




Midland States Bancorp, Inc.

Acquisition of
HomeStar Financial Group, Inc.

April 2, 2019



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Use of Non-GAAP Financial Measures. This presentation contains 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 "Core Deposits," "Tangible Common Equity," "Tangible Book Value," "Tangible Common Equity to Tangible Assets," and "Tangible Book Value per Share." 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 calculated by other companies.

Transaction Highlights

Strategically Attractive

- Complements our Kankakee footprint (#1 pro forma deposit market share) with the addition of \$375 million in assets
- Valuable core deposit franchise with a low beta, 20 bps weighted average cost of deposits and excess liquidity (67% loans / deposits)
- Significant opportunity to realize cost savings and generate attractive financial returns

Financially Compelling

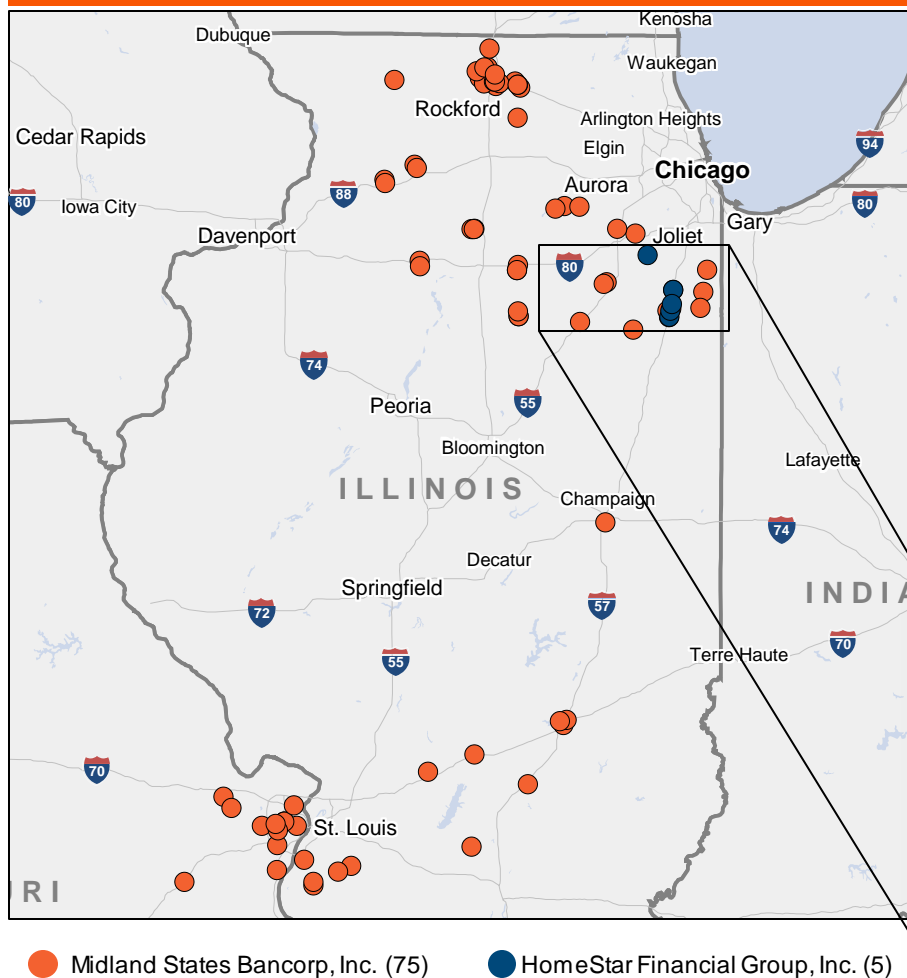
- Financially attractive transaction utilizing no revenue enhancements
 - ~9% EPS accretion in 2020, with fully phased cost savings
 - TBV per share dilution of ~2% at close
 - TBV per share earnback of 2 years using the “crossover” method
 - Does not include benefit of deploying excess liquidity

