor deck on that. Hold on one second. Good question.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

So core deposit intangibles on slide 22 of the deck; 1.5% of Centrue's non-time deposits, amortized over 10 years using the sum of years digit method is how we are doing that. From a goodwill -- if we disclosed goodwill or not.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Yes, I did not see that in the deck, and I apologize if I overlooked it.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

I will circle back with you to get you the number. I don't have it sitting right in front of me.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Okay. Then with respect to the cost savings on Centrue's noninterest expenses, is that based on their latest 12-month noninterest expense? Is that a good number to kind of assume or should I take the first nine months and annualize that and assume 40% of that?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

I think you can look at where they are at in their current 12-month run rate as I think how we disclosed it, that 40% from there.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Okay, okay. Then my last question is related to, I guess, the earnings assumptions that you are building in for Centrue.

Are you looking at their latest 12-month numbers? Because I know they had some unusual items in the fourth quarter 2015. Or should I normalize that? How should we think about earnings contribution from Centrue going forward?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP and President, Midland States Bank*

We have normalized that earning. They have had a couple of items, which I think they did in the fourth quarter; we have normalized those out.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Okay, great. That is helpful. Thanks.

Operator

Thank you. I am showing no further questions at this time. I would now like to turn the call back to Mr. Leon Holschbach, President and Chief Executive Officer, for any closing remarks.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

I will just say thank you all for joining us and stay tuned; we are going to have an exciting year.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.