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As filed with the Securities and Exchange Commission on April 11, 2016.

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MIDLAND STATES BANCORP, INC.

(Exact name of registrant as specified in its charter)

Illinois	**6022**	**37-1233196**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1201 Network Centre Drive
Effingham, Illinois 62401
(217) 342-7321
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jeffrey G. Ludwig
Executive Vice President and Chief Financial Officer
Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401
(217) 342-7321
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Dennis R. Wendte **Bill Fay** **Barack Ferrazzano Kirschbaum & Nagelberg LLP** **200 West Madison Street** **Chicago, Illinois 60606** **(312) 984-3100**	**Douglas J. Tucker** **Senior Vice President and Corporate Counsel** **Midland States Bancorp, Inc.** **1201 Network Centre Drive** **Effingham, Illinois 62401** **(217) 342-7321**	**Jennifer D. King** **Vedder Price P.C.** **222 North LaSalle Street** **Chicago, Illinois 60601** **(312) 609-7500**

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)(2)	Amount of registration fee(3)
Common Stock, par value $0.01 per share	$120,000,000	$12,084

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

(2) Includes the aggregate offering price of additional shares that the underwriters have the option to purchase.

(3) Midland States Bancorp, Inc. previously paid registration filing fees in the aggregate amount of $11,349 in connection with an earlier Registration Statement on Form S-1 (Registration No. 333-174210), initially filed on May 13, 2011. Pursuant to Rule 457(p) under the Securities Act of 1933, as amended, the aggregate amount of such filing fees is being used to partially offset the filing fee of $12,084 required for the filing of this registration statement.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We and the selling shareholders may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 11, 2016

PROSPECTUS

Shares

Common Stock

This is the initial public offering of Midland States Bancorp, Inc. We are offering shares of our common stock and the selling shareholders are offering shares of our common stock. We will not receive any proceeds from the sales of shares by the selling shareholders.

Prior to this offering, there has been no established public market for our common stock. We anticipate that the public offering price of our common stock will be between $ and $ per share. We have applied to list our common stock on the NASDAQ Global Select Market under the symbol "MSBI."

Investing in our common stock involves risk. See "Risk Factors" beginning on page 15.

We are an "emerging growth company" under the federal securities laws and will be subject to reduced public company reporting requirements.

	Per Share	Total
Public offering price	$	$
Underwriting discounts[(1)]		
Proceeds to us, before expenses		
Proceeds to the selling shareholders, before expenses		

(1) See "Underwriting" for additional information regarding underwriting compensation.

The underwriters have an option to purchase up to an additional shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

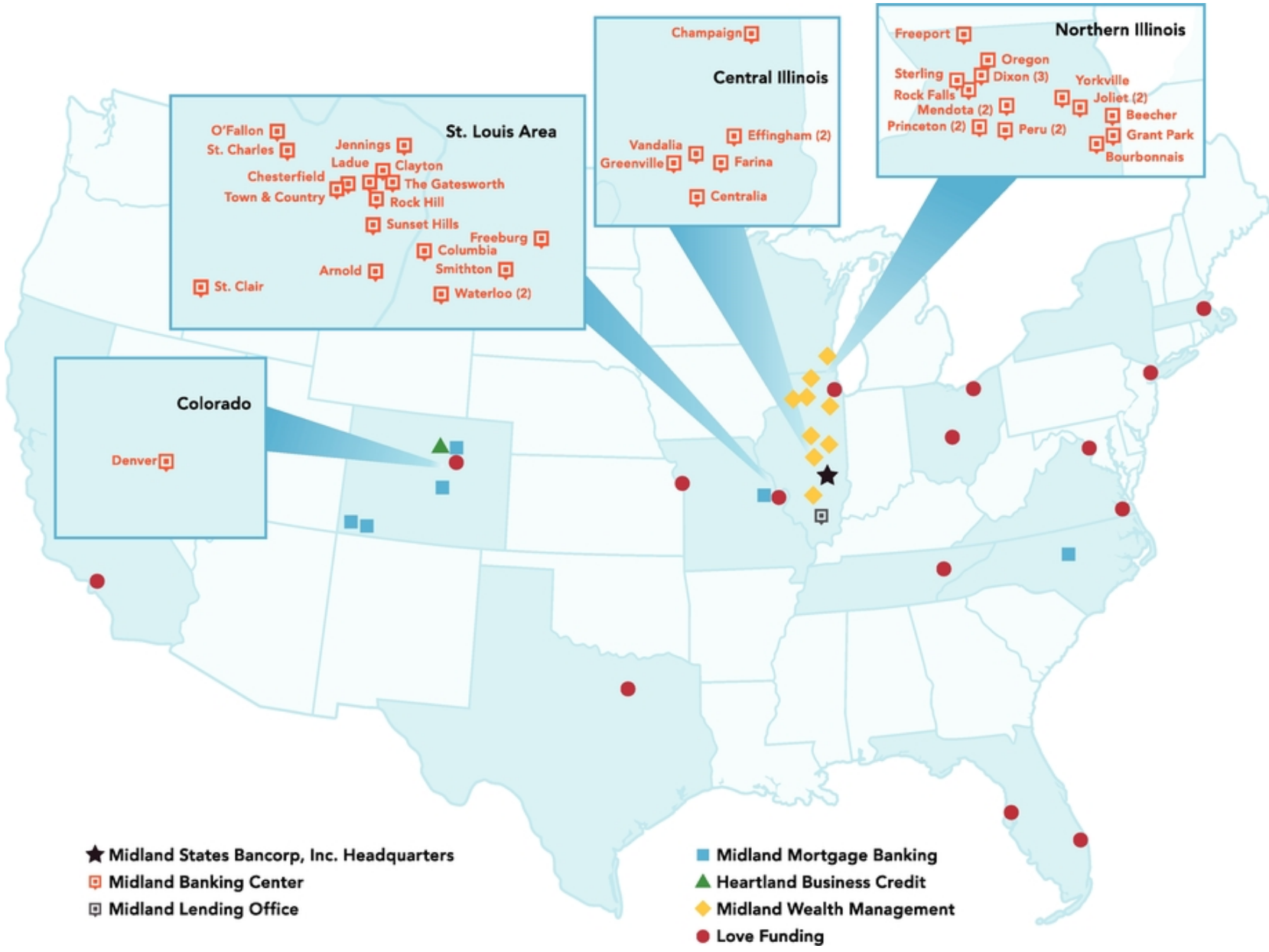
Shares of our common stock are not savings accounts or deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

The shares of common stock will be ready for delivery on or about , 2016.

Sandler O'Neill + Partners, L.P. **Keefe, Bruyette & Woods**
A Stifel Company

D. A. Davidson & Co. **Stephens Inc.**

The date of this prospectus is , 2016.


Champaign
Central Illinois
Vandalia
Effingham (2)
Greenville
Farina
Centralia
Freeport
Northern Illinois
Oregon
Sterling
Dixon (3)
Yorkville
Rock Falls
Joliet (2)
Mendota (2)
Beecher
Princeton (2)
Peru (2)
Grant Park
Bourbonnais
O'Fallon
St. Louis Area
St. Charles
Jennings
Ladue
Clayton
Chesterfield
The Gatesworth
Town & Country
Rock Hill
Sunset Hills
Freeburg
Columbia
Arnold
Smithton
St. Clair
Waterloo (2)
Colorado
Denver
Midland States Bancorp, Inc. Headquarters
Midland Banking Center
Midland Lending Office
Midland Mortgage Banking
Heartland Business Credit
Midland Wealth Management
Love Funding

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About this Prospectus

You should rely only on the information contained in this prospectus or in any free writing prospectus that we authorize to be delivered to you. We, the selling shareholders and the underwriters have not authorized anyone to provide you with different or additional information. We, the selling shareholders and the underwriters are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless we state otherwise or the context otherwise requires, references in this prospectus to "we," "our," "us" or "the Company" refer to Midland States Bancorp, Inc., an Illinois corporation, and our consolidated subsidiaries, references to "Midland States Bank" or "Bank" refer to our banking subsidiary, Midland States Bank, an Illinois state chartered bank, references to "Love Funding" refer to the Bank's subsidiary, Love Funding Corporation, a Virginia corporation, and references to "Heartland Business Credit" refer to the Bank's subsidiary, Heartland Business Credit Corporation, a Missouri corporation.

Market and Industry Data

Within this prospectus, we reference certain market, industry and demographic data and other statistical information. We have obtained this data and information from various independent, third party industry sources and publications. Nothing in the data or information used or derived from third party sources should be construed as advice. Some data and other information are also based on our

good faith estimates, which are derived from our review of internal surveys and independent sources. We believe that these external sources and estimates are reliable, but have not independently verified them. Statements as to our market position are based on market data currently available to us. Although we are not aware of any misstatements regarding the economic, employment, industry and other market data presented herein, these estimates involve inherent risks and uncertainties and are based on assumptions that are subject to change.

Implications of Being an Emerging Growth Company

As a company with less than $1.0 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we may present as few as two years of audited financial statements and two years of related management discussion and analysis of financial condition and results of operations;
- we are exempt from the requirement to obtain an attestation and report from our auditors on management's assessment of our internal control over financial reporting under the Sarbanes-Oxley Act of 2002;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements; and
- we are not required to give our shareholders non-binding advisory votes on executive compensation or golden parachute arrangements.

In this prospectus we have elected to take advantage of the reduced disclosure requirements relating to executive compensation, and in the future we may take advantage of any or all of these exemptions for so long as we remain an emerging growth company. We will remain an emerging growth company until the earliest of (i) the end of the fiscal year during which we have total annual gross revenues of $1.0 billion or more, (ii) the end of the fiscal year following the fifth anniversary of the completion of this offering, (iii) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt and (iv) the date on which we are deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended.

In addition to the relief described above, the JOBS Act permits us an extended transition period for complying with new or revised accounting standards affecting public companies. We have irrevocably determined to not take advantage of this extended transition period, which means that the financial statements included in this prospectus, as well as any financial statements that we file in the future, will be subject to all new or revised accounting standards generally applicable to public companies.

PROSPECTUS SUMMARY

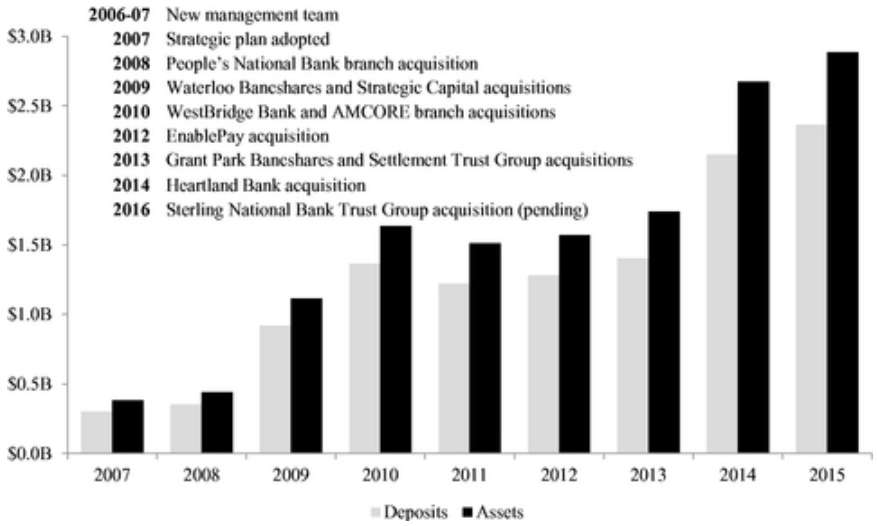
This summary highlights selected information contained in this prospectus. It does not contain all the information that you should consider before deciding to invest in our common stock. You should read the entire prospectus carefully, including the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections, and the historical financial statements and the accompanying notes included in this prospectus.

Our Company

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Our 135-year old banking subsidiary, Midland States Bank, has branches across Illinois and in Missouri and Colorado, and provides a broad array of traditional community banking and other complementary financial services, including commercial lending, residential mortgage origination, wealth management, merchant services and prime consumer lending. Our commercial Federal Housing Administration (FHA) origination and servicing business, based in Washington, D.C., is one of the top originators of government sponsored mortgages for multifamily and healthcare facilities in the United States. Our commercial equipment leasing business, based in Denver, provides financing to business customers across the country. As of December 31, 2015, we had $2.9 billion in assets, $2.4 billion of deposits and $233.1 million of shareholders' equity.

In late 2007, we developed a strategic plan to build a diversified financial services company anchored by a strong community bank. Since then, we have grown organically and through a series of nine acquisitions, with an over-arching focus on enhancing shareholder value and building a platform for scalability. Most recently, we acquired Heartland Bank in December 2014, which greatly expanded our commercial, retail and mortgage banking services in the St. Louis metropolitan area. Additionally, the Heartland Bank acquisition facilitated our entry into Colorado, with one branch office located in Denver and three Colorado mortgage offices. This transaction also provided us the opportunity to enter complementary commercial FHA loan origination and commercial equipment leasing business lines. In total, we have grown from a community bank with six locations and diluted earnings per share of $0.50 for the year ended December 31, 2007, to a financial services company with 81 locations, nationwide operations and diluted earnings per share of $2.00 for the year ended December 31, 2015.

Strategic Growth History



We have five principal business lines: traditional community banking, residential mortgage origination, wealth management, commercial FHA origination and servicing, and commercial

equipment leasing. Our traditional community banking business primarily consists of commercial and retail lending and deposit taking, with a total loan portfolio of $1.9 billion and total deposits of $2.4 billion as of December 31, 2015. We originate residential mortgage loans (the majority of which we sell), through the Bank, with $580.8 million of originations for the year ended December 31, 2015. Our wealth management group provides a comprehensive suite of trust and wealth management products and services, and had $1.2 billion in assets under management as of December 31, 2015. We conduct our FHA origination business through Love Funding Corporation, which we acquired in the Heartland Bank transaction. Love Funding originates commercial mortgage loans for multifamily and healthcare facilities under FHA insurance programs, with $382.9 million of originations for the year ended December 31, 2015. Our Heartland Business Credit subsidiary, also acquired in the Heartland Bank transaction, provides custom leasing and financing programs to equipment and software vendors and their customers, and had a lease portfolio of $144.2 million as of December 31, 2015.

Our Strategic Plan

We developed our strategic plan in late 2007 soon after hiring Leon J. Holschbach, our President and Chief Executive Officer, and Jeffrey G. Ludwig, our Executive Vice President and Chief Financial Officer. The plan continues to reflect our belief that a diversified financial services company with strong leadership and a growth-oriented risk management program will be well positioned to take advantage of changes in the banking industry, including consolidation and opportunities to re-enter markets in which community banks had once been competitive. Our strategic plan includes five initiatives:

- revenue diversification,
- a customer-centric culture,
- *de novo* expansion,
- accretive acquisitions and
- enterprise-wide risk management.

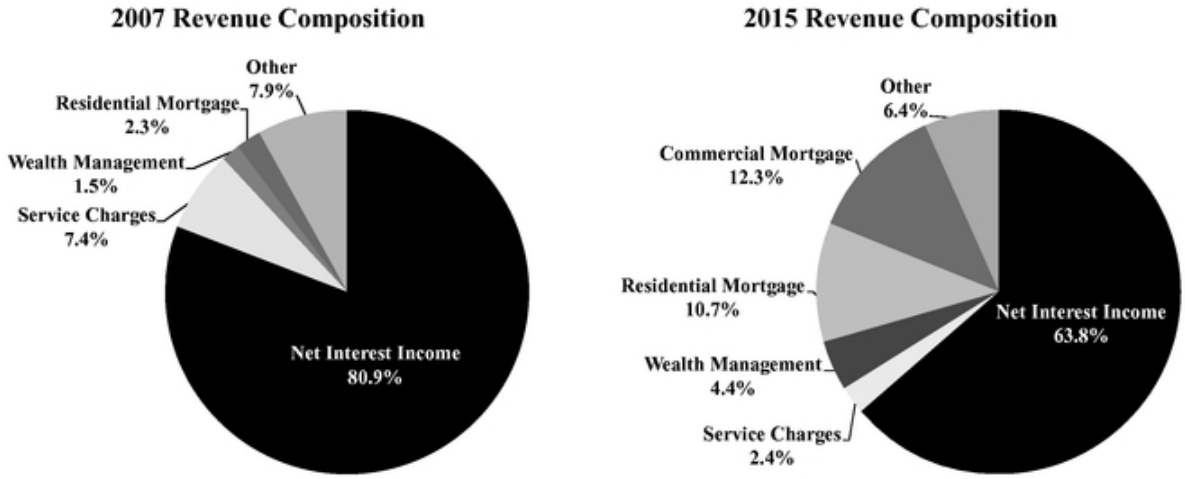
We have achieved our recent growth through sustained execution of these initiatives, and we have an experienced management team in place that we believe will allow us to continue this success. In addition, the implementation of our strategic plan is supported by the collective experience of our ten non-executive directors, all of whom are successful business owners or senior executives with long-standing ties to the communities or businesses in which we operate.

Our Competitive Strengths

We believe our competitive strengths set us apart from many similarly sized community banks, and include the following key attributes:

Diversified and Growing Revenue Streams. While maintaining a focus on earnings growth, we have diversified our revenue and increased our noninterest income. We believe our diversification and significant noninterest income can help provide earnings stability through various economic and interest rate cycles, as well as establishing additional platforms for growth. In particular, since 2008, we have significantly grown our wealth management and residential mortgage loan origination businesses, and have added our commercial FHA origination and servicing and commercial equipment leasing businesses. In April 2014, our wealth management group was named by Bank Director magazine as one of the fastest growing trust departments in the country by revenue. As a result, we have grown our noninterest income from $2.8 million, or 19.1% of total revenue, for the year ended December 31, 2007, to $59.5 million, or 36.2% of total revenue, for the year ended December 31, 2015.

The diversification and growth of our noninterest income is demonstrated in the following charts.



Robust, Stable Core Funding Base. Our relationship banking approach focuses on generating core deposits, which has helped drive our organic growth and improve our net interest margins. At December 31, 2015, core deposits (which exclude brokered deposits and certificates of deposit greater than $250,000) represented 88.4% of our total deposits. Our net non-core funding dependence ratio (which represents the degree to which the Bank is funding longer term assets with brokered deposits and certificates of deposit greater than $250,000) was 7.1% as of December 31, 2015, down from 27.7% as of December 31, 2007. We also benefit from strong levels of noninterest-bearing deposits, which represented approximately 23.0% of our total deposits at December 31, 2015. Several of our recent acquisitions have contributed significantly to our core funding base, improving our overall mix of core and non-core deposits.

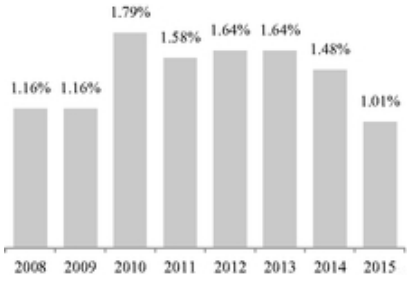
Experience in Smaller Communities and Metropolitan Markets. Our banking footprint has given us experience operating in small communities and large cities. We believe that our presence in smaller communities gives us a relatively stable source of core deposits and steady profitability, while our recent growth in more metropolitan markets represents strong long-term growth opportunities. In addition, we believe that the breadth of our operating experience increases the scope of potential acquisition opportunities that we will be able to integrate and operate successfully.

Proven Track Record of Accretive Acquisitions. Having completed nine acquisitions since 2007, we believe we have developed an experienced acquisition team that is capable of identifying and executing transactions that build shareholder value through a disciplined approach to pricing. These transactions included three whole-bank acquisitions, two branch acquisitions and two FDIC-assisted acquisitions, as well as two business line acquisitions. Each of our bank acquisitions was immediately accretive to earnings, and our two non-bank acquisitions allowed us to develop complementary products and services. As a result, we believe that we have developed a reputation as an acquirer of choice in our markets and surrounding areas, and we receive frequent requests from other financial institutions to "talk about the future." Accordingly, we believe that we are well prepared to capitalize on favorable acquisition opportunities that may arise.

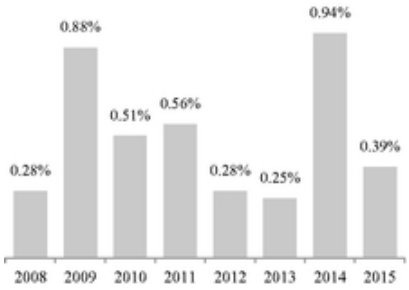
Sophisticated Risk Management Functions. Risk management is a vital part of our strategic plan, and we have implemented a variety of tools and policies to help us navigate the challenges of rapid growth. In anticipation of continued balance sheet and franchise growth, we have sought to maintain a risk management program suitable for an organization larger than ours at any given time, including in the areas of regulatory compliance, cybersecurity and internal audit, and to hire talented risk management professionals with experience building risk management programs at much larger financial

institutions. With respect to credit risk, we operate what we believe to be a disciplined credit process, managed by experienced personnel who have produced strong results, as reflected by the following historical credit quality ratios:

Nonperforming Assets / Total Assets[(1)]



Net Charge-Offs / Average Loans[(2)]



(1) Nonperforming assets exclude purchased credit-impaired loans, or PCI loans, acquired in our prior acquisitions. See notes 1 and 2 to the tables set forth in "—Summary Consolidated Financial Data" for additional information.

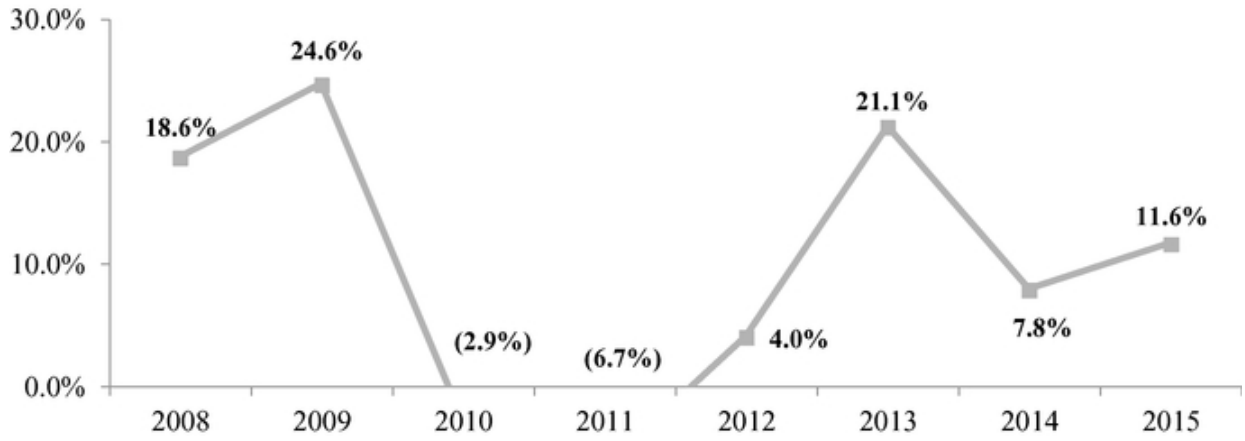
(2) Net charge-offs for 2014 include a $9.8 million charge-off of a PCI commercial real estate loan pool that was covered under an FDIC loss-share arrangement. The impairment on the pool was recognized through provision for loan losses in 2009 and 2010. The pool was not charged off until 2014, when all loans in the pool were resolved. Net charge-offs to average loans were 0.14%, excluding this charge-off.

Our Growth and Earnings

We believe that the continued execution of our strategic plan will drive further balance sheet growth through multiple asset and funding strategies, and further earnings growth through the diversification of our income streams.

Organic Growth. Since implementing our strategic plan, we have delivered strong organic loan growth, as reflected in the chart below. In addition, from December 31, 2007 through December 31, 2015, we have grown our core deposits and wealth management assets under management at compound annual growth rates (CAGR) of 31.8% and 43.4%, respectively. Since completing our acquisition of Heartland Bank on December 31, 2014, we grew our core deposits by $167.0 million during the year ended December 31, 2015, reflecting an annual organic growth rate of 8.7%.

Core Loan Growth[(1)]



(1) Core loan growth represents percentage change in the Company's core loans over the prior year. Core loans represent non-PCI loans, less non-PCI loans acquired, plus non-PCI loans sold as of the date the loans were acquired or sold.

Acquired non-PCI loans become core loans subsequent to the acquisition date and will negatively affect core loan growth in future periods as these loans are repaid or prepaid. Core loan growth was negative in 2010 and 2011 due to the prepayment and scheduled repayment of loans acquired from acquisitions in 2009 and 2010. Core loans and core loan growth are non-GAAP financial measures. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures."

We have also pursued organic growth through our *de novo* initiative, whereby we identify and hire experienced teams of bankers with proven track records, both in new target markets and in strategically positioned communities within our existing markets. Since 2007, we have established seven *de novo* locations, including two in Joliet, Illinois, one in each of Rockford, Bloomington, Decatur and Yorkville, Illinois, and one in Jennings, Missouri. We also expect to open one additional location in the St. Louis market in 2017. We believe that our experience in establishing *de novo* operations will serve us particularly well in the future as we seek to complement our acquisition growth initiative.

Acquisitive Growth. In addition to organic growth, we intend to continue pursuing financially and strategically accretive acquisitions. As illustrated in the figure below, we believe there are numerous small to midsized banking organizations that will be available for acquisition within Illinois and its contiguous states, either because of management succession questions, increasing capital requirements, operational challenges, regulatory pressure or shareholder liquidity needs.

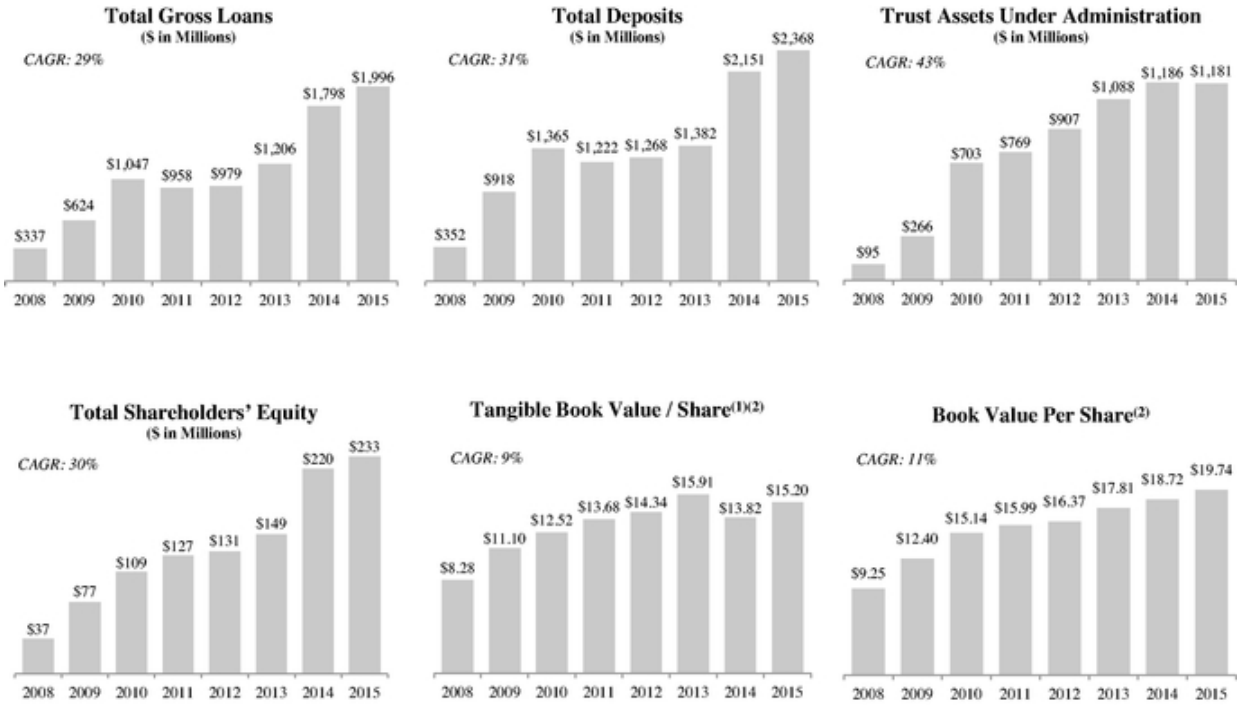
Number of Banks & Thrifts with less than $1.0 Billion in Assets
(% of Nationwide Total)

- As of March 31, 2016, there were 1,336 institutions in the six-state region with less than $1.0 billion in assets, representing 27.8% of the total number of banks and thrifts nationwide with assets less than $1.0 billion and $272 billion in aggregate banking assets.
- Illinois and Missouri combine for a total of 629 of those banks, representing 13.1% of banks and thrifts nationwide with assets less than $1.0 billion.

Source: SNL Financial (bank asset sizes are based on December 31, 2015 financial data). Data excludes mutual savings institutions.

We believe we can continue to serve as a platform for these organizations as they search for alternatives to remaining independent, while at the same time maintaining our desired acquisition goals, including prompt accretion to earnings and a disciplined approach to tangible book value per share earn-back. We also believe that our commercial leasing, consumer finance, commercial FHA origination and servicing, and wealth management businesses provide platforms for additional growth through acquisitions. Based on the breadth of potential acquisition targets, we believe we have the capacity to be selective in our pursuit of acquisitive growth, which, we believe, will drive strong financial results for our shareholders.

The following charts highlight key metrics of our recent growth.



(1) Tangible book value per share is a non-GAAP financial measure. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures."

(2) Amounts shown assume the conversion of all preferred shares that were outstanding prior to December 31, 2014. See notes 4 and 5 to the tables set forth in "—Summary Consolidated Financial Data" for additional information.

Earnings. We have produced consistently strong earnings since adopting our strategic plan. For the years ended December 31, 2007 through December 31, 2015, we have increased net income from $2.1 million to $24.3 million, representing a 35.8% CAGR and core earnings from $1.7 million to $29.3 million, representing a 42.7% CAGR. The drivers of our earnings include:

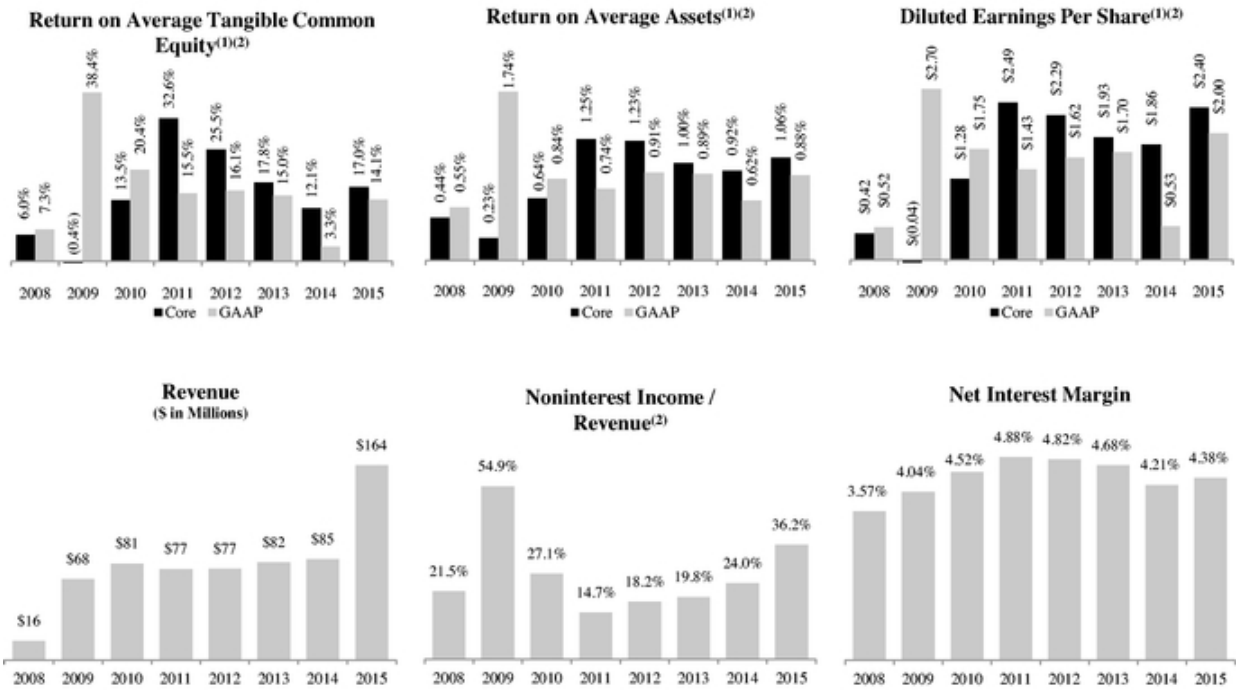
- *Net Interest Margin.* Our net interest margin is supported by strength in both our asset yields (5.21% yield on loans and 4.91% yield on earning assets for the year ended December 31, 2015) and our funding costs (0.44% cost of total interest-bearing deposits and 0.66% cost of all interest-bearing liabilities for the year ended December 31, 2015). Our net interest margin was 4.38% for the year ended December 31, 2015.

- *Credit Costs.* We have built a credit infrastructure with a foundation in underwriting, active portfolio monitoring and aggressive troubled asset realization and resolution techniques. We believe that we have managed our credit costs effectively, having experienced 0.39% of net charge-offs as a percentage of average gross loans for the year ended December 31, 2015, and an average of 0.50% of net charge-offs as a percentage of average gross loans each year since December 31, 2007.

- *Noninterest Income.* We have developed several diversified fee income business lines, and grown them into sustainable core businesses that contribute to net income and help mitigate the effects of interest rate fluctuations on our financial results. Noninterest income was $59.5 million, or 36.2% of total revenue, for the year ended December 31, 2015.

- *Noninterest Expense.* We have continued to closely monitor and control our expense levels while building a talented team of senior managers. We have also built a sophisticated and expansion-ready technological infrastructure to support our various financial products and services, which we believe helps to drive our efficiency and bottom line earnings. While our noninterest expense to average assets are higher than many similarly sized community banks, the incremental expenses are largely a result of our significant noninterest income business lines, including our wealth management, commercial FHA origination and servicing, and residential mortgage businesses.

In operating our business, we focus on our core earnings per share growth, revenue growth, return on average tangible common equity and return on average assets. We believe that we are well positioned to produce earnings in a prolonged low interest rate environment due to the growth of our fee income businesses. We also believe that our balance sheet is positioned to deliver strong earnings in a rising interest rate environment based on our core deposit strength, our diversified loan portfolio and the relatively short duration of our investment securities portfolio. Furthermore, we believe that our operating infrastructure will allow us to leverage our expense base to drive efficiency through our earnings stream. These and other earnings metrics are illustrated below.



(1) Core financial metrics exclude the following items: bargain purchase gains on acquisitions; payments received under our FDIC settlement; FDIC loss-sharing income; amortization of FDIC indemnification assets, net; gain on sales of investment securities, net; gain on sales of other assets; and other-than-temporary impairment on investment securities. Core diluted earnings per share, core return on average assets and core return on average tangible common equity are non-GAAP financial measures. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures."

(2) Net income in 2009 was positively affected by a $19.2 million bargain purchase gain recognized in connection with the Strategic Capital acquisition.

Subsequent Events

On February 23, 2016, the Bank and Sterling National Bank of Yonkers, New York entered into a Trust Company Agreement and Plan of Merger, pursuant to which the Bank will acquire approximately $400 million in wealth management assets from Sterling. Under the terms of the agreement, the Bank will pay Sterling approximately $4.8 million in cash, subject to adjustment. The transaction is subject to regulatory approval and other customary closing conditions, and is expected to close in the second or third quarter of 2016. We expect to retain all 10 members of Sterling's trust department upon consummation of the transaction, which would bring the total number of employees in our wealth management group to 45.

Risks Relating to Our Company

Our ability to implement our strategic plan and the success of our business are subject to numerous risks and uncertainties, which are discussed in the section titled "Risk Factors," beginning on page 15, and include the following:

- a decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on us;
- if we do not effectively manage our credit risk, we may experience increased levels of nonperforming loans, charge-offs and delinquencies, which could require increases in our provision for loan losses; and
- our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio;
- we are subject to extensive state and federal financial regulation, and compliance with changing requirements may restrict our activities or have an adverse effect on our results of operations.

Corporate Information

Our principal executive offices are located at 1201 Network Centre Drive, Effingham, Illinois 62401, and our telephone number at that address is (217) 342-7321. Our website address is www.midlandsb.com. The information contained on our website is not a part of, or incorporated by reference into, this prospectus.

The Offering

Common stock offered by us	shares
Common stock offered by the selling shareholders	shares
Underwriters' purchase option	shares from us
Common stock outstanding after completion of this offering	shares (or shares if the underwriters exercise their purchase option in full)
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately $ million (or approximately $ million if the underwriters exercise their option to purchase additional shares in full), based on an assumed public offering price of $ per share, which is the midpoint of the price range set forth on the cover of this prospectus. We intend to contribute $ million of the net proceeds that we receive from this offering to the Bank, and to use the remainder for general corporate purposes, which could include future acquisitions and other growth initiatives. We also intend to use approximately $4.8 million to complete the pending acquisition of wealth management assets from Sterling National Bank. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders. See "Use of Proceeds."
Dividends	It has been our policy to pay quarterly dividends to holders of our common stock, and we intend to generally maintain our current dividend levels. Our dividend policy and practice may change in the future, however, and our board of directors may change or eliminate the payment of future dividends at its discretion, without notice to our shareholders. Any future determination to pay dividends to holders of our common stock will depend on our results of operations, financial condition, capital requirements, banking regulations, contractual restrictions and any other factors that our board of directors may deem relevant. See "Dividend Policy."
Risk Factors	Investing in shares of our common stock involves a high degree of risk. See "Risk Factors" beginning on page 15 for a discussion of certain factors you should consider carefully before deciding to invest.
NASDAQ symbol	We have applied to list our common stock on the NASDAQ Global Select Market under the trading symbol "MSBI."

Unless otherwise indicated, all information in this prospectus relating to the number of shares of common stock to be outstanding immediately after the completion of this offering is based on 11,797,084 shares outstanding as of February 29, 2016, and:

- excludes 1,223,054 shares of common stock issuable upon exercise of stock options outstanding at February 29, 2016 at a weighted average exercise price of $17.51 per share;
- excludes 63,928 shares of unvested restricted stock;
- excludes 7,596 shares issuable upon the vesting of unvested restricted stock unit awards;
- excludes 125,000 shares of our common stock issuable upon exercise of a warrant at an exercise price of $16.00 per share;
- excludes 1,059,353 shares of common stock reserved at February 29, 2016 available for future awards under our Second Amended and Restated 2010 Long-Term Incentive Plan;
- excludes up to 571,429 shares of our common stock that may be issuable pursuant to an earn-out payment obligation in connection with the Heartland Bank transaction. As of March 31, 2016, we anticipate that no shares will be issued pursuant to this earn-out payment obligation; see Note 2 (Acquisitions) of the Notes to Consolidated Financial Statements included elsewhere in this prospectus; and
- assumes the underwriters do not exercise their option to purchase up to additional shares from us.

Summary Consolidated Financial Data

The following table sets forth summary historical consolidated financial data as of the dates and for the periods shown. The summary balance sheet data as of December 31, 2015 and 2014 and the summary income statement data for the years ended December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary balance sheet data as of December 31, 2013, 2012 and 2011 and the summary income statement data for the years ended December 31, 2012 and 2011 have been derived from our audited consolidated financial statements that are not included in this prospectus.

As described elsewhere in this prospectus, we have consummated several acquisitions in recent fiscal periods. The results and other financial data of these acquired operations are not included in the table below for the periods prior to their respective acquisition dates and, therefore, the financial data for these prior periods is not comparable in all respects and are not necessarily indicative of our future results. You should read the following financial data in conjunction with the other information contained in this prospectus, including under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in the financial statements and related notes included elsewhere in this prospectus.

(dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2015	2014	2013	2012	2011
Balance Sheet Data					
Total assets	$ 2,884,824	$ 2,676,614	$ 1,739,548	$ 1,572,064	$ 1,520,762
Total loans, gross	1,995,589	1,798,015	1,205,501	978,517	957,887
Allowance for loan losses	(15,988)	(12,300)	(23,672)	(26,190)	(26,831)
Loans held for sale	54,413	96,407	3,062	7,312	3,401
Investment securities	324,148	355,531	311,126	338,829	338,771
Indemnification asset due from FDIC	—	493	3,053	9,813	17,648
Deposits	2,367,648	2,150,633	1,381,889	1,268,134	1,222,010
Short-term borrowings	107,538	129,714	87,420	71,222	55,410
FHLB advances and other borrowings	40,178	74,349	73,410	75,082	81,038
Subordinated debt	61,859	7,370	7,299	5,000	5,000
Trust preferred debentures	37,057	36,930	11,830	10,000	10,000
Preferred shareholders' equity	—	—	57,370	57,370	57,370
Common shareholders' equity	232,880	219,456	92,070	73,548	69,583
Total shareholders' equity	233,056	219,929	149,440	130,918	126,953
Tangible common equity	179,357	162,046	76,149	57,331	51,261
Income Statement Data					
Interest income	$ 117,796	$ 73,141	$ 74,989	$ 74,197	$ 82,273
Interest expense	12,889	8,543	9,069	11,271	16,870
Net interest income	104,907	64,598	65,920	62,926	65,403
Provision for loan losses	11,127	92	173	2,052	3,854
Gain on bargain purchase	—	—	2,154	—	—
Noninterest income (excluding gain on bargain purchase)	59,482	20,441	14,076	14,044	11,299
Noninterest expense	117,764	69,480	61,449	56,419	57,501
Income before taxes	35,498	15,467	20,528	18,499	15,347
Provision for income taxes	11,091	4,651	6,023	4,842	3,974
Net income	24,407	10,816	14,505	13,657	11,373
Net income attributable to noncontrolling interest in subsidiaries	83	—	—	—	—
Net income attributable to Midland States Bancorp, Inc.	24,324	10,816	14,505	13,657	11,373
Preferred stock dividends	—	7,601	4,718	5,211	4,205
Net income available to common shareholders	$ 24,324	$ 3,215	$ 9,787	$ 8,446	$ 7,168

(dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2015	2014	2013	2012	2011
Credit Quality Data					
Loans 30-89 days past due	$ 10,120	$ 5,744	$ 9,193	$ 3,037	$ 5,785
Loans 30-89 days past due to total loans	0.51%	0.32%	0.76%	0.31%	0.60%
Nonperforming loans(1)	$ 24,891	$ 32,172	$ 21,822	$ 19,829	$ 21,674
Nonperforming loans to total loans(1)	1.25%	1.80%	1.81%	2.03%	2.26%
Nonperforming assets(2)	$ 29,206	$ 39,542	$ 28,481	$ 25,860	$ 24,023
Nonperforming assets to total assets(2)	1.01%	1.48%	1.64%	1.64%	1.58%
Allowance for loan losses to total loans(1)	0.80%	0.69%	1.96%	2.68%	2.80%
Allowance for loan losses to nonperforming loans(1)	64.23%	38.23%	108.48%	132.08%	123.79%
Net charge-offs to average loans	0.39%	0.94%	0.25%	0.28%	0.56%
Per Share Data (Common Stock)					
Earnings:					
Basic	$ 2.03	$ 0.53	$ 2.12	$ 1.96	$ 1.69
Diluted(3)	2.00	0.53	1.70	1.62	1.43
Dividends declared	0.65	0.59	0.53	0.48	0.43
Book value(4)	19.74	18.72	19.93	17.28	16.57
Book value—as converted(4)(5)	19.74	18.72	17.81	16.37	15.99
Tangible book value(6)	15.20	13.82	16.48	13.47	12.21
Tangible book value—as converted(5)(6)	15.20	13.82	15.91	14.34	13.68
Weighted average shares outstanding:					
Basic	11,902,455	5,945,615	4,558,549	4,300,578	4,245,500
Diluted	12,112,403	6,025,454	7,151,471	6,898,791	6,896,393
Shares outstanding at period end	11,797,404	11,725,158	4,620,026	4,257,319	4,198,947
Core Earnings Metrics					
Core earnings(6)	$ 29,306	$ 16,171	$ 16,308	$ 18,598	$ 19,300
Core diluted earnings per share(6)	$ 2.40	$ 1.86	$ 1.93	$ 2.29	$ 2.49
Core return on average assets(6)	1.06%	0.92%	1.00%	1.23%	1.25%
Core return on average tangible common equity(6)	17.03%	12.09%	17.81%	25.54%	32.62%
Performance Metrics					
Return on average assets	0.88%	0.62%	0.89%	0.91%	0.74%
Return on average shareholders' equity	10.68	6.82	10.45	10.75	10.05
Return on average common shareholders' equity	10.69	2.83	12.01	12.13	10.88
Return on average tangible common equity(6)	14.14	3.26	15.04	16.12	15.49
Yield on earning assets	4.91	4.74	5.29	5.65	6.07
Cost of average interest-bearing liabilities	0.66	0.65	0.72	0.96	1.36
Net interest spread	4.25	4.09	4.57	4.69	4.71
Net interest margin(7)	4.38	4.21	4.68	4.82	4.88
Efficiency ratio(8)	66.15	71.42	67.37	66.04	62.36
Common stock dividend payout ratio(9)	32.02	111.32	25.00	24.49	25.44
Loan to deposit ratio	84.29	83.60	87.24	77.16	78.39
Core deposits / total deposits(10)	88.41	89.56	87.97	87.52	86.87
Net non-core funding dependence ratio(11)	7.12	10.50	14.88	12.77	14.79
Regulatory and Other Capital Ratios—Consolidated					
Tangible common equity to tangible assets(6)	6.33%	6.19%	4.42%	3.68%	3.41%
Tier 1 common capital to risk-weighted assets(12)	6.50	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	7.49	10.48	8.14	7.98	7.60
Tier 1 capital to risk-weighted assets	8.62	8.65	9.98	10.36	9.96
Total capital to risk-weighted assets	11.82	9.59	11.77	12.03	11.67

(dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2015	2014	2013	2012	2011
Regulatory Capital Ratios—Bank Only(13)					
Tier 1 common capital to risk-weighted assets(12)	10.39%	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	9.01	8.65%	8.92%	8.89%	8.38%
Tier 1 capital to risk-weighted assets	10.39	10.34	10.93	11.54	10.96
Total capital to risk-weighted assets	11.06	11.18	12.18	12.81	12.22

(1) Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. Nonperforming loans exclude purchased credit-impaired loans, or PCI loans, acquired in our prior acquisitions. PCI loans had carrying values of $38.5 million, $44.2 million, $30.4 million, $43.0 million and $58.2 million as of December 31, 2015, 2014, 2013, 2012 and 2011, respectively. Furthermore, PCI loans, as well as other loans acquired in a business combination, are recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. Accordingly, our ratios that are computed using nonperforming loans and/or allowance for loan losses may not be comparable to similar ratios of our peers.