Fill-In Acquisition

- Small, in-market acquisition with ease of integration and little to no disruption to efficiency initiatives
- Similar customer approach and operating styles
- Midland track record of 13 successful acquisitions since 2008

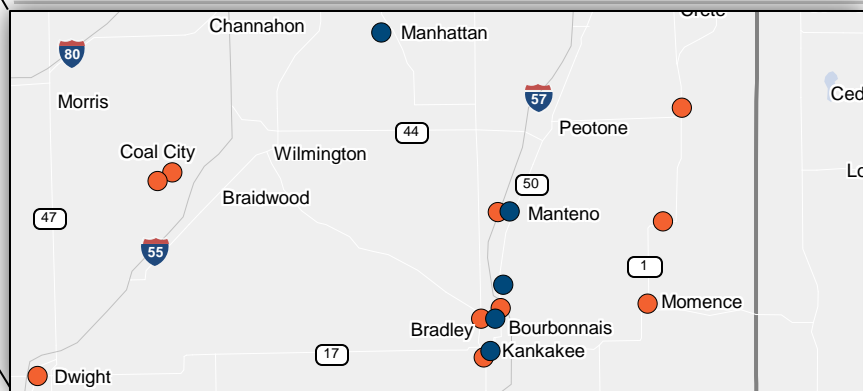
HomeStar Financial Group, Inc. Overview

Combined Branch Map



Bank Overview⁽¹⁾

\$ in 000's	
Headquarters	Manteno, IL
Total Assets	\$375,445
Gross Loans	222,654
Total Deposits	333,063
Loans / Deposits	66.9%
% Core Deposits ⁽²⁾	96.2%
Bank-Level Equity	\$30,365
Holding Company TruPS + Accrued Interest	33,982
Consolidated Equity (see page 6 for adjustments) ⁽³⁾	(7,559)
Bank-Level ROAA (tax-effected) ⁽⁴⁾	0.69%
Bank-Level NIM (FTE)	3.88%
Bank-Level Cost of Total Deposits	0.20%
Bank-Level Efficiency Ratio	85.3%
Bank-Level NPAs / Assets	1.38%



~98% of HomeStar's deposits are within 2 miles of an MSBI branch

Source: S&P Global Market Intelligence. Financial data as of, or for the three months ended 12/31/18.

(1) Financials represent bank-level data unless stated otherwise, as of, or for the three months ended 12/31/18.

(2) Core deposits defined as total deposits excluding time deposits >\$100,000.

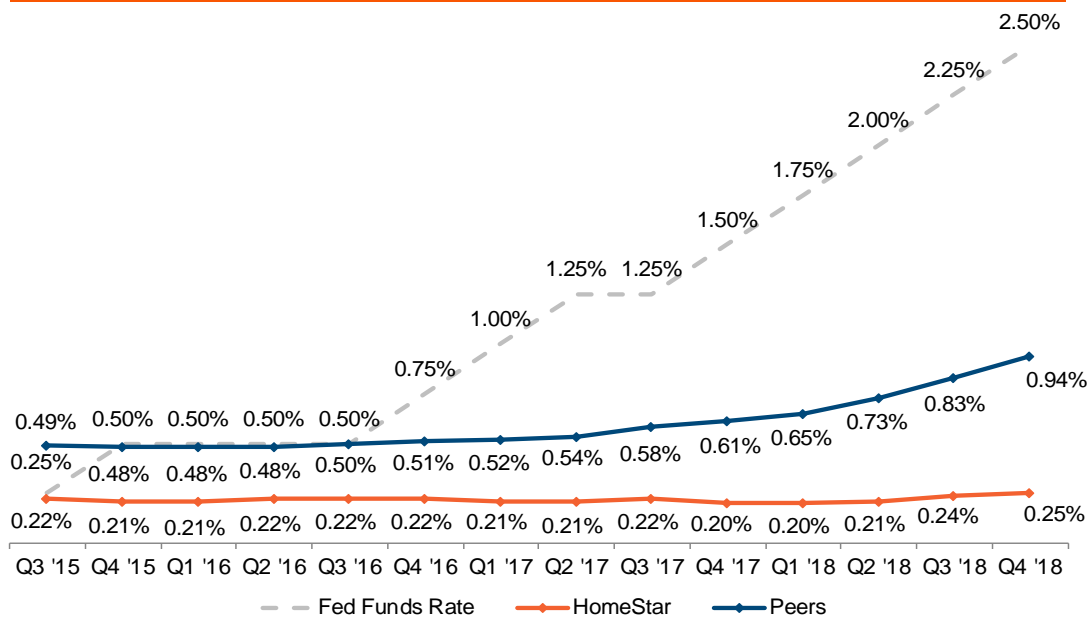
(3) \$10.4 million target consolidated equity per the definitive agreement at closing, after expected adjustments.

