



**Part II** Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ►  
**PLEASE SEE ATTACHMENT.**

Horizontal lines for providing details for question 17.

18 Can any resulting loss be recognized? ► **PLEASE SEE ATTACHMENT.**

Horizontal lines for providing details for question 18.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ►  
**PLEASE SEE ATTACHMENT.**

Horizontal lines for providing details for question 19.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here  
Signature ► *Brenda S. Campbell* Date ► 7/19/2019  
Print your name ► BRENDA S. CAMPBELL Title ► DIRECTOR OF TAXES

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ►			Firm's EIN ►	
	Firm's address ►			Phone no.	

**MIDLAND STATES BANCORP, INC.**

**EIN: 37-1233196**

**Attachment to IRS Form 9937**

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**PART I: REPORTING ISSUER**

As described below, Midland States Bancorp, Inc., an Illinois corporation (“Midland”), has acquired HomeStar Financial Group, Inc., a Delaware corporation (“HomeStar”). Pursuant to the Merger (defined below), stockholders of HomeStar received, in exchange for each share of their HomeStar common stock, a combination of both cash and shares of Midland common stock.

**PART II: ORGANIZATIONAL ACTION**

**The information contained herein is being provided pursuant to the requirements of Section 6045B of the Internal Revenue Code of 1986, as amended (the “Code”), and includes a general summary regarding the application of certain U.S. federal income tax laws and regulations relating to the effects of the Merger (as defined below) on the tax basis of Midland common stock received in the Merger in exchange for HomeStar common stock. The information contained herein does not constitute tax advice and does not purport to be complete or to describe the consequences that may apply to particular categories of stockholders. Midland does not provide tax advice to its stockholders. The example provided below is illustrative and is being provided pursuant to Section 6045B of the Code and as a convenience to stockholders and their tax advisors when establishing their specific tax position. You should consult your own tax advisor regarding the particular consequences of the Merger (defined below) to you, including the applicability and effect of all U.S. federal, state and local and foreign tax laws.**

**Item 14. Description of Organizational Action:**

Pursuant to the terms of the Agreement and Plan of Merger, dated as of April 2, 2019 (the “Agreement”), by and among Midland, HomeStar and PHRA, LLC, a Delaware limited liability company and direct wholly-owned subsidiary of Midland (“Merger Sub”), Midland acquired HomeStar on July 17, 2019 through the merger of HomeStar with and into Merger Sub, with Merger Sub as the surviving entity (the “Merger”).

In the Merger, a holder of HomeStar common stock will receive, in respect of each share of HomeStar common stock held:

- (i) \$70.3244 in cash (“Cash Consideration”), and
- (ii) 27.9156 shares of Midland common stock (with fractional shares of Midland common stock paid in cash) (“Stock Consideration”).

**Item 15. Description of the Quantitative Effect of the Organizational Action:**

Each HomeStar stockholder is required to determine the tax basis of the shares of Midland stock separately for each identifiable block of HomeStar common stock surrendered in the merger having a common tax basis. The receipt by a HomeStar stockholder of a combination of Midland common stock and cash in exchange for HomeStar common stock affects such stockholder’s tax basis. Generally, the aggregate tax basis of Midland common stock received by the HomeStar stockholder in the Merger will be equal to the aggregate adjusted tax basis of the shares of HomeStar common stock surrendered, reduced by the amount of cash received by the HomeStar stockholder pursuant to the Merger (excluding any cash received in lieu of a fractional share of Midland common stock) and increased by the amount of gain (regardless of whether such gain is classified as capital gain or dividend income and excluding gain resulting from any fractional share deemed received and exchanged for cash), if any, recognized by the HomeStar stockholder on the exchange. The amount of gain recognized is the lesser of (A) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of Midland common stock received pursuant to the Merger (including with respect to any fractional share of Midland common stock) over the stockholder’s aggregate tax basis in the shares of HomeStar common stock surrendered) and (B) the amount of cash received pursuant to the Merger (excluding any cash received in lieu of a fractional share of Midland common stock).

The receipt by a HomeStar stockholder of cash in lieu of a fractional share of Midland common stock generally will be treated as if the fractional share had been distributed to the HomeStar stockholder in connection with the Merger and then sold for cash in a taxable transaction. Gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the stockholder’s aggregate adjusted tax basis in the shares of Midland common stock received in the Merger that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period of the corresponding HomeStar common stock surrendered is more than one year at the effective time of the Merger. The deductibility of capital losses is subject to limitations.