(2) Nonperforming assets include nonperforming loans, other real estate owned and other repossessed assets. Nonperforming assets exclude covered other real estate owned related to our two FDIC-assisted transactions. As discussed in footnote 1, above, nonperforming loans exclude PCI loans. This ratio may therefore not be comparable to a similar ratio of our peers.

(3) Earnings per share are calculated utilizing the two-class method. Basic earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of shares adjusted for the dilutive effect of outstanding stock options and common stock warrants using the treasury stock method and convertible preferred stock and convertible debentures using the if-converted method. For the years ended December 31, 2014, 2013 and 2012, diluted earnings per share considered, when dilutive, the weighted average shares of common stock issuable upon conversion of our Series C preferred stock, Series D preferred stock, Series E preferred stock and Series F preferred stock then outstanding. For the year ended December 31, 2011, diluted earnings per share considered, when dilutive, the weighted average shares of common stock issuable upon conversion of our Series C preferred stock, Series D preferred stock, Series E preferred stock and Series F preferred stock then outstanding, the $6.3 million of convertible subordinated notes issued in 2009 and the $5.0 million of convertible subordinated notes issued in 2010. On December 15, 2011, outstanding warrants to acquire Series E preferred stock and Series F preferred stock were exercised by the holder through the exchange of the corresponding principal amounts of the 2009 and 2010 subordinated notes, respectively. During 2014, our Series C, D, E and F preferred stock was converted into shares of common stock. We did not have any preferred stock or warrants to acquire preferred stock outstanding during 2015.

(4) For purposes of computing book value per common share, book value equals total common shareholders' equity.

(5) Book value per share—as converted and tangible book value per share—as converted each give effect to: (i) for December 31, 2013, the conversion of all of the issued and outstanding shares of Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock into an aggregate of 3,772,664 shares of our common stock; and (ii) for December 31, 2012 and 2011, the conversion of all of the issued and outstanding shares of Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock into an aggregate of 3,739,028 shares of our common stock. We did not have any convertible preferred stock or warrants to acquire convertible preferred stock outstanding at December 31, 2014 or 2015.

(6) Tangible book value per share, tangible book value per share—as converted, core earnings, core diluted earnings per share, core return on average assets, core return on average tangible common equity, return on average tangible common equity and tangible common equity to tangible assets are non-GAAP financial measures. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures" for a reconciliation of these measures to their most comparable GAAP measures.

(7) Net interest margin is presented on a fully taxable equivalent, or FTE, basis.

(8) Efficiency ratio represents noninterest expenses, as adjusted, divided by the sum of fully taxable equivalent net interest income plus noninterest income, as adjusted. Noninterest expense adjustments exclude integration and acquisition related expenses. Noninterest income adjustments exclude bargain purchase gains, FDIC settlement, FDIC loss sharing income, accretion/amortization of the FDIC indemnification asset, realized gains or losses from the sale of investment securities, gains or losses on sale of other assets and other-than-temporary impairment.

(9) Common stock dividend payout ratio represents dividends per share divided by basic earnings per share. See "Dividend Policy."

(10) Core deposits are defined as total deposits less brokered deposits and certificate of deposits greater than $250,000.

(11) Net non-core funding dependence ratio represents the degree to which the Bank is funding longer term assets with non-core funds. We calculate this ratio as non-core liabilities, less short term investments, divided by long term assets.

(12) The Tier 1 common capital to risk-weighted assets ratio is required under the Basel III Final Rules, which became effective for the Company and the Bank on January 1, 2015. Accordingly, this ratio is shown as not applicable ("N/A") for periods ending prior to January 1, 2015.

(13) On December 31, 2014, we completed our acquisition of Love Savings Holding Company, which primarily consisted of Heartland Bank and its wholly owned subsidiaries Love Funding Corporation and Heartland Business Credit. For the purpose of comparability with prior periods presented, the "bank only" regulatory capital ratios as of December 31, 2014 represent Midland States Bank ratios only and do not include Heartland Bank. The Tier 1 leverage ratio, Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio for Heartland Bank as of December 31, 2014 were 8.76%, 11.77% and 13.03%, respectively.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you decide to invest, you should carefully consider the risks described below, together with all other information included in this prospectus. We believe the risks described below are the risks that are material to us. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In that case, you could experience a partial or complete loss of your investment.

Risks Related to Our Business

A decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Our business and operations are sensitive to general business and economic conditions in the United States, generally, and particularly the state of Illinois and the St. Louis metropolitan area. If the national, regional and local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, lower home sales and commercial activity, and fluctuations in the commercial FHA financing sector. All of these factors are generally detrimental to our business. Our business is significantly affected by monetary and other regulatory policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have a material adverse effect on our business, financial position, results of operations and growth prospects.

If we do not effectively manage our credit risk, we may experience increased levels of nonperforming loans, charge-offs and delinquencies, which could require increases in our provision for loan losses.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt and risks resulting from changes in economic and market conditions. We cannot guarantee that our credit underwriting and monitoring procedures will reduce these credit risks, and they cannot be expected to completely eliminate our credit risks. If the overall economic climate in the United States, generally, or our market areas, specifically, declines, our borrowers may experience difficulties in repaying their loans, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for loan losses, which would cause our net income, return on equity and capital to decrease.

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We establish our allowance for loan losses and maintain it at a level that management considers adequate to absorb probable loan losses based on an analysis of our portfolio and market environment. The allowance for loan losses represents our estimate of probable losses in the portfolio at each balance sheet date and is based upon relevant information available to us. The allowance contains provisions for probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified. Additions to the allowance for loan losses, which are charged to earnings through the provision for loan losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in our market areas. The actual amount of loan losses is affected by changes in economic, operating and other

conditions within our markets, which may be beyond our control, and such losses may exceed current estimates.

As of December 31, 2015, our allowance for loan losses as a percentage of total loans was 0.80% and as a percentage of total nonperforming loans was 64.23%. Although management believes that the allowance for loan losses is adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may adversely affect our business, financial condition and results of operations.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

At December 31, 2015, approximately 59.7% of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability. Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects. In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property.

Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

At December 31, 2015, we had $1.5 billion of commercial loans, consisting of $876.8 million of commercial real estate loans, $499.6 million of operating commercial loans for which real estate is not the primary source of collateral and $150.3 million of construction and land development loans. Commercial loans represented 76.5% of our total loan portfolio at December 31, 2015. Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Accordingly, a downturn in the real estate market and a challenging business and economic environment may increase our risk related to commercial loans, particularly commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. Our operating commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may

fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse impact on our financial condition and results of operations.

The small to midsized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to midsized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be adversely affected.

Real estate construction loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects.

Real estate construction loans comprised approximately 7.6% of our total loan portfolio as of December 31, 2015, and such lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to hardware and cyber security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal or external sources, including our third-party vendors. Any damage or failure that

causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our internet banking activities, against damage from physical break-ins, cyber security breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our internet banking services by current and potential customers. We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cyber security breaches, including firewalls and penetration testing. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminal intent on committing cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting and other internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace them, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Our strategy of pursuing growth via acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Since late 2007, we have been pursuing a strategy of leveraging our human and financial capital by acquiring other financial institutions, including FDIC-assisted acquisitions of failed depository

institutions, in our target markets. We have completed several acquisitions in recent years, including most recently the Heartland Bank acquisition and we may continue pursuing this strategy.

Our acquisition activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

There are risks associated with an acquisition strategy, including the following:

- We may incur time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business.

- We are exposed to potential asset and credit quality risks and unknown or contingent liabilities of the banks or businesses we acquire. If these issues or liabilities exceed our estimates, our earnings, capital and financial condition may be materially and adversely affected.

- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity. This integration process is complicated and time consuming and can also be disruptive to the customers and employees of the acquired business and our business. If the integration process is not conducted successfully, we may not realize the anticipated economic benefits of acquisitions within the expected time frame, or ever, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.

- To finance an acquisition, we may borrow funds or pursue other forms of financing, such as issuing voting and/or non-voting common stock or convertible preferred stock, which may have high dividend rights or may be highly dilutive to holders of our common stock, thereby increasing our leverage and diminishing our liquidity, or issuing capital stock, which could dilute the interests of our existing shareholders.

- We may be unsuccessful in realizing the anticipated benefits from acquisitions. For example, we may not be successful in realizing anticipated cost savings. We also may not be successful in preventing disruptions in service to existing customer relationships of the acquired institution, which could lead to a loss in revenues.

In addition to the foregoing, we may face additional risks in acquisitions to the extent we acquire new lines of business or new products, or enter new geographic areas, in which we have little or no current experience, especially if we lose key employees of the acquired operations. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome risks associated with acquisitions could have an adverse effect on our ability to successfully implement our acquisition growth strategy and grow our business and profitability.

We may be exposed to unrecoverable losses on loans we have acquired.

Although we have generally acquired the loan assets of our recent acquisitions at substantial discounts to their unpaid principal balances, we may incur losses on acquired loans. In the case of our two FDIC-assisted transactions, the nature of such transactions does not allow the time normally associated with evaluating and preparing for the integration of an acquired institution. While we entered into customary loss-sharing agreements with the FDIC at the time of those transactions, the loss-sharing protections have begun to expire and will have expired completely by June 30, 2016. In

addition, the FDIC has the right to refuse or delay payment for such loan losses if the loss-sharing agreements are not managed in accordance with their terms.

If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could require charges to earnings, which would have a negative impact on our financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired.

We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2015, our goodwill totaled $46.5 million. There can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

We may not be able to continue growing our business, particularly if we cannot make acquisitions or increase loans through organic loan growth, either because of an inability to find suitable acquisition candidates, constrained capital resources or otherwise.

We have grown our consolidated assets from $0.4 billion as of December 31, 2007 to $2.9 billion as of December 31, 2015, and our deposits from $0.3 billion as of December 31, 2007 to $2.4 billion as of December 31, 2015. Much of this growth has resulted from several acquisitions that we have completed since 2007. While we intend to continue to grow our business through strategic acquisitions coupled with organic loan growth, because certain of our market areas are comprised of mature, rural communities with limited population growth, we anticipate that much of our future growth will be dependent on our ability to successfully implement our acquisition growth strategy. A risk exists, however, that we will not be able to identify suitable additional candidates for acquisitions. In addition, even if suitable targets are identified, we expect to compete for such businesses with other potential bidders, many of which may have greater financial resources than we have, which may adversely affect our ability to make acquisitions at attractive prices. Furthermore, many acquisitions we may wish to pursue would be subject to approvals by bank regulatory authorities, and we cannot predict whether any targeted acquisitions will receive the required regulatory approvals. In light of the foregoing, our ability to continue to grow successfully will depend to a significant extent on our capital resources. It also will depend, in part, upon our ability to attract deposits, identify favorable loan and investment opportunities and on whether we can continue to fund growth while maintaining cost controls and asset quality, as well on other factors beyond our control, such as national, regional and local economic conditions and interest rate trends.

Also, as our acquired loan portfolio, which produces higher yields than our originated loans due to loan discount accretion on our purchased credit impaired loan portfolio (a component of the accretable yield), is paid down, we expect downward pressure on our income to the extent that the run-off is not replaced with other high-yielding loans. The accretable yield represents the excess of the net present value of expected future cash flows over the acquisition date fair value and includes both the expected coupon of the loan and the discount accretion. For example, the total loan yield for the year ended December 31, 2015 was 5.21%, while the yield generated using only the expected coupon would have been 5.01% during the same period. As a result of the foregoing, if we are unable to replace loans in our existing portfolio with comparable high-yielding loans or a larger volume of loans, we could be adversely affected. We could also be materially and adversely affected if we choose to pursue riskier higher-yielding loans that fail to perform.

The accounting for loans acquired in connection with our acquisitions is based on numerous subjective determinations that may prove to be inaccurate and have a negative impact on our results of operations.

Loans acquired in connection with our acquisitions have been recorded at estimated fair value on their acquisition date without a carryover of the related allowance for loan losses. In general, the determination of estimated fair value of acquired loans requires management to make subjective determinations regarding discount rate, estimates of losses on defaults, market conditions and other factors that are highly subjective in nature. A risk exists that our estimate of the fair value of acquired loans will prove to be inaccurate and that we ultimately will not recover the amount at which we recorded such loans on our balance sheet, which would require us to recognize losses.

Loans acquired in connection with acquisitions that have evidence of credit deterioration since origination and for which it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. These credit-impaired loans, like non-credit-impaired loans acquired in connection with our acquisitions, have been recorded at estimated fair value on their acquisition date, based on subjective determinations regarding risk ratings, expected future cash flows and fair value of the underlying collateral, without a carryover of the related allowance for loan losses. We evaluate these loans quarterly to assess expected cash flows. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reclassification of the difference from non-accretable to accretable with a positive impact on interest income. Because the accounting for these loans is based on subjective measures that can change frequently, we may experience fluctuations in our net interest income and provisions for loan losses attributable to these loans. These fluctuations could negatively impact our results of operations.

We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, results of operations and growth prospects.

Our success is dependent, to a large degree, upon the continued service and skills of our executive management team, particularly Mr. Leon J. Holschbach, our Chief Executive Officer and President, and Mr. Jeffrey G. Ludwig, our Executive Vice President and Chief Financial Officer.

Our business and growth strategies are built primarily upon our ability to retain employees with experience and business relationships within their respective market areas. We seek to manage the continuity of our executive management team through regular succession planning. As part of these efforts, we recently entered into a transitional employment agreement with Mr. Holschbach, which contemplates his retirement on December 31, 2018 and his continued service as a director of the Company through the annual meeting of shareholders in 2020. See "Executive Compensation—Employment Agreements." The loss of Mr. Holschbach, Mr. Ludwig or any of our other key personnel could have an adverse impact on our business and growth because of their skills, years of industry experience, knowledge of our market areas, the difficulty of finding qualified replacement personnel, particularly in light of the fact that we are headquartered outside of a major metropolitan area, and any difficulties associated with transitioning of responsibilities to any new members of the executive management team. In addition, although we have non-competition agreements with each of our seven executive officers and with several others of our senior personnel, we do not have any such agreements with other employees who are important to our business, and in any event the enforceability of non-competition agreements varies across the states in which we do business. While our mortgage originators, loan officers and wealth management professionals are generally subject to non-solicitation provisions as part of their employment, our ability to enforce such agreements may not fully mitigate the injury to our business from the breach of such agreements, as such employees could leave us and immediately begin soliciting our customers. The departure of any of our personnel who are not subject

to enforceable non-competition agreements could have a material adverse impact on our business, results of operations and growth prospects.

Fluctuations in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we pay on our liabilities, such as deposits, rises more quickly than the rate of interest that we receive on our interest-bearing assets, such as loans, which may cause our profits to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the underlying property may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their mortgages and other indebtedness at lower rates. At December 31, 2015, total gross loans were 84.5% of our total earning assets and exhibited a positive 9.9% sensitivity to rising interest rates in a 100 basis point parallel shock.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Rising interest rates will result in a decline in value of the fixed-rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding these securities would be recognized in other comprehensive income (loss) and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios; however, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer term interest rates fall further, we could experience net interest margin compression as our interest earning assets would continue to reprice downward while our interest-bearing liability rates could fail to decline in tandem. This would have a material adverse effect on our net interest income and our results of operations.

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits, including escrow deposits held in connection with our commercial mortgage servicing business. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff, or, in connection with our commercial mortgage servicing

business, third parties for whom we provide servicing choose to terminate that relationship with us. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash from operations, investment maturities and sales, and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by brokered deposits, repurchase agreements and the ability to borrow from the Federal Reserve Bank and the Federal Home Loan Bank of Chicago. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including originate loans, invest in securities, meet our expenses, pay dividends to our shareholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. Although management believes that funds raised in this offering will be sufficient to fund operations and growth initiatives for at least the next eighteen to twenty-four months based on our estimated future operations, we may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

Decreased residential and commercial mortgage origination, volume and pricing decisions of competitors, and changes in interest rates, may adversely affect our profitability.

We currently operate a residential and commercial mortgage origination and servicing business. Changes in interest rates and pricing decisions by our loan competitors may adversely affect demand for our mortgage loan products, the revenue realized on the sale of loans, revenues received from servicing such loans and the valuation of our mortgage servicing rights. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which we would utilize to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential and commercial mortgage origination and servicing business.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

As of December 31, 2015, the fair value of our securities portfolio was approximately $329.4 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

Downgrades in the credit rating of one or more insurers that provide credit enhancement for our state and municipal securities portfolio may have an adverse impact on the market for and valuation of these types of securities.

We invest in tax-exempt state and local municipal securities, some of which are insured by monoline insurers. As of December 31, 2015, we had $103.0 million of municipal securities, which represented 31.8% of our total securities portfolio. Since the economic crisis unfolded in 2008, several of these insurers have come under scrutiny by rating agencies. Even though management generally purchases municipal securities on the overall credit strength of the issuer, the reduction in the credit rating of an insurer may negatively impact the market for and valuation of our investment securities. Such downgrade could adversely affect our liquidity, financial condition and results of operations.

Our mortgage banking profitability could significantly decline if we are not able to originate and resell a high volume of mortgage loans.

Mortgage production, especially refinancing activity, declines in rising interest rate environments. While we have been experiencing historically low interest rates over the last few years, this low interest rate environment likely will not continue indefinitely. Moreover, when interest rates increase further, there can be no assurance that our mortgage production will continue at current levels. Because we sell a substantial portion of the mortgage loans we originate, the profitability of our mortgage banking business also depends in large part on our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations.

Our ability to originate and sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by government-sponsored entities ("GSEs") and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Because the largest participants in the secondary market are Fannie Mae and Freddie Mac, GSEs whose activities are governed by federal law, any future changes in laws that significantly affect the activity of these GSEs could, in turn, adversely affect

our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. The federal government has for many years considered proposals to reform Fannie Mae and Freddie Mac, but the results of any such reform, and their impact on us, are difficult to predict. To date, no reform proposal has been enacted.

In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by the GSEs and other institutional and non-institutional investors. Any significant impairment of our eligibility with any of the GSEs could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time to time by the sponsoring entity, which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our stock.

We are a community bank, and our reputation is one of the most valuable components of our business. Similarly, Love Funding Corporation and Heartland Business Credit Corporation operate in niche markets where reputation is critically important. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our stock may be materially adversely affected.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances or that it will adequately mitigate any risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

The obligations associated with being a public company will require significant resources and management attention, which may divert from our business operations.

As a result of this offering, we will become subject to the reporting requirements of the Securities Exchange Act of 1934, or Exchange Act, and the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition with the SEC. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. As a result, we will incur significant legal, accounting and other expenses that we did not previously incur. We anticipate that these costs will materially increase our general and administrative expenses. Furthermore, the need to establish the corporate infrastructure demanded of a public company may divert management's attention from implementing our strategic plan, which could prevent us from successfully implementing our growth initiatives and improving our business, results of operations and financial condition.

As an "emerging growth company" as defined in the JOBS Act, we intend to take advantage of certain temporary exemptions from various reporting requirements, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and an exemption from the requirement to obtain an attestation from our auditors on management's assessment of our internal control over financial reporting. When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

We are subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as wealth management services, require us to act as fiduciaries for our customers and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability and/or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a harmful effect on our business and, in turn, on our financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements, or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Real estate market volatility and future changes in our disposition strategies could result in net proceeds that differ significantly from our other real estate owned fair value appraisals.

As of December 31, 2015, we had $5.5 million of other real estate owned. Our other real estate owned portfolio consists of properties that we obtained through foreclosure or through an in-substance foreclosure in satisfaction of loans. Properties in our other real estate owned portfolio are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the "fair value," which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Generally, in determining "fair value," an orderly disposition of the property is assumed, except where a different disposition strategy is expected. Significant judgment is required in estimating the fair value of other real estate owned property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility.

In response to market conditions and other economic factors, we may utilize alternative sale strategies other than orderly disposition as part of our other real estate owned disposition strategy, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from appraisals, comparable sales and other estimates used to determine the fair value of our other real estate owned properties.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

As of December 31, 2015, our nonperforming loans (which consist of nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings) totaled $24.9 million, or 1.25% of our loan portfolio, and our nonperforming assets (which include nonperforming loans plus other real estate owned that is not covered by a loss-sharing agreement with the FDIC and is not government guaranteed) totaled $29.2 million, or 1.01% of total assets. In addition, we had $10.1 million in accruing loans that were 31-89 days delinquent as of December 31, 2015. Our ratio of nonperforming loans to total loans has decreased from 1.80% and 1.81% at December 31, 2014 and 2013, respectively, and our ratio of nonperforming assets to total assets decreased from 1.48% and 1.64% at December 31, 2014 and 2013, respectively.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs and adversely affecting our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

We depend on the accuracy and completeness of information provided by customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information. In deciding whether to extend credit, we may rely upon our customers' representations

that their financial statements conform to GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on materially misleading, false, inaccurate or fraudulent information.

If we breach any of the representations or warranties we make to a purchaser of our mortgage loans, we may be liable to the purchaser for certain costs and damages.

When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Under these agreements, we may be required to repurchase mortgage loans if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolios, our liquidity, results of operations and financial condition could be adversely affected.

We face strong competition from financial services companies and other companies that offer banking, mortgage, leasing, and wealth management services and providers of FHA financing and servicing, which could harm our business.

Our operations consist of offering banking and mortgage services, and we also offer commercial FHA financing, trust, wealth management and leasing services to generate noninterest income. Many of our competitors offer the same, or a wider variety of, banking and related financial services within our market areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in our market areas. Additionally, we face growing competition from so-called "online businesses" with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms, as well as automated retirement and investment service providers. Increased competition in our markets may result in reduced loans, deposits and commissions and brokers' fees, as well as reduced net interest margin and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking, mortgage, leasing and wealth management customers, we may be unable to continue to grow our business, and our financial condition and results of operations may be adversely affected.

If we violate HUD lending requirements, or if the federal government shuts down or otherwise fails to fully fund the federal budget, our commercial FHA origination business could be adversely affected.

We originate, sell and service loans under FHA insurance programs, and make certifications regarding compliance with applicable requirements and guidelines. If we were to violate these requirements and guidelines, or other applicable laws, or if the FHA loans we originate show a high frequency of loan defaults, we could be subject to monetary penalties and indemnification claims, and could be declared ineligible for FHA programs. Any inability to engage in our commercial FHA origination and servicing business would lead to a decrease in our net income.

In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time in recent years. Federal governmental entities, such as HUD, that rely on funding from the federal budget, could be adversely affected in the event of a government shut-down, which could have a material adverse effect on our commercial FHA origination business and our results of operations.

Risks Related to the Business Environment and Our Industry

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

The Dodd-Frank Act, among other things, imposed new capital requirements on bank holding companies; changed the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base; permanently raised the current standard deposit insurance limit to $250,000; and expanded the FDIC's authority to raise insurance premiums. The Dodd-Frank Act established the Consumer Financial Protection Bureau as an independent entity within the Federal Reserve, which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards and contains provisions on mortgage-related matters, such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. Although the applicability of certain elements of the Dodd-Frank Act is limited to institutions with more than $10 billion in assets, there can be no guarantee that such applicability will not be extended in the future or that regulators or other third parties will not seek to impose such requirements on institutions with less than $10 billion in assets, such as the Bank.

Compliance with the Dodd-Frank Act and its implementing regulations has and will continue to result in additional operating and compliance costs that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In addition, new proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the bank and non-bank financial services industries and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Certain aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

As a result of the Dodd-Frank Act and recent rulemaking, we are subject to more stringent capital requirements.

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms, or Basel III, and issued rules effecting certain changes required by the Dodd-Frank Act. Basel III is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1.0 billion). Basel III not only increases most of the required minimum regulatory capital ratios, it introduces a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a "well-capitalized" depository institution under the new regime, an institution must maintain a common equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of common equity Tier 1 capital. The Basel III capital rules became effective as applied to us and the Bank on January 1, 2015 with a phase-in period that generally extends through January 1, 2019 for many of the changes.

The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial conditions, generally.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC, and the Illinois Department of Financial and Professional Regulation periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution's compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. The federal banking agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans.

Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The Federal Reserve may require us to commit capital resources to support the Bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Additionally, if our competitors were extending credit on terms we found to pose excessive risks, or at

interest rates which we believed did not warrant the credit exposure, we may not be able to maintain our business volume and could experience deteriorating financial performance.

Risks Related to this Offering and an Investment in Our Common Stock

An active, liquid trading market for our common stock may not develop, and you may not be able to sell your common stock at or above the public offering price, or at all.

Prior to this offering, there has been no public market for our common stock. An active trading market for shares of our common stock may never develop or be sustained following this offering. If an active trading market does not develop, you may have difficulty selling your shares of common stock at an attractive price, or at all. The public offering price for our common stock will be determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that will prevail in the open market following this offering. Consequently, you may not be able to sell your common stock at or above the public offering price or at any other price or at the time that you would like to sell. An inactive market may also impair our ability to raise capital by selling our common stock and may impair our ability to expand our business by using our common stock as consideration in an acquisition.

The price of our common stock could be volatile following this offering.

The market price of our common stock following this offering may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry generally;
- perceptions in the marketplace regarding us and/or our competitors;
- new technology used, or services offered, by competitors; and
- changes in government regulations.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described herein, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

If equity research analysts do not publish research or reports about our business, or if they do publish such reports but issue unfavorable commentary or downgrade our common stock, the price and trading volume of our common stock could decline.

The trading market for our common stock could be affected by whether equity research analysts publish research or reports about us and our business. We cannot predict at this time whether any research analysts will publish research and reports on us and our common stock. If one or more equity analysts do cover us and our common stock and publish research reports about us, the price of our stock could decline if one or more securities analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

If any of the analysts who elect to cover us downgrades our stock, our stock price could decline rapidly. If any of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

Our dividend policy may change.

Although we have historically paid dividends to our shareholders and currently intend to generally maintain our current dividend levels, we have no obligation to continue doing so and may change our dividend policy at any time without notice to our shareholders. Holders of our common stock are only entitled to receive such cash dividends as our board of directors, in its discretion, may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs, and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends paid to our common shareholders.

We are a separate and distinct legal entity from our subsidiaries, including the Bank. We receive substantially all of our revenue from dividends from the Bank, which we use as the principal source of funds to pay our expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Bank and certain of our non-bank subsidiaries may pay us. Such limits are also tied to the earnings of our subsidiaries. If the Bank does not receive regulatory approval or if our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our ability to pay our expenses and our business, financial condition or results of operations could be materially and adversely impacted.

Shares of certain shareholders may be sold into the public market in the near future. This could cause the market price of our common stock to drop significantly.

In connection with this offering, we, our directors, our executive officers and certain of our shareholders have each agreed to enter into lock-up agreements that restrict the sale of their holdings of our common stock for a period of 180 days from the date of this prospectus, subject to an extension in certain circumstances. The underwriters, in their discretion, may release any of the shares of our common stock subject to these lock-up agreements at any time without notice. In addition, after this offering, approximately shares of our common stock that are currently issued and outstanding will not be subject to lock-up. The resale of such shares could cause the market price of our stock to drop significantly, and concerns that those sales may occur could cause the trading price of our common stock to decrease or to be lower than it might otherwise be.

In addition, several of our shareholders have demand (beginning 180 days after the registration statement of which this prospectus is a part becomes effective) and piggyback registration rights pursuant to registration rights agreements with respect to the shares of our common stock that these holders own. As of the date of this prospectus, these holders owned 3,782,557 shares of our common stock, of which are included in this offering. Any shares registered pursuant to the registration rights agreement would be freely tradable in the public market following customary lock-up periods.

See "Shares Eligible for Future Sale." In addition, immediately following this offering, we intend to file a registration statement on Form S-8 registering under the Securities Act of 1933, as amended, or the Securities Act, the shares of common stock reserved for issuance in respect of incentive awards issued under our equity incentive plans. If a large number of shares are sold in the public market, the sales could reduce the trading price of our common stock. These sales also could impede our ability to raise future capital.

Our management will have broad discretion as to the use of proceeds from this offering, and we may not use the proceeds effectively.

We are not required to apply any portion of the net proceeds of this offering for any particular purpose. Accordingly, our management will have broad discretion as to the application of the net proceeds of this offering and could use them for purposes other than those contemplated at the time of this offering. A portion of the proceeds are expected to be used to provide additional capital as a cushion against minimum regulatory capital requirements, which may tend to reduce our return on equity as opposed to if such proceeds were used for further growth. Our shareholders may not agree with the manner in which our management chooses to allocate and invest the net proceeds. We may not be successful in using the net proceeds from this offering to increase our profitability or market value and we cannot predict whether the proceeds will be invested to yield a favorable return.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price.

As a private company, we are not currently required to comply with the rules of the SEC implementing Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Upon becoming a public company after completion of this offering, we will be required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which will require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. In particular, we will be required to certify our compliance with Section 404 of the Sarbanes-Oxley Act beginning with our second annual report on Form 10-K, which will require us to furnish annually a report by management on the effectiveness of our internal control over financial reporting. Furthermore, unless we remain an emerging growth company and elect additional transitional relief available to emerging growth companies, or we qualify as a smaller reporting company under applicable SEC rules, then our independent registered public accounting firm will be required to report on the effectiveness of our internal control over financial reporting, beginning as of that second annual report.

If we identify any material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting once we are no longer an emerging growth company, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial statements and reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, the Board of Governors of the Federal Reserve System, the FDIC, the OCC or other regulatory authorities, which could require additional financial and management resources. These events could have an adverse effect on our business, financial condition and results of operations.

You will incur immediate dilution as a result of this offering.

If you purchase common stock in this offering, you will pay more for your shares than our existing net tangible book value per share. As a result, you will incur immediate dilution of $ per share, representing the difference between the assumed public offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus) and our adjusted net tangible book value per share after giving effect to this offering. This represents % dilution from the public offering price.

Future equity issuances could result in dilution, which could cause our common stock price to decline.

We are generally not restricted from issuing additional shares of our common stock, up to the 35 million shares of voting common stock and 5 million shares of non-voting common stock authorized in our articles of incorporation, which in each case could be increased by a vote of a majority of our shares. We may issue additional shares of our common stock in the future pursuant to current or future equity compensation plans, upon conversions of preferred stock or debt, upon exercise of warrants or in connection with future acquisitions or financings. If we choose to raise capital by selling shares of our common stock for any reason, the issuance would have a dilutive effect on the holders of our common stock and could have a material negative effect on the market price of our common stock.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Although there are currently no shares of our preferred stock issued and outstanding, our articles of organization authorize us to issue up to 4 million shares of one or more series of preferred stock. The board also has the power, without shareholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our board of directors to issue shares of preferred stock without any action on the part of our shareholders may impede a takeover of us and prevent a transaction perceived to be favorable to our shareholders.

The holders of our debt obligations and preferred stock, if any, will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and dividends.

In any liquidation, dissolution or winding up of the Company, our common stock would rank below all claims of debt holders against us and claims of all of our outstanding shares of preferred stock. As of December 31, 2015, we had outstanding $61.9 million of subordinated notes and $37.1 million of trust preferred securities.

As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of the Company until after all of our obligations to our debt holders have been satisfied and holders of trust preferred securities and senior equity securities, including preferred shares, if any, have received any payment or distribution due to them. In addition, we are required to pay interest on our subordinated notes and dividends on our trust preferred securities and preferred stock before we pay any dividends on our common stock.

Provisions in our charter documents and Illinois law may have an anti-takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies.

Provisions of our charter documents and the Illinois Business Corporation Act of 1983, or the IBCA, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial by our shareholders. Furthermore, with certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be "acting in concert" from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. Moreover, the combination of these provisions effectively inhibits certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

We are an "emerging growth company," and the reduced regulatory and reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company," as described in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of reduced regulatory and reporting requirements that are otherwise generally applicable to public companies. These include, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced financial reporting requirements, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments. The JOBS Act also permits an "emerging growth company" such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. However, we have irrevocably "opted out" of this provision, and we will comply with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies.

We may take advantage of these provisions for up to five years, unless we earlier cease to be an emerging growth company, which would occur if our annual gross revenues exceed $1.0 billion, if we issue more than $1.0 billion in non-convertible debt in a three-year period, or if the market value of our common stock held by non-affiliates exceeds $700.0 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. Investors may find our common stock less attractive if we rely on the exemptions, which may result in a less active trading market and increased volatility in our stock price.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in "Risk Factors" or "Management's Discussion and Analysis of Financial Condition and Results of Operations" or the following:

- business and economic conditions, particularly those affecting the financial services industry and our primary market areas;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for loan loss;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers and the success of construction projects that we finance, including any loans acquired in acquisition transactions;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities and tax matters, and our ability to maintain licenses required in connection with commercial mortgage origination, sale and servicing operations;
- our ability to identify and address cyber-security risks, fraud and systems errors;
- risks related to our acquisition strategy, including our ability to identify suitable acquisition candidates, exposure to potential asset and credit quality risks and unknown or contingent liabilities, the time and costs of integrating systems, procedures and personnel, the need for capital to finance such transactions, our ability to obtain required regulatory approvals and possible failures in realizing the anticipated benefits from acquisitions;
- our ability to effectively execute our strategic plan and manage our growth;
- accounting treatment for loans acquired in connection with our acquisitions;
- changes in our senior management team and our ability to attract, motivate and retain qualified personnel;
- governmental monetary and fiscal policies, and changes in market interest rates;

- liquidity issues, including fluctuations in the fair value and liquidity of the securities we hold for sale and our ability to raise additional capital, if necessary;
- incremental costs and obligations associated with operating as a public company;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation;
- changes in federal tax law or policy; and
- risks related to this offering.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this prospectus. Because of these risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by the forward looking statements in this prospectus. In addition, our past results of operations are not necessarily indicative of our future results. You should not rely on any forward looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately $ million (or approximately $ million if the underwriters exercise their option to purchase additional shares from us in full), based on an assumed public offering price of $ per share, which is the midpoint of the price range set forth on the cover of this prospectus. Each $1.00 increase or decrease in the assumed public offering price of $ per share would increase or decrease the net proceeds to us from this offering by approximately $ million (or approximately $ million if the underwriters exercise their purchase option in full). We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders.

We intend to contribute $ million of the net proceeds that we receive from this offering to the Bank, of which approximately $4.8 million is expected to be used in connection with the pending acquisition of wealth management assets from Sterling National Bank, and to use the remainder for general corporate purposes, which could include future acquisitions and other growth initiatives. We do not have any current specific plan for such remaining net proceeds, and do not have any current plans, arrangements or understandings to make any material acquisitions or to establish any *de novo* bank branches, other than our planned *de novo* bank branch in St. Louis, Missouri that we expect to open in 2017. Our management will retain broad discretion to allocate the net proceeds of this offering. The precise amounts and timing of our use of the proceeds will depend upon market conditions, among other factors.

DIVIDEND POLICY

It has been our policy to pay quarterly dividends to holders of our common stock, and we intend to generally maintain our current dividend levels. Our dividend policy and practice may change in the future, however, and our board of directors may change or eliminate the payment of future dividends at its discretion, without notice to our shareholders. Any future determination to pay dividends to holders of our common stock will depend on our results of operations, financial condition, capital requirements, banking regulations, contractual restrictions and any other factors that our board of directors may deem relevant.

The following table shows recent quarterly dividends that have been paid on our common stock during the periods indicated.

Quarterly Period	Amount Per Share	Payment Date
First Quarter 2016	$ 0.18	February 8, 2016
Fourth Quarter 2015	0.17	November 9, 2015
Third Quarter 2015	0.16	August 10, 2015
Second Quarter 2015	0.16	May 7, 2015
First Quarter 2015	0.16	February 9, 2015
Fourth Quarter 2014	0.15	November 7, 2014
Third Quarter 2014	0.15	August 7, 2014
Second Quarter 2014	0.15	May 7, 2014
First Quarter 2014	0.14	February 7, 2014

Dividend Restrictions

Under the terms of our subordinated notes issued in June 2015 and the related subordinated note purchase agreements, we are not permitted to declare or pay any dividends on our capital stock if an event of default occurs under the terms of the subordinated notes. Additionally, under the terms of such notes, we are not permitted to declare or pay any dividends on our capital stock if we are not "well capitalized" for regulatory purposes immediately prior to the payment of such dividend.

As a bank holding company, our ability to pay dividends is affected by the policies and enforcement powers of the Federal Reserve. See "Supervision and Regulation—The Company—Dividend Payments." In addition, because we are a holding company, we are dependent upon the payment of dividends by the Bank to us as our principal source of funds to pay dividends in the future, if any, and to make other payments. The Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us. See "Supervision and Regulation—The Bank—Dividend Payments."

CAPITALIZATION

The following table shows our capitalization, including regulatory capital ratios, on a consolidated basis, as of December 31, 2015, on an actual basis and on an as adjusted basis after giving effect to the net proceeds from the sale by us of shares (assuming the underwriters do not exercise their overallotment option) at an assumed public offering price of $ per share, which is the midpoint of the price range on the cover of this prospectus, after deducting underwriting discounts and estimated offering expenses. You should read the following table in conjunction with the sections titled "Selected Historical Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	As of December 31, 2015	
	Actual	As adjusted(3)
	(dollars in thousands)	
Long-term debt:		
Subordinated notes	$ 61,859	$ 61,859
Trust preferred debentures(1)	37,057	37,057
Total long-term debt	98,916	98,916
Shareholders' equity:		
Preferred stock, par value $2.00 per share, 4,000,000 shares authorized, no shares outstanding actual and as adjusted	—	—
Common stock, par value $0.01 per share, 35,000,000 shares authorized, 11,797,404 shares outstanding actual and shares outstanding as adjusted	118	
Non-voting common stock, par value $0.01 per share, 5,000,000 shares authorized, no shares outstanding actual and as adjusted	—	—
Capital surplus	135,822	
Retained earnings	90,911	90,911
Accumulated other comprehensive income	6,029	6,029
Noncontrolling interest	176	176
Total shareholders' equity	233,056	
Total capitalization	$ 331,972	$
Capital ratios (consolidated):		
Tangible common equity to tangible assets(2)	6.33%	%
Tier 1 common capital to risk-weighted assets	6.50%	%
Tier 1 leverage	7.49%	%
Tier 1 capital to risk-weighted assets	8.62%	%
Total capital to risk-weighted assets	11.82%	%

(1) Consists of junior subordinated debentures issued in connection with our trust preferred securities. Amount shown reflects a discount of $15.9 million to the aggregate principal balance of $53.0 million as a result of purchase accounting adjustments.

(2) Tangible common equity to tangible assets is a non-GAAP financial measure. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures" for a reconciliation of this measure to its most comparable GAAP measure.

(3) A $1.00 increase (decrease) in the assumed public offering price of $ per share, which is the midpoint of the price range on the cover of this prospectus, would increase (decrease) the as adjusted amount of each of capital surplus, total shareholders' equity and total capitalization by

approximately $ million, assuming no change to the number of shares offered by us as set forth on the cover of this prospectus, and after deducting underwriting discounts and estimated offering expenses.

The table assumes the underwriters do not exercise their option to purchase additional shares from us.

DILUTION

If you purchase shares of our common stock in this offering, your ownership interest will experience immediate book value dilution to the extent the public offering price per share exceeds our net tangible book value per share immediately after this offering. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of common stock outstanding.

Our net tangible book value at December 31, 2015 was $179.4 million, or $15.20 per share based on the number of shares outstanding as of such date. After giving effect to our sale of shares in this offering at an assumed public offering price of $ per share, which is the midpoint of the price range on the cover of this prospectus, and after deducting underwriting discounts and estimated offering expenses, our as adjusted net tangible book value at December 31, 2015 would have been approximately $ million, or $ per share. Therefore, under those assumptions this offering would result in an immediate increase of $ in the net tangible book value per share to our existing shareholders, and immediate dilution of $ in the net tangible book value per share to investors purchasing shares in this offering. The following table illustrates this per share dilution.

Assumed public offering price per share		$
Net tangible book value per share at December 31, 2015	$ 15.20	
Increase in net tangible book value per share attributable to this offering		
As adjusted net tangible book value per share after this offering		
Dilution in net tangible book value per share to new investors		$

If the underwriters exercise their option to purchase additional shares from us in full, the as adjusted net tangible book value after giving effect to this offering would be $ per share. This represents an increase in net tangible book value of $ per share to existing shareholders and dilution of $ per share to new investors.

A $1.00 increase (decrease) in the assumed public offering price of $ per share, which is the midpoint of the price range on the cover of this prospectus, would increase (decrease) our net tangible book value by $ million, or $ per share, and the dilution to new investors by $ per share, assuming no change to the number of shares offered by us as set forth on the cover of this prospectus, and after deducting underwriting discounts and estimated offering expenses.

The following table sets forth information regarding the shares issued to, and consideration paid by, our existing shareholders and the shares to be issued to, and consideration to be paid by, investors in this offering at an assumed public offering price of $ per share, which is the midpoint of the price range on the cover of this prospectus, before deducting underwriting discounts and estimated offering expenses.