(4) Tax-effected at 24%.

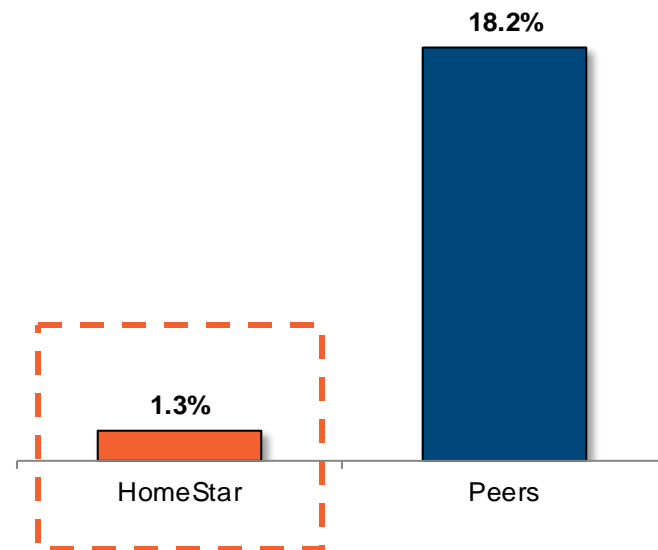
High Quality, Low Cost Deposit Base

- HomeStar's cost of total deposits has been relatively flat despite an increasing rate environment
 - 3 bps increase in Interest Bearing Deposits costs versus a 225 bps increase in the Fed Funds rate this cycle
 - 7th lowest cost of interest-bearing deposits** among 273 Midwest banks between \$300M and \$500M in assets⁽¹⁾
 - Deposit beta** of 1.3%⁽²⁾ since the third quarter of 2015
- Excess liquidity with a **67% loan-to-deposit ratio** as of December 31, 2018

Cost of Interest-Bearing Deposits vs. Fed Funds



Q3'15 – Q4'18 Deposit Beta⁽²⁾



Source: S&P Global Market Intelligence. HomeStar financials represent bank-level data. Financial data as of 12/31/18. Peer group represents all banks and thrifts headquartered in the Midwest with total assets between \$300M and \$500M, excluding merger targets.

(1) Rank based on most recent quarter data per S&P Global Market Intelligence for banks and savings banks headquartered in the Midwest, excluding merger targets.

(2) Deposit beta calculated as change in cost of interest-bearing deposits over change in Federal Funds rate. HomeStar Cost of Interest Bearing Deposits calculated using bank level regulatory data as of December 31, 2018.