Fair market value generally is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the facts. United States federal income tax law does not specifically prescribe how you should determine the fair market value of Midland common stock for purposes of allocating your tax basis. You should consult your tax advisor to determine what measure of fair market value is appropriate.

There are several possible methods for determining the fair market value of Midland common stock. One possible approach is to utilize the market closing price on July 17, 2019, the closing date for the Merger, which was \$25.53 per share of Midland common stock on NASDAQ.

Other approaches to determine fair market value may also be possible. You should consult your tax advisor to determine the appropriate method.

**Item 16. Description of the Calculation of the Change in Basis:**

The following is an illustrative example of the basis determination for a hypothetical stockholder who received both Cash Consideration and Stock Consideration.

Shares of HomeStar common stock owned: 500

HomeStar stockholder's aggregate adjusted tax basis: \$500.00 (assumed to be \$1.00 per share)

Shares of Midland common stock received in the Merger (500 shares of HomeStar common stock multiplied by 27.9156, rounded down to the nearest whole share): 13,957 (rounded down from 13,957.8)

Fractional shares of Midland common stock of which cash was paid in lieu: 0.80

FMV per share of Midland shares received: \$25.53

FMV of the Stock Consideration received (i.e., Midland shares received, including any fractional shares deemed received, in exchange for 500 HomeStar shares surrendered) (\$25.53 multiplied by 13,957.8 shares of Midland common stock): \$356,342.63

Cash Consideration received in the Merger (500 shares of HomeStar common stock multiplied by \$70.3244 in cash per share): \$35,162.20

Total Merger Consideration received (\$35,162.20 in Cash Consideration plus \$356,342.63 in FMV of Stock Consideration): \$391,504.83

Realized gain (\$391,504.83 total Merger Consideration received minus \$500.00 aggregate tax basis): \$391,004.83

Recognized gain (determined as lesser of realized gain or cash received): \$35,162.20

Aggregate tax basis of Midland common stock received (including fractional shares deemed received) (\$500.00 aggregate tax basis in HomeStar shares minus \$35,162.20 cash received (excluding cash received in lieu of fractional shares) plus \$35,162.20 recognized gain): \$500.00

Tax basis per share of Midland common stock received (including fractional shares deemed received) (\$500.00 aggregate basis divided by 13,957.80): \$0.04 (or, more precisely, \$0.0358222)

Aggregate tax basis in whole shares of Midland common stock received in the Merger (13,957 shares multiplied by \$0.0358222): \$499.97

Tax basis in fractional Midland share deemed received and sold (0.80 of a share multiplied by \$0.0358222): \$0.03

Cash received in lieu of fractional Midland share (0.80 of a share multiplied by \$26.2445, the price per share ultimately used to determine the rate at which cash was paid in lieu of fractional shares, as determined in accordance with the Agreement): \$21.00

Gain realized on fractional Midland share deemed received and sold (\$21.00 cash received minus \$0.03 basis): \$20.97

**Items 17 & 18. List of Applicable Internal Revenue Code Sections:**

If the Merger qualifies as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code, then the federal income tax consequences to the former HomeStar stockholders are determined under Sections 356, 358 and 1221 of the Code. HomeStar stockholders generally must recognize gain (but not loss), pursuant to Section 356 of the Code, in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and fair market value of the Midland common stock received in the Merger (including with respect to any fractional share of Midland common stock) over the stockholder’s adjusted basis in its shares of HomeStar common stock surrendered, as determined pursuant to Sections 1001 and 1011 of the Code) and (2) the amount of cash received pursuant to the Merger (excluding any cash received in lieu of a fractional share of Midland common stock).

A U.S. holder of HomeStar common stock who receives cash in lieu of a fractional share of Midland common stock in the Merger generally will be treated as having received such fractional share in the Merger and then as having received cash in redemption of such fractional share, and may recognize loss as a result of such redemption.

**Item 19. Other Information:**

The Merger and resulting stock exchange became effective on July 17, 2019. Consequently, the reportable tax year of the HomeStar stockholders for reporting the tax effect of the Merger is the tax year that includes the July 17, 2019 date. For a HomeStar stockholder whose taxable year is the calendar year, the reportable tax year is 2019.