	Shares purchased		Total consideration		
	Number	Percent	Amount (in thousands)	Percent	Average price per share
Shareholders as of December 31, 2015	9,402,414	%	$ 85,885	%	$ 9.13
Investors in this offering					
Total		100.0%	$	100.0%	$

The tables above exclude 1,223,054 shares of common stock issuable upon exercise of stock options outstanding at February 29, 2016 at a weighted average exercise price of $17.51 per share, 125,000 shares of our common stock issuable upon exercise of a warrant at an exercise price of $16.00 per

share, 1,059,353 shares of common stock reserved at February 29, 2016 in connection with options and restricted stock awards that remain available for issuance under our Second Amended and Restated 2010 Long-Term Incentive Plan, 63,928 shares of common stock issuable upon vesting of unvested restricted stock, 7,596 shares of common stock issuable upon the vesting of unvested restricted stock unit awards, 2,394,990 shares of common stock issued as consideration in past acquisitions, and up to 571,429 shares of our common stock that may be issuable pursuant to an earn-out payment obligation in connection with the Company's acquisition of Heartland Bank. As of March 31, 2016, we anticipate that no shares will be issued pursuant to this earn-out obligation. To the extent that such options or warrant are exercised, or earn-out obligations are paid, or other equity awards are issued, investors participating in the offering will experience further dilution.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table sets forth selected historical consolidated financial data as of the dates and for the periods shown. The selected balance sheet data as of December 31, 2015 and 2014 and the selected income statement data for the years ended December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected balance sheet data as of December 31, 2013, 2012 and 2011 and the selected income statement data for the years ended December 31, 2012 and 2011 have been derived from our audited consolidated financial statements that are not included in this prospectus.

As described elsewhere in this prospectus, we have consummated several acquisitions in recent fiscal periods. The results and other financial data of these acquired operations are not included in the table below for the periods prior to their respective acquisition dates and, therefore, the financial data for these prior periods is not comparable in all respects and are not necessarily indicative of our future results. You should read the following financial data in conjunction with the other information contained in this prospectus, including under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in the financial statements and related notes included elsewhere in this prospectus.

(dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2015	2014	2013	2012	2011
Selected Balance Sheet Data					
Assets:					
Cash and cash equivalents	$ 212,475	$ 159,903	$ 86,723	$ 114,046	$ 99,545
Investment securities available for sale, at fair value	236,627	253,768	201,278	233,368	223,791
Investment securities held to maturity, at amortized cost	87,521	101,763	109,848	105,461	114,980
Total investment securities	324,148	355,531	311,126	338,829	338,771
Total loans (gross)	1,995,589	1,798,015	1,205,501	978,517	957,887
Allowance for loan losses	(15,988)	(12,300)	(23,672)	(26,190)	(26,831)
Total loans (net)	1,979,601	1,785,715	1,181,829	952,327	931,056
Loans held for sale, at fair value	54,413	96,407	3,062	7,312	3,401
Indemnification asset due from FDIC	—	493	3,053	9,813	17,648
Premises and equipment, net	73,133	72,331	54,238	47,936	47,336
Other real estate owned	5,472	8,291	10,519	11,672	11,622
Mortgage servicing rights, at lower of cost or market	66,651	62,781	2,320	1,202	1,249
Intangible assets	7,004	9,464	8,189	8,485	10,740
Goodwill	46,519	47,946	7,732	7,732	7,582
Total intangible assets	53,523	57,410	15,921	16,217	18,322
Cash surrender value of life insurance policies	52,729	31,255	30,190	27,216	16,171
Other assets	62,679	46,497	40,567	45,494	35,641
Total assets	$2,884,824	$ 2,676,614	$1,739,548	$1,572,064	$ 1,520,762
Liabilities:					
Noninterest-bearing deposits	$ 543,401	$ 507,188	$ 265,036	$ 238,944	$ 198,443
Interest-bearing deposits	1,824,247	1,643,445	1,116,853	1,029,190	1,023,567
Total deposits	2,367,648	2,150,633	1,381,889	1,268,134	1,222,010
Short-term borrowings	107,538	129,714	87,420	71,222	55,410
FHLB advances and other borrowings	40,178	74,349	73,410	75,082	81,038
Subordinated debt	61,859	7,370	7,299	5,000	5,000
Trust preferred debentures	37,057	36,930	11,830	10,000	10,000
Other liabilities	37,488	57,689	28,260	11,708	20,351
Total liabilities	2,651,768	2,456,685	1,590,108	1,441,146	1,393,809
Shareholders' equity:					
Preferred stock	—	—	57,370	57,370	57,370
Common stock and capital surplus	135,940	134,540	14,847	10,645	9,955
Retained earnings	90,911	74,279	74,576	67,192	60,775

(dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2015	2014	2013	2012	2011
Accumulated other comprehensive income	6,029	10,637	7,012	2,327	5,793
Treasury stock, at cost	—	—	(4,365)	(6,616)	(6,940)
Total Midland States Bancorp, Inc. shareholders' equity	232,880	219,456	149,440	130,918	126,953
Noncontrolling interest in subsidiaries	176	473	—	—	—
Total shareholders' equity	233,056	219,929	149,440	130,918	126,953
Total liabilities and shareholders' equity	$ 2,884,824	$ 2,676,614	$1,739,548	$1,572,064	$1,520,762
Selected Income Statement Data					
Interest income—loans	$ 101,989	$ 56,296	$ 56,858	$ 55,066	$ 60,729
Interest income—investment securities	15,807	16,845	18,131	19,131	21,544
Interest expense	12,889	8,543	9,069	11,271	16,870
Net interest income	104,907	64,598	65,920	62,926	65,403
Provision for loan losses	11,127	92	173	2,052	3,854
Net interest income after provision for loan losses	93,780	64,506	65,747	60,874	61,549
Gain on bargain purchase	—	—	2,154	—	—
Noninterest income (excluding gain on bargain purchase)	59,482	20,441	14,076	14,044	11,299
Noninterest expense	117,764	69,480	61,449	56,419	57,501
Income before income taxes	35,498	15,467	20,528	18,499	15,347
Income tax expense	11,091	4,651	6,023	4,842	3,974
Net income	24,407	10,816	14,505	13,657	11,373
Net income attributable to noncontrolling interest in subsidiaries	83	—	—	—	—
Net income attributable to Midland States Bancorp, Inc.	24,324	10,816	14,505	13,657	11,373
Preferred stock dividends	—	7,601	4,718	5,211	4,205
Net income available to common shareholders	$ 24,324	$ 3,215	$ 9,787	$ 8,446	$ 7,168
Credit Quality Data					
Loans 30-89 days past due	$ 10,120	$ 5,744	$ 9,193	$ 3,037	$ 5,785
Loans 30-89 days past due to total loans	0.51%	0.32%	0.76%	0.31%	0.60%
Nonperforming loans(1)	$ 24,891	$ 32,172	$ 21,822	$ 19,829	$ 21,674
Nonperforming loans to total loans(1)	1.25%	1.80%	1.81%	2.03%	2.26%
Nonperforming assets(2)	$ 29,206	$ 39,542	$ 28,481	$ 25,860	$ 24,023
Nonperforming assets to total assets(2)	1.01%	1.48%	1.64%	1.64%	1.58%
Allowance for loan losses to total loans(1)	0.80	0.69	1.96	2.68	2.80
Allowance for loan losses to nonperforming loans(1)	64.23	38.23	108.48	132.08	123.79
Net charge-offs to average loans	0.39	0.94	0.25	0.28	0.56
Per Share Data (Common Stock)					
Earnings:					
Basic	$ 2.03	$ 0.53	$ 2.12	$ 1.96	$ 1.69
Diluted(3)	2.00	0.53	1.70	1.62	1.43
Dividends declared	0.65	0.59	0.53	0.48	0.43
Book value(4)	19.74	18.72	19.93	17.28	16.57
Book value—as converted(4)(5)	19.74	18.72	17.81	16.37	15.99
Tangible book value(6)	15.20	13.82	16.48	13.47	12.21
Tangible book value—as converted(5)(6)	15.20	13.82	15.91	14.34	13.68
Weighted average shares outstanding:					
Basic	11,902,455	5,945,615	4,558,549	4,300,578	4,245,500
Diluted	12,112,403	6,025,454	7,151,471	6,898,791	6,896,393
Shares outstanding at period end	11,797,404	11,725,158	4,620,026	4,257,319	4,198,947
Core Earnings Metrics					
Core earnings(6)	$ 29,306	$ 16,171	$ 16,308	$ 18,598	$ 19,300
Core diluted earnings per share(6)	$ 2.40	$ 1.86	$ 1.93	$ 2.29	$ 2.49
Core return on average assets(6)	1.06%	0.92%	1.00%	1.23%	1.25%

(dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2015	2014	2013	2012	2011
Core return on average tangible common equity(6)	17.03%	12.09%	17.81%	25.54%	32.62%
Performance Metrics					
Return on average assets	0.88%	0.62%	0.89%	0.91%	0.74%
Return on average shareholders' equity	10.68	6.82	10.45	10.75	10.05
Return on average common shareholders' equity	10.69	2.83	12.01	12.13	10.88
Return on average tangible common equity(6)	14.14	3.26	15.04	16.12	15.49
Yield on earning assets	4.91	4.74	5.29	5.65	6.07
Cost of average interest-bearing liabilities	0.66	0.65	0.72	0.96	1.36
Net interest spread	4.25	4.09	4.57	4.69	4.71
Net interest margin(7)	4.38	4.21	4.68	4.82	4.88
Efficiency ratio(8)	66.15	71.42	67.37	66.04	62.36
Common stock dividend payout ratio(9)	32.02	111.32	25.00	24.49	25.44
Loan to deposit ratio	84.29	83.60	87.24	77.16	78.39
Core deposits / total deposits(10)	88.41	89.56	87.97	87.52	86.87
Net non-core funding dependence ratio(11)	7.12	10.50	14.88	12.77	14.79
Regulatory and Other Capital Ratios—Consolidated					
Tangible common equity to tangible assets(6)	6.33%	6.19%	4.42%	3.68%	3.41%
Tier 1 common capital to risk-weighted assets(12)	6.50	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	7.49	10.48	8.14	7.98	7.60
Tier 1 capital to risk-weighted assets	8.62	8.65	9.98	10.36	9.96
Total capital to risk-weighted assets	11.82	9.59	11.77	12.03	11.67
Regulatory Capital Ratios—Bank Only(13)					
Tier 1 common capital to risk-weighted assets(12)	10.39%	N/A	N/A	N/A	N/A
Tier 1 leverage ratio	9.01	8.65%	8.92%	8.89%	8.38%
Tier 1 capital to risk-weighted assets	10.39	10.34	10.93	11.54	10.96
Total capital to risk-weighted assets	11.06	11.18	12.18	12.81	12.22

(1) Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. Nonperforming loans exclude purchased credit-impaired loans, or PCI loans, acquired in our prior acquisitions. PCI loans had carrying values of $38.5 million, $44.2 million, $30.4 million, $43.0 million and $58.2 million as of December 31, 2015, 2014, 2013, 2012 and 2011, respectively. Furthermore, PCI loans, as well as other loans acquired in a business combination, are recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. Accordingly, our ratios that are computed using nonperforming loans and/or allowance for loan losses may not be comparable to similar ratios of our peers.

(2) Nonperforming assets include nonperforming loans, other real estate owned and other repossessed assets. Nonperforming assets exclude covered other real estate owned related to our two FDIC-assisted transactions. As discussed in footnote 1, above, nonperforming loans exclude PCI loans. This ratio may therefore not be comparable to a similar ratio of our peers.

(3) Earnings per share are calculated utilizing the two-class method. Basic earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of shares adjusted for the dilutive effect of outstanding stock options and common stock warrants using the treasury stock method and convertible preferred stock and convertible debentures using the if-converted method. For the years ended December 31, 2014, 2013 and 2012, diluted earnings per share considered, when dilutive, the weighted average shares of common stock issuable upon conversion of our Series C preferred stock, Series D preferred stock, Series E preferred stock and Series F preferred stock then outstanding. For the year ended December 31, 2011, diluted earnings per share considered, when dilutive, the weighted average shares of common stock issuable upon conversion of our Series C preferred stock, Series D preferred stock, Series E preferred stock and Series F preferred stock then outstanding, the $6.3 million of convertible subordinated notes issued in 2009 and the $5.0 million of convertible subordinated notes issued in 2010. On December 15, 2011, outstanding warrants to acquire Series E preferred stock and Series F preferred stock were exercised by the holder through the exchange of the corresponding principal amounts of the 2009 and 2010 subordinated notes, respectively. During 2014, our Series C, D, E and F preferred stock was converted into shares of common stock. We did not have any preferred stock or warrants to acquire preferred stock outstanding during 2015.

(4) For purposes of computing book value per common share, book value equals total common shareholders' equity.

(5) Book value per share—as converted and tangible book value per share—as converted each give effect to: (i) for December 31, 2013, the conversion of all of the issued and outstanding shares of Series C Preferred Stock, Series D

Preferred Stock, Series E Preferred Stock and Series F Preferred Stock into an aggregate of 3,772,664 shares of our common stock; and (ii) for December 31, 2012 and 2011, the conversion of all of the issued and outstanding shares of Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock into an aggregate of 3,739,028 shares of our common stock. We did not have any convertible preferred stock or warrants to acquire convertible preferred stock outstanding at December 31, 2014 or 2015.

(6) Tangible book value per share, tangible book value per share—as converted, core earnings, core diluted earnings per share, core return on average assets, core return on average tangible common equity, return on average tangible common equity and tangible common equity to tangible assets are non-GAAP financial measures. See "—Non-GAAP Financial Measures," below, for a reconciliation of these measures to their most comparable GAAP measures.

(7) Net interest margin is presented on a fully taxable equivalent, or FTE, basis.

(8) Efficiency ratio represents noninterest expenses, as adjusted, divided by the sum of fully taxable equivalent net interest income plus noninterest income, as adjusted. Noninterest expense adjustments exclude integration and acquisition related expenses. Noninterest income adjustments exclude bargain purchase gains, FDIC settlement, FDIC loss sharing income, accretion/amortization of the FDIC indemnification asset, realized gains or losses from the sale of investment securities, gains or losses on sale of other assets and other-than-temporary impairment.

(9) Common stock dividend payout ratio represents dividends per share divided by basic earnings per share. See "Dividend Policy."

(10) Core deposits are defined as total deposits less brokered deposits and certificate of deposits greater than $250,000.

(11) Net non-core funding dependence ratio represents the degree to which the Bank is funding longer term assets with non-core funds. We calculate this ratio as non-core liabilities, less short term investments, divided by long term assets.

(12) The Tier 1 common capital to risk-weighted assets ratio is required under the Basel III Final Rules, which became effective for the Company and the Bank on January 1, 2015. Accordingly, this ratio is shown as not applicable ("N/A") for periods ending prior to January 1, 2015.

(13) On December 31, 2014, we completed our acquisition of Love Savings Holding Company, which primarily consisted of Heartland Bank and its wholly owned subsidiaries Love Funding Corporation and Heartland Business Credit. For the purpose of comparability with prior periods presented, the "bank only" regulatory capital ratios as of December 31, 2014 represent Midland States Bank ratios only and do not include Heartland Bank. The Tier 1 leverage ratio, Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio for Heartland Bank as of December 31, 2014 were 8.76%, 11.77% and 13.03%, respectively.

Non-GAAP Financial Measures

Some of the financial measures included in this prospectus are not measures of financial performance recognized by GAAP. These non-GAAP financial measures include "tangible common equity to tangible assets," "tangible book value per share," "tangible book value per share—as converted," "return on average tangible common equity," "core earnings," "core diluted earnings per share," "core return on average assets," "core return on average tangible common equity," "core loans" and "core loan growth." Our management uses these non-GAAP financial measures in its analysis of our performance.

Tangible Common Equity to Tangible Assets Ratio, Tangible Book Value Per Share and Tangible Book Value Per Share (as converted). The tangible common equity to tangible assets ratio, tangible book value per share and tangible book value per share—as converted are non-GAAP measures generally used by financial analysts and investment bankers to evaluate capital adequacy. We calculate: (i) tangible common equity as total shareholders' equity less preferred equity, noncontrolling interest in subsidiaries, goodwill and other intangible assets (excluding mortgage servicing rights); (ii) tangible assets as total assets less goodwill and other intangible assets; and (iii) tangible book value per share as tangible common equity divided by shares of common stock outstanding (in the case of the "as converted" measure, assuming the conversion of all preferred shares that were outstanding prior to December 31, 2014).

Our management, banking regulators, many financial analysts and other investors use these measures in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of preferred equity and/or goodwill or other intangible assets, which typically stem from the use of the purchase accounting method of accounting for mergers

and acquisitions. Tangible common equity, tangible assets, tangible book value per share and related measures should not be considered in isolation or as a substitute for total shareholders' equity, total assets, book value per share or any other measure calculated in accordance with GAAP. Moreover, the manner in which we calculate tangible common equity, tangible assets, tangible book value per share (as converted) and any other related measures may differ from that of other companies reporting measures with similar names. The following table reconciles shareholders' equity (on a GAAP basis) to tangible common equity and total assets (on a GAAP basis) to tangible assets, and calculates our tangible book value per share (as converted):

(dollars in thousands, except per share data)	As of December 31, 2015	2014	2013	2012	2011	2010	2009	2008
Tangible common equity—as converted:								
Total shareholders' equity—GAAP	$ 233,056	$ 219,929	$ 149,440	$ 130,918	$ 126,953	$ 109,208	$ 76,627	$ 37,301
Adjustments:								
Preferred equity	—	—	(57,370)	(57,370)	(57,370)	(47,370)	(23,600)	—
Noncontrolling interest in subsidiaries	(176)	(473)	—	—	—	—	—	—
Goodwill	(46,519)	(47,946)	(7,732)	(7,732)	(7,582)	(7,582)	(7,582)	(3,812)
Other intangibles	(7,004)	(9,464)	(8,189)	(8,485)	(10,740)	(13,234)	(1,072)	(109)
Tangible common equity	$ 179,357	$ 162,046	$ 76,149	$ 57,331	$ 51,261	$ 41,022	$ 44,373	$ 33,380
Adjustments:								
Preferred equity	—	—	57,370	57,370	57,370	47,370	23,600	—
Warrants	—	—	—	—	—	11,300	6,300	—
Tangible common equity—as converted(1)	$ 179,357	$ 162,046	$ 133,519	$ 114,701	$ 108,631	$ 99,692	$ 74,273	$ 33,380
Tangible assets:								
Total assets—GAAP	$ 2,884,824	$ 2,676,614	$1,739,548	$1,572,064	$1,520,762	$1,642,376	1,118,814	441,027
Adjustments:								
Goodwill	(46,519)	(47,946)	(7,732)	(7,732)	(7,582)	(7,582)	(7,582)	(3,812)
Other intangibles	(7,004)	(9,464)	(8,189)	(8,485)	(10,740)	(13,234)	(1,072)	(109)
Tangible assets	$ 2,831,301	$ 2,619,204	$1,723,627	$1,555,847	$1,502,440	$1,621,560	$1,110,160	$ 437,106
Common shares outstanding—as converted:								
Common shares outstanding	11,797,404	11,725,158	4,620,026	4,257,319	4,198,947	4,164,030	4,143,640	4,031,540
Adjustments:								
Upon conversion of preferred stock	—	—	3,772,664	3,739,028	3,739,028	3,795,549	2,544,680	—
Common shares outstanding—as converted(1)	11,797,404	11,725,158	8,392,690	7,996,347	7,937,975	7,959,579	6,688,320	4,031,540
Tangible common equity to tangible assets ratio	6.33%	6.19%	4.42%	3.68%	3.41%	2.53%	4.00%	7.64%
Tangible book value per share—as converted(1)	$ 15.20	$ 13.82	$ 15.91	$ 14.34	$ 13.68	$ 12.52	$ 11.10	$ 8.28

(1) As converted represents amount per common share with all preferred shares that were outstanding prior to December 31, 2014 converted into common shares.

Return on Average Tangible Common Equity. Management measures return on average tangible common equity (ROATCE) to assess the Company's capital strength and business performance. Tangible equity excludes preferred equity, noncontrolling interest in subsidiaries, goodwill and other intangible assets (excluding mortgage servicing rights), and is reviewed by banking and financial institution regulators when assessing a financial institution's capital adequacy. This non-GAAP financial measure should not be considered a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled measures used by other companies. The

following table reconciles return on average tangible common equity to its most comparable GAAP measure:

(dollars in thousands)	For the Year Ended December 31, 2015	2014	2013	2012	2011	2010	2009	2008
Net Income	$ 24,324	$ 10,816	$ 14,505	$ 13,657	$ 11,373	$ 12,900	$ 15,971	$ 2,139
Less—preferred stock dividends	—	7,601	4,718	5,211	4,205	3,668	2,291	—
Net income available to common shareholders	$ 24,324	$ 3,215	$ 9,787	$ 8,446	$ 7,168	$ 9,232	$ 13,680	$ 2,139
Average Tangible Common Equity:								
Average total stockholder's equity—GAAP	$ 227,757	$ 158,562	$ 138,862	$ 127,026	$ 113,109	$ 104,945	$ 67,415	$ 32,117
Adjustments:								
Preferred equity	—	(45,057)	(57,370)	(57,370)	(47,269)	(40,619)	(24,402)	—
Noncontrolling interest in subsidiaries	(138)	—	—	—	—	—	—	—
Goodwill	(47,306)	(7,842)	(7,732)	(7,658)	(7,582)	(7,582)	(4,859)	(1,296)
Other intangible assets	(8,249)	(7,117)	(8,677)	(9,592)	(11,979)	(11,546)	(2,505)	(1,658)
Average tangible common equity	$ 172,064	$ 98,546	$ 65,083	$ 52,406	$ 46,279	$ 45,198	$ 35,649	$ 29,163
ROATCE	14.14%	3.26%	15.04%	16.12%	15.49%	20.43%	38.37%	7.33%

Core Earnings Metrics. Management uses the measure core earnings to assess the performance of our core business and the strength of our capital position. We believe that this non-GAAP financial measure provides meaningful additional information about us to assist investors in evaluating our operating results. This non-GAAP financial measure should not be considered a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled measures used by other companies. The following table reconciles core earnings, core diluted earnings per share, core return on average assets and core return on average tangible common equity to their most comparable GAAP measures:

(dollars in thousands, except per share data)	For the Year Ended December 31, 2015	2014	2013	2012	2011	2010	2009	2008
Income before income taxes—GAAP	$ 35,498	$ 15,467	$ 20,528	$ 18,499	$ 15,347	$ 17,924	$ 23,662	$ 2,742
Non-core other income:								
Provision for loan losses from Purchased Credit Impaired loan pool	—	—	—	—	—	—	(10,500)	—
Interest income from Purchased Credit Impaired loan pool	—	—	2,604	—	—	—	—	—
Gain on sales of investment securities, net	193	77	321	953	466	2	399	751
Other than-temporary-impairment on investment securities	(461)	(190)	(190)	(319)	(742)	(63)	—	—
Gain on bargain purchase	—	—	2,154	—	—	8,704	19,218	—
FDIC settlement	—	1,709	—	—	—	—	—	—
FDIC loss-sharing (expense) income	(566)	(3,491)	(1,149)	1,477	4,455	4,012	10,496	—
Amortization of FDIC indemnification asset, net	(397)	(954)	(2,705)	(5,172)	(8,047)	(1,232)	1,912	—
Impairment on mortgage servicing rights	(448)	84	593	(702)	(93)	—	—	—
Gain (loss) on sales of other real estate owned	600	761	(26)	979	1,975	(115)	64	(30)
Gain on sale of other assets	12	2,972	—	—	—	—	—	—
Other income	—	—	—	—	—	—	—	—
Total non-core	(1,067)	968	1,602	(2,784)	(1,986)	11,308	21,589	721

other income								
Non-core other expense:								
Impairment / write-down of other real estate owned	114	1,530	1,542	2,109	3,489	3,970	210	207
Provision for unfunded commitments and FDIC loss-sharing agreement	205	(34)	(116)	374	—	—	—	—
Foundation contribution	—	900	—	—	—	—	—	—
Professional fees and other expenses for aborted stock offering	—	—	—	—	3,413	—	—	—
Integration and acquisition expenses	6,101	6,229	2,727	1,424	1,807	2,964	893	—
Total non-core other expense	6,420	8,625	4,153	3,907	8,709	6,934	1,103	207

(dollars in thousands, except per share data)	For the Year Ended December 31, 2015	2014	2013	2012	2011	2010	2009	2008
Core earnings pre tax	42,985	23,124	23,079	25,190	26,042	13,550	3,176	2,228
Core earnings tax	13,679	6,953	6,771	6,592	6,742	3,798	1,032	490
Core earnings—non-GAAP	$ 29,306	$ 16,171	$ 16,308	$ 18,598	$ 19,300	$ 9,752	$ 2,144	$ 1,738
Preferred stock dividends	—	7,601	4,718	5,211	4,205	3,668	2,291	—
Preferred stock dividends paid upon early conversion[1]	—	(3,346)	—	—	—	—	—	—
Core earnings available to common shareholders—non-GAAP	$ 29,306	$ 11,916	$ 11,590	$ 13,387	$ 15,095	$ 6,084	$ (147)	$ 1,738
Core Diluted EPS	$ 2.40	$ 1.86	$ 1.93	$ 2.29	$ 2.49	$ 1.28	$ (0.04)	$ 0.42
Weighted average diluted common shares outstanding	12,112,403	6,993,940	8,379,455	8,079,752	8,089,492	6,824,310	4,180,620	4,134,780
Average Assets	$ 2,768,879	$1,753,286	$1,630,565	$1,508,232	$1,542,456	$1,533,344	$ 917,798	$ 391,485
Core Return on Average Assets	1.06%	0.92%	1.00%	1.23%	1.25%	0.64%	0.23%	0.44%
Average Tangible Common Equity	$ 172,064	$ 98,546	$ 65,083	$ 52,406	$ 46,279	$ 45,198	$ 35,649	$ 29,163
Core Return on Average Tangible Common Equity	17.03%	12.09%	17.81%	25.54%	32.62%	13.46%	(0.41%)	5.96%

(1) Represents preferred stock dividends paid through applicable call dates with respect to the early conversion of Series D, E and F preferred shares, which the holders agreed to convert into common shares on December 31, 2014.

Core Loans and Core Loan Growth. Management uses the measures core loans and core loan growth to assess the performance of our lending operations, excluding the effect of acquisition-related changes to total loans. We believe that this non-GAAP financial measure provides meaningful additional information about us to assist investors in evaluating our operating results and ability to generate organic growth in our loan portfolio. This non-GAAP financial measure should not be considered a substitute for total loans determined in accordance with GAAP and may not be comparable to other similarly titled measures used by other companies. The following table reconciles core loans and core loan growth to their most comparable GAAP measure:

(dollars in thousands)	As of and for the Year Ended December 31, 2015	2014	2013	2012	2011	2010	2009	2008
Total loans, end of period	$1,995,589	$1,798,015	$1,205,501	$978,517	$957,887	$1,047,144	$ 624,456	$337,220
PCI loans, end of period	(38,477)	(44,201)	(30,401)	(43,031)	(58,235)	(83,138)	(81,470)	—
Non PCI loans, end of period	1,957,112	1,753,814	1,175,100	935,486	899,652	964,006	542,986	337,220
Loans acquired (non PCI loans)	—	(511,821)	(41,937)	—	—	(436,662)	(122,799)	—
Sale of consumer loan pool	—	25,292	—	—	—	—	—	—
Core loans, end of period	1,957,112	1,267,285	1,133,163	935,486	899,652	527,344	420,187	337,220
Non PCI loans, beginning of period	1,753,814	1,175,100	935,486	899,652	964,006	542,986	337,220	284,233
Increase (decrease) in core loans	$ 203,298	$ 92,185	$ 197,677	$ 35,834	$ (64,354)	$ (15,642)	$ 82,967	$ 52,987
Core loan growth(1)	11.6%	7.8%	21.1%	4.0%	(6.7)%	(2.9)%	24.6%	18.6%

(1) Core loan growth represents percentage change in the Company's core loans over the prior year. Core loans represent non-PCI loans, less non-PCI loans acquired, plus non-PCI loans sold as of the date the loans were acquired or sold. Acquired non-PCI loans become core loans subsequent to the acquisition date and will negatively affect core loan growth in future periods as these loans are repaid or prepaid. Core loan growth was negative in 2010 and 2011 due to the prepayment and scheduled repayment of loans acquired from acquisitions in 2009 and 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the "Selected Historical Consolidated Financial Data" and our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors" and elsewhere in this prospectus, may cause actual results to differ materially from those projected in the forward looking statements. We assume no obligation to update any of these forward-looking statements.

Overview

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Our 135-year old banking subsidiary, Midland States Bank, has branches across Illinois and in Missouri and Colorado, and provides a broad array of traditional community banking and other complementary financial services, including commercial lending, residential mortgage origination, wealth management, merchant services and prime consumer lending. Our commercial FHA origination and servicing business, based in Washington, D.C., is one of the top originators of government sponsored mortgages for multifamily and healthcare facilities in the United States. Our commercial equipment leasing business, based in Denver, provides financing to business customers across the country. As of December 31, 2015, we had $2.9 billion in assets, $2.4 billion of deposits and $233.1 million of shareholders' equity.

In late 2007, we developed a strategic plan to build a diversified financial services company anchored by a strong community bank. Since then, we have grown organically and through a series of nine acquisitions, with an over-arching focus on enhancing shareholder value and building a platform for scalability. Most recently, we acquired Heartland Bank in December 2014, which greatly expanded our commercial, retail and mortgage banking services in the St. Louis metropolitan area. Additionally, the Heartland Bank acquisition facilitated our entry into Colorado, with one branch office located in Denver and three Colorado mortgage offices. This transaction also provided us the opportunity to enter complementary commercial FHA loan origination and commercial equipment leasing business lines. In total, we have grown from a community bank with six locations and diluted earnings per share of $0.50 for the year ended December 31, 2007, to a financial services company with 81 locations, nationwide operations and diluted earnings per share of $2.00 for the year ended December 31, 2015.

We have five principal business lines: traditional community banking, residential mortgage origination, wealth management, commercial FHA origination and servicing, and commercial equipment leasing. Our traditional community banking business primarily consists of commercial and retail lending and deposit taking with a total loan portfolio of $1.9 billion and total deposits of $2.4 billion as of December 31, 2015. We originate residential mortgage loans (the majority of which we sell), through the Bank, with $580.8 million of originations for the year ended December 31, 2015. Our wealth management group provides a comprehensive suite of trust and wealth management products and services, and had $1.2 billion in assets under management as of December 31, 2015. We conduct our FHA origination business through Love Funding, which we acquired in the Heartland Bank transaction. Love Funding originates commercial mortgage loans for multifamily and healthcare facilities under FHA insurance programs, with $382.9 million of originations for the year ended December 31, 2015. Our Heartland Business Credit subsidiary, also acquired in the Heartland Bank transaction, provides custom leasing and financing programs to equipment and software vendors and their customers, and had a lease portfolio of $144.2 million as of December 31, 2015.

Our principal business activity has been lending to and accepting deposits from individuals, businesses, municipalities and other entities. We have derived income principally from interest charged on loans and, to a lesser extent, from interest and dividends earned on investment securities. We have also derived income from noninterest sources, such as: fees received in connection with various lending and deposit services; wealth management services; residential mortgage loan originations, sales and servicing; merchant services; and, from time to time, gains on sales of assets. With the acquisition of Heartland Bank, we have expanded our income sources to include a greater emphasis on residential mortgage loan origination, Love Funding's commercial mortgage loan origination and related servicing and Heartland Business Credit's interest income on direct financing leases. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment expenses, data processing costs, professional fees and other noninterest expenses, provisions for loan losses and income tax expense.

Primary Factors Affecting Comparability

Each factor listed below materially affects the comparability of our results of operations and financial condition in 2015, 2014 and 2013, and may affect the comparability of financial information we report in future fiscal periods.

Recent Acquisitions. We have completed several acquisitions in recent years, but the results and other financial data of these acquired operations are not included in our financial results for the periods prior to their respective acquisition dates. Therefore, the financial data for these prior periods is not comparable in all respects and is not necessarily indicative of our future results. The following table summarizes our pending and completed acquisitions since December 31, 2012:

Date	Target	Type	Description and Highlights
2016 (pending)	Trust Department of Sterling National Bank *Yonkers, NY*	Acquisition of business line	• Pending acquisition of approximately $400 million in wealth management assets. • Anticipated closing date in second or third quarter of 2016 (subject to regulatory approval and other customary closing conditions).
December 2014	Love Savings Holding Company (Heartland Bank) *St. Louis, MO*	Holding company acquisition	• Significantly expanded presence in Missouri side of St. Louis metropolitan area through the addition of 10 full-service banking offices. • Acquisition included Heartland Bank and its subsidiaries Love Funding Corporation, an approved FHA lender and GNMA issuer of commercial loans, and Heartland Business Credit, a provider of custom leasing programs to equipment and software vendors and their customers.

Date	Target	Type	Description and Highlights
			• Acquired $889.0 million of assets and assumed $860.7 million of liabilities. • Recognized $38.9 million of goodwill. • Recognized a $3.4 million core deposit intangible.
June 2013	Grant Park Bancshares, Inc. *Grant Park, IL*	Holding company acquisition	• Three well-established locations approximately 60 miles south of Chicago. • Acquired $108.7 million of assets and $102.9 million of liabilities. • Recognized $2.2 million bargain purchase gain.
March 2013	Settlement Trust Group *Milwaukee, WI*	Acquisition of business line	• Purchased litigation settlement trust business. • Acquired $34.6 million of trust assets under administration.

Expiration of FDIC Loss-Sharing Arrangements. Two of our acquisitions, Strategic Capital (in 2009) and WestBridge (in 2010), were acquired from the FDIC out of receivership. As part of these transactions, we entered into loss-sharing arrangements with the FDIC, pursuant to which the FDIC agreed to reimburse certain losses we incurred with respect to the assets covered by those agreements. However, the loss-share agreement we received in connection with the Strategic Capital acquisition in 2009 has expired, except for certain collateralized mortgage obligations with a fair value of $76.0 million at December 31, 2015, which expires on July 1, 2016 and under which we do not expect to receive any further payments from the FDIC. With respect to the WestBridge acquisition, the loss-share agreement for commercial and commercial real estate loans, which in the aggregate were $2.6 million at December 31, 2015, expired on January 1, 2016, and the coverage for residential mortgages, which were $1.0 million at December 31, 2015, will expire on January 1, 2021.

Capital Transactions. We consummated several significant capital transactions to support our organic growth and acquisition activity. Each of the following capital raising transactions affected the comparability of our results of operations and financial condition of prior periods to post-transaction periods and may affect the comparability of financial information we report in future fiscal periods.

In June 2015, we issued two tranches of subordinated notes for aggregate proceeds of $55.3 million. For one of the tranches, we issued subordinated notes totaling $15.0 million with a maturity date of June 18, 2025 and a fixed interest rate of 6.50%. For the other tranche, we issued subordinated notes totaling $40.3 million with a maturity date of June 18, 2025. This tranche carries a fixed interest rate of 6.00% for the first five years and a floating rate based on LIBOR plus 435 basis points thereafter.

On October 31, 2014, we issued 887,562 shares of common stock to complete a private placement offering that was conducted in late 2013 to support the acquisition of Heartland Bank. As a result of closing the private placement offering, we increased shareholders' equity and reduced other liabilities for the $16.2 million of net proceeds received from investors.

As of December 31, 2013, we had outstanding Series C, D, E and F shares of preferred stock totaling $23.6 million, $22.5 million, $6.3 million and $5.0 million, respectively. On June 26, 2014, we exercised our right and converted all of the 2,360 shares of Series C preferred stock into 2,008,543 shares of common stock. In addition, on December 31, 2014, all 3,377 outstanding shares of our Series D, E and F preferred stock were converted into 1,807,369 shares of common stock. An additional 138,239 shares of common stock were issued to preferred shareholders who elected to receive some or all of their unpaid dividends in the form of additional common stock, while $0.4 million was paid to those who elected to receive some or all of their unpaid dividends in cash. We do not currently have any shares of our preferred stock outstanding.

In March 2013, we issued 125,000 shares of common stock to a third party at a price of $16.00 per share. In addition, in June 2013, we issued $8.0 million of 8.25% subordinated notes due 2021 to the same party, along with an eight-year detachable warrant for the purchase of 125,000 shares of common stock at an exercise price of $16.00 per share for aggregate consideration of $8.0 million. The detachable warrants were valued at $0.6 million and recorded separately in shareholders' equity. Correspondingly, the value of the subordinated notes was reduced by $0.6 million with the recording of a discount that we amortize on a straight line basis over the life of the subordinated notes.

Purchased Credit-Impaired (PCI) Loans. In five of our acquisitions, we acquired $160.4 million of loans that had evidence of credit deterioration since origination and for which it was probable at the date of acquisition that we would not collect all contractually required principal and interest payments. These loans are referred to as purchased credit-impaired, or PCI, loans. We valued these PCI loans at fair value based on expected cash flows as of the date of acquisition. Subsequent decreases in expected cash flows result in provision for loan losses and increases result in reversal of the provision for loan losses to the extent of prior charges or a positive impact on future interest income. The expected cash flow changes on PCI loans during 2015, 2014 and 2013 impacted net interest margin and provision for loan losses. At December 31, 2015, 2014 and 2013, we had $38.5 million, $44.2 million and $30.4 million of PCI loans, respectively, and $1.7 million, $4.3 million and $14.0 million of our PCI loans, respectively, were covered by loss-sharing agreements with the FDIC. With respect to the WestBridge acquisition, as discussed above, the loss-sharing agreement for $2.6 million of commercial and commercial real estate loans expired on January 1, 2016.

Primary Factors Used to Evaluate Our Business

Results of operations. In addition to net income, the primary factors we use to evaluate and manage our results of operations include net interest income, noninterest income and noninterest expense.

Net interest income. Net interest income represents interest income less interest expense. We generate interest income from interest, dividends and fees received on interest-earning assets, including loans and investment securities we own. We incur interest expense from interest paid on interest-bearing liabilities, including interest-bearing deposits, borrowings and other forms of indebtedness. Net interest income typically is the most significant contributor to our revenues and net income. To evaluate net interest income, we measure and monitor: (i) yields on our loans and other interest-earning assets; (ii) the costs of our deposits and other funding sources; (iii) our net interest spread; (iv) our net interest margin; and (v) our provisions for loan losses. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as the annualized net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Changes in market interest rates and interest we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and shareholders' equity, usually have the largest impact on periodic changes in our net interest spread, net interest margin and net interest income. We measure net interest income before and after the provision for loan losses we maintain.

Noninterest Income. Noninterest income consists of, among other things: (i) commercial mortgage banking revenue; (ii) residential mortgage banking revenue; (iii) wealth management revenue; (iv) merchant services revenue; (v) service charges on deposit accounts; (vi) interchange revenue (vii) gains on sales of investment securities; (viii) gains on sales of other real estate owned; (ix) gains on sales of other assets; (x) other-than-temporary impairments on investment securities and; (xi) other noninterest income. In 2013, we recognized a $2.2 million bargain purchase gain on the Grant Park acquisition. A bargain purchase gain reflects the excess of the fair value of the net assets acquired over the net liabilities assumed. In 2015, 2014 and 2013, our noninterest income included FDIC loss-sharing expense and amortization of the FDIC indemnification asset. Due to the expiration of most of the provisions of our FDIC loss-sharing arrangements, as discussed above, the FDIC indemnification asset became fully amortized in 2015 and FDIC loss-sharing income or expense subsequent to 2015 is expected to be minimal.

Noninterest income, particularly commercial and residential mortgage banking revenue, has been impacted by changes in market interest rates and market conditions. Lower interest rates have historically increased customer demand for new loans and refinanced loans, which, in turn, have generally resulted in higher mortgage banking revenue. Higher interest rates have historically reduced customer demand for new loans and refinanced loans, which, in turn, have generally resulted in lower mortgage banking revenue.

Additionally, our income from service charges on deposit accounts is largely impacted by the volume, growth and type of deposits we hold, which are impacted by prevailing market conditions for our deposit products, our marketing efforts and other factors. Our wealth management revenue is materially impacted by general economic conditions and the conditions in the financial and securities markets, including the value of assets held under administration.

Noninterest expense. Noninterest expense includes, among other things: (i) salaries and employee benefits; (ii) occupancy and equipment expense; (iii) data processing fees; (iv) FDIC insurance expense; (v) professional fees, such as legal, accounting and consulting; (vi) marketing expense; (vii) communication expense; (viii) loan expense (ix) expenses associated with other real estate owned; (x) amortization of intangible assets; and (xi) other general and administrative expenses.

Salaries and employee benefits includes compensation, employee benefits and tax expenses for our personnel. Occupancy expense includes depreciation expense on our owned properties, lease expense on our leased properties and other occupancy-related expenses. Equipment expense includes furniture, fixtures and equipment related expenses. Data processing fees include expenses paid to our third-party data processing system provider and other data service providers. FDIC insurance expense represents the assessments that we pay to the FDIC for deposit insurance. Professional fees include legal, accounting, consulting and other outsourcing arrangements. Marketing expense includes costs for advertising, promotions and sponsorships. Communication expense represents telephone and data line costs. Loan expense includes expenses related to collateral protection and collection activities. Amortization of intangible assets primarily represents the amortization of core deposit intangibles, which we recognized in connection with our acquisitions. Other general and administrative expenses include expenses associated with travel, meals, training, supplies and postage. Noninterest expenses generally increase as we grow our business. Noninterest expenses have increased significantly over the past few years as we have grown organically and completed nine acquisitions, and as we have built out

and modernized our operational infrastructure and implemented our plan to build an efficient, technology-driven banking operation with significant capacity for growth.

Financial Condition

The primary factors we use to evaluate and manage our financial condition include asset quality, capital and liquidity.

Asset Quality. We manage the diversification and quality of our assets based upon factors that include the level, distribution, severity and trend of problem, classified, delinquent, nonaccrual, nonperforming and restructured assets, the adequacy of our allowance for loan losses, or the allowance, the diversification and quality of loan and investment portfolios, the extent of counterparty risks, credit risk concentrations and other factors. The extent to which our loans and investment securities have been covered by loss-sharing agreements with the FDIC also has significantly affected our analysis of asset quality.

Capital. Financial institution regulators have established guidelines for minimum capital ratios for banks, thrifts and bank holding companies. During the first quarter of 2015, we adopted the new Basel III regulatory capital framework as approved by federal banking agencies, which are subject to a multi-year phase-in period. The adoption of this new framework modified the calculation of the various capital ratios, added a new ratio, common equity Tier 1, and revised the adequately and well capitalized thresholds. In addition, Basel III establishes a new capital conservation buffer of 2.5% of risk-weighted assets, which is phased-in over a four-year period beginning January 1, 2016. Our capital ratios at December 31, 2015 exceeded all of the current well capitalized regulatory requirements.

We manage capital based upon factors that include: (i) the level and quality of capital and our overall financial condition; (ii) the trend and volume of problem assets; (iii) the adequacy of discounts and reserves; (iv) the level and quality of earnings; (v) the risk exposures in our balance sheet; (vi) the levels of Tier 1 and total capital; (vii) the Tier 1 capital ratio, the total capital ratio, the Tier 1 leverage ratio, and the common equity Tier 1 capital ratio; and (viii) other factors.

Liquidity. We manage liquidity based upon factors that include the amount of core deposits as a percentage of total deposits, the level of diversification of our funding sources, the allocation and amount of our deposits among deposit types, the short-term funding sources used to fund assets, the amount of non-deposit funding used to fund assets, the availability of unused funding sources, off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash and liquid securities we hold, the re-pricing characteristics and maturities of our assets when compared to the re-pricing characteristics of our liabilities and other factors.

Material Trends and Developments

Economic and Interest Rate Environment. The results of our operations are highly dependent on economic conditions and market interest rates. Beginning in 2007, turmoil in the financial sector resulted in a reduced level of confidence in financial markets among borrowers, lenders and depositors, as well as extreme volatility in the capital and credit markets. In response to these conditions, the Federal Reserve began decreasing short-term interest rates, with eleven consecutive decreases totaling 525 basis points between September 2007 and December 2008. Since the recession ended in 2009, the economic conditions in the U.S. and our primary market areas have improved. Economic growth has been modest, the real estate market continues to recover and unemployment rates in the U.S. and our primary markets have significantly improved. The Federal Reserve has maintained historically low interest rates since their last decrease in December 2008. In December 2015, the Federal Reserve raised short-term interest rates for the first time in nine years with a 25 basis point increase.