Summary of Deal Terms

Transaction

- MSBI to acquire the common stock of HomeStar Financial Group in a stock-for-stock exchange
- Prior to or concurrent with closing, the outstanding Trust Preferred Securities (the “TruPS”) will be redeemed for \$23.5 million in cash (a 33% discount to par plus accrued interest), generating a gain to HomeStar of approximately \$11.7 million
- Prior to closing, HomeStar will sell its interest in both its Insurance Agency and Title Company business lines generating a gain of approximately \$1.0 million

Consideration to Shareholders

- 405,000 MSBI shares, or approximately \$9.9 million⁽¹⁾, for 100% of the outstanding HomeStar shares, subject to potential adjustment based upon equity delivered at closing⁽²⁾

Adjusted Closing Equity

- The definitive agreement provides for a target of \$10.4 million in consolidated (HoldCo) equity at closing, after expected gains described below and before purchase accounting adjustments
- Consolidated (HoldCo) equity is (\$7.6) million as of December 31, 2018, but will be increased by certain transaction related adjustments including (i) the gain on TruPS redemption, (ii) the gain on subsidiary sales and (iii) the write-up of the deferred tax asset (valuation allowance remains on balance sheet) and certain other write-ups
- Transaction consideration will be adjusted on a dollar-for-dollar basis (up or down) based on actual equity delivered versus the \$10.4 million target

Valuation Multiples

- Price to Common / Tangible Book Value⁽³⁾: 95%
- Price to Common / LTM Adjusted Consolidated Earnings⁽⁴⁾: 13.0x
- Price to Common + TruPS / LTM Adjusted Bank-Level Earnings + Cost Savings⁽⁵⁾: 4.0x
- Core Deposit Premium⁽⁶⁾: (0.2%)

Anticipated Closing

- Q3 2019

(1) Based on Midland's closing price of \$24.46 as of 4/1/19.

(2) Refer to merger agreement for additional detail related to possible adjustments relating to delivery of consolidated equity at closing.

(3) Represents consideration to HomeStar common shareholders (\$9.9M) divided by consolidated tangible equity target (\$10.4M).

(4) Represents consideration to HomeStar common shareholders (\$9.9M) divided by HomeStar 2018 Small PCO net income of \$1.1M (tax-effected at 24%) less 2018 earnings to HomeStar from Insurance Agency and Title Company businesses of approximately \$0.3M (tax-effected at 24%).

(5) Represents consideration to HomeStar common shareholders (\$9.9M) plus TruPS payoff of \$23.5 million divided by HomeStar LTM Adjusted Bank-Level Earnings (less Title & Insurance earnings) plus ~\$7.0 million in pre-tax cost savings (all tax-effected at 24%).

(6) Represents consideration to HomeStar common shareholders (\$9.9M) less consolidated tangible equity target (\$10.4M) divided by 12/31/18 bank-level core deposits (defined as total deposits less time deposits \$100k+) of \$320.4M.

Projected Financial Impact & Assumptions

EPS Accretion

- ~9% in full-year 2020 (reflects fully phased cost savings)

TBV Impact

- ~2% TBV dilution at closing, earnback of 2 years using crossover method⁽¹⁾

IRR

- >25% IRR, above internal targets

Pro Forma Capital Ratios At Closing

- ~7.2% TCE/TA
- ~12.4% Total Risk Based Capital Ratio

Cost Savings

- ~\$7.0 million pre-tax, or ~40% of HomeStar's 2018 bank-level non-interest expense base
- Assumed phase-in schedule is 50% in 2019 and 100% in 2020

One-Time Expenses

- Total pre-tax merger related costs of \$5.0 million
 - ~30% assumed at closing / ~70% assumed in 2019

Purchase Accounting

- \$10.1 million gross credit mark on loan balances (~4.6% of loans / ~3.2x ALLL)
- Interest rate marks of \$3.8 million (discount) accreted over estimated remaining lives
- Fixed asset and other marks of \$5.3 million (discount)
- Core deposit intangible created equal to 2.0% of HomeStar's non-time deposits, amortized over ten years using the sum of years digits method

(1) Based on when pro forma tangible book value per share crosses over and begins to exceed projected standalone MSBI tangible book value per share, inclusive of all transaction expenses.

Appendix – HomeStar Financial Highlights (Bank-Level)

\$ in millions

Twelve Months Ended,

12/31/16 12/31/17 12/31/18

Balance Sheet:

Total Assets	\$344.6	\$358.7	\$375.4
Total Loans	192.1	198.2	222.7
Deposits	318.6	329.3	333.1
Common Equity (Bank-Level)	24.2	26.8	30.4
Loans / Deposits	60.3%	60.2%	66.9%

Performance Measures:

Net Income (tax-effected) ⁽¹⁾⁽²⁾	\$1.7	\$1.9	\$3.2
ROAA (tax-effected) ⁽¹⁾⁽²⁾	0.50%	0.54%	0.88%
ROAE (tax-effected) ⁽¹⁾⁽²⁾	8.5%	7.1%	11.7%
Net Interest Margin (FTE)	3.36%	3.50%	3.71%
Cost of IB Deposits	0.22%	0.21%	0.23%
Efficiency Ratio	87.8%	81.6%	78.4%
Non-Interest Income / Revenue	35.7%	35.0%	42.4%

Capitalization (Bank-Level):

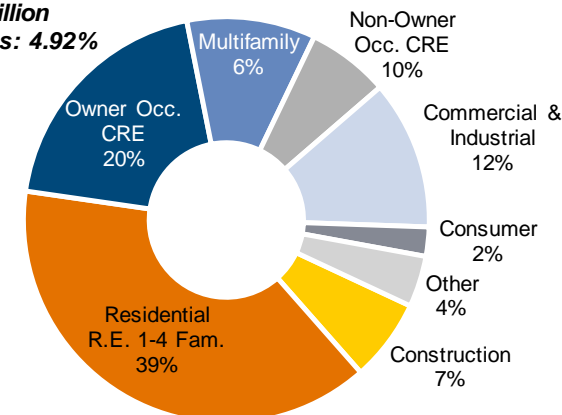
Tangible Common Equity / Tangible Assets	7.0%	7.5%	8.0%
Leverage Ratio	6.5%	7.1%	7.8%
Total Capital Ratio	11.8%	12.6%	12.9%

Asset Quality⁽³⁾:

NPLs / Loans	2.96%	2.84%	1.44%
NPAs / Assets	2.56%	1.95%	1.38%
Loan Loss Reserves / Gross Loans	1.48%	1.46%	1.40%
Net Charge-Offs / Avg. Loans	0.30%	0.03%	0.05%

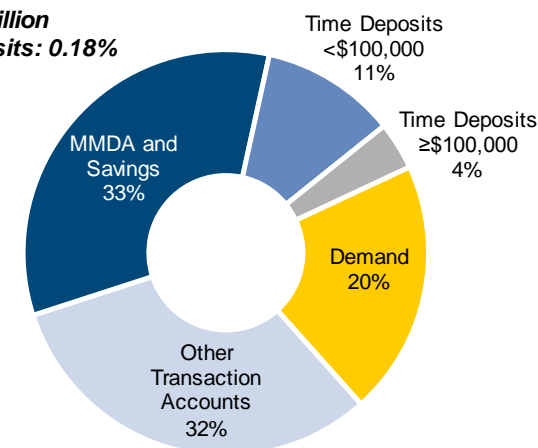
Loans

Total: \$223 million
Yield on Loans: 4.92%



Deposits

Total: \$333 million
Cost of Deposits: 0.18%



Source: S&P Global Market Intelligence. Financials represent bank-level data. Financial data as of, or for the year ended 12/31/18.

(1) Figures tax-effected at 35% in 2016 and 2017, and 24% in 2018.

(2) Profitability metrics adjusted in 2016 and 2017 for a recognized DTA benefit and a DTA revaluation, respectively.

(3) NPLs include nonaccrual loans and TDRs. NPAs include NPLs, OREO and loans 90+ days past due and still accruing interest.