Capital Raising Initiatives. In late 2007, we adopted an initiative driven strategic plan, one component of which is to pursue accretive acquisitions to take advantage of our relative strength in a period of market disruption. We have been able to implement our acquisition strategy due to several significant capital raising transactions. These transactions are described above in the section under "—Primary Factors Affecting Comparability—Capital Transactions." Our capital base has also grown due to aggregate bargain purchase gains of $30.1 million that we have recognized since 2007, which includes $2.2 million in 2013 from our Grant Park acquisition. These capital raising transactions have also supported our organic growth strategies.

The capital generated from our capital raising transactions and bargain purchase gains has allowed us to grow our balance sheet, both organically and through acquisitions, expand our marketing initiatives and increase our core deposit base. We believe our strong capital position, particularly relative to our competitors that are experiencing liquidity and capital constraints, will enable us to continue capitalizing on banking, lending and investment opportunities with attractive risk-adjusted returns.

Community Banking. We believe the most important trends affecting community banks in the United States over the foreseeable future will be related to heightened regulatory capital requirements, increasing regulatory burdens generally, including the implementation of the Dodd-Frank Act and the regulations to be promulgated thereunder, and interest margin compression resulting from Federal Reserve policy to hold interest rates down. We expect that community banks will face increased competition for lower cost capital as a result of regulatory policies that may offer larger financial institutions greater access to government assistance than is available for smaller institutions, including community banks. We expect that troubled community banks will continue to face significant challenges when attempting to raise capital. We also believe that heightened regulatory capital requirements will make it more difficult for even well-capitalized, healthy community banks to grow in their communities by taking advantage of opportunities in their markets that result as the economy improves. We believe these trends will favor community banks that have sufficient capital, a diversified business model and a strong deposit franchise, and we believe we possess these characteristics.

We also believe that increased regulatory burdens will have a significant adverse effect on smaller community banks, which often lack the personnel, experience and technology to efficiently comply with new regulations in a variety of areas in the banking industry, including in the areas of deposits, lending, compensation, information security and overdraft protection. We believe the increased costs to smaller community banks from a more complex regulatory environment, especially those institutions with less than $500 million in total assets but also, to a lesser extent, institutions with between $500 million and $1 billion in total assets, coupled with challenges in the real estate lending area, present attractive acquisition opportunities for larger community banks that have already made significant investments in regulatory compliance and risk management and can acquire and quickly integrate these smaller institutions into their existing platform. Furthermore, we believe that, as a result of our significant operational investments and our experience acquiring other institutions and quickly integrating them into our organization, we are well positioned to capitalize on the challenges facing smaller community banks.

We continue to believe we have significant opportunities for further growth through additional acquisitions of banks, branches, wealth management firms and trust departments of community banks, selective *de novo* opportunities, continued expansion of our wealth management operations, the hiring of commercial banking and wealth management professionals from other organizations and organic growth within our existing branch network. We also believe we have the necessary experience, management and infrastructure to take advantage of these growth opportunities.

General and Administrative Expenses. We expect to continue incurring increased noninterest expense attributable to general and administrative expenses as a result of transaction-related expenses

from our recent and pending acquisitions, including the costs of integrating acquired assets and operations into our organization, expenses related to building out and modernizing our operational infrastructure, marketing and other administrative expenses to execute our strategic initiatives, costs associated with establishing *de novo* branch facilities, expenses to hire additional personnel and other costs required to continue our growth.

Credit Reserves. One of our key operating objectives has been, and continues to be, maintenance of an appropriate level of reserve protection against probable losses in our loan portfolio. Following recent general declines in the real estate and housing markets, our loan loss provisions have decreased due in part to improvement experienced by the Company in its level of nonperforming loans and historical charge-off experience. During 2015, our provision for loan losses increased due to loan growth coupled with a $7.5 million charge-off on a group of nonperforming loans to one borrower that resulted from deterioration in the collateral position on those loans.

As noted above, we record PCI loans at estimated fair value on their acquisition date without a carryover of the related allowance for loan losses. As a result of adding $541.7 million of loans from the Heartland Bank acquisition, which included $30.4 million of PCI loans, combined with a loan charge-off in 2014 of $9.8 million for closure of a PCI loan pool from a previous acquisition, our allowance for loan losses as a percentage of total loans declined to 0.80% at December 31, 2015 and 0.69% at December 31, 2014, from 1.96% at December 31, 2013.

Regulatory Environment. As a result of regulatory changes, including the Dodd-Frank Act and Basel III, as well as regulatory changes resulting from becoming a publicly traded company, we expect to be subject to more restrictive capital requirements, more stringent asset concentration and growth limitations and new and potentially heightened examination and reporting requirements. We also expect to face a more challenging environment for customer loan demand due to the increased costs that could be ultimately borne by borrowers, and to incur higher costs to comply with these new regulations. This uncertain regulatory environment could have a detrimental impact on our ability to manage our business consistent with historical practices and cause difficulty in executing our growth plan. See "Risk Factors—Risks Related to Our Business" and "Supervision and Regulation."

Average Balance Sheet, Interest and Yield/Rate Analysis

The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2015, 2014 and 2013. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

	Year Ended December 31,								
	2015			2014			2013		
(tax-equivalent basis, dollars in thousands)	Average Balance	Interest & Fees	Yield / Rate	Average Balance	Interest & Fees	Yield / Rate	Average Balance	Interest & Fees	Yield / Rate
EARNING ASSETS:									
Federal funds sold & cash investments	$ 155,373	$ 389	0.25%	$ 72,920	$ 178	0.24%	$ 75,510	$ 193	0.26%
Investment securities:									
Taxable investment securities	225,745	11,502	5.10	198,626	12,063	6.07	212,623	12,801	6.02
Investment securities exempt from federal income tax(1)	102,945	6,025	5.85	112,781	7,084	6.28	115,386	7,903	6.85
Total securities	328,690	17,527	5.33	311,407	19,147	6.15	328,009	20,704	6.31
Loans:									
Loans(2)	1,933,897	100,814	5.21	1,194,358	55,514	4.65	1,041,964	55,598	5.34
Loans exempt from federal income tax(1)	37,663	1,807	4.80	25,476	1,203	4.72	36,572	1,938	5.30
Total loans	1,971,560	102,621	5.21	1,219,834	56,717	4.65	1,078,536	57,536	5.33
Total earning assets	2,455,623	$ 120,537	4.91	1,604,161	$ 76,042	4.74	1,482,055	$ 78,433	5.29
Noninterest-earning assets	313,256			149,125			148,510		
Total assets	$ 2,768,879			$ 1,753,286			$ 1,630,565		
INTEREST-BEARING LIABILITIES									
NOW and money market deposits	$ 941,143	$ 1,580	0.17	$ 554,950	$ 753	0.14	$ 507,675	$ 644	0.13
Savings deposits	159,345	213	0.13	117,472	123	0.10	102,324	97	0.10
Time deposits	411,996	3,096	0.75	313,310	2,118	0.68	321,673	2,769	0.86
Brokered deposits	198,744	2,622	1.32	137,318	2,204	1.61	120,760	2,203	1.82
Short-term borrowings	124,209	237	0.19	93,178	179	0.19	110,017	161	0.15
FHLB advances and other borrowings	55,728	741	1.33	80,294	1,682	2.09	77,728	1,766	2.27
Subordinated debt	38,675	2,731	7.06	7,439	728	9.79	6,327	755	11.93
Trust preferred debentures	37,010	1,669	4.51	11,971	756	6.32	11,066	674	6.09
Total interest-bearing liabilities	1,966,850	$ 12,889	0.66	1,315,932	$ 8,543	0.65	1,257,570	$ 9,069	0.72
NONINTEREST-BEARING LIABILITIES									
Noninterest-bearing deposits	536,327			252,213			221,186		
Other noninterest-bearing liabilities	37,945			26,579			12,947		
Total noninterest-bearing liabilities	574,272			278,792			234,133		
Shareholders' equity	227,757			158,562			138,862		
Total liabilities and shareholders' equity	$ 2,768,879			$ 1,753,286			$ 1,630,565		
Net interest income / interest rate spreads		$ 107,648	4.25		$ 67,499	4.09		$ 69,364	4.57
Taxable equivalent adjustment		(2,741)			(2,901)			(3,444)	
Net interest income, as reported		$ 104,907			$ 64,598			$ 65,920	
Net interest margin			4.27			4.03			4.45
Tax equivalent effect			0.11			0.18			0.23
Net taxable equivalent interest margin(3)			4.38			4.21			4.68

(1) Interest income and average rates for tax-exempt loans and securities are presented on a tax-equivalent basis, assuming a federal income tax rate of 35%.

(2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

(3) Net taxable equivalent interest margin during the periods presented represent: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

Interest Rates and Operating Interest Differential

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume. Changes which are not due solely to volume or rate have been allocated to these categories based on the respective percent changes in average volume and average rate as they compare to each other.

	Year Ended December 31, 2015 Compared with Year Ended December 31, 2014			Year Ended December 31, 2014 Compared with Year Ended December 31, 2013		
	Change due to:		Interest	Change due to:		Interest
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Variance	Volume	Rate	Variance
EARNING ASSETS:						
Federal funds sold & cash investments	$ 202	$ 9	$ 211	$ (6)	$ (9)	$ (15)
Investment securities:						
Taxable investment securities	1,514	(2,075)	(561)	(845)	108	(737)
Investment securities exempt from federal income tax	(597)	(462)	(1,059)	(171)	(649)	(820)
Total securities	917	(2,537)	(1,620)	(1,016)	(541)	(1,557)
Loans:						
Loans	36,463	8,837	45,300	7,608	(7,691)	(83)
Loans exempt from federal income tax	580	24	604	(556)	(180)	(736)
Total loans	37,043	8,861	45,904	7,052	(7,871)	(819)
Total earning assets	$ 38,162	$ 6,333	$ 44,495	$ 6,030	$ (8,421)	$ (2,391)
INTEREST-BEARING LIABILITIES						
NOW and money market deposits	$ 586	$ 241	$ 827	$ 62	$ 47	$ 109
Savings deposits	50	40	90	16	10	26
Time deposits	704	274	978	(64)	(587)	(651)
Brokered deposits	898	(480)	418	284	(283)	1
Short-term borrowings	60	(2)	58	(29)	47	18
FHLB advances and other borrowings	(421)	(520)	(941)	56	(140)	(84)
Subordinated debt	2,630	(627)	2,003	121	(148)	(27)
Trust preferred debentures	1,355	(442)	913	56	26	82
Total interest-bearing liabilities	$ 5,862	$ (1,516)	$ 4,346	$ 502	$ (1,028)	$ (526)
Net interest income	$ 32,300	$ 7,849	$ 40,149	$ 5,528	$ (7,393)	$ (1,865)

Results of Operations—Comparison of Results of Operations for the Years Ended December 31, 2015 to December 31, 2014

The following discussion of our results of operations compares the year ended December 31, 2015 to the year ended December 31, 2014.

Net Interest Income/Average Balance Sheet

Our primary source of revenue is net interest income, which is the difference between interest income from earning assets (primarily loans and securities) and interest expense of funding sources (primarily interest-bearing deposits and borrowings). Net interest income is impacted by the level of interest-earning assets and related funding sources, as well as changes in the levels of interest rates. The difference between the average yield on earning assets and the average rate paid for interest-bearing liabilities is the net interest spread. Noninterest-bearing sources of funds, such as demand deposits and shareholders' equity, also support earning assets. The impact of the noninterest-bearing sources of funds is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. For purposes of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, both the net interest margin and net interest spread are presented on a fully-taxable equivalent basis, which means that tax-free interest income has been adjusted to a pretax equivalent income, assuming a 35% tax rate.

In 2015, we generated net interest income on a tax-equivalent basis of $107.6 million, an increase of $40.1 million, or 59.5%, from the net interest income level we produced on a tax equivalent basis in 2014. This increase was largely due to a 53.1% increase in the average balance of interest earning assets, coupled with a 17 basis point improvement in our tax equivalent net interest margin. The increase in the average balance of interest earning assets was primarily due to loans added from the Heartland Bank acquisition coupled with organic growth in commercial loans, commercial real estate loans, consumer loans and leases during 2015.

Interest Income. Total interest income on a tax equivalent basis was $120.5 million in 2015 compared to $76.0 million in 2014. The $44.5 million, or 58.5%, increase in total interest income on a tax equivalent basis was due to increases in interest earned on our loan portfolio, offset in part by declines in interest earned from our investment portfolio.

Interest income on loans was $102.6 million in 2015 compared to $56.7 million in 2014. The $45.9 million, or 80.9%, increase in interest income on loans was primarily due to a 61.6% increase in the average balance of loans outstanding coupled with a 56 basis point increase in the average yield on loans. The increase in the average balance of loans outstanding was primarily due to loans added from the Heartland Bank acquisition coupled with organic loan growth during 2015. The higher yield on the loan portfolio was due primarily to the impact of accelerated amortization of purchase accounting discounts established on loans acquired in the Heartland Bank acquisition due to greater than expected repayments received on these loans during 2015.

Interest income on our investment securities portfolio decreased $1.6 million, or 8.5%, to $17.5 million in 2015. The decrease in interest income on investment securities was primarily due to an 82 basis point decline in the average yield on investment securities, offset in part by a 5.5% increase in the average balance of investment securities. The lower yield on investment securities was mainly attributable to the proceeds from amortizing, sold and maturing investment securities being reinvested at lower market interest rates.

Interest Expense. Interest expense on interest-bearing liabilities increased $4.3 million, or 50.9%, to $12.9 million in 2015 due to increases in interest expense on both deposits and borrowings.

Interest expense on deposits increased to $7.5 million in 2015. The $2.3 million, or 44.5%, increase in interest expense on deposits was primarily due to the average balance of deposits increasing 52.4%, offset in part by a 2 basis point decrease in the average rate paid. The increase in the average balance of deposits resulted primarily from the impact of deposit accounts added from the Heartland Bank acquisition. The decline in the average rate paid was due to the impact of lower market interest rates on brokered deposits.

Interest expense on borrowings increased $2.0 million, or 60.8%, to $5.4 million in 2015. This increase reflected increased interest expense on subordinated debt and trust preferred debentures, offset in part by a reduction in interest expense on FHLB advances and other borrowings. The increase in interest expense on subordinated debt of $2.0 million was due to the issuance of $55.3 million of subordinated debt in June 2015. The increase in interest expense on trust preferred debentures of $0.9 million was primarily due to the impact of $40.0 million of trust preferred debentures assumed in the Heartland Bank acquisition at a fair value of $24.9 million. The decrease in interest expense on FHLB advances and other borrowings of $0.9 million was due to pre-payment of a $14.0 million term note using proceeds from the subordinated debt issuance discussed above combined with a reduction in the level of outstanding FHLB advances in 2015.

Provision for Loan Losses. The provision for loan losses totaled $11.1 million in 2015 compared to $0.1 million in 2014. The $11.0 million increase in the provision for loan losses was due primarily to an increase in specific reserves on non-PCI loans for impairment identified on certain nonperforming loans coupled with the impact of loan growth during 2015. During the third quarter of 2015, we recorded a $7.5 million charge-off on a group of nonperforming loans to one borrower due to deterioration in our collateral position on these loans.

Noninterest Income. Noninterest income increased $39.0 million, or 191.0%, to $59.5 million in 2015. The following table sets forth the major components of our noninterest income for the years ended December 31, 2015 and 2014:

(dollars in thousands)	For the Year Ended December 31, 2015	2014	Increase (decrease)
Noninterest income:			
Commercial mortgage banking revenue	$ 20,175	$ —	$ 20,175
Residential mortgage banking revenue	17,634	3,000	14,634
Wealth management revenue	7,292	7,098	194
Merchant services revenue	1,529	1,083	446
Service charges on deposit accounts	3,969	3,036	933
Interchange revenue	3,562	2,613	949
FDIC loss-sharing expense	(566)	(3,491)	2,925
Amortization of FDIC indemnification asset	(397)	(954)	557
Gain on sales of investment securities, net	193	77	116
Other-than-temporary impairment on investment securities	(461)	(190)	(271)
Gain on sales of other real estate owned	600	761	(161)
Gain on sales of other assets	—	3,224	(3,224)
Other income	5,952	4,184	1,768
Total noninterest income	$ 59,482	$ 20,441	$ 39,041

Commercial mortgage banking revenue. The acquisition of Heartland Bank on December 31, 2014 included Love Funding, an approved Federal Housing Administration (FHA) insured lender and Government National Mortgage Association (GNMA) issuer engaged in commercial mortgage origination and servicing. Love Funding offers refinance, construction, rehabilitation and acquisition financing programs for multifamily and affordable housing, healthcare facilities and hospitals. Commercial mortgage banking revenue represents gains from loans held for sale and net revenues earned on the servicing of loans sold. Gains on loans held for sale include the realized and unrealized gains and losses on sales of mortgage loans, as well as the changes in fair value of interest rate lock commitments and forward loan sale commitments. Revenue from servicing commercial mortgages is

recognized as earned based on the specific contractual terms of the underlying servicing agreements, along with amortization of and changes in impairment of mortgage servicing rights. In 2015, Love Funding generated gains on loans held for sale of $18.1 million and net servicing revenues of $2.1 million. During 2015, Love Funding originated $382.9 million of new commercial FHA loans. In 2014, we did not have any commercial mortgage banking revenue. At December 31, 2015 and 2014, we were servicing for the benefit of others government-insured commercial mortgage loans totaling $3.6 billion and $3.4 billion, respectively.

Residential mortgage banking revenue. Residential mortgage banking revenues are primarily generated from gains recognized on loans held for sale and fees earned from the servicing of residential loans sold to others. Gains on loans held for sale include the realized and unrealized gains and losses on sales of mortgage loans, as well as the changes in fair value of interest rate lock commitments and forward loan sale commitments. Revenue from servicing residential mortgages is recognized as earned based on the specific contractual terms of the underlying servicing agreements, along with amortization of and changes in impairment of mortgage servicing rights. In 2015, our residential mortgage banking activities generated gains on loans held for sale of $15.9 million and net servicing revenues of $1.7 million compared to $2.6 million and $0.4 million in 2014, respectively. The $13.4 million increase in gains was primarily due to the origination of residential mortgage loans held for sale increasing to $560.9 million during 2015 compared to $88.4 million of originations during 2014. The $1.2 million increase in residential servicing revenue resulted from the average balance of our residential servicing portfolio increasing to $1.8 billion in 2015 as opposed to $299.3 million in 2014. The increases in the origination of residential loans held for sale and the residential servicing portfolio in 2015 were primarily due to the acquisition of Heartland Bank and the addition of its sizable residential mortgage banking operations.

Wealth management revenue. Noninterest income from our wealth management business increased $0.2 million to $7.3 million in 2015. The increase in wealth management revenue was primarily due to organic growth which resulted in an increase in the average balance of assets under administration to $1.18 billion in 2015 compared to $1.15 billion in 2014.

Merchant services revenue. Noninterest income from our merchant services business increased $0.4 million to $1.5 million in 2015. We acquired Enable Pay Direct, Inc. in April 2012 and began our credit card processing business as a result of this acquisition. Our merchant services revenue has increased each year since 2012 due primarily to a focus on growth and an increase in the number of merchant services customers we serve.

Service charges on deposits. Noninterest income from service charges on deposits increased $0.9 million to $4.0 million in 2015. This increase primarily resulted from the addition of transactional deposit accounts associated with the Heartland Bank acquisition.

Interchange revenue. Noninterest income from interchange revenue increased $0.9 million to $3.6 million in 2015. This increase primarily resulted from an increased number of bank issued debit cards resulting from the Heartland Bank acquisition.

FDIC loss-sharing expense. Fluctuations in FDIC loss-sharing expense are largely correlated to impairment charges or recoveries recorded on covered loans and other real estate owned acquired in the Strategic Capital and WestBridge transactions. We recorded FDIC loss-sharing expense of $0.6 million during 2015 compared to FDIC loss-sharing expense of $3.5 million in 2014. The $2.9 million decrease in FDIC loss-sharing expense was due primarily to us reimbursing the FDIC for 80% of a $3.2 million gain recognized in other income from the June 2014 liquidation of assets received from a 2011 foreclosure of a covered loan (see "Gain on sales of other assets" below).

Gain on sales of investment securities, net. During 2015, we sold investment securities totaling $62.8 million that resulted in net gains of $0.2 million. Sales in 2015 consisted of corporate securities, U.S. Treasury securities, U.S. agency securities and non-agency mortgage-backed securities. During 2014, we sold $25.0 million of investment securities that resulted in net gains of $0.1 million. Sales in 2014 consisted primarily of U.S. Treasury securities and corporate securities.

Other-than-temporary impairment on investment securities. In 2015, we determined that three covered non-agency mortgage-backed securities had other-than-temporary impairment of $0.5 million due to deteriorating cash flows. These amounts were recognized as losses in the 2015 consolidated statement of income.

During 2014, the Company determined that one non-agency mortgage-backed security had other-than-temporary impairment of $20,000 and one covered non-agency mortgage-backed security had other-than-temporary impairment of $0.2 million, both due to deteriorating cash flows. These amounts were recognized as losses in the 2014 consolidated statement of income.

Gain on sales of other assets. In 2011, upon foreclosure of a covered loan from the Strategic Capital acquisition, we received an equity interest in a non-publicly traded bank holding company. In June 2014, this bank holding company was acquired by another institution. As a result of this transaction, we received $1.1 million in cash and approximately 123,000 shares of common stock that we liquidated on June 13, 2014 for $2.1 million. We recognized the financial impact of this transaction in June 2014 by recording a $3.2 million gain on sale of other assets in the consolidated statement of income. In accordance with the related loss-sharing agreement with the FDIC, we remitted 80%, or $2.6 million, of the gain to the FDIC as a recovery of a previously covered loss. The $2.6 million remittance to the FDIC was recorded as FDIC loss-sharing expense in June 2014.

Other income. Other income totaled $6.0 million in 2015 compared to $4.2 million in 2014. The increase in other income was primarily due to the impact of lease renewal fees and gains realized on the sale of leased assets by Heartland Business Credit, the leasing company acquired by us as part of the Heartland Bank acquisition, combined with an increase in income earned on officer life insurance policies due to the purchase of $20.0 million of additional policies. We also generated increases in other miscellaneous fees due to the increased level of business activities resulting from the Heartland Bank acquisition and we recorded $0.9 million for a Love Funding related indemnification claim expressly covered by the Heartland Bank merger and indemnification agreements (see "—Other noninterest expense" below). The increase in other income was offset in part by $1.7 million of other income recorded in 2014 related to a settlement agreement with the FDIC. In January 2014, we reached a settlement with the FDIC regarding a dispute over differences in the calculation and timing of impairment losses on non-agency mortgage-backed securities acquired in the Strategic Capital transaction. In accordance with the settlement, we received $3.9 million from the FDIC and recognized the financial impact of this settlement in the first quarter of 2014 by reducing the indemnification asset due from the FDIC by $2.2 million and recording $1.7 million as other income in the 2014 consolidated statement of income.

Noninterest Expense

Noninterest expense increased $48.3 million, or 69.5%, to $117.8 million in 2015. The following table sets forth the major components of our noninterest expense for the years ended December 31, 2015 and 2014:

(dollars in thousands)	For the Years Ended December 31, 2015	2014	Increase (decrease)
Noninterest expense:			
Salaries and employee benefits	$ 63,313	$ 32,503	$ 30,810
Occupancy and equipment	13,151	7,587	5,564
Data processing	10,197	6,402	3,795
FDIC insurance	2,051	1,328	723
Professional	8,687	5,677	3,010
Marketing	2,891	2,530	361
Communications	2,354	1,541	813
Loan expense	2,960	1,204	1,756
Other real estate owned	945	2,189	(1,244)
Intangible assets amortization	2,460	2,115	345
FHLB advance prepayment fee	—	1,746	(1,746)
Other	8,755	4,658	4,097
Total noninterest expense	$ 117,764	$ 69,480	$ 48,284

Salaries and employee benefits. Salaries and employee benefits expense increased $30.8 million, or 94.8%, to $63.3 million in 2015. This increase was primarily attributable to the Heartland Bank acquisition that closed on December 31, 2014. The number of full-time equivalent employees averaged 702 during 2015 compared to 424 in 2014. This increase was also impacted by severance accruals related to Heartland Bank employees who were terminated during 2015, annual salary increases that took effect in 2015 and increased benefit costs.

Occupancy and equipment. Occupancy and equipment expense increased $5.6 million, or 73.3%, to $13.2 million in 2015. This increase was mainly due to the Heartland Bank acquisition on December 31, 2014 and the depreciation, real estate taxes, utilities, ongoing maintenance and lease obligations associated with the branch and office facilities we added as a result. The acquisition of Heartland Bank included 11 branch locations, six loan origination offices, and 12 other office facilities related to Love Funding and Heartland Business Credit.

Data processing. Data processing expense increased $3.8 million, or 59.3%, to $10.2 million in 2015. This increase resulted primarily from the impact of increased processing costs incurred subsequent to the Heartland Bank acquisition coupled with one-time data processing costs incurred in conjunction with the conversion of Heartland Bank's systems to the core processing platform and ancillary systems used by the Company.

FDIC insurance. FDIC insurance expense totaled $2.1 million in 2015 compared to $1.3 million in 2014. This increase was primarily due to the Heartland Bank acquisition which included the purchase of $765.6 million of deposits on December 31, 2014.

Professional. Professional fees increased $3.0 million, or 53.0%, to $8.7 million in 2015. This increase was primarily due to legal and consulting fees incurred in conjunction with the Heartland Bank acquisition and related integration of their systems to those used by the Company.

Marketing. Marketing expense totaled $2.9 million in 2015 compared to $2.5 million in 2014. This increase reflected the impact of increased advertising and public relations expense centered on the promotion of our acquisition and integration of Heartland Bank.

Communications. Communications expense totaled $2.4 million in 2015 compared to $1.5 million in 2014. This increase primarily resulted from increased telephone and data line costs related to usage associated with the addition of staff and facilities from the Heartland Bank acquisition.

Loan expense. Loan expense totaled $3.0 million in 2015 compared to $1.2 million in 2014. Loan expense includes expenses related to collateral protection and collection activities. These increases were primarily due to increased lending as a result of the Heartland Bank acquisition.

Other real estate owned. Other real estate owned expense was $0.9 million in 2015 compared to $2.2 million in 2014. The reduced level of expense in 2015 primarily resulted from a decreased level of impairment write-downs on properties held in other real estate owned.

Intangible assets amortization. Intangible assets amortization expense was $2.5 million in 2015 compared to $2.1 million in 2014. This increase was primarily due to amortization recorded on the $3.4 million core deposit intangible established in conjunction with the Heartland Bank acquisition on December 31, 2014.

FHLB advance prepayment fee. On December 31, 2014, we pre-paid $40.0 million of FHLB advances with a weighted average interest rate of 2.86% and maturity dates ranging from 2016 to 2017. As a result, we paid a prepayment fee of $1.7 million that was recorded as noninterest expense in the 2014 consolidated statement of income.

Other noninterest expense. Other noninterest expense totaled $8.8 million in 2015 compared to $4.7 million in 2014. This increase was primarily attributable to the Heartland Bank acquisition and increases in costs associated with supplies, insurance, travel, training, subscriptions, postage and lease terminations. Other noninterest expense in 2015 also included a $1.2 million loss contingency accrual related to a Love Funding legal dispute with a former employee that was raised prior to our acquisition of Heartland Bank. The claim was expressly covered in the merger and indemnification agreements with Heartland Bank (see "—Other income" above). These increases in other noninterest expense were partially offset by a reimbursement by us in 2014 of $0.9 million of credit card losses incurred by customers of our merchant services client that went out of business in 2014.

Income Tax Expense

Income tax expense was $11.1 million in 2015 compared to $4.7 million in 2014. The increase in income tax expense was consistent with the related growth in pre-tax income. Effective tax rates were 31.2% and 30.1% in 2015 and 2014, respectively. The higher effective tax rate in 2015 was primarily due to income before taxes growing in 2015 without corresponding increases in tax exempt items.

Net Income Available to Common Shareholders

Net income available to common shareholders is computed by subtracting dividends declared on preferred stock from net income. Net income increased $13.5 million to $24.3 million in 2015, while dividends declared on preferred stock were $7.6 million in 2014. As a result, net income available to common shareholders in 2015 increased $21.1 million.

Results of Operations—Comparison of Results of Operations for the Years Ended December 31, 2014 to December 31, 2013

The following discussion of our results of operations compares the year ended December 31, 2014 to the year ended December 31, 2013.

Net Interest Income/Average Balance Sheet

In 2014, we generated $67.5 million of net interest income on a tax equivalent basis, which represented a $1.9 million, or 2.7%, decrease from the $69.4 million of net interest income we produced on a tax equivalent basis in 2013. This decrease was primarily due to a 10.0% decline in our net interest margin from 4.68% in 2013 to 4.21% in 2014. The impact of this was offset in part by an 8.2% increase in the average balance of interest earning assets.

Interest Income. Total interest income on a tax equivalent basis was $76.0 million in 2014 compared to $78.4 million in 2013. The $2.4 million, or 3.0%, decrease in total interest income was due to a decrease in interest earned from our loan portfolio coupled with a decline in interest earned from our investment portfolio.

Interest income from our total loan portfolio decreased $0.8 million, or 1.4%, to $56.7 million in 2014 from $57.5 million in 2013. This decrease was primarily due to a 68 basis point decline in the average yield on loans coupled with a decrease in loans exempt from federal income tax. These decreases were offset in part by a 13.1% increase in the average balance of loans outstanding. The lower average yield on loans in 2014 was due to new loans being originated at lower market interest rates. The increase in the average balance of loans resulted primarily from strong organic loan growth during the year.

Interest income on our investment securities portfolio decreased $1.6 million, or 7.5%, to $19.1 million in 2014 from $20.7 million in 2013. This decrease resulted from a 5.1% decline in the average balance of our investment securities portfolio, coupled with a 16 basis point decrease in the average yield on investments. The decrease in the average balance of investment securities was primarily due to maturities, repayments and sales of investment securities exceeding new purchases of investments during the year. The impact of ongoing repayment of the FDIC loss-share covered non-agency mortgage-backed securities portfolio acquired in the Strategic Capital transaction was offset by corresponding increases in fair value of these same securities.

Interest Expense. Total interest expense was $8.5 million in 2014 compared to $9.1 million in 2013. The $0.5 million, or 5.8%, decrease in total interest expense was primarily due to a decrease in interest expense on time deposits because of lower rates.

Interest expense on deposits in 2014 was $5.2 million compared to $5.7 million in 2013. The $0.5 million, or 9.0%, decrease in interest expense on deposits was primarily due to the average rate on interest-bearing deposits declining 8 basis points, or 14.8%, in 2014, offset in part by a 6.7% increase in the average balance of deposits. The decline in the average rate paid was due to the impact of lower market interest rates on time deposits and brokered deposits coupled with a decrease in the level of time deposits outstanding. The increase in the average balance of deposits resulted primarily from a full year's impact of the Grant Park acquisition (second quarter of 2013) coupled with organic deposit growth during the year in NOW, money market and savings accounts.

Interest expense on short- and long-term borrowings was $3.3 million and $3.4 million in 2014 and 2013, respectively. The increase in interest expense from the trust preferred debentures that we assumed in the Grant Park acquisition (second quarter of 2013) was offset by a decrease in interest expense on the $10.0 million amortizing term note. This note was repaid in December 2014.

On December 31, 2014, we repaid $40.0 million of FHLB advances with a weighted average interest rate of 2.86% and maturity dates ranging from 2016 to 2017. As a result, we paid a prepayment fee of $1.7 million that was recorded as noninterest expense in the 2014 consolidated statement of income.

Provision for Loan Losses. The provision for loan losses decreased $0.1 million to $0.1 million in 2014 from $0.2 million in 2013. The provision in 2014 was comprised of a $0.3 million provision related to non-PCI loans offset in part by a $0.2 million negative provision for PCI loans. In 2014, we recorded PCI loan charge-offs of $9.8 million that resulted from a PCI loan pool of commercial real estate loans being closed out in 2014 due to no more active loans remaining in the pool.

Noninterest Income. Noninterest income increased $4.2 million, or 25.9%, to $20.4 million in 2014 compared to $16.2 million in 2013. The increase was primarily due to a gain realized on the sale of assets received from a 2011 foreclosure coupled with the portion of a settlement agreement with the FDIC that was recorded as other income. Noninterest income was also favorably impacted by a reduction in amortization of the FDIC indemnification asset, increased revenue from our wealth management operation and an increase in gains generated from sales of other real estate owned, offset in part by an increase in FDIC loss-sharing expense and no bargain purchase gains.

The following table sets forth the major components of our noninterest income for the years ended December 31, 2014 and 2013:

(dollars in thousands)	For the Years Ended December 31, 2014	2013	Increase (decrease)
Noninterest income:			
Residential mortgage banking revenue	$ 3,000	$ 3,366	$ (366)
Wealth management revenue	7,098	6,149	949
Merchant services revenue	1,083	742	341
Service charges on deposit accounts	3,036	2,741	295
Interchange revenue	2,613	2,260	353
Gain on bargain purchase	—	2,154	(2,154)
FDIC loss-sharing expense	(3,491)	(1,149)	(2,342)
Amortization of FDIC indemnification asset	(954)	(2,705)	1,751
Gain on sales of investment securities, net	77	321	(244)
Other-than-temporary impairment on investment securities	(190)	(190)	—
Gain (loss) on sales of other real estate owned	761	(26)	787
Gain on sales of other assets	3,224	—	3,224
Other income	4,184	2,567	1,617
Total noninterest income	$ 20,441	$ 16,230	$ 4,211

Residential mortgage banking revenue. Residential mortgage banking revenues are primarily generated from gains recognized on loans held for sale and fees earned from the servicing of residential loans sold to others. Gains on loans held for sale include the realized and unrealized gains and losses on sales of mortgage loans, as well as the changes in fair value of interest rate lock commitments and forward loan sale commitments. Revenue from servicing residential mortgages is recognized as earned based on the specific contractual terms of the underlying servicing agreements, along with amortization of and changes in impairment of mortgage servicing rights. Noninterest income from mortgage banking activities decreased $0.4 million, or 10.9%, to $3.0 million in 2014 as compared to $3.4 million in 2013. The decrease in residential mortgage banking revenue was primarily due to the origination of residential mortgage loans held for sale decreasing to $88.4 million in 2014 compared to

$111.0 million in 2013. The decrease in originations was primarily due to a decreased level of refinancing activity in 2014 as mortgage rates stabilized.

Wealth management revenue. Noninterest income from our wealth management business increased $0.9 million, or 15.4%, to $7.1 million in 2014 compared to $6.1 million in 2013. The increase in wealth management revenue was primarily due to the growth of assets under administration to $1.2 billion at December 31, 2014 compared to $1.1 billion at December 31, 2013. As a result of this growth, the average balance of assets under management increased 13.9% in 2014.

Merchant services revenue. Merchant services revenue was $1.1 million in 2014 and $0.7 million in 2013. We acquired Enable Pay Direct, Inc. in April 2012 and began our credit card processing business then. Our merchant services revenue has increased each year since 2012 due primarily to growth in the number of merchant services customers we serve.

Service charges on deposits. Noninterest income from service charges on deposit accounts increased $0.3 million, or 10.8%, to $3.0 million in 2014 compared to $2.7 million in 2013 due primarily to an increase in the level of transactional based deposit accounts.

Interchange revenue. Noninterest income from interchange fees increased $0.4 million, or 15.6%, to $2.6 million in 2014 compared to $2.3 million in 2013 due primarily to an increase in interchange fees from a larger number of debit card transactions.

Gain on bargain purchase. In June 2013, we completed the Grant Park acquisition and recognized a bargain purchase gain of $2.2 million in the 2013 consolidated statement of income due to the fair value of the identifiable net assets exceeding the fair value of the consideration we paid for the entity. We did not have any acquisitions in 2014 or 2012 that generated a bargain purchase gain.

FDIC loss-sharing expense. Fluctuations in FDIC loss-sharing expense are largely correlated to impairment charges or recoveries recorded on covered loans and other real estate owned acquired in the Strategic Capital and WestBridge transactions. We recorded FDIC loss-sharing expense of $3.5 million in 2014 compared to FDIC loss-sharing expense of $1.1 million in 2013. The increase in FDIC loss-sharing expense was due primarily to us reimbursing the FDIC for 80% of a $3.2 million gain recognized in other income from the June 2014 liquidation of assets received from a 2011 foreclosure of a covered loan (see "—Gain on sales of other assets" below).

Amortization of FDIC indemnification asset. Amortization of the FDIC indemnification asset was $1.0 million in 2014 and $2.7 million in 2013. The decrease in 2014 resulted primarily from a decline in the number of amortizing loans covered by the FDIC indemnification agreement, and the result of the loss-sharing agreements ending.

Gain on sales of investment securities, net. We sold available-for-sale investment securities totaling $25.0 million in 2014 that resulted in net gains of $0.1 million. Our sales in 2014 were comprised of U.S. Treasury securities and corporate securities. In 2013, we sold available-for-sale investment securities totaling $33.7 million that resulted in net gains of $0.3 million. Sales in 2013 consisted of corporate securities, U.S. Treasury securities and U.S. agency securities.

Other-than-temporary impairment on investment securities. During 2014, the Company determined that one non-agency mortgage-backed security had other-than-temporary impairment of $20,000 and one covered non-agency mortgage-backed security had other-than-temporary impairment of $0.2 million, both due to deteriorating cash flows. These amounts were recognized as losses in the 2014 consolidated statement of income.

In 2013, the Company determined that one non-agency mortgage-backed security had a minimal amount of other-than-temporary impairment and one covered non-agency mortgage-backed security

had other-than-temporary impairment of $0.2 million, both due to deteriorating cash flows. These amounts were recognized as losses in the 2013 consolidated statement of income.

Gain (loss) on sales of other real estate owned. Gains recognized on sales of other real estate owned totaled $0.8 million in 2014. In 2013, we recognized a loss of $26,000 on sales of other real estate owned. The minimal loss in 2013 was primarily due to a decline in sales activity during 2013. In 2014, we recognized several larger gains on sales of other real estate owned.

Gain on sales of other assets. In 2011, upon foreclosure of a covered loan from the Strategic Capital acquisition, we received an equity interest in a non-publicly traded bank holding company. In June 2014, this bank holding company was acquired by another institution. As a result of this transaction, we received $1.1 million in cash and approximately 123,000 shares of common stock that were liquidated on June 13, 2014 for $2.1 million. We recognized the financial impact of this transaction in 2014 by recording a $3.2 million gain on sale of other assets in the 2014 consolidated statement of income. In accordance with the related loss-sharing agreement with the FDIC, we remitted 80%, or $2.6 million, of the gain to the FDIC as a recovery of a previously covered loss. The $2.6 million remittance to the FDIC was recorded as FDIC loss-sharing expense in the 2014 consolidated statement of income.

Other income. Other income increased $1.6 million, or 63.0%, to $4.2 million in 2014 as compared to $2.6 million in 2013. This increase was primarily due to $1.7 million of other income recorded in conjunction with a settlement agreement with the FDIC. In January 2014, we reached a settlement with the FDIC regarding a dispute over differences in the calculation and recognition timing of impairment losses on non-agency mortgage-backed securities acquired in the Strategic Capital transaction. In accordance with the settlement, we received $3.9 million from the FDIC and recognized the financial impact of this settlement in 2014 by reducing the indemnification asset due from the FDIC by $2.2 million and recording $1.7 million as other income in the 2014 consolidated statement of income.

Noninterest Expense

Noninterest expense in 2014 was $69.5 million compared to $61.4 million in 2013. The following table sets forth the major components of our noninterest expense for the years ended December 31, 2014 and 2013:

(dollars in thousands)	For the Years Ended December 31, 2014	2013	Increase (decrease)
Noninterest expense:			
Salaries and employee benefits	$ 32,503	$ 30,537	$ 1,966
Occupancy and equipment	7,587	6,999	588
Data processing	6,402	5,593	809
FDIC insurance	1,328	1,121	207
Professional	5,677	4,794	883
Marketing	2,530	1,470	1,060
Communications	1,541	1,100	441
Loan expense	1,204	1,577	(373)
Other real estate owned	2,189	2,247	(58)
Intangible assets amortization	2,115	2,257	(142)
FHLB advance prepayment fee	1,746	—	1,746
Other	4,658	3,754	904
Total noninterest expense	$ 69,480	$ 61,449	$ 8,031

Salaries and employee benefits. Noninterest expense associated with salaries and employee benefits, which is the largest component of noninterest expense, increased $2.0 million, or 6.4%, to $32.5 million in 2014 compared to $30.5 million in 2013. This increase resulted primarily from annual salary increases, increased cost of health insurance, a full year's expense for the Grant Park employees retained from the June 2013 acquisition and an accrual of one-time termination benefits for certain Heartland Bank employees.

Occupancy and equipment. Occupancy and equipment expense increased $0.6 million, or 8.4%, to $7.6 million in 2014 from $7.0 million in 2013. This increase was due primarily to a full year's effect of facilities added from the Grant Park acquisition (June 2013), the opening of two new wealth management offices (Bloomington, Illinois and Decatur, Illinois), and the depreciation, real estate taxes, utilities and ongoing maintenance recorded thereon.

Data processing. Data processing expense increased $0.8 million, or 14.5%, to $6.4 million in 2014 compared to $5.6 million in 2013. This increase resulted primarily from increases in disaster recovery costs, computer software expense and internet banking services.

FDIC insurance. FDIC insurance expense was $1.3 million in 2014 and $1.1 million in 2013. The increase in 2014 compared to 2013 was primarily due to the growth in average assets we experienced during 2014.

Professional. Professional fees increased $0.9 million, or 18.4%, to $5.7 million in 2014 compared to $4.8 million in 2013. This increase was primarily due to consulting fees incurred in conjunction with the Heartland Bank acquisition that closed on December 31, 2014.

Marketing. Marketing expense was $2.5 million in 2014 and $1.5 million in 2013. Our marketing expenses consist of advertising costs and public relations expenses. The $1.1 million, or 72.1%, increase in 2014 compared to 2013 primarily resulted from a charitable contribution for the development of a recreation and wellness facility in Effingham, Illinois.

Communications. Communications expense was $1.5 million in 2014 and $1.1 million in 2013. Our communications expenses consist of telephone and data line costs. The increase in 2014 primarily resulted from growth of the Company and the need for enhanced telephone services and additional data lines.

Loan expense. Loan expense was $1.2 million in 2014 and $1.6 million in 2013. Loan expense consists of attorneys' fees, collateral protection and collection expenses. The $0.4 million decrease in 2014 compared to 2013 primarily resulted from a decline in collection costs.

Intangible assets amortization. Intangible assets amortization expense was $2.1 million in 2014 and $2.3 million in 2013. Our intangible assets, which consist of core deposit and trust relationship intangibles, were $9.5 million and $8.2 million at December 31, 2014 and 2013, respectively. These assets are amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of three to 10 years. In conjunction with the Heartland Bank acquisition on December 31, 2014, we recorded a $3.4 million core deposit intangible. In 2013, we recorded intangible assets of $1.3 million and $0.7 million in conjunction with the Grant Park and Settlement Trust acquisitions, respectively.

FHLB advance prepayment fee. On December 31, 2014, we repaid $40.0 million of FHLB advances with a weighted average interest rate of 2.86% and maturity dates ranging from 2016 to 2017. As a result, we paid a prepayment fee of $1.7 million that was recorded as noninterest expense in the 2014 consolidated statement of income.

Other noninterest expense. Other noninterest expense was $4.7 million in 2014 and $3.8 million in 2013. The $0.9 million increase in 2014 resulted primarily from the reimbursement by us of credit card losses incurred by customers of our merchant services client that went out of business in 2014.

Income Tax Expense

Income tax expense was $4.7 million and $6.0 million in 2014 and 2013, respectively. The fluctuation in income tax expense was consistent with the corresponding fluctuation in income before income taxes. Effective tax rates for 2014 and 2013 were 30.1% and 29.3%, respectively. These effective tax rates were below the federal statutory tax rate due to the impact of tax exempt interest.

Net Income Available to Common Shareholders

Net income available to common shareholders is computed by subtracting dividends declared on preferred stock from net income. Net income decreased $3.7 million to $10.8 million in 2014, while dividends declared on preferred stock were $7.6 million in 2014 compared to $4.7 million in 2013. As a result, net income available to common shareholders decreased $6.6 million in 2014. The increase in preferred stock dividends in 2014 was primarily due to $3.3 million of dividends declared for unpaid dividends owed to complete the conversion of Series D, E and F preferred stock on December 31, 2014.

Financial Condition

Assets. Total assets increased $208.2 million, or 7.8%, to $2.9 billion at December 31, 2015 as compared to December 31, 2014. This increase primarily resulted from loan growth of $197.6 million that was funded by deposit growth of $217.0 million and the issuance of $55.3 million of subordinated debentures in June 2015.

Total assets increased $937.1 million, or 53.9%, to $2.7 billion at December 31, 2014 as compared to December 31, 2013. This increase in total assets was primarily due to the Heartland Bank acquisition and the addition of acquired assets totaling $927.6 million.

Loans. The loan portfolio is the largest category of our earning assets. At December 31, 2015, total loans, net of allowance for loan losses, totaled $2.0 billion. The following table presents the balance and associated percentage of each major category in our loan portfolio at December 31, 2015, 2014, 2013, 2012 and 2011:

	As of December 31,									
(dollars in thousands)	2015	%	2014	%	2013	%	2012	%	2011	%
Loans:										
Commercial	$ 499,573	25.0%	$ 467,349	26.0%	$ 312,333	25.9%	$ 235,897	24.1%	$ 179,887	18.8%
Commercial real estate	876,784	43.9	786,665	43.7	587,181	48.7	555,433	56.8	523,327	54.6
Construction and land development	150,266	7.6	136,985	7.6	72,163	6.0	41,576	4.2	100,274	10.5
Total commercial loans	1,526,623		1,390,999		971,677		832,906		803,488	
Residential real estate	163,224	8.2	172,075	9.6	105,535	8.8	98,779	10.1	107,077	11.2
Consumer	161,512	8.1	120,434	6.7	128,289	10.6	46,832	4.8	47,322	4.9
Lease financing	144,230	7.2	114,507	6.4	—	0.0	—	0.0	—	0.0
Total loans, gross	1,995,589		1,798,015		1,205,501		978,517		957,887	
Allowance for loan losses	(15,988)	0.8	(12,300)	0.7	(23,672)	2.0	(26,190)	2.7	(26,831)	2.8
Total loans, net	$ 1,979,601		$ 1,785,715		$ 1,181,829		$ 952,327		$ 931,056	
Covered loans	$ 3,629	0.2	$ 6,849	0.4	$ 23,453	1.9	$ 46,081	4.7	$ 78,482	8.2
PCI loans	$ 38,477	1.9	44,201	2.5	30,401	2.5	43,031	4.4	58,235	6.1

Net loans increased $193.9 million, or 10.9%, to $2.0 billion at December 31, 2015 as compared to December 31, 2014. This increase in net loans primarily resulted from growth in commercial and commercial real estate loans, consumer loans and lease financing receivables. The $3.2 million decrease in covered loans in 2015 was primarily due to repayments on covered loans as we did not complete any FDIC-assisted acquisitions during the year. The $5.7 million decrease in PCI loans was primarily due to repayments on PCI loans because we did not complete any bank acquisitions during 2015.

Net loans increased $603.9 million, or 51.1%, to $1.8 billion at December 31, 2014 as compared to December 31, 2013. This increase in net loans was primarily due to $541.7 million of loans added from the Heartland Bank acquisition coupled with organic loan growth during the year. The $16.6 million, or 70.8%, decrease in covered loans during 2014 was attributable to repayments combined with the fact we did not complete any FDIC-assisted acquisitions during the year and thus did not add any new covered loans to our portfolio. The increase of $13.8 million, or 45.4%, in PCI loans during 2014 resulted from the Heartland Bank acquisition and the addition of PCI loans totaling $30.4 million, offset in part by repayments on PCI loans acquired in previous years.

Outstanding loan balances increase due to new loan originations, advances on outstanding commitments and loans acquired as a result of acquisitions of other financial institutions, net of amounts received for loan payments and payoffs, charge-offs of loans and transfers of loans to OREO. The following table shows the fair values of those loans acquired at acquisition date and the net growth for the periods presented.

	For the Year Ended December 31,									
	2015		2014		2013		2012		2011	
(dollars in thousands)	Acquired	Net Growth (Attrition)	Acquired	Net Growth (Attrition)	Acquired	Net Growth (Attrition)	Acquired	Net Growth (Attrition)	Acquired	Net Growth (Attrition)
Commercial	$ —	$ 32,224	$ 135,126	$ 19,890	$ 7,657	$ 68,779	$ —	$ 56,010	$ —	$ (19,299)
Commercial real estate	—	90,119	164,003	35,481	19,745	12,003	—	32,106	—	(39,485)
Construction and land development	—	13,281	56,379	8,443	1,917	28,670	—	(58,698)	—	1,866
Total commercial loans	—	135,624	355,508	63,814	29,319	109,452	—	29,418	—	(56,918)
Residential real estate	—	(8,851)	68,614	(2,074)	14,838	(8,082)	—	(8,298)	—	(32,809)
Consumer	—	41,078	3,057	(10,912)	1,613	79,844	—	(490)	—	470
Lease financing	—	29,723	114,507	—	—	—	—	—	—	—
		61,950	186,178	(12,986)	16,451	71,762	—	(8,788)	—	(32,339)
Total loans	$ —	$ 197,574	$ 541,686	$ 50,828	$ 45,770	$ 181,214	$ —	$ 20,630	$ —	$ (89,257)

The following table shows covered and non-covered loans by non-PCI and PCI loan category and the related allowance as of December 31, 2015, 2014 and 2013:

(dollars in thousands)	December 31, 2015 Non-Purchased Credit-Impaired Loans	December 31, 2015 Purchased Credit-Impaired Loans	December 31, 2015 Total	December 31, 2014 Non-Purchased Credit-Impaired Loans	December 31, 2014 Purchased Credit-Impaired Loans	December 31, 2014 Total	December 31, 2013 Non-Purchased Credit-Impaired Loans	December 31, 2013 Purchased Credit-Impaired Loans	December 31, 2013 Total
Covered loans:									
Commercial	$ 378	$ 1,067	$ 1,445	$ 392	$ —	$ 392	$ 1,012	$ 450	$ 1,462
Commercial real estate	876	318	1,194	1,384	3,073	4,457	7,460	12,307	19,767
Construction and land development	—	—	—	—	933	933	75	967	1,042
Residential	715	275	990	774	293	1,067	876	306	1,182
Consumer	—	—	—	—	—	—	—	—	—
Lease financing	—	—	—	—	—	—	—	—	—
Total covered loans	1,969	1,660	3,629	2,550	4,299	6,849	9,423	14,030	23,453
Non-covered loans:									
Commercial	493,067	5,061	498,128	461,220	5,737	466,957	310,575	296	310,871
Commercial real estate	861,868	13,722	875,590	768,092	14,116	782,208	566,311	1,103	567,414
Construction and land development	140,207	10,059	150,266	125,479	10,573	136,052	60,249	10,872	71,121
Residential	154,551	7,683	162,234	161,923	9,085	171,008	100,307	4,046	104,353
Consumer	161,220	292	161,512	120,043	391	120,434	128,235	54	128,289
Lease financing	144,230	—	144,230	114,507	—	114,507	—	—	—
Total non-covered loans	1,955,143	36,817	1,991,960	1,751,264	39,902	1,791,166	1,165,677	16,371	1,182,048
Total loans, gross	1,957,112	38,477	1,995,589	1,753,814	44,201	1,798,015	1,175,100	30,401	1,205,501
Allowance for loan losses	(14,093)	(1,895)	(15,988)	(10,503)	(1,797)	(12,300)	(11,985)	(11,687)	(23,672)
Total loans, net	$1,943,019	$ 36,582	$1,979,601	$1,743,311	$ 42,404	$1,785,715	$1,163,115	$ 18,714	$1,181,829
Nonperforming loans	$ 24,891	—	$ 24,891	$ 32,172	—	$ 32,172	$ 21,822	—	$ 21,822
Nonperforming loans to total loans	1.27%	—	1.25%	1.83%	—	1.80%	1.86%	—	1.81%
Allowance for loan losses to total loans	0.72%	4.93%	0.80%	0.60%	4.07%	0.69%	1.02%	38.44%	1.96%

The following table shows the contractual maturities of our loan portfolio and the distribution between fixed and adjustable interest rate loans at December 31, 2015:

(dollars in thousands)	As of December 31, 2015 Within One Year Fixed Rate	Within One Year Adjustable Rate	One Year to Five Years Fixed Rate	One Year to Five Years Adjustable Rate	After Five Years Fixed Rate	After Five Years Adjustable Rate	Total
Commercial loans:							
Commercial	$ 53,062	$ 150,852	$ 125,956	$ 106,528	$ 51,706	$ 11,469	$ 499,573
Commercial real estate	109,508	52,378	426,709	117,888	59,681	110,620	876,784
Construction and land development	29,888	60,115	24,915	27,963	1,488	5,897	150,266
Total commercial loans	192,458	263,345	577,580	252,379	112,875	127,986	1,526,623
Residential real estate	2,538	10,377	20,736	42,718	22,062	64,793	163,224
Consumer	7,289	2,120	39,633	23,304	88,148	1,018	161,512
Lease financing	368	—	142,789	—	1,073	—	144,230
Total loans	$ 202,653	$ 275,842	$ 780,738	$ 318,401	$ 224,158	$ 193,797	$ 1,995,589

The principal categories of our loan portfolio are discussed below:

Commercial loans. We provide a mix of variable and fixed rate commercial loans. The loans are typically made to small- and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs, business expansions and farm operations. Commercial loans generally include

lines of credit and loans with maturities of five years or less. The loans are generally made with business operations as the primary source of repayment, but may also include collateralization by inventory, accounts receivable and equipment, and generally includes personal guarantees.

Commercial loans increased $32.2 million, or 6.9%, to $499.6 million at December 31, 2015 as compared to December 31, 2014. The increase resulted primarily from organic loan growth.

Commercial loans increased $155.0 million, or 49.6%, to $467.3 million at December 31, 2014 as compared to December 31, 2013. This increase in commercial loans was primarily due to the addition of $135.1 million of commercial loans from the Heartland Bank acquisition. This increase was also partly due to organic growth of commercial loans exceeding repayments during 2014.

Commercial real estate loans. Commercial real estate loans increased $90.1 million, or 11.5%, to $876.8 million at December 31, 2015 as compared to December 31, 2014. This increase resulted from organic loan growth during 2015 exceeding loan repayments.

Commercial real estate loans increased $199.5 million, or 34.0%, to $786.7 million at December 31, 2014 as compared to December 31, 2013. The increase in 2014 was primarily the result of acquiring $164.0 million of commercial loans in the Heartland Bank acquisition. The remaining increase resulted from new origination volume exceeding loan payoffs and repayments.

Construction and land development loans. Our construction and land development loans comprise residential construction, commercial construction and land acquisition and development construction. Interest reserves are generally established on real estate construction loans. As of December 31, 2015, our real estate construction loan portfolio was divided among the foregoing categories as follows: $13.5 million, or 9.0%, residential construction; $117.8 million, or 78.4%, commercial construction; and $19.0 million, or 12.6%, land acquisition and development.

Construction and land development loans increased $13.3 million, or 9.7%, to $150.3 million at December 31, 2015 as compared to December 31, 2014. This increase in construction and land development loans was primarily due to construction loan originations exceeding repayments and transfers to permanent financing.

Construction and land development loans increased $64.8 million, or 89.8%, to $137.0 million at December 31, 2014 as compared to December 31, 2013. This increase in construction and land development loans was primarily due to the addition of $56.4 million of construction loans from the Heartland Bank acquisition. This increase was also partly due to new construction loan originations exceeding repayments and transfers to permanent financing.

Residential real estate loans. Residential real estate loans, which include $69.1 million of home equity loans, decreased $8.9 million, or 5.1%, to $163.2 million at December 31, 2015 as compared to December 31, 2014. This decrease was due to loan repayments exceeding new residential loan originations retained in portfolio.

Residential real estate loans increased $66.5 million, or 63.1%, to $172.1 million at December 31, 2014 as compared to December 31, 2013. This increase was due to the Heartland Bank acquisition adding $68.6 million of residential real estate loans to our loan portfolio at the end of 2014, offset in part by repayments exceeding new residential loan originations retained in portfolio.

Consumer loans. Our consumer loans include direct personal loans, indirect automobile loans, lines of credit and installment loans originated through home improvement specialty retailers and contractors. Personal loans are generally secured by automobiles, boats and other types of personal property and are made on an installment basis.

Consumer loans increased $41.1 million, or 34.1%, to $161.5 million at December 31 2015 as compared to December 31, 2014. This increase was primarily due to growth in installment loans originated through home improvement specialty retailers and contractors.

Consumer loans decreased $7.9 million, or 6.1%, to $120.4 million at December 31, 2014 as compared to December 31, 2013. This decrease was primarily due to the sale of $25.3 million of consumer loans, offset in part by new loan volume exceeding repayments during 2014. The Heartland Bank acquisition included $3.1 million of consumer loans.

Lease financing. The acquisition of Heartland Bank included Heartland Business Credit, a custom leasing company located in Denver, Colorado. Heartland Business Credit provides direct financing leases to varying types of small businesses for purchases of business equipment and software. All direct financing leases require monthly payments and the weighted average maturity of our leases is less than four years. The acquisition of Heartland Business Credit increased lease financing receivables from zero in 2013 to $114.5 million at the end of 2014.

Lease financing receivables increased $29.7 million, or 26.0%, to $144.2 million at December 31, 2015 due to a conscious effort at Heartland Business Credit to grow lease receivables.

Loan Quality

We use what we believe is a comprehensive methodology to monitor credit quality and prudently manage credit concentration within our loan portfolio. Our underwriting policies and practices govern the risk profile and credit and geographic concentration for our loan portfolio. We also have what we believe to be a comprehensive methodology to monitor these credit quality standards, including a risk classification system that identifies potential problem loans based on risk characteristics by loan type as well as the early identification of deterioration at the individual loan level. In addition to our allowance for loan losses, our purchase discounts on acquired loans provide additional protections against credit losses.

Discounts on PCI Loans. We evaluate acquired loans for evidence of credit deterioration in order to determine proper accounting classification. Loans are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, or ASC 310-30, when there is evidence of credit deterioration since origination and for which it is probable, at acquisition, that we will be unable to collect all contractually required payments. At December 31, 2015, 2014 and 2013, $38.5 million, $44.2 million and $30.4 million, respectively, of acquired loans were within the scope of ASC 310-30.

In accordance with ASC 310-30, PCI loans are recorded at estimated fair value on their purchase date without a carryover of the related allowance for loan losses. As noted above, PCI loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include factors such as delinquency and accrual status.

In determining the fair value of purchased credit-impaired loans at acquisition, we first determine the contractually required payments due, which represent the total undiscounted amount of all uncollected principal and interest payments, adjusted for the effect of estimated prepayments. We then estimate the undiscounted cash flows we expect to collect. We incorporate several key assumptions to estimate cash flows expected to be collected, including probability of default rates, loss given default assumptions and the amount and timing of prepayments. We calculate fair value by discounting the estimated cash flows we expect to collect using an observable market rate of interest, when available, adjusted for factors that a market participant would consider in determining fair value. We have aggregated certain credit-impaired loans acquired in the same transaction into pools based on common

risk characteristics. A pool is accounted for as one asset with a single composite interest rate and an aggregate fair value and expected cash flows.

The difference between contractually required payments due and the cash flows expected to be collected, considering the impact of prepayments, is referred to as the nonaccretable difference. The nonaccretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses expected to be incurred over the life of the loans. The excess of cash flows expected to be collected over the estimated fair value of PCI loans is referred to as the accretable yield. This amount is not recorded on our consolidated balance sheet, but is accreted into interest income over the remaining life of the loans, or pool of loans, using the effective yield method. The outstanding customer balance for PCI loans totaled $44.5 million and $89.9 million as of December 31, 2015 and 2014, respectively. Of the $541.7 million of loans acquired in the Heartland Bank acquisition completed on December 31, 2014, we identified PCI loans with contractually required payments, cash flows expected to be collected and estimated fair value of $50.5 million, $41.7 million and $30.4 million, respectively.

Subsequent to acquisition, we periodically evaluate our estimates of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications between accretable yield and the nonaccretable difference. Decreases in expected cash flows due to further credit deterioration will result in an impairment charge to the provision for loan losses, resulting in an increase to the allowance for loan losses and a reclassification from accretable yield to nonaccretable difference. Increases in expected cash flows due to credit improvements will result in an increase in the accretable yield through a reclassification from the nonaccretable difference or as a reduction in the allowance for loan losses to the extent established on specific pools subsequent to acquisition. The adjusted accretable yield is recognized in interest income over the remaining life of the loan, or pool of loans.

At acquisition and for each subsequent quarterly evaluation, we use a third party service provider to assist with the estimate of cash flows expected to be collected on PCI loans. We provide the service provider with updated loan information for each acquired loan portfolio, contractually required payments due on the PCI loans, and expected cash flows for PCI loans individually reviewed by us. Using this information, the service provider determines cash flows expected to be collected on the pooled loans, discount rates used to present value the expected cash flows and fair values for all of the PCI loans. The expected payment data, discount rates, fair value information, impairment data and changes to the accretable yield received back from our service provider are reviewed by us to determine whether this information is accurate and the resulting financial statement effects are reasonable. When the proposed financial statement effect differs materially from our internal estimations of the expected effect, we will determine which loans, or pools of loans, are contributing to the overall changes from the prior quarter. We will then work with the service provider to reevaluate the information with respect to each significant loan contributing to the overall change to help insure all of the information and assumptions used in the initial determinations are correct and reasonable under the circumstances.

The following table shows changes in the accretable yield for PCI loans for the the years ended December 31, 2015, 2014 and 2013:

(dollars in thousands)	As of December 31, 2015	2014	2013
Balance, beginning of period	$ 16,198	$ 5,480	$ 7,427
New loans acquired—Heartland acquisition	—	11,242	—
New loans acquired—Grant Park acquisition	—	—	328
Accretion	(5,676)	(1,393)	(2,265)
Disposals related to foreclosures	—	(3)	(727)
Other adjustments (including maturities, charge-offs, and impact of changes in timing of expected cash flows)	—	608	576
Reclassification from non-accretable	4	264	141
Balance, end of period	$ 10,526	$ 16,198	$ 5,480

As of December 31, 2015, the balance of accretable discounts on our PCI loan portfolio, which was determined in connection with the Strategic Capital, Waterloo Bancshares, WestBridge, Grant Park and Heartland Bank acquisitions, was $10.5 million compared to $16.2 million and $5.5 million at December 31, 2014 and 2013, respectively. We may not accrete the full amount of these discounts into interest income in future periods if the assets to which these discounts are applied do not perform according to our current expectations.

We have also recorded accretable discounts in purchase accounting for loans that are accounted for under ASC 310-20, *Non-Refundable Fees and Other Costs*. Similar to the way in which we employ the fair value methodology described above, we consider expected prepayments and estimate the amount and timing of undiscounted cash flows in order to determine the accretable discount.

Analysis of the Allowance for Loan Losses. The following table allocates the allowance for loan losses, or the allowance, by category:

(dollars in thousands)	As of December 31, 2015	%(1)	2014	%(1)	2013	%(1)	2012	%(1)	2011	%(1)
Commercial loans:										
Commercial	$ 6,917	1.38%	$ 2,284	0.49%	$ 2,062	0.66%	$ 2,396	1.02%	$ 2,416	1.34%
Commercial real estate	5,179	0.59	6,925	0.88	8,560	1.46	9,725	1.75	12,057	2.30
Construction and land development	435	0.29	486	0.35	10,912	15.12	12,107	29.12	10,236	10.21
Total commercial loans	12,531	0.82	9,695	0.70	21,534	2.22	24,228	2.91	24,709	3.08
Residential real estate	2,120	1.30	2,038	1.18	1,784	1.69	1,614	1.63	1,385	1.29
Consumer	749	0.46	567	0.47	354	0.28	348	0.74	737	1.56
Lease financing	588	0.41	—	—	—	—	—	—	—	—
Total allowance for loan losses	$ 15,988	0.80	$ 12,300	0.69	$ 23,672	1.96	$ 26,190	2.68	$ 26,831	2.80

(1) Represents the percentage of the allowance to total loans in the respective category.

The allowance and the balance of nonaccretable discounts represent our estimate of probable and reasonably estimable credit losses inherent in loans held for investment as of the respective balance sheet date. We assess the appropriateness of our allowance for non-PCI loans separately from our allowance for PCI loans.

Allowance for non-PCI loans. Our methodology for assessing the appropriateness of the allowance for non-PCI loans includes a general allowance for performing loans, which are grouped based on similar characteristics, and a specific allowance for individual impaired loans or loans considered by

management to be in a high risk category. General allowances are established based on a number of factors, including historical loss rates, an assessment of portfolio trends and conditions, accrual status and economic conditions. From a geographic perspective, the Company segregates the loan portfolio into four regions, which include eastern, northern and southern Illinois and the St. Louis metropolitan area, to further assess the appropriateness of the general allowance.

For commercial and commercial real estate loans, a specific allowance may be assigned to individual loans based on an impairment analysis. Loans are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. The amount of impairment is based on an analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the estimated market value or the fair value of the underlying collateral. Interest income on impaired loans is accrued as earned, unless the loan is placed on nonaccrual status.

Allowance for PCI loans. PCI loans are recorded at their estimated fair value at the date of acquisition, with the estimated fair value including a component for estimated credit losses. An allowance related to PCI loans may be recorded subsequent to acquisition if a PCI loan pool experiences a decrease in expected cash flows as compared to the expected cash flows projected in the previous quarter. Loans considered to be uncollectible are initially charged off against the specific loan pool's non-accretable difference. When the pool's non-accretable difference has been fully utilized, uncollectible amounts are charged off against the corresponding allowance. The following table shows our allowance by loan portfolio and by non-PCI and PCI loans as of December 31, 2015, 2014, and 2013:

	As of December 31, 2015			As of December 31, 2014			As of December 31, 2013		
(dollars in thousands)	Non-Purchased Credit-Impaired Loans	Purchased Credit-Impaired Loans	Total	Non-Purchased Credit-Impaired Loans	Purchased Credit-Impaired Loans	Total	Non-Purchased Credit-Impaired Loans	Purchased Credit-Impaired Loans	Total
Commercial	$ 6,542	$ 375	$ 6,917	$ 1,933	$ 351	$ 2,284	$ 1,736	$ 326	$ 2,062
Commercial real estate	4,176	1,003	5,179	6,020	905	6,925	8,154	406	8,560
Construction and land development	419	16	435	474	12	486	435	10,477	10,912
Total commercial loans	$ 11,137	$ 1,394	$ 12,531	8,427	1,268	9,695	10,325	11,209	21,534
Residential real estate	1,626	494	2,120	1,509	529	2,038	1,336	448	1,784
Consumer	742	7	749	567	—	567	324	30	354
Lease financing	588	—	588	—	—	—	—	—	—
Total allowance for loan losses	$ 14,093	$ 1,895	$ 15,988	$ 10,503	$ 1,797	$ 12,300	$ 11,985	$ 11,687	$ 23,672

Individual loans considered to be uncollectible are charged off against the allowance. Factors used in determining the amount and timing of charge-offs on loans include consideration of the loan type, length of delinquency, sufficiency of collateral value, lien priority and the overall financial condition of the borrower. Collateral value is determined using updated appraisals and/or other market comparable information. Charge-offs are generally taken on loans once the impairment is determined to be other-than-temporary. Recoveries on loans previously charged off are added to the allowance. Net charge-offs to average loans were 0.39%, 0.94% and 0.25% for the years ended December 31, 2015, 2014 and 2013, respectively. The increase in the net charge-off percentage for 2014 resulted from $9.8 million of PCI loan charge-offs related to a PCI loan pool of commercial real estate loans from a previous acquisition being closed out in 2014 due to no more active loans remaining in the pool.

The allowance for loan losses was $16.0 million at December 31, 2015 compared to $12.3 million, and $23.7 million at December 31, 2014 and 2013, respectively. The $3.7 million increase at December 31, 2015 compared to December 31, 2014, was mainly attributable to the growth of our loan portfolio. The $11.4 million decrease at December 31, 2014 compared to December 31, 2013 resulted primarily from the $9.8 million charge-off of PCI loans discussed in the preceding paragraph.

We analyze the loan portfolio, including delinquencies, concentrations, and risk characteristics, at least quarterly in order to assess the overall level of the allowance and nonaccretable discounts. We also rely on internal and external loan review procedures to further assess individual loans and loan pools, and economic data for overall industry and geographic trends.

We evaluate the credit quality of loans in the consumer loan portfolio, based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans, loans past due as to principal or interest 90 days or more and loans modified under troubled debt restructurings of loans past due in accordance with the loans' original contractual terms are considered to be impaired for purposes of credit quality evaluation.

Provision for Loan Losses. In determining the allowance and the related provision for loan losses, we consider three principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired commercial, commercial real estate, construction and land development loans, (ii) allocations, by loan classes, on loan portfolios based on historical loan loss experience and qualitative factors and (iii) valuation allowances on PCI loan pools based on decreases in expected cash flows. Provisions for loan losses are charged to operations to record changes to the total allowance to a level deemed appropriate by us.

The provision for loan losses totaled $11.1 million in 2015 compared to $0.1 million in 2014. The provision for loan losses increased in 2015 due primarily to an increase in specific reserves for collateral deterioration on certain nonperforming loans coupled with the impact of loan growth during 2015. During the third quarter of 2015, we recorded a $7.5 million charge-off on a group of nonperforming loans to one borrower due to deterioration in the Company's collateral position on these loans.

The provision for loan losses decreased $0.1 million to $0.1 million in 2014 from $0.2 million in 2013. The provision in 2014 was comprised of a $0.3 million provision related to non-PCI loans offset in part by a $0.2 million negative provision for PCI loans.

The following table provides an analysis of the allowance for loan losses, provision for loan losses and net charge-offs for the years ended December 31, 2015, 2014, 2013, 2012 and 2011:

	As of and for the Year Ended December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Balance, beginning of period	$ 12,300	$ 23,672	$ 26,190	$ 26,831	$ 28,488
Charge-offs:					
Commercial	7,742	153	549	584	796
Commercial real estate	379	11,120	592	1,455	3,967
Construction and land development	171	62	668	189	30
Residential real estate	742	569	934	609	863
Consumer	334	192	287	360	575
Lease financing	289	—	—	—	—
Total charge-offs	$ 9,657	$ 12,096	$ 3,030	$ 3,197	$ 6,231
Recoveries:					
Commercial	$ 1,221	$ 68	$ 67	$ 225	$ 56
Commercial real estate	634	374	41	66	449
Construction and land development	34	12	70	12	26
Residential real estate	161	100	66	101	83
Consumer	111	78	95	100	106
Lease financing	57	—	—	—	—
Total recoveries	$ 2,218	$ 632	$ 339	$ 504	$ 720
Net charge-offs	$ 7,439	$ 11,464	$ 2,691	$ 2,693	$ 5,511
Provision for loan losses	$ 11,127	$ 92	$ 173	$ 2,052	$ 3,854
Balance, end of period	$ 15,988	$ 12,300	$ 23,672	$ 26,190	$ 26,831
Gross loans, end of period	1,995,589	1,798,015	1,205,501	978,517	957,887
Average loans	1,901,516	1,218,141	1,078,536	972,749	990,935
Net charge-offs to average loans	0.39%	0.94%	0.25%	0.28%	0.56%
Allowance to total loans	0.80%	0.69%	1.96%	2.68%	2.80%

Problem Loans. Loans are considered delinquent when principal or interest payments are past due 30 days or more; delinquent loans may remain on accrual status between 30 days and 89 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Typically, the accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

We exclude PCI loans from nonperforming status because we expect to fully collect their new carrying value, which reflects significant purchase discounts. If our expectation of reasonably estimable future cash flows deteriorates, the loans may be classified as nonaccrual loans and interest income will not be recognized until the timing and amount of future cash flows can be reasonably estimated.

A loan is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include loans on nonaccrual status and performing restructured loans. Income from loans on nonaccrual status is recognized to the extent cash is received and when the loan's principal balance is deemed collectible.

Depending on a particular loan's circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. A loan is considered collateral dependent when repayment of the loan is based solely on the liquidation of the collateral. Fair value, where possible, is determined by independent appraisals, typically on an annual basis. Between appraisal periods, the fair value may be adjusted based on specific events, such as if deterioration of quality of the collateral comes to our attention as part of our problem loan monitoring process, or if discussions with the borrower lead us to believe the last appraised value no longer reflects the actual market for the collateral. The impairment amount on a collateral-dependent loan is charged-off to the allowance if deemed not collectible and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve.

In cases where a borrower experiences financial difficulties and we make certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring, or TDR. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the loan is modified may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. A restructured loan is considered impaired despite its accrual status and a specific reserve is calculated based on the present value of expected cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent.

Real estate we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until sold, and is carried at the balance of the loan at the time of foreclosure or at estimated fair value less estimated costs to sell, whichever is less.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. As noted above, nonperforming loans exclude PCI loans. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

	As of December 31,				
(dollars in thousands)	**2015**	**2014**	**2013**	**2012**	**2011**
Nonperforming loans:					
Commercial	$ 6,570	$ 14,303	$ 688	$ 890	$ 2,364
Commercial real estate	13,717	14,186	18,822	15,642	15,008
Construction and land development	—	127	227	464	1,064
Residential real estate	4,155	3,272	1,977	2,665	2,788
Consumer	51	48	108	168	450
Lease financing	398	236	—	—	—
Total nonperforming loans	24,891	32,172	21,822	19,829	21,674
Other real estate owned, non-covered	4,315	7,370	6,659	6,031	2,349
Nonperforming assets	$ 29,206	$ 39,542	$ 28,481	$ 25,860	$ 24,023
Nonperforming loans to total loans	1.25%	1.80%	1.81%	2.03%	2.26%
Nonperforming assets to total assets	1.01%	1.48%	1.64%	1.64%	1.58%

The increase in nonperforming loans at December 31, 2014 was primarily due to $8.2 million of commercial loans with one borrower that became classified as nonaccrual in October 2014. During the third quarter of 2015, we recorded a $7.5 million charge-off on this group of nonperforming loans due to deterioration in the Company's collateral position.

We did not recognize any interest income on nonaccrual loans during the years ended December 31, 2015, 2014 and 2013 while the loans were in nonaccrual status. Additional interest income that we would have recognized on these loans had they been current in accordance with their original terms was $1.0 million, $0.6 million and $0.7 million during the years ended December 31, 2015, 2014 and 2013, respectively. We recognized interest income on commercial and commercial real estate loans modified under troubled debt restructurings of $0.3 million, $0.2 million and $0.3 million during the years ended December 31, 2015, 2014 and 2013, respectively.

We utilize an asset risk classification system in compliance with guidelines established by the Federal Reserve as part of our efforts to improve asset quality. In connection with examinations of insured institutions, examiners have the authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful," and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full questionable and there is a high probability of loss based on currently existing facts, conditions and values. An asset classified as loss is not considered collectable and is of such little value that continuance as an asset is not warranted.

We use a risk grading system to categorize and determine the credit risk of our loans. Potential problem loans include loans with a risk grade of 7, which are "special mention," and loans with a risk grade of 8, which are "substandard" loans that are not considered to be impaired. These loans generally require more frequent loan officer contact and receipt of financial data to closely monitor borrower performance. Potential problem loans are managed and monitored regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive officers and other members of the Bank's senior management team. The following table presents the recorded investment of potential problem commercial loans (excluding PCI loans) by loan category at the dates indicated:

	Commercial		Commercial Real Estate		Construction & Land Development		
	Risk Category		Risk Category		Risk Category		
(in thousands)	7	8(1)	7	8(1)	7	8(1)	Total
December 31, 2015	$ 15,884	$ 3,370	$ 23,679	$ 8,103	$ 540	$ —	$ 51,576
December 31, 2014	2,233	2,266	9,281	13,134	451	—	27,365
December 31, 2013	5,206	3,496	14,014	12,308	1,180	—	36,204
December 31, 2012	5,942	2,148	21,014	13,983	763	3,546	47,396
December 31, 2011	6,031	3,712	14,055	7,839	2,606	10,301	44,544

(1) Includes only those 8-rated loans that are not included in nonperforming loans.

Investment Securities. Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk. The types and maturities of securities purchased are primarily based on our current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the book value and percentage of each category of investment securities at December 31, 2015, 2014 and 2013. The book value for investment securities classified as

available for sale is equal to fair market value and the book value for investment securities classified as held to maturity is equal to amortized cost.

(dollars in thousands)	December 31, 2015 Book Value	2015 % of Total	2014 Book Value	2014 % of Total	2013 Book Value	2013 % of Total
Investment securities, available for sale, at fair value						
U.S. Treasury securities	$ 48,302	14.9%	$ 5,994	1.7%	$ 9,006	2.9%
Government sponsored entity debt securities	9,454	2.9	9,394	2.6	11,173	3.6
Agency mortgage-backed securities	67,527	20.8	94,093	26.5	67,756	21.8
Non-agency mortgage-backed securities	2	0.0	12,459	3.5	523	0.1
Covered non-agency mortgage-backed securities(1)	75,979	23.5	92,319	26.0	93,408	30.0
State and municipal securities	15,494	4.8	10,753	3.0	11,424	3.7
Corporate securities	19,869	6.1	28,756	8.1	7,988	2.6
Total investment securities, available for sale, at fair value	236,627	73.0%	253,768	71.4%	201,278	64.7%
Investment securities, held to maturity, at amortized cost						
State and municipal securities	87,521	27.0	101,763	28.6	109,848	35.3
Total investment securities	$ 324,148	100.0%	$ 355,531	100.0%	$ 311,126	100.0%

(1) All covered non-agency mortgage-backed securities are covered under the loss-sharing agreement we entered into with the FDIC in connection with the Strategic Capital acquisition. None of our other investment securities are covered under a loss-sharing agreement with the FDIC.

Certain of our CMOs are covered under a loss-sharing agreement with the FDIC pursuant to which the FDIC has agreed to reimburse us for 80% of the first $167.0 million of net losses (when aggregated with losses on the other covered assets) and 95% of net losses exceeding $167.0 million. The loss-sharing agreement for the CMOs has a seven-year term. In 2011, we submitted a claim for a $36.1 million write-down on the acquired CMO portfolio and received payment for the 80% portion covered by the loss-sharing agreement. Since then, we have submitted claims of $12.2 million for additional write-downs of the acquired CMO portfolio and have received payments totaling $9.7 million. In January 2014, we reached a settlement with the FDIC regarding a dispute over differences in the calculation and recognition timing of impairment losses on the CMOs. In accordance with the settlement, we received $3.9 million from the FDIC. We recognized the financial impact of this settlement in 2014 by reducing the indemnification asset due from the FDIC by $2.2 million and recording $1.7 million as other income in the 2014 consolidated statement of income.

The predominant form of collateral underlying the CMOs is fixed-rate, first lien residential mortgages of both conforming and jumbo mortgage size with both traditional and nontraditional underwriting qualities (*e.g.*, jumbo, conforming Alt-A and jumbo Alt-A, which includes reduced documentation types). All of our CMOs are senior securities that rank ahead of subordinated tranches intended to be in a first-loss position with respect to the collateral pool. The majority of these securities were originated from 2003 through 2007. At December 31, 2015, our CMO portfolio had an amortized cost of $66.4 million with a fair value of $76.0 million and a net unrealized gain of $9.6 million. Our investment in covered non-agency mortgage-backed securities decreased from $92.3 million at December 31, 2014 to $76.0 million at December 31, 2015 due to paydowns received

on the securities, recognition of other-than-temporary impairment losses and decreases in net unrealized gains. In the current interest rate environment, we expect similar decreases in future periods. We do not expect to sell any of our CMOs before recovery of their amortized cost bases, which may be at maturity.

The following table sets forth the book value, scheduled maturities and weighted average yields for our investment portfolio at December 31, 2015. The book value for investment securities classified as available for sale is equal to fair market value and the book value for investment securities classified as held to maturity is equal to amortized cost.

	As of December 31, 2015		
(dollars in thousands)	**Book Value**	**% of Total Investment Securities**	**Weighted Average Yield**
Investment securities, available for sale			
U.S. Treasury securities:			
Maturing within one year	$ 20,481	6.3%	0.50%
Maturing in one to five years	27,821	8.6	0.72
Maturing in five to ten years	—	0.0	0.00
Maturing after ten years	—	0.0	0.00
Total U.S. Treasury securities	$ 48,302	14.9%	0.63%
Government sponsored entity debt securities:			
Maturing within one year	$ 1,038	0.3%	0.76%
Maturing in one to five years	985	0.3	1.57
Maturing in five to ten years	6,693	2.1	2.39
Maturing after ten years	738	0.2	2.49
Total U.S. government securities	$ 9,454	2.9%	2.13%
Agency mortgage-backed securities:			
Maturing within one year	$ —	0.0%	0.00%
Maturing in one to five years	10,003	3.1	2.05
Maturing in five to ten years	13,865	4.3	2.99
Maturing after ten years	43,659	13.4	1.87
Total agency mortgage-backed securities	$ 67,527	20.8%	2.12%
Non-agency mortgage-backed securities:			
Maturing within one year	$ —	0.0%	0.00%
Maturing in one to five years	—	0.0	0.00
Maturing in five to ten years	—	0.0	0.00
Maturing after ten years	75,979	23.5	13.16
Total non-agency mortgage-backed securities	$ 75,979	23.5%	13.16%
Covered non-agency mortgage-backed securities(1):			
Maturing within one year	$ —	0.0%	0.00%
Maturing in one to five years	—	0.0	0.00
Maturing in five to ten years	—	0.0	0.00
Maturing after ten years	2	0.0	6.46
Total covered non-agency mortgage-backed securities	$ 2	0.0%	6.46%

(dollars in thousands)	As of December 31, 2015 Book Value	% of Total Investment Securities	Weighted Average Yield
State and municipal securities(2):			
Maturing within one year	$ 3,165	1.0%	1.81%
Maturing in one to five years	6,924	2.1	1.92
Maturing in five to ten years	4,710	1.5	2.77
Maturing after ten years	695	0.2	4.10
Total state and municipal securities	$ 15,494	4.8%	2.25%
Corporate securities:			
Maturing within one year	$ —	0.0%	0.00%
Maturing in one to five years	4,007	1.2	1.84
Maturing in five to ten years	13,113	4.0	3.59
Maturing after ten years	2,749	0.9	4.29
Total corporate securities	$ 19,869	6.1%	3.34%
Total investment securities, available for sale	$ 236,627	73.0%	5.15%
Investment securities, held to maturity			
State and municipal securities(2):			
Maturing within one year	$ 1,429	0.4%	4.75%
Maturing in one to five years	15,895	4.9	5.64
Maturing in five to ten years	44,231	13.7	6.44
Maturing after ten years	25,966	8.0	6.43
Total state and municipal securities	$ 87,521	27.0%	6.26%
Total investment securities	$ 324,148	100.0%	5.46%

(1) All covered non-agency mortgage-backed securities are covered under the loss-sharing agreement we entered into with the FDIC in connection with the Strategic Capital acquisition. None of our other investment securities are covered under a loss-sharing agreement with the FDIC.

(2) Weighted average yield for tax-exempt securities are presented on a tax-equivalent basis assuming a federal income tax rate of 35%.

Declines in the fair value of available-for-sale investment securities are recorded as either temporary impairment or other-than-temporary impairment, or OTTI. Temporary adjustments are recorded when the fair value of a security fluctuates from its historical cost. Temporary adjustments are recorded in accumulated other comprehensive income or loss and impact our equity position and do not impact our net income. A recovery of available-for-sale security prices also is recorded as an adjustment to other comprehensive income or loss for securities that are temporarily impaired, and results in a positive impact to our equity position. OTTI is recorded when the fair value of an available-for-sale security is less than historical cost, and it is probable that all contractual cash flows will not be collected. OTTI is recorded to noninterest income and, therefore, results in a negative impact to our net income. Because the available-for-sale securities portfolio is recorded at fair value, the conclusion as to whether an investment decline is other-than-temporarily impaired does not significantly impact our equity position, as the amount of the temporary adjustment has already been reflected in accumulated other comprehensive income or loss. An increase in the value of an OTTI security is not recorded as a recovery but as additional interest income over the remaining life of the security. In 2015, we determined that three covered non-agency mortgage-backed securities had other-than-temporary impairment of $0.5 million due to deteriorating cash flows. These amounts were recognized as losses in the 2015 consolidated statement of income. During 2014, we determined that

one non-agency mortgage-backed security had other-than-temporary impairment of $20,000 and one covered non-agency mortgage-backed security had other-than-temporary impairment of $0.2 million, both due to deteriorating cash flows. These amounts were recognized as losses in the 2014 consolidated statement of income. During 2013, we determined that one non-agency mortgage-backed security had $3,000 of OTTI and one covered non-agency mortgage-backed security had OTTI of $0.2 million, both due to deteriorating cash flows. These amounts were recognized as OTTI losses in the 2013 consolidated statement of income.

The table below presents the credit ratings at December 31, 2015 at fair value for our investment securities classified as available for sale and amortized cost for investment securities classified as held to maturity.

	As of December 31, 2015							
			Average Credit Rating					
(dollars in thousands)	Amortized Cost	Est. Fair Value	AAA	AA+/–	A+/–	BBB+/–	<BBB–	Not Rated
Investment securities available for sale								
U.S. Treasury securities	$ 48,483	$ 48,302	$ —	$ 48,302	$ —	$ —	$ —	$ —
Government sponsored entity debt securities	9,404	9,454	—	9,454	—	—	—	—
Agency mortgage-backed securities	66,902	67,527	948	66,579	—	—	—	—
Non-covered non-agency mortgage-backed securities	2	2	—	—	—	—	—	2
Covered non-agency mortgage-backed securities(1)(2)	66,397	75,979	—	60,783	—	—	—	15,196
State and municipal securities	15,441	15,494	2,336	5,621	913	—	—	6,624
Corporate securities	20,036	19,869	—	1,969	4,226	5,917	—	7,757
Total investment securities, available for sale, at fair value	226,665	236,627	3,284	192,708	5,139	5,917	—	29,579
Investment securities held to maturity								
State and municipal securities	87,521	92,816	4,231	34,605	3,748	—	218	50,014
Total investment securities, at fair value	$ 314,186	$ 329,443	$ 7,515	$ 227,313	$ 8,887	$ 5,917	$ 218	$ 79,593

(1) All covered non-agency mortgage-backed securities are covered under the loss-sharing agreement we entered into with the FDIC in connection with the Strategic Capital acquisition. None of our other investment securities are covered under a loss-sharing agreement with the FDIC.

(2) Covered non-agency mortgage-backed securities are subject to a loss-sharing arrangement with the FDIC, which carries an implicit government guarantee.

Cash and Cash Equivalents. Cash and cash equivalents increased $52.6 million, or 32.9%, to $212.5 million as of December 31, 2015 as compared to December 31, 2014. This increase was due to cash flows from financing activities of $208.4 million, consisting of deposit growth and proceeds from the issuance of subordinated debentures, combined with cash flows provided by operating activities of $73.5 million, offset in part by cash flows used in investing activities of $229.3 million. Cash provided by operating activities primarily reflected proceeds received from sales of loans held for sale exceeding originations. Cash used in investing activities primarily reflected loan growth, partially offset by cash received from the net activity of investment securities.

Cash and cash equivalents increased $73.2 million, or 84.4%, to $159.9 million as of December 31, 2014 as compared to December 31, 2013. This increase was due to $31.4 million of cash provided by investing activities, coupled with cash flows from financing activities of $21.6 million, consisting primarily of an increase in short-term borrowings, and cash flows provided by operating activities of $20.2 million. Cash provided by investing activities primarily reflected $85.0 million of cash received in the Heartland Bank acquisition and net cash inflows from investment security and OREO transactions, offset in part by loan growth of $94.9 million.

Goodwill and Other Intangible Assets. Goodwill was $46.5 million at December 31, 2015 compared to $47.9 million and $7.7 million at December 31, 2014 and December 31, 2013, respectively. Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. During 2015, immaterial adjustments were made to the Heartland Bank purchase price allocations that affected the amounts allocated to goodwill, investment securities available for sale, loans, other assets and deferred tax liabilities. Our other intangible assets, which consist of core deposit and trust relationship intangibles, were $7.0 million, $9.5 million and $8.2 million at December 31, 2015, 2014 and 2013, respectively. These assets are amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of three to 10 years.

On December 31, 2014, we completed the Heartland Bank acquisition. At closing, the acquired entity primarily consisted of Heartland Bank, its wholly owned subsidiaries Love Funding and Heartland Business Credit, and $40.0 million of trust preferred debentures. Heartland Bank provided commercial and retail banking services primarily in the St. Louis metropolitan area. Love Funding is an approved Federal Housing Administration insured lender and Government National Mortgage Association issuer engaged in commercial mortgage origination and servicing, and Heartland Business Credit provides custom leasing and financing programs to equipment and software vendors and their customers.

We acquired Heartland Bank for $67.3 million, which consisted of 2,224,091 shares of common stock, $20.1 million of cash consideration and an accrual in other liabilities of $0.5 million for the fair value of additional consideration based on the earnings of Love Funding over the next two years. The identifiable assets acquired of $889.0 million and liabilities assumed of $860.7 million were recorded at fair value. The identifiable assets acquired included the establishment of a $3.4 million core deposit intangible, which is being amortized on an accelerated basis over 10 years. Based upon the acquisition date fair values of the net assets acquired, we recorded $38.9 million of goodwill in the consolidated balance sheet. We also recognized $0.5 million for the fair value of noncontrolling interests associated with two mortgage origination joint ventures owned 51% by Heartland Bank.

On June 5, 2013, we acquired Grant Park for $3.6 million, which consisted of $0.9 million in cash and 170,899 shares of common stock. Grant Park's wholly-owned subsidiary, First National Bank of Grant Park, had its principal bank in Grant Park, Illinois and operated two additional branches. The assets acquired of $108.7 million and liabilities assumed of $102.9 million were recorded at fair value. Based upon the acquisition date fair values of the net assets acquired, a $2.2 million gain on bargain purchase was recorded in the 2013 consolidated statement of income and a $1.3 million core deposit

intangible was recorded as an intangible asset and is being amortized on an accelerated basis over 10 years.

On March 1, 2013, we completed the acquisition of Settlement Trust Group, the trust business of Securant Bank & Trust, a bank headquartered in Milwaukee, Wisconsin. At the time of the acquisition, Settlement Trust Group had $34.6 million in assets under administration. The purchase price of $665,000 was recorded as an intangible asset and is being amortized on an accelerated basis over 10 years.

In April 2012, we acquired EnablePay Direct, Inc. (EnablePay), a merchant acquisition business and licensed affiliate of Visa, MasterCard and other major credit cards. The $0.2 million paid at closing to EnablePay was recorded as goodwill. In 2015, based on our assessment of this business, we determined the goodwill amount recorded at acquisition was impaired. Included in our 2015 consolidated statement of income is a $0.2 million impairment charge recorded in other noninterest expense.

Liabilities. Total liabilities increased $195.1 million to $2,651.8 million at December 31, 2015 as compared to December 31, 2014. This increase primarily resulted from deposit growth combined with $55.3 million of subordinated debentures issued in June 2015, offset in part by a reduction in other borrowings. Total liabilities increased $866.6 million to $2,456.7 million at December 31, 2014 as compared to December 31, 2013. This increase primarily resulted from the Heartland Bank acquisition and the assumption of liabilities totaling $860.3 million.

Deposits. We emphasize developing total client relationships with our customers in order to increase our retail and commercial core deposit bases, which are our primary funding sources. Our deposits consist of noninterest-bearing and interest-bearing demand, savings and time deposit accounts.

The following table summarizes our average deposit balances and weighted average rates at December 31, 2015, 2014 and 2013:

	As of December 31,					
	2015		2014		2013	
(dollars in thousands)	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Deposits						
Noninterest-bearing demand	$ 536,327	—	$ 252,213	—	$ 221,186	—
Interest-bearing:						
NOW	508,573	0.12%	323,818	0.10%	263,739	0.10%
Money market	432,570	0.22	231,132	0.19	243,936	0.15
Savings	159,345	0.13	117,472	0.10	102,324	0.10
Time, less than $250,000	364,777	0.75	268,391	0.68	291,710	0.86
Time, $250,000 and over	47,219	0.75	44,919	0.66	29,963	0.89
Time, brokered	198,744	1.32	137,318	1.61	120,760	1.82
Total interest-bearing	1,711,228	0.44	1,123,050	0.46	1,052,432	0.54
Total deposits	$ 2,247,555	0.33%	$ 1,375,263	0.38%	$ 1,273,618	0.45%

The following table sets forth the maturity of time deposits of $250,000 or more and brokered deposits as of December 31, 2015:

	As of December 31, 2015				
	Maturity Within:				
(dollars in thousands)	Three Months	Three to Six Months	Six to 12 Months	After 12 Months	Total
Time, $250,000 and over	$ 14,978	$ 2,863	$ 8,895	$ 25,461	$ 52,197
Brokered deposits	20,326	11,581	62,500	127,862	222,269
Total	$ 35,304	$ 14,444	$ 71,395	$ 153,323	$ 274,466

Total deposits increased $217.0 million, or 10.1%, to $2,367.6 million at December 31, 2015 as compared to December 31, 2014. This increase primarily resulted from organic growth of core deposits coupled with an increase in brokered deposits. At December 31, 2015, total deposits were comprised of 22.9% noninterest-bearing demand accounts, 48.8% interest-bearing transaction accounts and 28.3% of time deposits. At December 31, 2015, brokered deposits totaled $222.3 million, or 9.4% of total deposits, compared to $168.1 million, or 7.8% of total deposits, at December 31, 2014.

Total deposits increased $768.7 million, or 55.6%, to $2,150.6 million at December 31, 2014 as compared to December 31, 2013. This increase primarily resulted from the Heartland Bank acquisition and the addition of Heartland Bank deposits totaling $765.6 million. At December 31, 2014, total deposits were comprised of 23.6% noninterest-bearing demand accounts, 49.5% interest-bearing transaction accounts and 26.9% of time deposits. At December 31, 2014, brokered deposits totaled $168.1 million, or 7.8% of total deposits, compared to $139.4 million, or 10.1% of total deposits, at December 31, 2013.

We continue to focus on growing transactional deposits. Changes in the composition of our deposit portfolio have played a significant role in the weighted average rate on total deposits decreasing from 0.45% at December 31, 2013 to 0.38% and 0.33% at December 31, 2014 and 2015, respectively.

Short-Term Borrowings. In addition to deposits, we use short-term borrowings, such as federal funds purchased and securities sold under agreements to repurchase, as a source of funds to meet the daily liquidity needs of our customers and fund growth in earning assets. Short-term borrowings were $107.5 million at December 31, 2015 compared to $129.7 million at December 31, 2014 and $87.4 million at December 31, 2013. The weighted average interest rate on our short-term borrowings was 0.21%, 0.19% and 0.14% at December 31, 2015, 2014 and 2013, respectively.

The decrease in short-term borrowings at December 31, 2015 primarily resulted from the reduced usage of repurchase agreements by our customers.

The increase in short-term borrowings at December 31, 2014 partially resulted from the Heartland Bank acquisition and the resulting addition of short-term borrowings totaling $25.1 million. The remaining increase was due to expanded usage of repurchase agreements by several customers.

The following table sets forth the amount of short-term borrowings outstanding, as well as the weighted average interest rate thereon, as of the dates indicated. The balances set forth below are comprised primarily of repurchase agreements.

(dollars in thousands)	As of and for the Year Ended December 31, 2015	2014	2013
Outstanding at period-end	$ 107,538	$ 129,714	$ 87,420
Average amount outstanding	123,447	93,178	110,017
Maximum amount outstanding at any month-end	147,542	129,714	106,143
Weighted average interest rate:			
During period	0.19%	0.19%	0.15%
End of period	0.21%	0.19%	0.14%

FHLB Advances and Other Borrowings. In addition to deposits and short-term borrowings, we use borrowings from the FHLB and other sources as an additional source of liquidity.

The following table provides a summary of our FHLB advances and other borrowings at the dates indicated:

(in thousands)	As of December 31, 2015	2014	2013
Term loan—fixed interest rate 4.85%—maturing December 18, 2019	$ —	$ 13,994	$ —
Term loan—fixed interest rate 4.75%—maturing June 14, 2015	—	—	7,855
FHLB advances—fixed rate, fixed term, at rates averaging 0.93%, 0.97% amd 1.85% at December 31, 2015, 2014 and 2013, respectively—maturing through April 2017	40,000	50,000	50,000
FHLB advances—variable rate, fixed term, at 0.13% at December 31, 2014—maturing October 2015	—	10,000	—
FHLB advances—putable fixed rate, at rates from 4.02% to 4.09%, averaging 4.07%—$15,000 maturing January 2016 through November 2016	—	—	15,555
Obligations under capital leases—implicit interest rate of 1.70%—maturing through July 2018	178	355	—
Total FHLB advances and other borrowings	$ 40,178	$ 74,349	$ 73,410

On December 31, 2014, we repaid $40.0 million of FHLB advances with a weighted average interest rate of 2.86% and maturity dates ranging from 2016 to 2017. As a result, we paid a prepayment fee of $1.7 million that was recorded as noninterest expense in the 2014 consolidated statement of income.

On June 14, 2012, we entered into a $10.0 million term loan agreement with another bank. The interest rate was fixed at 4.75% for the term of the loan. This loan was paid off in December 2014.

On December 18, 2014, we entered into a $14.0 million term loan agreement with the same bank. The interest rate was fixed at 4.85% for the term of the loan. This loan was paid off in June 2015.

Subordinated Debt. The following table provides a summary of subordinated debt at the dates indicated:

(in thousands)	As of December 31, 2015	2014	2013
Issued June 2013—fixed interest rate of 8.25%, $8,000 maturing June 28, 2021	$ 7,448	$ 7,370	$ 7,299
Issued June 2015—fixed interest rate of 6.00% for the first five years through June 2020 and a variable interest rate equivalent to three-month LIBOR plus 4.35% thereafter, $40,325 maturing June 18, 2025	39,659	—	—
Issued June 2015—fixed interest rate of 6.50%, $15,000 maturing June 18, 2025	14,752	—	—
Total subordinated debt	$ 61,859	$ 7,370	$ 7,299

In June 2015, we issued two tranches of subordinated debt instruments for aggregate proceeds of $55.3 million. For one of the tranches, we issued subordinated notes totaling $15.0 million with a maturity date of June 18, 2025 and a fixed interest rate of 6.50%. For the other tranche, we issued subordinated notes totaling $40.3 million with a maturity date of June 18, 2025. This tranche carries a fixed interest rate of 6.00% for the first five years and a floating rate based on LIBOR plus 435 basis points thereafter.

On January 2, 2013, a third party committed to invest a total of $10.0 million in the form of $8.0 million of subordinated notes and $2.0 million of common stock. On March 26, 2013, we issued 125,000 shares of common stock per the terms of the commitment. In addition, 8.25% subordinated notes totaling $8.0 million were issued on June 28, 2013. These subordinated notes are due June 28, 2021. An 8-year detachable warrant for the purchase of 125,000 shares at $16.00 per share of our common stock was issued concurrently with the funding of the notes. The detachable warrants became exercisable one year after issuance. The detachable warrants were valued at $0.6 million and recorded on a relative value basis separately in shareholders' equity. Correspondingly, the value of the subordinated notes was reduced by $0.6 million with the recording of a discount that we amortize using the interest method over the life of the subordinated notes.

Trust Preferred Debentures. The following table provides a summary of our trust preferred debentures at the dates indicated:

(in thousands)	As of December 31, 2015	2014	2013
Grant Park Statutory Trust I—variable interest rate equal to LIBOR plus 2.85%, which was 3.17%, 3.08% and 3.09% at December 31, 2015, 2014 and 2013, respectively—$3,000 maturing January 23, 2034	$ 1,932	$ 2,067	$ 1,830
Midland States Preferred Security Trust—variable interest rate equal to LIBOR plus 2.75%, which was 3.07%, 2.98% and 2.99% at December 31, 2015, 2014 and 2013, respectively—$10,000 maturing April 23, 2034	9,954	9,952	10,000
LSHC Capital Trust III—variable interest rate equal to LIBOR plus 1.75%, which was 2.26% and 1.99% at December 31, 2015 and 2014, respectively—$20,000 maturing December 31, 2036	13,001	12,872	—
LSHC Capital Trust IV—variable interest rate equal to LIBOR plus 1.47%, which was 1.92% and 1.71% at December 31, 2015 and 2014, respectively—$20,000 maturing September 6, 2037	12,170	12,039	—
Total trust preferred debentures	$ 37,057	$ 36,930	$ 11,830

As of December 31, 2015, 2014 and 2013, $37.1 million, $36.9 million, and $11.8 million of junior subordinated debentures, respectively, were outstanding. The increase in trust preferred debentures at December 31, 2014 primarily resulted from $40.0 million of trust preferred debentures being assumed by us in the Heartland Bank acquisition that we recorded at an acquisition date fair value of $24.9 million. Junior subordinated debentures totaling $10.0 million are unsecured with interest payable quarterly at an interest rate of the three-month LIBOR plus 2.75%. These debentures mature on April 23, 2034. The $1.9 million of junior subordinated debentures from the Grant Park transaction are unsecured with interest payable quarterly at an interest rate of the three-month LIBOR plus 2.85%. These debentures total $3.0 million and mature on January 23, 2034.

In conjunction with the Heartland Bank acquisition, we assumed $40.0 million of subordinated debentures that were recorded at a fair value of $24.9 million at the time of acquisition. On November 30, 2006, the Love Savings/Heartland Capital Trust III (LSHC Trust III) issued 20,000 shares of capital securities with a liquidation amount of $1,000 per security. Love Savings issued $20.0 million of subordinated debentures to LSHC Trust III in exchange for ownership of all the common securities of the trust. On June 6, 2007, the Love Savings/Heartland Capital Trust IV (LSHC Trust IV) issued 20,000 shares of capital securities with a liquidation amount of $1,000 per security. Love Savings (the parent company of Heartland Bank) issued $20.0 million of subordinated debentures to LSHC Trust IV in exchange for ownership of all the common securities of the trust. We are not considered the primary beneficiary of LSHC Trust III or LSHC Trust IV, therefore the trusts are not consolidated in our financial statements, but rather the subordinated debentures are shown as a liability. Our investment in the common stock of the trusts was $1.2 million and is included in other assets.

The debentures associated with LSHC Trust III mature on December 31, 2036 and pay a variable rate of interest equal to LIBOR plus 1.75%. The debentures associated with LSHC Trust IV mature on September 6, 2037 and pay a variable rate of interest equal to LIBOR plus 1.47%. Interest is payable quarterly. The debentures, net assets of LSHC Trust III, net assets of LSHC Trust IV and the common securities issued by the trusts are redeemable in whole or in part on dates each quarter at the redemption price plus interest accrued to the redemption date, as specified in the trust indenture document. The debentures are also redeemable in whole or in part from time to time upon the occurrence of "special events" defined within the indenture document. Subject to certain exceptions and limitations, we may, from time to time, defer subordinated debenture interest payments, which

would result in a deferral of distribution payments on the related debentures, and with certain exceptions, prevent us from declaring or paying cash distributions on common stock or debt securities that rank pari passu or junior to the subordinated debenture.

As of December 31, 2015, 2014 and 2013, the weighted average interest rates on the debentures were 2.41%, 2.23% and 3.01%, respectively. The debentures may be redeemed, subject to approval of the Federal Reserve, at our option.

Capital Resources and Liquidity Management

Capital Resources. Shareholders' equity is influenced primarily by earnings, dividends, sales and redemptions of common stock and preferred stock and changes in accumulated other comprehensive income caused primarily by fluctuations in unrealized holding gains or losses, net of taxes, on available-for-sale investment securities.

Shareholders' equity increased $13.1 million, or 6.0%, to $233.1 million at December 31, 2015 as compared to December 31, 2014 due to the retention of earnings, offset in part by dividends declared on common stock. During 2015, we generated net income of $24.3 million and declared dividends of $7.7 million to common shareholders.

Shareholders' equity increased $70.5 million, or 47.2%, to $219.9 million at December 31, 2014 as compared to December 31, 2013 due to the retention of earnings, issuances of common stock, and an increase in accumulated other comprehensive income. These increases were offset in part by dividends declared on common and preferred stock. During 2014, we generated net income of $10.8 million and declared dividends of $3.5 million to common shareholders and $4.7 million to preferred shareholders. Shareholders' equity in 2014 was also impacted by the issuance of $16.2 million of common stock in a private placement and the issuance of $46.7 million of common stock for the Heartland Bank acquisition. In addition, accumulated other comprehensive income increased $3.6 million during 2014 due to increases in unrealized gains on investment securities available for sale.

Liquidity Management. Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest-bearing deposits in banks, federal funds sold, available-for-sale investment securities and maturing or prepaying balances in our investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of liquidity include the sale of loans, the ability to acquire additional national market noncore deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, additional borrowings through the Federal Reserve's discount window and the issuance of preferred or common securities. Our short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. For additional information regarding our operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in our consolidated financial statements.

Integral to our liquidity management is the administration of short-term borrowings. To the extent we are unable to obtain sufficient liquidity through core deposits, we seek to meet our liquidity needs through wholesale funding or other borrowings on either a short- or long-term basis.

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under agreements to repurchase were $107.5 million at December 31, 2015, compared to $129.7 million at December 31, 2014. This decrease primarily resulted from reduced usage of repurchase agreements by our customers. Securities sold under agreements to repurchase increased $42.3 million, or 48.4%, to $129.7 million at December 31, 2014 from $87.4 million at December 31, 2013. This increase in short-term borrowings partially resulted from the Heartland Bank acquisition and the resulting addition of short-term borrowings totaling $25.1 million. The remaining increase was due to expanded usage of repurchase agreements by several customers.

As of December 31, 2015 and 2014, we had $83.0 million and $93.0 million of unsecured federal funds lines, respectively, with no amounts advanced against the lines at either period end. In addition, lines of credit from the Federal Reserve Discount Window at December 31, 2015 and 2014 were $62.1 million and $28.6 million, respectively. Federal Reserve Discount Window lines were collateralized by a pool of commercial real estate loans totaling $76.7 million and $48.5 million as of December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, we had $40.0 million and $60.0 million of outstanding advances from the FHLB, respectively. Based on the values of stock, securities, and loans pledged as collateral, we had $422.6 million and $266.1 million of additional borrowing capacity with the FHLB as of December 31, 2015 and 2014, respectively. We did not have any borrowings outstanding with the Federal Reserve at December 31, 2015 or 2014, and our borrowing capacity is limited only by eligible collateral. We also maintain relationships in the capital markets with brokers and dealers to issue certificates of deposit.

The Company is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity. The Company's main source of funding is dividends declared and paid to us by the Bank. There are statutory, regulatory and debt covenant limitations that affect the ability of the Bank to pay dividends to the Company. Management believes that these limitations will not impact our ability to meet our ongoing short-term cash obligations.

Regulatory Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action" (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies.

In the wake of the global financial crisis of 2008 and 2009, the role of capital has become fundamentally more important, as banking regulators have concluded that the amount and quality of capital held by banking organizations was insufficient to absorb losses during periods of severely distressed economic conditions. The Dodd-Frank Act and new banking regulations promulgated by the U.S. federal banking regulators to implement Basel III have established strengthened capital standards for banks and bank holding companies and require more capital to be held in the form of common stock. These provisions, which generally must be complied with by community banks by January 1,

2015, impose meaningfully more stringent regulatory capital requirements than those in place currently. The table below summarizes the minimum capital requirements applicable to us under current regulations and how those requirements will change under the new Basel III regulations. Such requirements are only regulatory minimums and banking regulators can impose higher requirements on individual institutions. For example, banks and bank holding companies experiencing internal growth or making acquisitions generally will be expected to maintain strong capital positions substantially above the minimum supervisory levels. Higher capital levels may also be required if warranted by the particular circumstances or risk profiles of individual banking organizations.

	Basel III	
Ratio	Well Capitalized	Adequately Capitalized
Tier 1 leverage	5.0%	4.0%
Common equity Tier 1 risk-based(1)	6.5	4.5
Tier 1 risk-based	8.0	6.0
Total risk-based	10.0	8.0

(1) The common equity Tier 1 risk-based ratio is a new ratio created by the Basel III regulations beginning January 1, 2015. It is computed as common equity Tier 1 capital divided by total risk-based assets.

In addition to the minimum regulatory capital requirements set forth in the table above, the Basel III regulations will implement a concept known as the "capital conservation buffer." In general, banks and bank holding companies will be required to hold a buffer of common equity Tier 1 capital equal to 2.5% of risk-weighted assets over each minimum capital ratio to avoid being subject to limits on capital distributions (e.g., dividends, stock buybacks, etc.) and certain discretionary bonus payments to executive officers. For community banks, the capital conservation buffer requirement commenced on January 1, 2016, with a gradual phase-in. Full compliance with the capital conservation buffer will be required by January 1, 2019.

The Basel III regulations also revise the definition of capital and describe the capital components and eligibility criteria for common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. The most significant changes to the capital criteria are that: (i) the prior concept of unrestricted Tier 1 capital and restricted Tier 1 capital has been replaced with additional Tier 1 capital and a regulatory capital ratio that is based on common equity Tier 1 capital; and (ii) trust preferred securities and cumulative perpetual preferred stock issued after May 19, 2010 no longer qualify as Tier 1 capital. This change is already effective due to the Dodd-Frank Act, although such instruments issued prior to May 19, 2010 continue to qualify as Tier 1 capital (assuming they qualified as such under the prior regulatory capital standards), subject to the 25% of Tier 1 capital limit.

At December 31, 2015, the Bank exceeded all regulatory capital requirements under Basel III and was considered to be "well-capitalized" with a Tier 1 leverage ratio of 9.01%, a Tier 1 capital ratio of 10.39% and a total capital ratio of 11.06%.

As of December 31, 2014, the Bank and Heartland Bank met all capital adequacy requirements. Also, as of December 31, 2014, the most recent notification from the FDIC categorized both the Bank and Heartland Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, we must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. At December 31, 2014, both the Bank and Heartland Bank exceeded all regulatory capital requirements and were considered to be "well-capitalized" with Tier 1 leverage ratios of 8.65% and 8.76%, respectively, Tier 1 capital to risk-weighted assets ratios of 10.34% and 11.77%, respectively, and total capital to risk-weighted assets ratios of 11.18% and 13.03%, respectively.

Contractual Obligations

The following table contains supplemental information regarding our total contractual obligations at December 31, 2015:

	Payments Due				
(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	$ 1,698,758	$ —	$ —	$ —	$ 1,698,758
Time deposits	313,783	323,484	31,596	27	668,890
Securities sold under repurchase agreements	107,538	—	—	—	107,538
FHLB advances and other borrowings	27,660	12,518	—	—	40,178
Operating lease obligations	2,529	4,200	3,505	6,707	16,941
Subordinated debt	—	—	—	61,859	61,859
Trust preferred debentures	—	—	—	37,057	37,057
Total contractual obligations	$ 2,150,268	$ 340,202	$ 35,101	$ 105,650	$ 2,631,221

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

We have limited off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets. Most of these commitments mature within two years and are expected to expire without being drawn upon. Standby letters of credit are included in the determination of the amount of risk-based capital that the Company and the Bank are required to hold.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. We decrease our exposure to losses under these commitments by subjecting them to credit approval and monitoring procedures. We assess the credit risk associated with certain commitments to extend credit and establish a liability for probable credit losses.

Standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event that the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

We guarantee the distributions and payments for redemption or liquidation of the trust preferred securities issued by our wholly owned subsidiary business trust to the extent of funds held by the trusts. Although this guarantee is not separately recorded, the obligation underlying the guarantee is fully reflected on our consolidated balance sheets as junior subordinated debentures held by subsidiary trusts. The junior subordinated debentures currently qualify as Tier 1 capital under the Federal Reserve capital adequacy guidelines.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk. Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk.

Interest Rate Risk

Overview. Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (reprice risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay residential mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and LIBOR (basis risk).

Our board of directors Asset-Liability Committee, or ALCO, establishes broad policy limits with respect to interest rate risk. ALCO establishes specific operating guidelines within the parameters of the board of directors' policies. In general, we seek to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. Our ALCO meets quarterly to monitor the level of interest rate risk sensitivity to ensure compliance with the board of directors' approved risk limits.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Income Simulation and Economic Value Analysis. Interest rate risk measurement is calculated and reported to the Board ALCO at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

We use two approaches to model interest rate risk: Net Interest Income at Risk (NII at Risk) and Economic Value of Equity (EVE). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives. EVE measures the period end market value of assets

minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

	Net Interest Income Sensitivity			
	Immediate Change in Rates			
(dollars in thousands)	–100	–50	+100	+200
December 31, 2015:				
Dollar change	$ (1,580)	$ (759)	$ 1,356	$ 2,999
Percent change	(1.77)%	(0.85)%	1.52%	3.36%
December 31, 2014:				
Dollar change	$ 1,211	N/A(a)	$ (1,819)	$ (3,511)
Percent change	1.41%	N/A(a)	(2.11)%	(4.07)%
December 31, 2013:				
Dollar change	$ (866)	N/A(a)	$ 225	$ 566
Percent change	(1.34)%	N/A(a)	0.35%	0.87%

(a) During 2015, we adopted an analysis more reflective of the current low interest rate environment. Due to this change, we do not have this information for prior years.

We report NII at Risk to isolate the change in income related solely to interest earning assets and interest-bearing liabilities. The NII at Risk results included in the table above reflect the analysis used quarterly by management. It models gradual –50, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next one-year period. Due to the current low level of short-term interest rates, the analysis reflects a declining interest rate scenario of 50 basis points, the point at which many assets and liabilities reach zero percent.

We are within Board policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the –50 basis point scenario. The NII at Risk reported at December 31, 2015, projects that our earnings are not expected to be materially sensitive to changes in interest rates over the next year. In recent periods, the amount of fixed rate assets increased resulting in a position shift to neutral to slightly asset sensitive.

	Economic Value of Equity Sensitivity			
	Immediate Change in Rates			
(dollars in thousands)	–100	–50	+100	+200
December 31, 2015:				
Dollar change	$ (33,949)	$ (16,147)	$ 29,080	$ 55,533
Percent change	(13.2)%	(6.3)%	11.3%	21.6%
December 31, 2014:				
Dollar change	$ (10,826)	N/A(a)	$ 4,277	$ 7,479
Percent change	(4.3)%	N/A(a)	1.7%	3.0%
December 31, 2013:				
Dollar change	$ (6,361)	N/A(a)	$ 30	$ (617)
Percent change	(3.1)%	N/A(a)	0.0%	(0.3)%

(a) During 2015, we adopted an analysis more reflective of the current low interest rate environment. Due to this change, we do not have this information for prior years.

The EVE results included in the table above reflect the analysis used quarterly by management. It models immediate –50, +100 and +200 basis point parallel shifts in market interest rates. Due to the current low level of short-term interest rates, the analysis reflects a declining interest rate scenario of 50 basis points, the point at which many assets and liabilities reach zero percent.

We are within Board policy limits for the +100 and +200 basis point scenarios. There is no policy limit for the –50 basis point scenario. The EVE reported at December 31, 2014 projects that as interest rates increase (decrease) immediately, the economic value of equity position will be expected to decrease (increase). When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall. The EVE at risk reported as of December 31, 2014 for the +200 basis points scenario shows a change from a liability sensitive position to an asset sensitive position compared with December 31, 2013.

Price Risk. Price risk represents the risk of loss arising from adverse movements in the prices of financial instruments that are carried at fair value and subject to fair value accounting. We have price risk from equity investments, and investments in mortgage-backed securities.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in accordance with GAAP requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies, as described in detail in the notes to our consolidated financial statements are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that the critical accounting policies and estimates discussed below require us to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, that are likely to occur from period to period, or using different estimates that we could have reasonably used in the current period, would have a material impact on our financial position, results of operations or liquidity.

Loans Held for Investment. Loans held for investment includes loans we originate and retain on the balance sheet and other loans acquired through acquisition. Our accounting policies require that we evaluate all acquired loans for evidence of deterioration in credit quality since origination and to evaluate whether it is probable that we will collect all contractually required payments from the borrower. Loans acquired with evidence of deterioration in credit quality are accounted for as PCI loans. For PCI loans, the amount of contractually required payments receivable in excess of the amount of future cash flows we estimate at acquisition is considered a nonaccretable difference. The PCI loans are reflected on the balance sheet based on the amount expected to be collected. In addition, the amount of future cash flows expected to be collected in excess of the fair value of the PCI loans is considered accretable yield and is recognized in interest income on a level-yield basis over the estimated life of the acquired loans.

We reevaluate our original estimates of cash flows expected to be collected over the life of the PCI loans on a quarterly basis. If it is probable, based on current information and events, that there is a significant increase in cash flows previously expected to be collected, or if actual cash flows are significantly greater than cash flows previously expected, we adjust the amount of accretable yield by reclassification from nonaccretable difference. Conversely, if we believe we will be unable to collect all cash flows expected at acquisition, we establish a valuation allowance through the allowance for loan losses with a change to the provision for loan losses.

Determining the accretable and nonaccretable amounts at acquisition and the ongoing reevaluation of expected cash flows are considered critical accounting estimates, as these require significant

judgment and the use of subjective measurements, including our assessment of historical loss rates, changes in the nature of the portfolio and delinquency trends.

Investment Securities. Investment securities generally must be classified as held to maturity, available for sale or trading. Held-to-maturity securities are principally debt securities that we have both the positive intent and ability to hold to maturity. Trading securities are held primarily for sale in the near term to generate income. Securities that do not meet the definition of trading or held to maturity are classified as available for sale.

The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on these securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise. Trading and available-for-sale securities are measured at fair value each reporting period. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of shareholders' equity (accumulated other comprehensive income or loss) and do not affect earnings until realized or deemed to be OTTI. Investment securities that are classified as held to maturity are recorded at amortized cost, unless deemed to be OTTI.

The fair values of investment securities are generally determined by various pricing models. We evaluate the methodologies used to develop the resulting fair values. We perform a quarterly analysis on the pricing of investment securities to ensure that the prices represent a reasonable estimate of the fair value. Our procedures include initial and ongoing review of pricing methodologies and trends. We seek to ensure prices represent a reasonable estimate of fair value through the use of broker quotes, current sales transactions from our portfolio and pricing techniques, which are based on the net present value of future expected cash flows discounted at a rate of return market participants would require. Significant inputs used in internal pricing techniques are estimated by type of underlying collateral, estimated prepayment speeds where applicable and appropriate discount rates. As a result of this analysis, if we determine there is a more appropriate fair value, the price is adjusted accordingly.

When the level and volume of trading activity for certain securities has significantly declined or when we believe that pricing is based in part on forced liquidation or distressed sales, we estimate fair value based on a combination of pricing information and an internal model using a discounted cash flow approach. We make certain significant assumptions in addition to those discussed above related to the liquidity risk premium, specific nonperformance and default experience in the collateral underlying the security. The values resulting from each approach are weighted to derive the final fair value for each security trading in an inactive market.

The fair value of investment securities is a critical accounting estimate. Changes in the fair value estimates that are likely to occur from period to period, or the use of different estimates that we could have reasonably used in the current period, could have a material impact on our financial position, results of operations or liquidity.

Allowance for Loan Losses. The allowance for loan losses represents management's estimate of probable and reasonably estimable credit losses inherent in the held for investment loan portfolio. In determining the allowance, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably estimated. On a quarterly basis, we assess the risk inherent in our loan portfolio based on qualitative and quantitative trends in the portfolio, including the internal risk classification of loans, historical loss rates, changes in the nature of the portfolio, industry concentrations, delinquency trends, detailed reviews of significant loans with identified weaknesses and the impacts of local, regional and national economic factors on the quality of the loan portfolio. Based on this analysis, we record a provision for loan losses in order to maintain the allowance at appropriate levels.

For PCI loans, an allowance may be required subsequent to their acquisition. The PCI loans are recorded at their estimated fair value at the date of acquisition, with the estimated fair value including a component for estimated credit losses. A portion of the allowance, however, may be set aside in the future if a PCI loan pool experiences a decrease in expected cash flows as compared to those projected at the acquisition date.

Determining the amount of the allowance is considered a critical accounting estimate, as it requires significant judgment and the use of subjective measurements, including management's assessment of overall portfolio quality. The allowance is maintained at an amount we believe is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses may result from management's assessment of the adequacy of the allowance. Changes in these estimates and assumptions are possible and may have a material impact on our allowance, and therefore our financial position, liquidity or results of operations.

Goodwill. Goodwill is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. Goodwill is evaluated for impairment at the reporting unit level. Reporting units are defined as the same level as, or one level below, an operating segment. An operating segment is a component of a business for which separate financial information is available that management regularly evaluates in deciding how to allocate resources and assess performance.

Estimating the fair value of reporting units is a subjective process that involves the use of estimates and judgments. The fair value of reporting units is calculated using a discounted cash flow model, a form of the income approach. The model uses projected cash flows based on each reporting unit's internal forecast and use the perpetuity growth method to calculate terminal values. These cash flows and terminal values are then discounted using discount rates based on our external cost of equity with adjustments for risk inherent in each reporting unit. Cash flows are adjusted, as necessary, in order to maintain each reporting unit's equity capital requirements. Our discounted cash flow analysis requires management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. Discount rates used in 2015 for the reporting units ranged from 13% to 15%. The key inputs into the discounted cash flow analysis were consistent with market data, where available, indicating that assumptions used were within a reasonable range of observable market data.

As part of the annual goodwill impairment test, we also applied the guideline public company method of valuation to assess the reasonableness of the fair values derived using the discounted cash flow method.

Determining the fair value of goodwill is considered a critical accounting estimate because it requires significant management judgment and the use of subjective measurements. Variability in the market and changes in assumptions or subjective measurements used to determine fair value are reasonably possible and may have a material impact on our financial position, liquidity or results of operations.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes as prescribed by GAAP. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Accounting for deferred income taxes is a critical accounting estimate because we exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. Management's determination of the realization of deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, reversing temporary

differences which may offset, and the implementation of various tax plans to maximize realization of the deferred tax asset. These judgments and estimates are inherently subjective and reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in such period, which would negatively affect earnings.

Recently Issued Accounting Pronouncements. We have evaluated new accounting pronouncements that have recently been issued and have determined that there are no new accounting pronouncements that should be described in this section that will impact our operations, financial condition or liquidity in future periods. Refer to Note 1 of our audited consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 for a discussion of recently issued accounting pronouncements that have been adopted by us during the year ended December 31, 2015 or that will require enhanced disclosures in our financial statements in future periods.

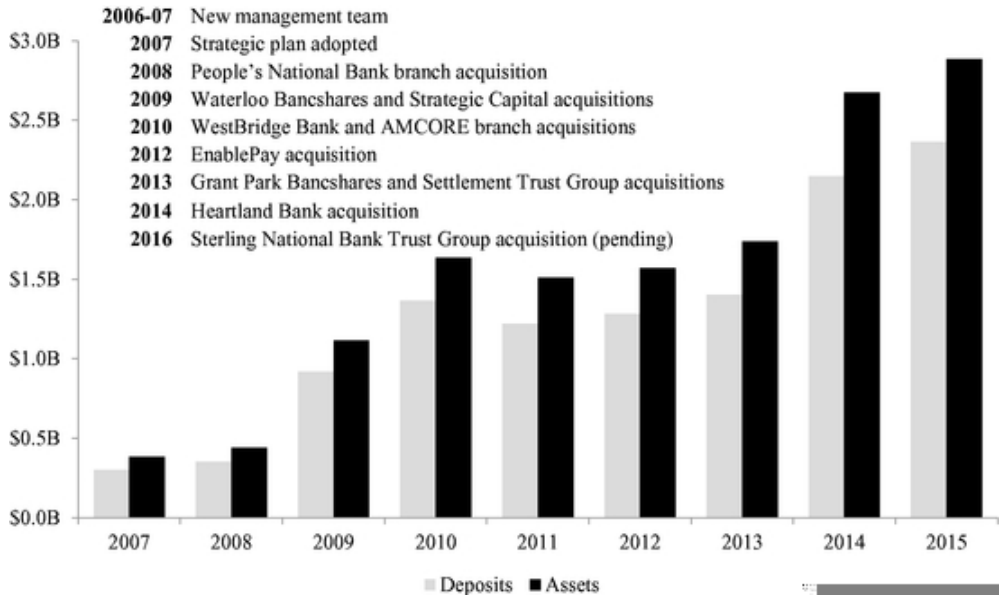
BUSINESS

Our Company

Midland States Bancorp, Inc. is a diversified financial holding company headquartered in Effingham, Illinois. Our 135-year old banking subsidiary, Midland States Bank, has branches across Illinois and in Missouri and Colorado, and provides a broad array of traditional community banking and other complementary financial services, including commercial lending, residential mortgage origination, wealth management, merchant services and prime consumer lending. Our commercial FHA origination and servicing business, based in Washington, D.C., is one of the top originators of government sponsored mortgages for multifamily and healthcare facilities in the United States. Our commercial equipment leasing business, based in Denver, provides financing to business customers across the country. As of December 31, 2015, we had $2.9 billion in assets, $2.4 billion of deposits and $233.1 million of shareholders' equity.

In late 2007, we developed a strategic plan to build a diversified financial services company anchored by a strong community bank. Since then, we have grown organically and through a series of nine acquisitions, with an over-arching focus on enhancing shareholder value and building a platform for scalability. Most recently, we acquired Heartland Bank in December 2014, which greatly expanded our commercial, retail and mortgage banking services in the St. Louis metropolitan area. Additionally, the Heartland Bank acquisition facilitated our entry into Colorado, with one branch office located in Denver and three Colorado mortgage offices. This transaction also provided us the opportunity to enter complementary commercial FHA loan origination and commercial equipment leasing business lines. In total, we have grown from a community bank with six locations and diluted earnings per share of $0.50 for the year ended December 31, 2007, to a financial services company with 81 locations, nationwide operations and diluted earnings per share of $2.00 for the year ended December 31, 2015.

Strategic Growth History



We developed our strategic plan in late 2007 soon after hiring Leon J. Holschbach, our President and Chief Executive Officer, and Jeffrey G. Ludwig, our Executive Vice President and Chief Financial Officer. The plan continues to reflect our belief that a diversified financial services company with strong leadership and a growth-oriented risk management program will be well positioned to take advantage of changes in the banking industry, including consolidation and opportunities to re-enter

markets in which community banks had once been competitive. We have achieved our recent growth through sustained execution of five initiatives that comprise our strategic plan:

Revenue Diversification. Our revenue diversification initiative seeks to generate stable, recurring revenue and build customer loyalty by offering a wide range of related financial products and services to meet our customers' business and personal needs. This initiative initially focused on growing our wealth management business, and as part of that building process, our wealth management division moved from a transaction based model to a fee based model, and currently approximately 94.0% of our wealth management revenue is generated from recurring fees. Our wealth management group has also diversified its traditional trust and investment offerings to include employee retirement plan administration and litigation settlement trust services.

Following the substantial growth in our wealth management business, we began seeking further areas of diversification, with the intent of offering more products and services. In 2011, we began what has become a highly successful consumer loan program offered through certain national and regional retailers. In 2012, we acquired our merchant services business, working with merchants across our footprint. And in 2013, we acquired a litigation settlement trust business.

In 2014, as part of the Heartland Bank acquisition, we added equipment leasing and commercial FHA origination and servicing to our revenue mix. While each of these businesses has a dedicated sales team, they also complement the products and services offered by our commercial lenders. As an example, we have developed a bridge loan program that provides Love Funding customers short-term bank financing before the FHA loan is originated. Also, as part of the Heartland Bank acquisition, we acquired a commercial loan servicing portfolio that generates significant fee income and noninterest-bearing deposits in the form of ongoing escrow and replacement reserve accounts that are required as part of the various FHA loans procured by Love Funding and other third party originators for whom we perform loan servicing.

Customer Centric Culture. Through this initiative we focus on customer service and accountability—both to our clients and to our colleagues. We seek to develop bankers who create dynamic relationships through innovative solutions, provide a superior customer experience and operate across all areas of our Company as a team. We believe continual investment in our people is a key driver of superior financial performance, with respect to both our intended organic growth and integrating and growing acquired operations. We also believe it is important to maintain a core set of institutional values. Towards this end, all new employees, including employees joining us through acquisitions, receive our culture and values training as part of the integration process. In addition, we conduct annual culture assessments, the results of which are analyzed by region, branch, seniority level and operating units, and reviewed with managers to promote further development of our corporate culture goals.

De Novo Expansion. Our *de novo* expansion initiative primarily focuses on finding experienced teams with proven track records both in new and existing markets. Since 2007, we have established seven *de novo* locations, including two in Joliet, Illinois, one in each of Rockford, Bloomington, Decatur and Yorkville, Illinois, and one in Jennings, Missouri. We also expect to open one additional location in the St. Louis market in 2017, the cost of which is anticipated to be approximately $1 million to $2 million. We believe that our experience in establishing *de novo* operations will continue to serve us well and complement our acquisition growth strategy.

Accretive Acquisitions. Our accretive acquisition initiative reflects our determination that we can strengthen our long term franchise value by capitalizing on opportunities to increase our earnings through acquisitions in our existing market areas and in the broader Midwestern region.

We believe that there are many other small to midsized banking organizations that will be available for acquisition within Illinois and its contiguous states, either because of management succession

questions, increasing capital requirements, operational challenges, regulatory pressure or shareholder liquidity needs, as illustrated below.

Number of Banks & Thrifts with less than $1.0 Billion in Assets
(% of Nationwide Total)

- As of March 31, 2016, there were 1,336 institutions in the six-state region with less than $1.0 billion in assets, representing 27.8% of the total number of banks and thrifts nationwide with assets less than $1.0 billion and $272 billion in aggregate banking assets.
- Illinois and Missouri combine for a total of 629 of those banks, representing 13.1% of banks and thrifts nationwide with assets less than $1.0 billion.

Source: SNL Financial (bank asset sizes are based on December 31, 2015 financial data). Data excludes mutual savings institutions.

We believe that we have developed strong platforms for residential mortgage originations, wealth management, commercial FHA origination and servicing and commercial leasing, and that we will be able to grow these businesses in the future through acquisitions and continued expansion of our branch banking network.

The following table provides certain information regarding each of our pending and completed acquisitions that we have completed since implementing our strategic plan.

Date	Target	Type	Description and Highlights
2016 (pending)	Trust Department of Sterling National Bank *Yonkers, NY*	Acquisition of business line	• Pending acquisition of approximately $400 million in wealth management assets. • Anticipated closing date in second or third quarter of 2016 (subject to regulatory approval and other customary closing conditions).
2014	Love Savings Holding Company (Heartland Bank) *St. Louis, MO*	Holding company acquisition	• Significantly expanded presence in Missouri side of St. Louis metropolitan area through the addition of 10 full-service banking offices. • Acquisition included Heartland Bank and its subsidiaries Love Funding Corporation, an approved FHA lender and GNMA issuer of commercial loans, and Heartland Business Credit, a provider of custom leasing programs to equipment and software vendors and their customers. • Acquired $889.0 million of assets and assumed $860.7 million of liabilities. • Recognized $38.9 million of goodwill. • Recognized a $3.4 million core deposit intangible.

Date	Target	Type	Description and Highlights
2013	Grant Park Bancshares, Inc. *Grant Park, IL*	Holding company acquisition	• Three well-established bank locations approximately 60 miles south of Chicago. • Acquired $108.7 million of assets and $102.9 million of liabilities. • Recognized $2.2 million bargain purchase gain.
2013	Settlement Trust Group *Milwaukee, WI*	Acquisition of business line	• Purchased litigation settlement trust business. • Acquired $34.6 million of trust assets under administration.
2012	EnablePay Direct, Inc. *Albertson, NY*	Asset acquisition	• Merchant acquisition business with established merchant accounts through Visa, MasterCard and other major credit cards.
2010	WestBridge Bank & Trust Company *Chesterfield, MO*	FDIC-assisted acquisition	• Expanded presence in St. Louis area by acquiring the assets and assuming the deposits of a bank that had been placed in FDIC receivership. • Acquired $84.7 million of assets and $61.1 million of deposits. • Recognized $4.5 million bargain purchase gain.
2010	AMCORE Bank, N.A. *Rockford, IL*	Branch acquisition	• Entered the northern Illinois market by purchasing 12 branch offices and certain other assets from a distressed bank. • Acquired $499.5 million of assets, including $407.2 million of loans, and $493.4 million of deposits. • Also acquired approximately $400 million of trust and wealth management assets. • Recognized $4.2 million bargain purchase gain.
2009	Strategic Capital Bank *Champaign, IL*	FDIC-assisted acquisition	• Entered the Champaign-Urbana market in central Illinois by acquiring the assets and assuming the deposits of a bank that had been placed in FDIC receivership. • Acquired $540.4 million of assets, including $143.1 million of loans and $252.7 million of investment securities, and $467.6 million of deposits ($413.8 million of which were brokered). • Also acquired $146.4 million of trust and wealth management assets. • Recognized $19.2 million bargain purchase gain.
2009	Waterloo Bancshares, Inc. *Waterloo, IL*	Holding company acquisition	• Entered the Illinois side of the St. Louis metropolitan statistical area by purchasing a bank with six branch offices. • Acquired $116.1 million of assets and $98.1 million of deposits. • Recognized $3.8 million of goodwill.

Date	Target	Type	Description and Highlights
2008	People's National Bank *Mt. Vernon, IL*	Branch acquisition	• Purchased two branches in central Illinois. • Acquired $29.6 million of assets and $23.6 million of deposits.

Enterprise-Wide Risk Management. When developing our strategic plan, our management team determined that it was critical to integrate risk management with all aspects of our business and growth initiatives. Our enterprise-wide risk management program is designed to establish controls, monitoring and risk-assessment at key levels and stages of our operations and growth. We seek to develop a culture where all of our employees are fully engaged in this program, including with respect to organic growth and acquisitions. New products and services are vetted through our "change management" system, which is designed to ensure that proper processes, procedures and internal audit functions will be in place at the time such products or services are launched. Our risk management department is also involved in all acquisition transactions, including in the due diligence and integration processes. To ensure that our risk management initiative is ingrained at all levels throughout our organization, the compensation committee of our board of directors has based annual performance bonuses for our executive officers and other employees on the achievement of certain risk-based metrics, including maintaining specified capital and asset quality ratios. We believe we have been successful in this area and intend to continue investing in this initiative.

Our Principal Businesses

We have five principal business lines:

Traditional Community Banking. Our traditional community banking business primarily consists of commercial and retail lending and deposit taking, with a total loan portfolio of $1.9 billion and total deposits of $2.4 billion as of December 31, 2015. We deliver a comprehensive range of banking products and services to individuals, businesses, municipalities and other entities through 46 banking offices in 34 communities within our market areas, which include Illinois (other than Chicago), and the St. Louis and Denver metropolitan areas. Through our Midland Merchant Services group, we also offer credit card processing and related services to a variety of merchants.

Our lending strategy is to maintain a broadly diversified loan portfolio based on the type of customer (i.e., businesses versus individuals), type of loan product (e.g., owner occupied commercial real estate, commercial loans, agricultural loans, etc.), geographic location and industries in which our business customers are engaged (e.g., manufacturing, retail, hospitality, etc.). We principally focus our commercial lending activities on loans that we originate from borrowers located in our market areas. We seek to be the premier provider of lending products and services in our market areas and serve the credit needs of high-quality business and individual borrowers in the communities that we serve.

We market our lending products and services to qualified lending customers through branch offices and high touch personal service. We focus our business development and marketing strategy primarily on middle market businesses. Commercial lending products include owner occupied commercial real estate loans, commercial real estate investment loans, commercial loans (such as business term loans, equipment financing and lines of credit), real estate construction loans, multifamily loans and loans to purchase farmland and finance agricultural production.

Commercial Loans. We have a strong commercial loan base. As of December 31, 2015, we had outstanding commercial loans of $499.6 million, or 25.0% of our total loan portfolio, which include business term loans, equipment financing and lines of credit to small and midsized businesses. The commercial loan portfolio is comprised primarily of term loans to purchase capital equipment and lines of credit for working capital and operational purposes to small and midsized businesses. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower.

Commercial loans are often larger and involve greater risks than other types of lending. Because payments on these loans are often dependent on the operating cash flows of the property or business involved, repayment of these loans is often more sensitive than other types of loans to adverse conditions in the general economy, which in turn increases repayment risk. Due to the larger average size of commercial loans as compared with other loans, such as residential loans, as well as collateral that is generally less readily marketable than collateral for consumer loans, such as residential real estate and automobiles, we also face the risk that losses incurred on a small number of commercial loans could have a material adverse impact on our financial condition and results of operations.

As of December 31, 2015, the outstanding balance of loans extended to finance agricultural equipment and production totaled $53.7 million, or 2.7% of our total loan portfolio, which amount is included in the commercial loan balance set forth above. These loans are typically short-term loans extended to farmers and other agricultural producers to purchase seed, fertilizer and equipment. Like other forms of commercial loans, repayment of these agricultural-related loans is often dependent on the operating cash flows of the business involved. Thus, repayment risk relating to these loans includes risks attributable to fluctuating commodity prices, the risk that unfavorable weather conditions may decrease agricultural productivity or damage property securing the loans and other risks adversely affecting the agricultural industry in our markets and as a whole.

Commercial Real Estate Loans. We offer real estate loans for owner occupied and non-owner occupied commercial property. The total amount of owner occupied commercial real estate loans outstanding at December 31, 2015 was $266.5 million, or 13.4% of our loan portfolio. The total amount of commercial real estate investment loans outstanding at December 31, 2015, including owner occupied properties but excluding loans secured by farmland, was $876.8 million, or 43.9% of our loan portfolio. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as owner occupied offices, warehouses and production facilities, office buildings, hotels, mixed-use residential and commercial, retail centers, multifamily properties and assisted living facilities.

Like commercial loans, one primary repayment risk for commercial real estate loans is the interruption or discontinuance of operating cash flows from the properties or businesses involved, which may be influenced by economic events, changes in governmental regulations or other events not under the control of the borrower. Additionally, adverse developments affecting commercial real estate values in our market areas could increase the credit risk associated with these loans, impair the value of property pledged as collateral for these loans, and affect our ability to sell the collateral upon foreclosure without a loss or additional losses.

As of December 31, 2015, the outstanding balance of loans secured by farmland totaled $40.6 million, or 2.0% of our total loan portfolio. Farmland loans are generally made to a borrower actively involved in farming rather than to passive investors. Repayment risks relating to these loans include those described above with respect to other commercial real estate loans, as well as those risks specific to the agricultural industry described with respect to our commercial loans.

Construction and Land Development Loans. Our construction portfolio includes loans to small and midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single family homes in our market areas. These loans are typically disbursed as construction progresses and carry interest rates that vary with LIBOR. As of December 31, 2015, the outstanding balance of our construction loans was $150.3 million, or 7.6% of our total loan portfolio.

Construction and land development loans typically involve more risk than other types of lending products because repayment of these loans is dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay principal and interest. Moreover, these loans are typically based on future estimates of value and economic circumstances, which may differ from actual results or be affected by unforeseen events. If the actual circumstances differ from the

estimates made at the time of approval of these loans, we face the risk of having inadequate security for the repayment of the loan. Further, if we foreclose on the loan, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

Residential Real Estate Loans. We offer first and second mortgage loans to our individual customers primarily for the purchase of primary residences. As of December 31, 2015, the outstanding balance of one-to-four family real estate secured loans, excluding home equity loans, represented $94.1 million, or 4.7%, of our total loan portfolio.

We also offer home equity lines of credit, or HELOCs, consisting of loans secured by first or second mortgages on primarily owner-occupied primary residences. As of December 31, 2015, the outstanding balance due under HELOCs was $69.1 million, or 3.5% of our total loan portfolio.

Like our commercial real estate loans, our residential real estate loans are secured by real estate, the value of which may fluctuate significantly over a short period of time as a result of market conditions in the area in which the real estate is located. Adverse developments affecting real estate values in our market areas could therefore increase the credit risk associated with these loans, impair the value of property pledged as collateral on loans, and affect our ability to sell the collateral upon foreclosure without a loss or additional losses.

Consumer Installment Loans. We provide consumer installment loans for the purchase of cars, boats and other recreational vehicles, as well as for the purchase of major appliances and other home improvement projects. Our vehicle financing programs include both direct and indirect lending efforts, and we have built relationships with auto dealers in many of our markets. Our major appliance and other home improvement lending is originated principally through national and regional retailers and other vendors of these products and services. We typically service our vehicle financing loans and use a third party servicer for our national and regional home improvement loans. As of December 31, 2015, our outstanding consumer loans included $26.5 million of vehicle loans and $85.5 million of home improvement loans (excluding home equity lines of credit, which are discussed under "Residential Mortgage Originations" below), which represented 16.4% and 53.0%, respectively, of our total consumer loan portfolio. Our consumer loan portfolio totaled $161.5 million, or 8.1% of our total loan portfolio, as of December 31, 2015.

Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than residential real estate mortgage loans. Consumer loan collections are dependent on the borrower's continuing financial stability and are therefore more likely to be affected by adverse personal circumstances, such as a loss of employment or unexpected medical costs.

Deposit Taking. We offer traditional depository products, including checking, savings, money market and certificates of deposits, to individuals, businesses, municipalities and other entities throughout our market areas. We also offer sweep accounts to our business customers. Deposits at the Bank are insured by the FDIC up to statutory limits. We also offer sweep accounts that are guaranteed through repurchase agreements to our business and municipal customers. Our ability to gather deposits, particularly core deposits, is an important aspect of our business franchise and we believe core deposits are a significant driver of franchise value. As of December 31, 2015, we held $2.4 billion of total deposits, 88.4% of which we considered to be core deposits.

Residential Mortgage Origination. Through the Bank, we also engage in the origination of residential first-and second-lien mortgage loans. We sell the majority of these loans to the Federal National Mortgage Association, or Fannie Mae, the Federal Home Loan Mortgage Corporation, or Freddie Mac, and various institutional purchasers, such as investment banks and other financial institutions. During 2015, we originated $580.8 million of residential mortgage loans and sold $566.2 million into the secondary market.

Wealth Management. Our wealth management group operates under the Midland Wealth Management name and provides a comprehensive suite of trust and wealth management products and services, including financial and estate planning, trustee and custodial services, investment management, tax and insurance planning, business planning, corporate retirement plan consulting and administration and retail brokerage services through a nationally recognized third party broker dealer.

Our wealth management group has grown rapidly since December 31, 2007, with total assets under management going from $99.6 million to $1.2 billion as of December 31, 2015. In April 2014, our wealth management group was named by Bank Director magazine as one of the fastest growing trust departments in the country by revenue. Much of our growth from 2008 to 2010 was attributable to our acquisition of Strategic Capital and our branch acquisition from AMCORE. Since 2010, we have grown our wealth management business organically by approximately $478.6 million of assets under management. The growth in our wealth management business has provided us with the scale that we believe is necessary to profitably operate this business and to provide the products and services needed to enhance the cross selling of wealth management products and services to our loan and deposit customers. We have been successful in attracting experienced wealth management professionals and expect to continue to grow our wealth management business, including through additional *de novo* locations and possible acquisitions.

FHA Origination and Servicing. We conduct our FHA origination business through Love Funding Corporation, which we acquired in the Heartland Bank transaction. Love Funding originates commercial mortgage loans for multifamily and healthcare facilities under Federal Housing Administration (FHA) insurance programs, and sells those loans into the secondary market through Ginnie Mae-guaranteed mortgage-backed securities. We generally retain the mortgage servicing rights on the underlying loans (for which we receive a servicing fee). We originated $382.9 million of such loans in 2015. Headquartered in Washington, D.C., Love Funding operates on a nationwide basis, with offices in many of the largest metropolitan areas, including New York, Los Angeles, Chicago, Boston, St. Louis and Cleveland.

Commercial Equipment Leasing. Our Heartland Business Credit subsidiary, also acquired in the Heartland Bank transaction, develops, originates and manages custom leasing and financing programs for equipment and software vendors on a nationwide basis, and had a lease portfolio of $144.2 million as of December 31, 2015, up from $95.9 million as of December 31, 2012 (representing a 14.6% CAGR). Heartland Business Credit has been in business since 1999 and principally focuses on the healthcare, petroleum, telecommunications and lighting industries, although it also serves other industries as well. Its model is based on serving as a financing solution to well established manufacturers and their sales teams. This model permits Heartland Business Credit to develop long-term relationships with these vendors and to tailor leasing solutions that support these vendors' sales efforts, without needing to maintain a large sales staff. It also permits Heartland Business Credit to provide comparably fast, consistent credit decisions. Leases generated by Heartland Business Credit are retained and serviced by Heartland Business Credit, and are most typically in the $50,000 to $150,000 range.

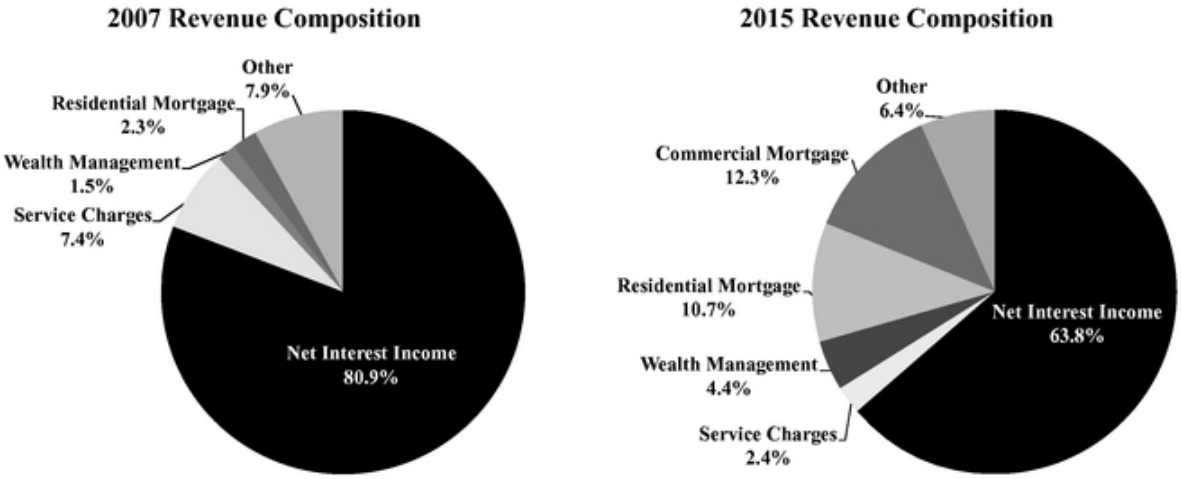
Our Competitive Strengths

We believe our competitive strengths set us apart from many similarly sized community banks, and include the following key attributes:

Diversified and Growing Revenue Streams. While maintaining a focus on earnings growth, we have diversified our revenue and increased our noninterest income. We believe our diversification and significant noninterest income can help provide earnings stability through various economic and interest rate cycles, as well as establishing additional platforms for growth. In particular, since 2008, we have significantly grown our wealth management and residential mortgage loan origination businesses, and have added our commercial FHA origination and servicing, and commercial equipment leasing

businesses. As a result, we have grown our noninterest income from $2.8 million, or 19.1% of total revenue, for the year ended December 31, 2007, to $59.5 million, or 36.2% of total revenue, for the year ended December 31, 2015.

The diversification and growth of our noninterest income is demonstrated in the following charts.



Robust, Stable Core Funding Base. Our relationship banking approach focuses on generating core deposits, which has helped drive our organic growth and improve our net interest margins. At December 31, 2015, core deposits (which exclude brokered deposits and certificates of deposit greater than $250,000) represented 88.4% of our total deposits. Our net non-core funding dependence ratio (which represents the degree to which the Bank is funding longer term assets with brokered deposits and certificates of deposit greater than $250,000) was 7.1% as of December 31, 2015, down from 27.7% as of December 31, 2007. We also benefit from strong levels of noninterest-bearing deposits, which represented approximately 23.0% of our total deposits at December 31, 2015. Several of our recent acquisitions have contributed significantly to our core funding base, improving our overall mix of core and non-core deposits.

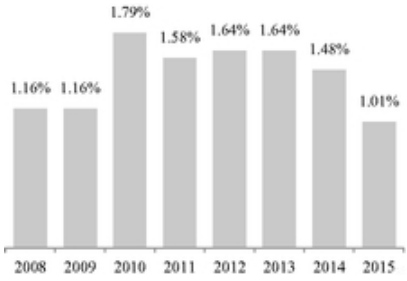
Experience in Smaller Communities and Metropolitan Markets. Our banking footprint has given us experience operating in small communities and large cities. We believe that our presence in smaller communities gives us a relatively stable source of core deposits and steady profitability, while our recent growth in more metropolitan markets represents strong long-term growth opportunities. In addition, we believe that the breadth of our operating experience increases the scope of potential acquisition opportunities that we will be able to integrate and operate successfully.

Proven Track Record of Accretive Acquisitions. Having completed nine acquisitions since 2007, we believe we have developed an experienced acquisition team that is capable of identifying and executing transactions that build shareholder value through a disciplined approach to pricing. These transactions included three whole-bank acquisitions, two branch acquisitions and two FDIC-assisted acquisitions, as well as two new business line acquisitions. Each of our bank acquisitions was immediately accretive to earnings, and our two non-bank acquisitions allowed us to develop complementary products and services. As a result, we believe that we have developed a reputation as an acquirer of choice in our markets and surrounding areas, and we receive frequent requests from other financial institutions to "talk about the future." Accordingly, we believe that we are well prepared to capitalize on favorable acquisition opportunities that may arise.

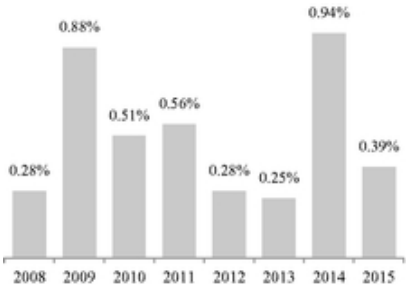
Sophisticated Risk Management Functions. Risk management is a vital part of our strategic plan, and we have implemented a variety of tools and policies to help us navigate the challenges of rapid growth. In anticipation of continued balance sheet and franchise growth, we have sought to maintain a

risk management program suitable for an organization larger than ours at any given time, including in the areas of regulatory compliance, cybersecurity and internal audit, and to hire talented risk management professionals with experience building risk management programs at much larger financial institutions. With respect to credit risk, we operate what we believe to be a disciplined credit process, managed by experienced personnel who have produced strong results, as reflected by the following historical credit quality ratios:

Non-performing Assets / Total Assets(1)



Net Charge-Offs / Average Loans(2)



(1) Nonperforming assets exclude purchased credit-impaired loans, or PCI loans, acquired in our prior acquisitions. See notes 1 and 2 to the tables set forth in "—Summary Consolidated Financial Data" for additional information.

(2) Net charge-offs for 2014 include a $9.8 million charge-off of a PCI commercial real estate loan pool that was covered under an FDIC loss-share arrangement. The impairment on the pool was recognized through provision for loan losses in 2009 and 2010. The pool was not charged off until 2014, when all loans in the pool were resolved. Net charge-offs to average loans were 0.14%, excluding this charge-off.

Experienced Board and Management Team. Our ten non-executive directors are all successful business owners or senior executives with long-standing ties to the communities or businesses in which we operate. The collective professional background of our directors contributes to our organization-wide entrepreneurial culture and provides us with valuable insights into the business and banking needs of our customer base. After the completion of this offering, our ten non-executive directors and their affiliated entities, collectively, are expected to have an approximately % ownership interest in the Company.

The members of our executive management team, all of whom have many years of experience managing or advising financial services companies, have been in their roles with the Company and the Bank for an average of 8 years. Collectively, they have been responsible for executing our strategic plan and driving our growth. In addition, the leaders of our wealth management, FHA financing and commercial equipment leasing businesses have been running these businesses for 8, 15 and 16 years, respectively.

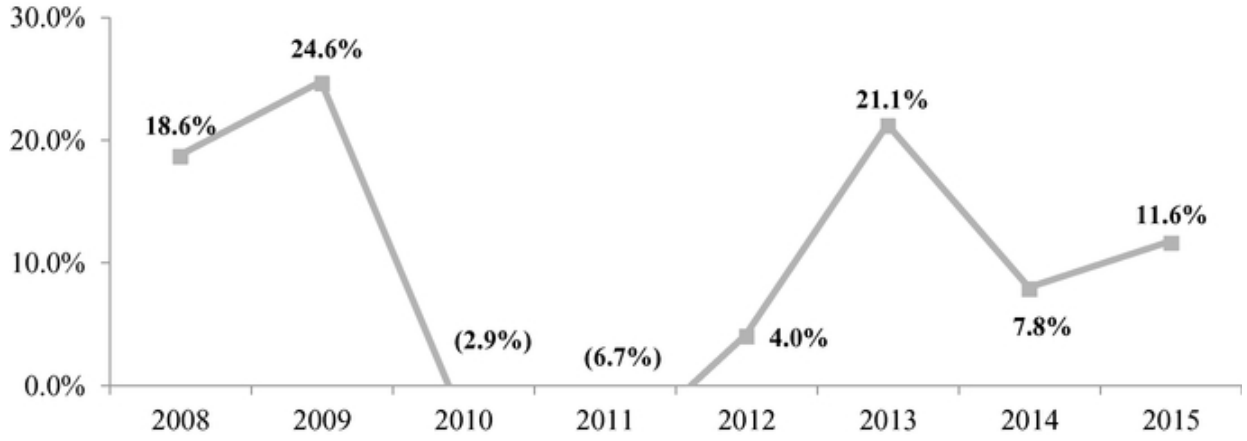
Our Growth and Earnings

We believe that the continued execution of our strategic plan will drive further balance sheet growth through multiple asset and funding strategies, and further earnings growth through the diversification of our income streams.

Organic Growth. Since implementing our strategic plan, we have delivered strong organic loan growth, as reflected in the chart below. In addition, from December 31, 2007 through December 31, 2015, we have grown our core deposits and wealth management assets under management at compound annual growth rates of 31.8% and 43.4%, respectively. Since completing our acquisition of Heartland

Bank on December 31, 2014, we grew our core deposits by $167.0 million during 2015, reflecting an organic growth rate of 8.7%.

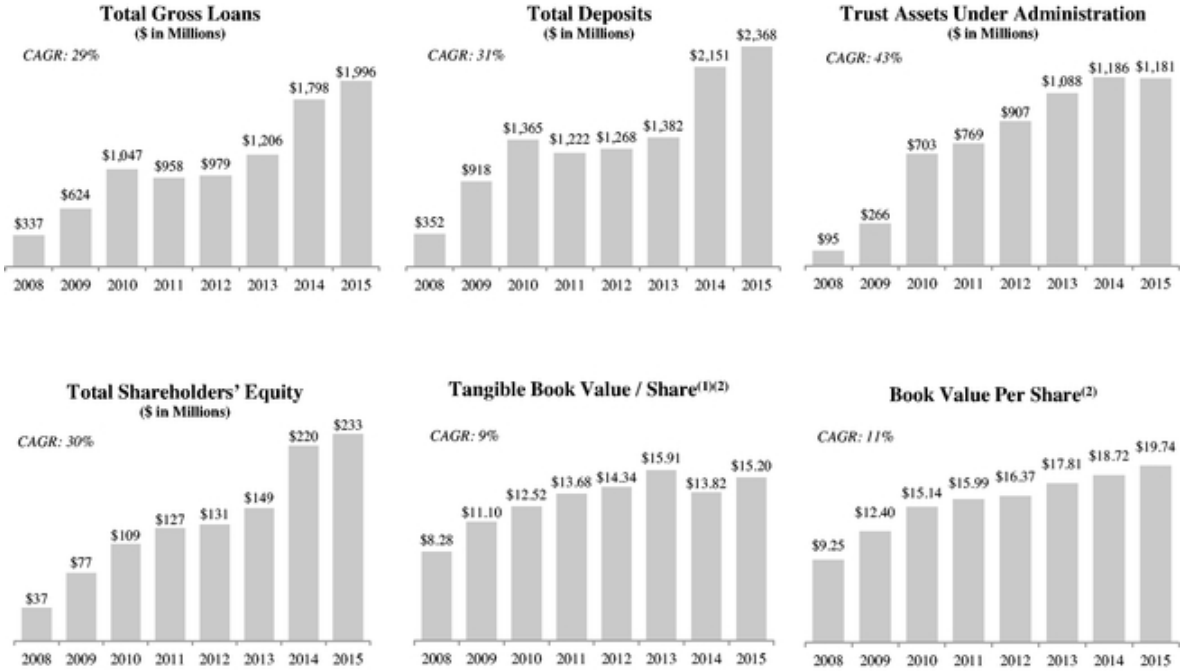
Core Loan Growth[(1)]



(1) Core loan growth represents percentage change in the Company's core loans over the prior year. Core loans represent non-PCI loans, less non-PCI loans acquired, plus non-PCI loans sold as of the date the loans were acquired or sold. Acquired non-PCI loans become core loans subsequent to the acquisition date and will negatively affect core loan growth in future periods as these loans are repaid or prepaid. Core loan growth was negative in 2010 and 2011 due to the prepayment and scheduled repayment of loans acquired from acquisitions in 2009 and 2010. Core loans and core loan growth are non-GAAP financial measures. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures."

Acquisitive Growth. In addition to organic growth, we intend to continue pursuing financially and strategically accretive acquisitions. We believe we can continue to serve as a platform for banks and thrifts searching for alternatives to remaining independent, while at the same time maintaining our desired acquisition goals, including prompt accretion to earnings and a disciplined approach to tangible book value per share earn-back. We also believe that our commercial leasing, consumer finance, commercial FHA origination and servicing, and wealth management businesses provide platforms for additional growth through acquisitions. Based on the breadth of potential acquisition targets, we believe we have the capacity for selectivity in our pursuit of acquisitive growth, which, we believe, will drive strong financial results for our shareholders.

The following charts highlight key metrics of our recent growth.



(1) Tangible book value per share is a non-GAAP financial measure. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures."

(2) Amounts shown assume the conversion of all preferred shares that were outstanding prior to December 31, 2014. See notes 4 and 5 to the tables set forth in "—Summary Consolidated Financial Data" for additional information.

Earnings. We have produced consistently strong earnings since adopting our strategic plan. For the years ended December 31, 2007 through December 31, 2015, we have increased net income from $2.1 million to $24.3 million (representing a 35.8% CAGR) and core earnings from $1.7 million to $29.3 million (representing a 42.7% CAGR).

The drivers of our earnings include:

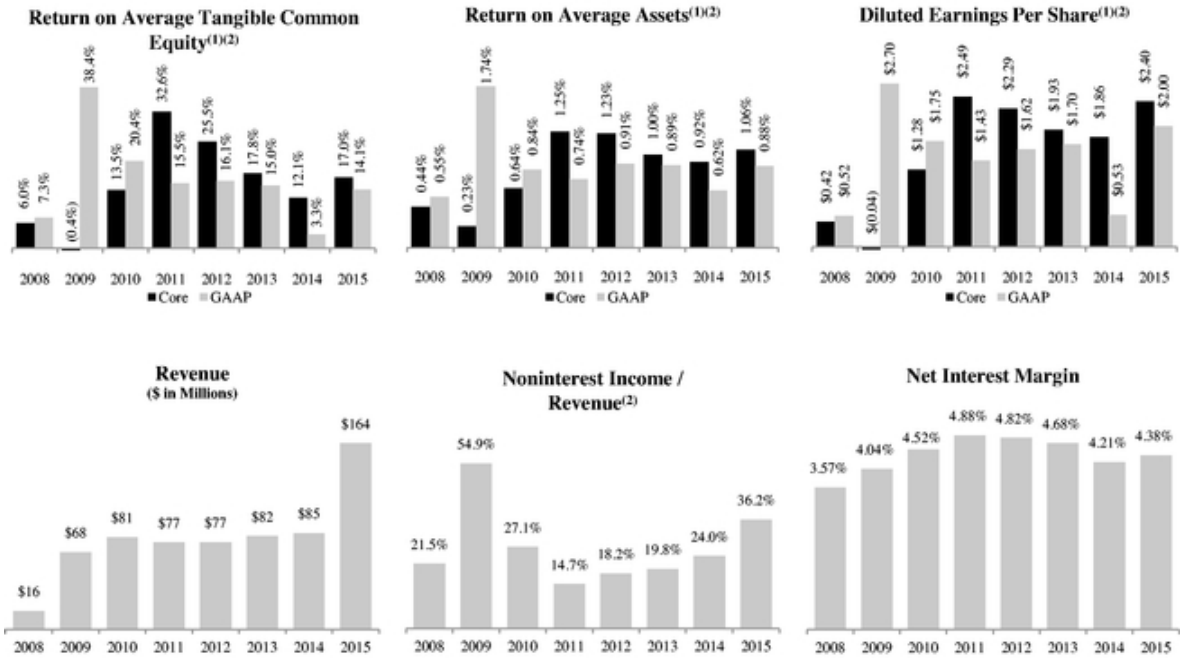
- *Net Interest Margin.* Our net interest margin is supported by strength in both our asset yields (5.21% yield on loans and 4.91% yield on earning assets for the year ended December 31, 2015) and our funding costs (0.44% cost of all total interest-bearing deposits and 0.66% cost of interest-bearing liabilities for the year ended December 31, 2015). Our net interest margin was 4.38% for the year ended December 31, 2015.

- *Credit Costs.* We have built a credit infrastructure with a foundation in underwriting, active portfolio monitoring and aggressive troubled asset realization and resolution techniques. We believe that we have managed our credit costs effectively, having experienced 0.39% of net charge-offs as a percentage of average gross loans for the year ended December 31, 2015, and an average of 0.50% of net charge-offs as a percentage of average gross loans each year since December 31, 2007.

- *Noninterest Income.* We have developed several diversified fee income business lines, and grown them into sustainable core businesses that contribute to net income and help mitigate the effects of interest rate fluctuations on our financial results. Noninterest income was $59.5 million, or 36.2% of total revenue, for the year ended December 31, 2015.

- *Noninterest Expense.* We have continued to closely monitor and control our expense levels while building a talented team of senior managers. We have also built a sophisticated and expansion-ready technological infrastructure to support our various financial products and services, which we believe helps to drive our efficiency and bottom line earnings. While our noninterest expense to average assets are higher than many similarly sized community banks, the incremental expenses are largely a result of our significant noninterest income business lines, including our wealth management, commercial FHA origination and servicing, and residential mortgage businesses.

In operating our business, we focus on our core earnings per share growth, revenue growth, return on average tangible common equity and return on average assets. We believe that we are well positioned to produce earnings in a prolonged low interest rate environment due to the growth of our fee income businesses. We also believe that our balance sheet is positioned to deliver strong earnings in a rising interest rate environment based on our core deposit strength, our diversified loan portfolio and the relatively short duration of our investment securities portfolio. Furthermore, we believe that our operating infrastructure will allow us to leverage our expense base to drive efficiency through our earnings stream. These and other earnings metrics are illustrated below.



(1) Core financial metrics exclude the following items: bargain purchase gains on acquisitions; payments received under our FDIC settlement; FDIC loss-sharing income; amortization of FDIC indemnification assets, net; gain on sales of investment securities, net; gain on sales of other assets; and other-than-temporary impairment on investment securities. Core diluted earnings per share, core return on average assets and core return on average tangible common equity are non-GAAP financial measures. See "Selected Historical Consolidated Financial Data—Non-GAAP Financial Measures."

(2) Net income in 2009 was positively affected by a $19.2 million bargain purchase gain recognized in connection with the Strategic Capital acquisition.

Our Market Areas

Our banking operations are largely concentrated in Illinois, the St. Louis metropolitan area and the Denver metropolitan area. The following table shows demographic information for the market areas of our bank branches as of June 30, 2015:

Midland States Bank Branch Demographics By City

City	Number of Branches	Deposits in Market (dollars in thousands)	Deposit Market Share (%)	Total Population 2016 (in thousands)	Projected Population Change 2016 - 2021 (%)	Median Household Income 2016 ($)	Projected Household Income Change 2016 - 2021 (%)
Effingham, IL	2	527,952	42.5	12.4	0.5	49,081	12.9
Chesterfield, MO	1	394,676	15.1	48.2	1.4	97,814	9.9
Dixon, IL	3	170,953	34.6	15.2	(1.6)	50,402	12.9
Saint Louis, MO	5	163,390	0.7	316.3	(0.2)	35,673	8.7
Clayton, MO	1	117,079	1.7	16.0	0.8	88,143	9.6
Princeton, IL	2	80,709	19.0	7.5	(1.9)	49,377	12.5
Sterling, IL	2	76,200	13.3	14.9	(2.7)	46,909	7.2
Champaign, IL	1	57,251	2.4	84.6	2.7	41,912	5.8
Centralia, IL	1	54,389	15.5	12.7	(1.0)	36,014	8.7
Waterloo, IL	3	53,161	12.7	10.6	4.5	68,124	2.4
Beecher, IL	1	49,367	36.2	4.7	3.5	73,852	4.1
Peru, IL	2	47,189	11.4	10.0	(1.9)	48,430	9.6
Grant Park, IL	1	43,603	74.4	1.3	(4.1)	54,405	3.9
Saint Clair, MO	1	37,893	24.3	3.8	0.3	75,000	9.4
Arnold, MO	1	35,485	4.4	21.0	0.8	59,019	7.7
Joliet, IL	2	32,928	1.3	149.3	0.7	62,742	7.2
Mendota, IL	2	32,644	8.6	7.2	(3.0)	47,415	8.4
Greenville, IL	1	29,803	11.3	6.8	(2.4)	49,321	3.7
Farina, IL	1	28,959	99.7	0.5	(3.6)	50,806	5.6
Rock Falls, IL	1	27,882	11.9	8.7	(2.5)	39,435	8.7
Smithton, IL	1	26,777	48.1	3.8	0.3	75,000	9.4
Weldon Spring, MO	1	24,824	40.0	6.0	6.0	107,447	12.0
Vandalia, IL	1	23,643	9.4	7.0	(1.0)	48,672	12.1
Freeport, IL	1	15,302	2.2	24.8	(2.1)	37,445	7.1
O'Fallon, MO	1	14,553	1.4	88.3	7.2	78,882	7.1
Denver, CO	1	13,331	0.0	687.1	9.0	55,258	12.0
Oregon, IL	1	13,103	8.5	3.5	(3.0)	47,421	7.3
Yorkville, IL	1	11,418	3.6	19.3	5.1	76,276	0.8
Freeburg, IL	1	10,267	6.5	4.3	(1.6)	75,054	4.8
Columbia, IL	1	10,171	3.0	10.5	4.4	69,849	4.5
Bourbonnais, IL	1	6,750	1.0	18.1	(1.4)	61,335	7.6
Jennings, MO	1	0	0.0	14.4	0.2	30,344	5.9
Total/Weighted Average	**46**	**2,231,652**	**23.4**	**48.7**	**0.3**	**61,563**	**9.8**

Source: SNL Financial

Competition

We compete in a number of areas, including commercial and retail banking, residential mortgages, wealth management, commercial leasing and commercial FHA loan originations in the multi-family and

health care sectors. These industries are highly competitive, and the Bank and its subsidiaries face strong direct competition for deposits, loans, wealth management, leasing and FHA loan originations and other financial-related services. We compete with other community banks, thrifts and credit unions. Although some of these competitors are situated locally, others have statewide or regional presence. In addition, we compete with large banks and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, business leasing and finance companies, insurance companies, FHA loan origination businesses, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. Additionally, we face growing competition from so-called "online businesses" with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms, as well as automated retirement and investment service providers. We believe that the range and quality of products that we offer, the knowledge of our personnel and our emphasis on building long-lasting relationships sets us apart from our competitors.

Employees

As of December 31, 2015, we had approximately 700 employees. As part of the customer-centric culture initiative of our strategic plan, we provide extensive training to our employees in an effort to ensure that our customers receive superior customer service. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our relations with our employees are good.

Properties

Our headquarters office is located at 1201 Network Centre Drive, Effingham, Illinois, 62401. Our headquarters was built in 2011 and has approximately 79,000 square feet. This facility also houses our primary operations center. We have an additional operations center located in St. Louis, Missouri, and Love Funding's headquarters are located in Washington, D.C.

We believe that the leases to which we are subject are generally on terms consistent with prevailing market terms. None of the leases are with our directors, officers, beneficial owners of more than 5% of our voting securities or any affiliates of the foregoing, except that our branch bank in Town and Country, Missouri and our regional office in Clayton, Missouri are leased from entities principally owned by Andrew S. Love, Jr., who beneficially owns more than 5% of our voting securities, and Laurence A. Schiffer, one of our directors. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

Legal Proceedings

In the normal course of business, we are named or threatened to be named as a defendant in various lawsuits. Management, following consultation with legal counsel, does not expect the ultimate disposition of any or a combination of these matters to have a material adverse effect on our business.

Corporate Information

Our principal executive offices are located at 1201 Network Centre Drive, Effingham, Illinois 62401, and our telephone number at that address is (217) 342-7321. Our website address is www.midlandsb.com. The information contained on our website is not a part of, or incorporated by reference into, this prospectus.

SUPERVISION AND REGULATION

General

Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company and its subsidiaries may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Illinois Department of Financial and Professional Regulation (the "DFPR"), the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC") and the Bureau of Consumer Financial Protection (the "CFPB"). Furthermore, tax laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, securities laws administered by the Securities and Exchange Commission (the "SEC") and state securities authorities, anti-money laundering laws enforced by the U.S. Department of the Treasury (the "Treasury") and mortgage related rules, including with respect to loan securitization and servicing by the U.S. Department of Housing and Urban Development ("HUD") and agencies such as Ginnie Mae and Freddie Mac, have an impact on the business of the Company. The effect of these statutes, regulations, regulatory policies and rules are significant to the operations and results of the Company and the Bank and its subsidiaries, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of financial institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than their shareholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can impact the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Financial Regulatory Reform

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act represented a sweeping reform of the U.S. supervisory and regulatory framework applicable to financial institutions and capital markets in the wake of the global financial crisis, certain aspects of which are described below in more detail. In particular, and among other things, the Dodd-Frank Act: (i) created a Financial Stability Oversight

Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; (ii) created the CFPB, which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; (iii) narrowed the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expanded the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; (iv) imposed more stringent capital requirements on bank holding companies and subjected certain activities, including interstate mergers and acquisitions, to heightened capital conditions; (v) with respect to mortgage lending, (a) significantly expanded requirements applicable to loans secured by 1-4 family residential real property, (b) imposed strict rules on mortgage servicing, and (c) required the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards; (vi) repealed the prohibition on the payment of interest on business checking accounts; (vii) restricted the interchange fees payable on debit card transactions for issuers with $10 billion in assets or greater; (viii) in the so-called "Volcker Rule," subject to numerous exceptions, prohibited depository institutions and affiliates from certain investments in, and sponsorship of, hedge funds and private equity funds and from engaging in proprietary trading; (ix) provided for enhanced regulation of advisers to private funds and of the derivatives markets; (x) enhanced oversight of credit rating agencies; and (xi) prohibited banking agency requirements tied to credit ratings. These statutory changes shifted the regulatory framework for financial institutions, impacted the way in which they do business and have the potential to constrain revenues.

Numerous provisions of the Dodd-Frank Act were required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but are not final. Although the reforms primarily targeted systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. Management of the Company and the Bank will continue to evaluate the effect of the Dodd-Frank Act; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and the Bank.

The Increasing Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a financial institution available to absorb losses. Because of the risks attendant to their business, depository institutions such as the Bank are generally required to hold more capital than other businesses, which directly affects earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banks and bank holding companies, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. Once fully implemented, these standards will represent regulatory capital requirements that are meaningfully more stringent than those in place historically.

The Company and Bank Required Capital Levels. Bank holding companies have had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for bank holding companies on a consolidated basis as stringent as those required for insured depository institutions. As a consequence, the components of

holding company permanent capital known as "Tier 1 Capital" are restricted to those capital instruments that are considered to be Tier 1 Capital for insured depository institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are excluded from Tier 1 Capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets as of December 31, 2009, they may be retained as Tier I Capital subject to certain restrictions. Because the Company has assets of less than $15 billion, it was able to meet the requirements and maintain its trust preferred proceeds as Tier 1 Capital but will have to comply with the revised capital mandates in other respects and will not be able to raise Tier 1 Capital in the future through the issuance of trust preferred securities, but it is able to include its existing trust preferred proceeds as Tier 1 Capital.

The minimum capital standards effective for the year ended December 31, 2014 were:

- a leverage requirement, consisting of a minimum ratio of Tier 1 Capital to total adjusted book assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and

- a risk-based capital requirement, consisting of a minimum ratio of Total Capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 Capital to total risk-weighted assets of 4%.

For these purposes, "Tier 1 Capital" consisted primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). "Total Capital" consisted primarily of Tier 1 Capital plus "Tier 2 Capital," which included other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 Capital, and a portion of the Bank's allowance for loan losses. Further, risk-weighted assets for the purpose of the risk-weighted ratio calculations were balance sheet assets and off-balance sheet exposures to which required risk weightings of 0% to 100% were applied.

The capital standards described above were minimum requirements and were increased beginning January 1, 2015 under Basel III, as discussed below. Bank regulatory agencies uniformly encourage banks and bank holding companies to be "well-capitalized" and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is "well-capitalized" may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Under the capital regulations of the FDIC and Federal Reserve, in order to be "well-capitalized," a banking organization, for the year ended December 31, 2014, must have maintained:

- a leverage ratio of Tier 1 Capital to total assets of 5% or greater,

- a ratio of Tier 1 Capital to total risk-weighted assets of 6% or greater, and

- a ratio of Total Capital to total risk-weighted assets of 10% or greater.

The FDIC and Federal Reserve guidelines also provide that banks and bank holding companies experiencing internal growth or making acquisitions would be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the agencies will continue to consider a "tangible Tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or to engage in new activities.

Higher capital levels could also be required if warranted by the particular circumstances or risk profile of individual banking organizations. For example, the Federal Reserve's capital guidelines

contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 Capital less all intangible assets), well above the minimum levels.

Prompt Corrective Action. A banking organization's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the bank to submit a capital restoration plan; (ii) limiting the bank's growth and restricting its activities; (iii) requiring the bank to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the bank and its affiliates; (v) restricting the interest rate that the bank pays on deposits; (vi) ordering a new election of directors of the bank; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the bank from accepting deposits from correspondent banks; (ix) requiring the bank to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on debt; and (xi) ultimately, appointing a receiver for the bank.

U.S. Implementation of Basel III. On September 12, 2010, the international Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. In July of 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the "Basel III Rule"). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the federal regulatory agencies. The Basel III Rule is applicable to all financial institutions that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1 billion).

The Basel III Rule not only increased most of the required minimum capital ratios as of January 1, 2015, but it introduced the concept of "Common Equity Tier 1 Capital," which consists primarily of common stock, related surplus (net of treasury stock), retained earnings, and Common Equity Tier 1 minority interests, subject to certain regulatory adjustments. The Basel III Rule also established more stringent criteria for instruments to be considered "Additional Tier 1 Capital" (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that previously qualified as Tier 1 Capital will no longer qualify, or their ability to qualify will change. For example, cumulative preferred stock and certain hybrid capital instruments, including trust preferred securities, will no longer qualify as Tier 1 Capital of any kind, with the exception, subject to certain restrictions, of such instruments issued before May 10, 2010, by bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. For those institutions, trust preferred securities and other nonqualifying capital instruments currently included in consolidated Tier 1 Capital were permanently grandfathered under the Basel III Rule, subject to certain restrictions. Noncumulative perpetual preferred stock, which formerly qualified as simple Tier 1 Capital, will not qualify as Common Equity Tier 1 Capital, but will instead qualify as Additional Tier 1 Capital. The Basel III Rule also constrains the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a bank's Common Equity Tier 1 Capital.

As of January 1, 2015, the Basel III Rule requires:

- a new minimum ratio of Common Equity Tier 1 Capital to risk-weighted assets of 4.5%;
- an increase in the minimum required amount of Tier 1 Capital to 6% of risk-weighted assets;
- a continuation of the current minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- a minimum leverage ratio of Tier 1 Capital to total assets equal to 4% in all circumstances.

The Basel III Rule maintains the general structure of the prompt corrective action framework, while incorporating the increased requirements and adding the Common Equity Tier 1 Capital ratio. In order to be "well-capitalized" under the new regime, a depository institution must maintain a Common Equity Tier 1 Capital ratio of at least 6.5%; a Tier 1 Capital ratio of at least 8%; a Total Capital ratio of at least 10%; and a leverage ratio of at least 5%.

In addition, institutions that seek the freedom to make capital distributions (including dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% of risk-weighted assets in Common Equity Tier 1 attributable to a capital conservation buffer to be phased in over three years beginning in 2016. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1, 8.5% for Tier 1 Capital and 10.5% for Total Capital. The leverage ratio is not impacted by the conservation buffer, and a bank may be considered well-capitalized while remaining out of compliance with the capital conservation buffer.

As discussed above, most of the capital requirements are based on a ratio of specific types of capital to "risk-weighted assets." Not only did Basel III change the components and requirements of capital, but, for nearly every class of financial assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings. While Basel III would have changed the risk weighting for residential mortgage loans based on loan-to-value ratios and certain product and underwriting characteristics, there was concern in the United States that the proposed methodology for risk weighting residential mortgage exposures and the higher risk weightings for certain types of mortgage products would increase costs to consumers and reduce their access to mortgage credit. As a result, the Basel III Rule did not effect this change, and banking institutions will continue to apply a risk weight of 50% or 100% to their exposure from residential mortgages.

There was significant concern noted by the financial industry in connection with the Basel III rulemaking as to the proposed treatment of accumulated other comprehensive income ("AOCI"). Basel III requires unrealized gains and losses on available-for-sale securities to flow through to regulatory capital as opposed to the previous treatment, which neutralized such effects. Recognizing the problem for community banks, the U.S. bank regulatory agencies adopted the Basel III Rule with a one-time election for institutions like the Company and the Bank to opt out of including most elements of AOCI in regulatory capital. This opt-out, which was made in the first quarter of 2015, excludes from regulatory capital both unrealized gains and losses on available-for-sale debt securities and accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit post-retirement plans. The Company and the Bank made this election to avoid variations in the level of their capital depending on fluctuations in the fair value of their securities portfolio.

The Company and the Bank became subject to Basel III effective January 1, 2015, and both are currently in compliance with the new required ratios. There are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions;

(iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules. The phase-in periods commenced on January 1, 2016 and extend through January 1, 2019.

The Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, the Company is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval by the Federal Reserve for any merger involving a bank holding company or any acquisition of control by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA and the Dodd-Frank Act), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "— The Increasing Regulatory Emphasis on Capital" above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The Company has elected to be, and continues to operate as, a financial holding company.

In order to maintain the Company's status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and have a least a satisfactory Community Reinvestment Act ("CRA") rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, the Company has a period of time in which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the Company it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company's subsidiary bank has not received a satisfactory CRA rating, the Company will not be able to commence any new financial activities or acquire a company that engages in such activities.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 5% and 24.99% ownership.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see "—The Increasing Regulatory Emphasis on Capital" above.

Dividend Payments. The Company's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. As an Illinois corporation, the Company is subject to the limitations of Illinois law, which allows the Company to pay dividends unless, after such dividend, (i) the Company would be insolvent or (ii) the Company's net assets would be less than zero or less than the maximum amount payable at the time of distribution to shareholders having preferential rights in liquidation if the Company were to be liquidated.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the Company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the Company's capital needs and overall current and prospective financial condition; or (iii) the Company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek to pay dividends must maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer, which is to be phased in over a three year period, which began on January 1, 2016. See "—The Increasing Regulatory Emphasis on Capital" above.

The Bank

General. The Bank is an Illinois-chartered bank and a member of the Federal Reserve System (a "member bank"). The deposit accounts of the Bank are insured by the FDIC's Deposit Insurance Fund ("DIF") to the maximum extent provided under federal law and FDIC regulations. As an Illinois-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFPR, the chartering authority for Illinois banks, and as a member bank, the Federal Reserve.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification.

An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. For deposit insurance assessment purposes, an insured depository institution is placed in one of four risk categories each quarter. An institution's assessment is determined by multiplying its assessment rate by its assessment base. The total base assessment rates range from 2.5 basis points to 45 basis points. While in the past an insured depository institution's assessment base was determined by its deposit base, amendments to the Federal Deposit Insurance Act revised the assessment base so that it is calculated using average consolidated total assets minus average tangible equity. This change shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

Additionally, the Dodd-Frank Act altered the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC has until September 3, 2020 to meet the 1.35% reserve ratio target. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease the assessment rates, following notice and comment on proposed rulemaking. As a result, the Bank's FDIC deposit insurance premiums could increase.

FICO Assessments. In addition to paying basic deposit insurance assessments, insured depository institutions must pay Financing Corporation ("FICO") assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO's outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2015 was approximately 0.600 basis points (60 cents per $100 of assessable deposits).

Supervisory Assessments. Illinois-chartered banks are required to pay supervisory assessments to the DFPR to fund its operations. The amount of the assessment paid by an Illinois bank to the DFPR is calculated on the basis of the institution's total assets, including consolidated subsidiaries, as reported to the DFPR. During the year ended December 31, 2015, the Bank paid supervisory assessments to the DFPR totaling $174,563.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—The Increasing Regulatory Emphasis on Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, financial institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also included a liquidity framework that requires financial institutions to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio ("LCR"), is designed to ensure that the banking entity has adequate unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the Net Stable Funding Ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of financial institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the U.S. bank regulatory agencies implemented the LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil. While the LCR only applies to the largest banking organizations in the country, certain elements are expected to filter down and become applicable to or expected of all insured depository institutions. The Company and the Bank are reviewing their liquidity risk management policies in light of the LCR and NSFR.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the Illinois Banking Act, the Bank generally may not pay dividends in excess of its net profits. In addition, under the Basel III Rule, institutions that seek to pay dividends must maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer, which is to be phased in over a three-year period that began on January 1, 2016. See "—The Increasing Regulatory Emphasis on Capital" above.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable regulatory guidelines as of December 31, 2015.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on "covered transactions" between the Bank and its "affiliates." The Company is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the Company and to "related interests" of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank, or a principal shareholder of the Company, may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the financial institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If a financial institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the financial institution's rate of growth, require the financial institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and

soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the financial institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Branching Authority. Illinois banks, such as the Bank, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) has historically been permitted only in those states the laws of which expressly authorize such expansion. However, the Dodd-Frank Act permits well-capitalized and well-managed banks to establish new branches across state lines without these impediments.

Community Reinvestment Act Requirements. The Community Reinvestment Act requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank's record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Bank's effectiveness in meeting its Community Reinvestment Act requirements.

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act") is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between financial institutions and law enforcement authorities.

Concentrations in Commercial Real Estate. Concentration risk exists when financial institutions deploy too many assets to any one industry or segment. Concentration stemming from commercial real estate is one area of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with

potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Based on the Bank's loan portfolio, the Bank does not exceed these guidelines.

Consumer Financial Services

The structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like the Bank, will continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." In addition, the Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans do not comply with the ability-to-repay standards described below. The risk retention requirement generally is 5%, but could be increased or decreased by regulation. The Bank does not currently expect the CFPB's rules to have a significant impact on its operations, except for higher compliance costs.

Ability-to-Repay Requirement and Qualified Mortgage Rule. On January 10, 2013, the CFPB issued a final rule implementing the Dodd-Frank Act's ability-to-repay requirements. Under the final rule, lenders, in assessing a borrower's ability to repay a mortgage-related obligation, must consider eight underwriting factors: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) monthly payment on the subject transaction; (iv) monthly payment on any simultaneous loan; (v) monthly payment for all mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) monthly debt-to-income ratio or residual income; and (viii) credit history. The final rule also includes guidance regarding the application of, and methodology for evaluating, these factors.

Further, the final rule clarified that qualified mortgages do not include "no-doc" loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the rule mandated that the monthly payment be calculated on the highest payment that will occur in the first five years of the loan, and required that the borrower's total debt-to-income ratio generally may not be more than 43%. The final rule also provided that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership), or the U.S. Department of Housing and Urban Development,

Department of Veterans Affairs, or Department of Agriculture or Rural Housing Service, are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provided for a rebuttable presumption of lender compliance for those loans. The final rule also applied the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (*i.e.*, a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibited prepayment penalties (subject to certain exceptions) and set forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Mortgage Loan Originator Compensation. As a part of the overhaul of mortgage origination practices, mortgage loan originators' compensation was limited such that they may no longer receive compensation based on a mortgage transaction's terms or conditions other than the amount of credit extended under the mortgage loan. Further, the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans was limited to 3.0% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from "steering" consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Residential Mortgage Servicing. The CFPB was also required to implement certain provisions of the Dodd-Frank Act relating to mortgage servicing through rulemaking. The servicing rules require servicers to meet certain benchmarks for loan servicing and customer service in general. Servicers must provide periodic billing statements and certain required notices and acknowledgments, promptly credit borrowers' accounts for payments received and promptly investigate complaints by borrowers and are required to take additional steps before purchasing insurance to protect the lender's interest in the property. The servicing rules also called for additional notice, review and timing requirements with respect to delinquent borrowers, including early intervention, ongoing access to servicer personnel and specific loss mitigation and foreclosure procedures. The rules provided for an exemption from most of these requirements for "small servicers." A small servicer is defined as a loan servicer that services 5,000 or fewer mortgage loans and services only mortgage loans that they or an affiliate originated or own.

Additional Constraints on the Company and the Bank

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

The Volcker Rule. In addition to other implications of the Dodd-Frank Act discussed above, the Act amended the BHCA to require the federal regulatory agencies to adopt rules that prohibit banking entities and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This statutory provision is commonly called the "Volcker Rule." On December 10, 2013, the federal regulatory agencies issued final rules to implement the prohibitions required by the Volcker Rule. Thereafter, in reaction to industry concern over the adverse impact to community banks of the treatment of certain

collateralized debt instruments in the final rule, the federal regulatory agencies approved an interim final rule to permit financial institutions to retain interests in collateralized debt obligations backed primarily by trust preferred securities ("TruPS CDOs") from the investment prohibitions contained in the final rule. Under the interim final rule, the regulatory agencies permitted the retention of an interest in or sponsorship of covered funds by banking entities if the following qualifications were met: (i) the TruPS CDO was established, and the interest was issued, before May 19, 2010; (ii) the banking entity reasonably believes that the offering proceeds received by the TruPS CDO were invested primarily in qualifying TruPS collateral; and (iii) the banking entity's interest in the TruPS CDO was acquired on or before December 10, 2013.

Although the Volcker Rule has significant implications for many large financial institutions, the Company does not currently anticipate that it will have a material effect on the operations of the Company or the Bank. The Company may incur costs if it is required to adopt additional policies and systems to ensure compliance with certain provisions of the Volcker Rule, but any such costs are not expected to be material.

MANAGEMENT

Board of Directors

Pursuant to our articles of incorporation and bylaws, our board of directors is divided into three classes that serve staggered three-year terms. The following table sets forth certain information about our directors, including their names, ages, year in which they began serving as a director of the Company (or the Bank prior to the Company's formation in 1990) and the year in which their current term expires.

Name	Age	Position	Director Since	Current Term Expires
John M. Schultz	64	Chairman of the Board	1984	2016
Leon J. Holschbach	63	Director, Vice Chairman, President and Chief Executive Officer	2007	2017
Deborah A. Golden	61	Director	2015	2018
Jerry L. McDaniel	51	Director	2012	2016
Jeffrey M. McDonnell	52	Director	2015	2016
Dwight A. Miller	63	Director	2012	2018
Richard T. Ramos	53	Director	2012	2017
Laurence A. Schiffer	76	Director	2015	2017
Robert F. Schultz	51	Director	2002	2018
Thomas D. Shaw	68	Director	2012	2018
Jeffrey C. Smith	54	Director	2005	2017

Pursuant to our articles of incorporation and bylaws, our board of directors is authorized to have not less than six members nor more than 11 members, and is currently comprised of 11 members. The number of directors may be changed only by resolution of our board within the range set forth in our articles. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. As discussed in greater detail below, our board of directors has affirmatively determined that seven of our 11 current directors qualify as independent directors based upon the rules of the NASDAQ Stock Market and the SEC. Except as described below, there are no arrangements or understandings between any of the directors and any other person pursuant to which he or she was selected as a director.

As required by the terms of the Heartland Bank acquisition, certain family members of Andrew S. Love, Jr., or the Love Family, have the right to designate one candidate for appointment to our board of directors and one non-voting observer to the board so long as they own at least 1,000,000 shares of our common stock. If the Love Family owns between 700,000 and 1,000,000 shares of our common stock, the Love Family will have the right to designate one candidate for appointment to our board of directors, but will not have the right to designate a non-voting observer to the board. If the Love Family owns fewer than 700,000 shares of our common stock or the shares held by the Love Family represent less than four percent of the total voting power of our outstanding stock, the Love Family will also cease to have the right to appoint a director to our board. The Love Family currently owns 983,350 shares of our common stock. Laurence A. Schiffer is the director designated by the Love Family.

Additionally, in connection with the Heartland Bank acquisition, certain individuals in the McDonnell family, or the McDonnell Family, have the right to designate one candidate for appointment to our board of directors so long as the McDonnell Family owns at least 700,000 shares of our common stock. If the McDonnell Family owns fewer than 700,000 shares of our common stock, the McDonnell Family will cease to have the right to appoint a director to our board. The McDonnell

Family currently owns 1,014,632 shares of our common stock. Jeffrey M. McDonnell is the director designated by the McDonnell Family.

The business experience of each of the current directors is set forth below. Other than as described below, no current director has any family relationship, as defined in Item 401 of Regulation S-K, with any other director or with any of our executive officers.

John M. Schultz. Mr. Schultz serves as the Chairman of the Company and the Bank. He has held these positions since 2006. Since 1986, Mr. Schultz has served as the Chief Executive Officer of Agracel, Inc., an industrial developer of facilities for manufacturing and high tech entities in small to midsized communities, and is the author of *BoomtownUSA: The 7^{1}/2 Keys to Big Success in Small Towns*. He also serves on the Board of Trustees of Monmouth College, a liberal arts college in Monmouth, Illinois, and the Board of Directors of Altorfer Inc., a privately held Caterpillar dealership headquartered in Cedar Rapids, Iowa with over 750 employees and 15 locations in Illinois, Iowa and Missouri, and is the past President of the Illinois State Universities Retirement System. Mr. Schultz received his B.S. in Entrepreneurism from Southern Methodist University and his M.B.A. from Harvard Business School. He is the brother of Robert F. Schultz, who is also a director of the Company and the Bank. Our board considered Mr. Schultz's experience as the chief executive of a successful business, his knowledge of and experience with real estate investment and development, his experience advising other companies in conducting business in small to midsized communities that are similar to those in our primary market areas, his experience as a trustee/director of other organizations and his knowledge of the business community in our central Illinois market area in determining that he should be a member of our board.

Leon J. Holschbach. Mr. Holschbach serves as the Vice Chairman, Chief Executive Officer and President of the Company, and Vice Chairman and Chief Executive Officer of the Bank. He has held these positions since August 2007, when he joined the Company. Prior to August 2007, Mr. Holschbach held the positions of Region Market President, Community Bank Group at AMCORE Bank, N.A., from 2000 to 2007; President and Chief Executive Officer of AMCORE Bank North Central N.A. from 1997 to 2000; and President of Citizen's State Bank in Clinton, Wisconsin, from 1979 to 1997. Mr. Holschbach received his B.A. in Economics from the University of Wisconsin in 1975. Our board considered Mr. Holschbach's 36-year career in community banking, his several years of experience running a community banking division of a regional bank in our northern Illinois market area and his long-standing relationships within the business community in determining that he should be a member of our board.

Deborah A. Golden. Ms. Golden joined the Company's board in November 2015. Ms. Golden serves as Executive Vice President, General Counsel and Secretary of GATX Corporation, a NYSE-listed railcar leasing company, where she has been employed since 2006. She previously served as General Counsel of Midwest Generation, LLC, a power generation company, from 2004 to 2006; Assistant General Counsel, Office of the Governor, State of Illinois, from 2003 to 2004; in various executive legal positions at Ameritech Corporation from 1995 to 2001; and as a partner at Schiff, Hardin & Waite, where she began her legal career in 1984. Ms. Golden holds a B.A. from Boston College, a J.D. from Loyola University School of Law and an M.B.A. from Loyola University. She is a member of the Illinois Bar. Our board considered Ms. Golden's experience as an executive of a publicly-traded company, her experience with commercial leasing, and her knowledge of corporate governance of publicly-traded companies in determining that she should be a member of our board.

Jerry L. McDaniel. Mr. McDaniel is President of Superior Fuels, Inc., a wholesale supplier of propane and petroleum products, a position he has held since 2007, and President of Dirtbuster Carwash LLC, which operates 17 carwashes in Southern Illinois and Indiana. In addition to his fuel and carwash businesses, Mr. McDaniel is a principal in other businesses, including real estate development. Mr. McDaniel is a licensed pilot and serves on the board of the Southeastern Illinois Community

Foundation. Prior to joining our board, Mr. McDaniel served as a director of another local community bank. Our board considered Mr. McDaniel's experience in starting and running several successful businesses, his broad investment experience and his prior service as a director of a community bank in determining that he should be a member of our board.

Jeffrey M. McDonnell. Mr. McDonnell is Chief Executive Officer of J&J Management Services, Inc., a private management company, a position he has held since 2012, and prior to becoming Chief Executive Officer, he served as President and Chief Compliance Officer starting in 1997. He also serves on the boards of KETC, the St. Louis metro region public television station, The Center for Emerging Technologies, a non-profit technology incubator, and prior to the Heartland Bank acquisition was a director of Love Savings Holding Company and Heartland Bank. Mr. McDonnell also serves on the investment advisory committees for the venture capital firms Oakwood Medical and Rivervest. Mr. McDonnell holds a B.A. in economics from Princeton University, an M.B.A. from the University of Michigan and a certification as a Chartered Financial Analyst. Our board considered Mr. McDonnell's service on the boards of Love Savings Holding Company and Heartland Bank and his other business experience in determining that he should be a member of our board.

Dwight A. Miller. Mr. Miller is the Chief Executive Officer and Owner of Dash Management, a 12 unit McDonald's franchisee in Champaign and Decatur, Illinois, positions he has held since 2002. Mr. Miller has served in a number of management positions with McDonald's Corp., including NE Zone Franchising Manager responsible for recruiting and development of franchisees, McOpCo Operation Manager running company restaurants in Connecticut and Western Massachusetts and Field Service Manager responsible for franchise operation and relationships in over 200 stores in upstate New York. Mr. Miller also serves as President of the Greater Chicago Region-Regional Leadership Council, representing McDonald's franchisees, and currently serves on the National Leadership Committee. Mr. Miller is the past Chairman for the Champaign County Chamber of Commerce and is on the Board of Trustees for the University of Findlay. He holds a B.S. in Accounting from Findlay College. Our board considered Mr. Miller's experience as a chief executive officer and his experience as an executive for a large, successful company in determining that he should be a member of our board.

Richard T. Ramos. Mr. Ramos is Executive Vice President, Chief Financial Officer and board member for Maritz Holdings, Inc., headquartered in St. Louis, Missouri. Maritz specializes in the design and development of incentive, reward and loyalty programs focused on improving workforce quality and customer satisfaction. He has been with Maritz since 2000. Prior to joining Maritz, Mr. Ramos served as Chief Financial Officer for Purcell Tire and Rubber Company, practiced corporate law at the firm of Blumenfeld, Kaplan and Sandweiss in St. Louis and was a senior manager at KPMG LLP. He received his B.S. in Business Administration from the University of Missouri in St. Louis and his J.D. from St. Louis University School of Law. Mr. Ramos is a Certified Public Accountant and a member of the Missouri Bar. Our board considered Mr. Ramos's experience as a chief financial officer and board member and his accounting acumen in determining that he should be a member of our board.

Laurence A. Schiffer. Mr. Schiffer was the Chairman of Heartland Bank from 1986 until the Company's acquisition of that entity in 2014. He was also the Co-Chief Executive Officer and a principal owner of Love Savings Holding Company prior to that acquisition. He is currently President and Co-Chief Executive Officer of Hallmark Investment Corporation, a multi-purpose investment company, and Chairman and Chief Executive Officer of Allegro Senior Living, a development company that was formerly a joint venture partner with Almanac Realty Investors (formerly the Rothschild Group), an international investment firm. Over the past four decades, Mr. Schiffer has directed the development, ownership, acquisition, and management of commercial real estate properties including institutional quality office, hotel, retail, industrial, apartment, and senior housing properties. Mr. Schiffer has also served as president and a director of PGI Incorporated, a publicly-traded

company. Mr. Schiffer holds a B.S. in Business Administration from Washington University. Our board considered Mr. Schiffer's experience as a chief executive of Love Savings Holding Company and Chairman of Heartland Bank and Love Funding Corporation, his knowledge of the business community in our St. Louis market, and his experience with commercial real estate, leasing and banking in determining that he should be a member of our board.

Robert F. Schultz. Mr. Schultz serves as Managing Partner of the J.M. Schultz Investment, L.L.C., a family investment firm, and has been with this organization since 1989. Since 1996, he also has served as Chairman of the Board of Directors of AKRA Builders Inc., a national construction, design-build and project management firm headquartered in Teutopolis, Illinois. Prior to joining the Company's board of directors, he served on the board of directors of Prime Banc Corp. and First National Bank of Dieterich. Mr. Schultz received his B.S. in Finance from the University of Illinois and a J.D. from the University of Notre Dame Law School. He is the brother of John M. Schultz, who is the Chairman of the Company and the Bank. Our board considered Mr. Schultz's business and investment experience and his knowledge of the business community in our central Illinois market area in determining that he should be a member of our board.

Thomas D. Shaw. Mr. Shaw is Chief Executive Officer of Shaw Media, headquartered in Dixon, Illinois. Shaw Media originally established in 1851, has more than 60 print, online, and mobile publications, as well as commercial printing and video services. Mr. Shaw has held numerous positions within the company, assuming his current role in 1993. He received his B.S. in Business Administration at Colorado College. Mr. Shaw is a former member of Rotary International, former board member of the Inland Press Association, past president of the Dixon Family YMCA and former board member of KSB Hospital. He was also a former board member of the Dixon National Bank since 1976 and, following its acquisition by a larger bank in 1993, served on that bank's regional board until 2001. Our board considered Mr. Shaw's experience on a bank's board of directors, his knowledge of the business community in our northern Illinois market area, and his overall extensive business and management level experience in determining that he should be a member of our board.

Jeffrey C. Smith. Mr. Smith serves as the Principal and Managing Partner of Walters Golf Management, a golf club management company headquartered in St. Louis, Missouri, which currently manages fifteen properties and offers turn key management, construction management, acquisition, consulting, agronomics and remodeling/redecorating services. The firm consults with approximately 45 additional facilities worldwide and manages over 500 employees. He has been with Walters Golf Management Group since 1996. Mr. Smith received his B.S. in Education from the University of Missouri. Our board considered Mr. Smith's business experience, his management experience as the managing partner of a business and his knowledge of the business community in our St. Louis market area in determining that he should be a member of our board.

Executive Officers

The following table sets forth certain information regarding our executive officers, including their names, ages and positions:

Name	Age	Position
Leon J. Holschbach	63	President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank
Jeffrey G. Ludwig	44	Executive Vice President and Chief Financial Officer of the Company and President and Chief Financial Officer of the Bank
Douglas J. Tucker	57	Senior Vice President and Corporate Counsel of the Company and the Bank
Jeffrey S. Mefford	51	Executive Vice President—Banking of the Bank
Jeffrey A. Brunoehler	55	Senior Vice President—Chief Credit Officer of the Bank
Sharon A. Schaubert	57	Senior Vice President—Banking Services of the Bank
James R. Stewart	60	Chief Risk Officer of the Bank

The business experience of each of our executive officers, other than Mr. Holschbach, is set forth below. No executive officer has any family relationship, as defined in Item 401 of Regulation S-K, with any other executive officer or any of our current directors. There are no arrangements or understandings between any of the officers and any other person pursuant to which he or she was selected as an officer.

Jeffrey G. Ludwig. Mr. Ludwig, CPA (inactive status), serves as Executive Vice President and Chief Financial Officer of the Company and as President and Chief Financial Officer of the Bank. He has served as Executive Vice President since October 2010 and as Chief Financial Officer since November 2006 when he joined the Company. In addition to his financial responsibilities at the Company level, Mr. Ludwig is responsible for the Bank's Wealth Management businesses as well as Finance, Treasury, Facilities, Information Technology and Operations functions. He serves on the Company's Executive Committee and Capital Management and Mergers and Acquisitions Committee and chairs its Asset/Liability Committee. Prior to joining the Company, Mr. Ludwig held the positions of Associate Director, Corporate Reporting, for Zimmer Holdings, Inc., a New York Stock Exchange-listed company in Warsaw, Indiana, from 2005 to 2006; Director of Corporate Accounting for Novellus Systems, Inc., a NASDAQ-listed company in San Jose, California, from 2002 to 2005; and Senior Manager—Audit & Advisory Services for KPMG LLP in its banking practice in St. Louis, Missouri, from 1993 to 2000 and in its technology practice in Mountain View, California, from 2000 to 2002. Mr. Ludwig received his B.S. in Accounting from Eastern Illinois University.

Douglas J. Tucker. Mr. Tucker serves as the Senior Vice President and Corporate Counsel of the Company and the Bank, positions to which he was appointed in October 2010. Mr. Tucker also serves on the Company's Executive Committee. Prior to joining the Company, Mr. Tucker was a Partner in the Corporate Services Group of Quarles & Brady LLP, having joined that firm in 2004. Mr. Tucker also served as Chair of Quarles & Brady's Chicago Securities Practice, as one of the firm's National Growth Partners, as Chair of the China Law Group and as Managing Partner of the firm's office in Shanghai, China. While at Quarles & Brady he served as lead outside counsel for all of the Company's acquisitions and capital raise transactions from 2007 to his joining the Company. Mr. Tucker, who has worked with financial institutions for almost 20 years, has been a licensed attorney since 1993 and an Adjunct Professor at the Chicago-Kent Law School since 2002. He holds a B.A. in International Relations from Michigan State University and a J.D. from Northwestern University School of Law.

Jeffrey S. Mefford. Mr. Mefford, who has been with the Bank since 2003, serves as the Bank's Executive Vice President—Banking and is responsible for retail, commercial and treasury sales, marketing, community development and CRA. Prior to being appointed as Head of Banking in October

2010, Mr. Mefford served as the Bank's Illinois Region Market President, responsible for the banking offices in our central Illinois market. Prior to joining the Bank, Mr. Mefford held the position of President and Chief Executive Officer of Farmers State Bank of Camp Point in Camp Point, Illinois, from 2000 to 2003; Vice President, Mortgage Department Manager, at Marine Bank, in Springfield, Illinois, from 1998 to 2000; and Vice President, Small Business Banking Manager, for Bank One, Illinois, in Springfield, Illinois, from 1991 to 1998. Mr. Mefford received his B.S. in Business Administration from Illinois College and his M.B.A. from William Woods University.

Jeffrey A. Brunoehler. Mr. Brunoehler serves as the Bank's Senior Vice President—Chief Credit Officer, a position he has held since July 2010. He joined the Bank in April 2010 as Vice President and Regional Credit Officer. Prior to joining the Bank, Mr. Brunoehler held positions at AMCORE Bank, N.A., as Senior Vice President and Regional Credit Officer from 2005 to 2010 and Senior Vice President and Market President from 1999 to 2004. Mr. Brunoehler received his B.S. in Agricultural Economics from the University of Illinois.

Sharon A. Schaubert. Ms. Schaubert serves as the Bank's Senior Vice President—Banking Services, and has been a Senior Vice President of the Bank since 2004. Her primary responsibilities include overseeing Human Resources and Training. Prior to joining the Bank in 2004, she held the positions of Executive Vice President of Retail Banking at Peoples National Bank in Fairfield, Illinois, from 2000 to 2004; Vice President Regional Administrative Manager at First Bank in Salem, Illinois, from 1998 to 2000; and Assistant Vice President Area Manager at the Bank of Illinois in Mt. Vernon, Illinois, from 1990 to 1998. Ms. Schaubert received her B.A. in Management and Communications from Concordia University and her M.B.A. from the University of Illinois.

James R. Stewart. Mr. Stewart serves as the Bank's Chief Risk Officer. He joined as Director of Risk Management in 2012, was appointed Senior Director of Risk Management in 2013, and assumed his current role in June 2015. Prior to joining the Bank, Mr. Stewart was a principal with JHC Risk Strategies, a risk management consulting firm in Williston, Vermont, and from 2003 to 2010, served as Executive Vice President and Chief Risk Officer at Bank of N. T. Butterfield & Son Limited, Hamilton, Bermuda. Prior to that position, he was Senior Vice President and Head of Risk Management at Riyad Bank, Riyadh, Saudi Arabia, and for seventeen years prior consulted to Lloyd's of London and other key insurers on financial services risks. Mr. Stewart holds a Bachelor of Science Degree in Business Administration from the University of Alabama. He is a Certified Public Accountant and a Chartered Global Management Accountant.

Board and Committee Matters

Director Independence. Under the rules of the NASDAQ Stock Market, independent directors must comprise a majority of our board of directors within a specified period of time following this offering. The rules of the NASDAQ Stock Market, as well as those of the SEC, also impose several other requirements with respect to the independence of our directors.

Our board of directors has evaluated the independence of its members based upon the rules of the NASDAQ Stock Market and the SEC. Applying these standards, our board of directors has affirmatively determined that, with the exception of Messrs. Holschbach, J. Schultz, R. Schultz and Schiffer, each of our current directors is an independent director, as defined under the applicable rules. The board determined that Mr. Holschbach does not qualify as an independent director because he is an executive officer of the Company. The board determined that Mr. R. Schultz does not qualify as an independent director as a result of payments made to AKRA Builders in connection with contracting and construction services provided to the Company. The board determined that Mr. J. Schultz does not qualify as an independent director because of his family relationship with Mr. R. Schultz. The board determined that Mr. Schiffer does not qualify as an independent director because of payments he receives pursuant to a noncompetition agreement in connection with the Heartland Bank acquisition. See "Certain Relationships and Related Party Transactions."

Board Leadership Structure. We currently have separate individuals serving as Chairman of our board of directors and as our Chief Executive Officer. Mr. John M. Schultz serves as Chairman and Mr. Holschbach holds the position of Chief Executive Officer. As noted above, Mr. Schultz is not currently considered to be "independent" according to NASDAQ Stock Market rules.

Although our bylaws do not require our Chairman and Chief Executive Officer positions to be separate, our board believes that having separate positions and having a non-executive director serve as Chairman is the appropriate leadership structure for the Company at this time and demonstrates our commitment to good corporate governance. Separating these positions allows our Chief Executive Officer to focus on our day-to-day business, while allowing the Chairman to lead the board in its fundamental role of providing advice to and independent oversight of management. In addition, this leadership structure allows our board to more effectively monitor and evaluate the performance of our Chief Executive Officer.

Board Committees. Our board of directors has established standing committees in connection with the discharge of its responsibilities. These committees include the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, Capital Management and Mergers and Acquisitions Committee, Executive Committee and Asset/Liability Committee.

Our board of directors also may establish such other committees as it deems appropriate, in accordance with applicable law and regulations and our articles and bylaws.

Audit Committee. Our Audit Committee currently consists of Richard T. Ramos (Chairman), Jerry L. McDaniel, Jeffrey M. McDonnell and Jeffrey C. Smith. Our board of directors has evaluated the independence of the members of our Audit Committee and has affirmatively determined that: (i) each of the members of our Audit Committee meets the definition of "independent director" under NASDAQ Stock Market rules; (ii) each of the members satisfies the additional independence standards under NASDAQ Stock Market rules and applicable SEC rules for audit committee service; and (iii) each of the members has the ability to read and understand fundamental financial statements. In addition, our board of directors has determined that Mr. Ramos has the required financial sophistication due to his experience and background, which NASDAQ Stock Market rules require at least one such Audit Committee member have. Our board has determined that Mr. Ramos also qualifies as an "audit committee financial expert," as that term is defined under applicable SEC rules.

Our Audit Committee has adopted a written charter, which sets forth the committee's duties and responsibilities. The current charter of the Audit Committee will be available on our website at www.midlandsb.com upon completion of this offering. As described in its charter, our Audit Committee has responsibility for, among other things:

- selecting and reviewing the performance of our independent auditors and approving, in advance, all engagements and fee arrangements;
- reviewing the independence of our independent auditors;
- reviewing actions by management on recommendations of the independent auditors and internal auditors;
- meeting with management, the internal auditors and the independent auditors to review the effectiveness of our system of internal control and internal audit procedures;
- reviewing our earnings releases and reports filed with the SEC;
- reviewing reports of bank regulatory agencies and monitoring management's compliance with recommendations contained in those reports;
- reviewing and approving transactions for potential conflicts of interest under the Company's conflict of interest policy; and

- handling such other matters that are specifically delegated to the Audit Committee by our board of directors from time to time.

Compensation Committee. Our Compensation Committee currently consists of Robert F. Schultz (Chairman), Richard T. Ramos, John M. Schultz and Jeffrey C. Smith. Our board of directors has evaluated the independence of the members of our Compensation Committee and has affirmatively determined that Messrs. Ramos and Smith are "independent" under NASDAQ Stock Market rules and also satisfy the additional independence standards under NASDAQ Stock Market rules for compensation committee service. As noted above under "—Director Independence," our board of directors has determined that Messrs. R. Schultz and J. Schultz do not qualify as independent directors under NASDAQ Stock Market rules. We are relying on the phase-in schedule under NASDAQ Stock Market rules for companies listing on NASDAQ in connection with their initial public offering, which requires: (i) one member satisfy the independence requirements at the time of listing; (ii) a majority of the members satisfy the independence requirements within 90 days of listing; and (iii) all members satisfy the independence requirements within one year of listing.

Our Compensation Committee has adopted a written charter, which sets forth the committee's duties and responsibilities. The current charter of the Compensation Committee will be available on our website at www.midlandsb.com upon completion of this offering. As described in its charter, our Compensation Committee has responsibility for, among other things:

- reviewing, monitoring and approving our overall compensation structure, policies and programs (including benefit plans) and assessing whether the compensation structure establishes appropriate incentives for our executive officers and other employees and meets our corporate objectives;
- determining the annual compensation of our Chief Executive Officer;
- reviewing the compensation decisions made by our Chief Executive Officer with respect to our other named executive officers;
- overseeing the administration of our equity plans and other incentive compensation plans and programs and preparing recommendations and periodic reports to our board of directors relating to these matters;
- preparing the Compensation Committee report required by SEC rules to be included in our annual report; and
- handling such other matters that are specifically delegated to the Compensation Committee by our board of directors from time to time.

Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee currently consists of Jeffrey C. Smith (Chairman), Leon J. Holschbach, Laurence A. Schiffer and John M. Schultz. Our board of directors has evaluated the independence of the members of our Nominating and Corporate Governance Committee and has affirmatively determined that Mr. Smith is "independent" under NASDAQ Stock Market rules. As noted above under "—Director Independence," our board of directors has determined that Messrs. Holschbach, Schiffer and J. Schultz do not qualify as independent directors under NASDAQ Stock Market rules. We are relying on the phase-in schedule under NASDAQ Stock Market rules for companies listing on NASDAQ in connection with their initial public offering, which requires: (i) one member satisfy the independence requirements at the time of listing; (ii) a majority of the members satisfy the independence requirements within 90 days of listing; and (iii) all members satisfy the independence requirements within one year of listing.

Our Nominating and Corporate Governance Committee has adopted a written charter, which sets forth the committee's duties and responsibilities. The current charter of the Nominating and Corporate

Governance Committee will be available on our website at www.midlandsb.com upon completion of this offering. As described in its charter, our Nominating and Corporate Governance Committee has responsibility for, among other things:

- recommending persons to be selected by our board of directors as nominees for election as directors or to fill any vacancies on our board of directors;
- monitoring the functioning of our standing committees and recommending any changes, including the creation or elimination of any committee;
- developing, reviewing and monitoring compliance with our corporate governance guidelines;
- reviewing annually the composition of our board of directors as a whole and making recommendations; and
- handling such other matters that are specifically delegated to the Nominating and Corporate Governance Committee by our board of directors from time to time.

In carrying out its nominating function, the Nominating and Corporate Governance Committee has developed qualification criteria for all potential director nominees, including incumbent directors, board nominees and shareholder nominees included in the proxy statement. These criteria include the following attributes:

- integrity and high ethical standards in the nominee's professional life;
- sufficient educational and professional experience, business experience or comparable service on other boards of directors to qualify the nominee for service to the board;
- evidence of leadership and sound judgment in the nominee's professional life;
- a willingness to abide by any published code of ethics for the Company; and
- a willingness and ability to devote sufficient time to carrying out the duties and responsibilities required of a board member.

The committee also evaluates potential nominees to determine if they have any conflicts of interest that may interfere with their ability to serve as effective board members and to determine whether they are "independent" in accordance with NASDAQ Stock Market rules (to ensure that, at all times, at least a majority of our directors are independent).

Prior to nominating an existing director for re-election to the board, the committee will consider and review the following attributes with respect to each existing director:

- board and committee attendance and performance;
- age and length of board service;
- experience, skills and contributions that the existing director brings to the board;
- independence and any conflicts of interest; and
- any significant change in the director's professional status or work experience, including the attributes considered for initial board membership.

Capital Management and Mergers and Acquisitions Committee. Our Capital Management and Mergers and Acquisitions Committee currently consists of three non-executive directors, Dwight A. Miller, Richard T. Ramos and John M. Schultz, one executive director, Leon J. Holschbach, and one non-director executive officer, Jeffrey G. Ludwig.

Our Capital Management and Mergers and Acquisitions Committee has responsibility for, among other things, developing and overseeing the Company's acquisition strategy, reviewing potential

acquisition opportunities and presenting certain opportunities to the board of directors and monitoring the Company's capital position in light of its projected growth and, if necessary, developing and implementing capital raising strategies.

Executive Committee. Our Executive Committee currently consists of two directors, Leon J. Holschbach and John M. Schultz, and two non-director executive officers, Jeffrey G. Ludwig and Douglas J. Tucker. Messrs. Ludwig and Tucker are non-voting members of this committee. The Executive Committee has the general authority to act on behalf of our board of directors during intervals between board meetings and pursuant to specific grants of authority from the full board of directors. As appropriate, the Executive Committee reports regularly to our board of directors on its activities.

Asset/Liability Committee. Our Asset/Liability Committee currently consists of Leon J. Holschbach, Jerry L. McDaniel, Dwight A. Miller, Robert F. Schultz and Thomas D. Shaw. Jeffrey G. Ludwig, our Executive Vice President and Chief Financial Officer, is a non-voting member of this committee. The Asset/Liability Committee has responsibility for, among other things, monitoring the maturities and overall mix of the Company's and the Bank's interest rate sensitive assets and liabilities.

Compensation Committee Interlocks and Insider Participation. None of the members of our Compensation Committee will be or has been an officer or employee of the Company. Robert F. Schultz, a member of our Compensation Committee, is the chairman of the board of directors of AKRA Builders Inc., and in 2015 the Company has paid AKRA Builders Inc. approximately $1.8 million in connection with contracting and construction services provided to the Company. John M. Schultz, also a member of our Compensation Committee, is the brother of Robert F. Schultz. None of our executive officers serves or has served as a member of the board of directors, compensation committee or other board committee performing equivalent functions of any entity that has one or more executive officers serving as one of our directors or on our Compensation Committee.

Code of Business Conduct and Ethics. We have a code of business conduct and ethics in place that applies to all of our directors and employees. The code sets forth the standard of ethics that we expect all of our directors and employees to follow. Our code of business conduct and ethics, upon the completion of this offering, will be available on our website at www.midlandsb.com. We expect that any amendments to the code, or any waivers of its requirements, will be disclosed on our website, as well as any other means required by NASDAQ Stock Market rules.

Corporate Governance Guidelines. We have adopted corporate governance guidelines to assist our board of directors in the exercise of its fiduciary duties and to promote the effective functioning of our board and its committees. Our corporate governance guidelines, upon the consummation of this offering, will be available on our website at www.midlandsb.com.

EXECUTIVE COMPENSATION

As an emerging growth company under the JOBS Act, we have opted to comply with the executive compensation disclosure rules applicable to "smaller reporting companies" as such term is defined in the rules promulgated under the Securities Act, which permit us to limit reporting of executive compensation to our principal executive officer and our two other most highly compensated executive officers, which are referred to as our "named executive officers."

The compensation reported in the Summary Compensation Table below is not necessarily indicative of how we will compensate our named executive officers in the future. We will continue to review, evaluate and modify our compensation framework to maintain a competitive total compensation package. As such, and as a result of our becoming a publicly traded company, the compensation program following this offering could vary from our historical practices.

Our named executive officers for 2015, which consist of our principal executive officer and the Company's two other most highly compensated executive officers, are:

- Leon J. Holschbach, President and Chief Executive Officer
- Jeffrey G. Ludwig, Executive Vice President and Chief Financial Officer
- Douglas J. Tucker, Senior Vice President and Corporate Counsel

Summary Compensation Table

The following table sets forth information regarding the compensation paid, awarded to, or earned for our fiscal years ended December 31, 2015 and 2014 for each of our named executive officers.

Name and Position	Year	Salary ($)	Bonus ($)	Stock Awards(1) ($)	Option Awards(1) ($)	All Other Compensation(2) ($)	Total ($)
Leon J. Holschbach	2015	529,389	255,430	174,708	—	23,669	983,196
Chief Executive Officer and President	2014	529,389	288,517	104,811	304,531	22,568	1,249,816
Jeffrey G. Ludwig	2015	367,500	141,855	61,732	43,344	17,550	631,981
Executive Vice President and Chief Financial Officer	2014	349,567	152,411	58,737	195,804	17,450	773,969
Douglas J. Tucker	2015	308,000	110,818	42,504	29,840	7,800	498,962
Senior Vice President and Corporate Counsel	2014	238,703	91,065	32,949	126,515	7,800	497,032

(1) The amounts set forth in the "Stock Awards" and "Option Awards" columns reflect the aggregate grant date fair value of stock and option awards for the years ended December 31, 2015 and 2014 in accordance with FASB ASC Topic 718. The stock award amounts are based on fair market values of $23.00 and $21.00 for awards granted on November 3, 2015 and December 2, 2014, respectively. The fair market value of shares was determined by the board of directors. The assumptions used in calculating the option award amounts are set forth in Note 18 to our consolidated financial statements as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015.

(2) "All Other Compensation" for the named executive officers during fiscal 2015 is summarized below.

Name	Perquisites(i) ($)	Company 401(k) Match(ii) ($)	Supplemental Life Insurance(iii) ($)	Total "All Other Compensation" ($)
Leon J. Holschbach	10,327	7,800	5,542	23,669
Jeffrey G. Ludwig	9,750	7,800	—	17,550
Douglas J. Tucker	—	7,800	—	7,800

(i) Amounts for Messrs. Holschbach and Ludwig reflect club dues and use of a Company-owned vehicle.

(ii) Amount reflects Company matching contribution under the 401(k) Plan.

(iii) Amount reflects premiums paid by the Company during 2015 with respect to supplemental life insurance.

General

We compensate our named executive officers through a combination of base salary, annual bonuses, equity awards, and other benefits including perquisites. Our Compensation Committee believes the executive compensation packages that we provide to our executives, including the named executive officers, should include both cash and equity compensation that reward performance as measured against established corporate goals. Each element of compensation is designed to achieve a specific purpose and to contribute to a total package that is competitive with similar packages provided by other institutions that compete for the services of individuals like our named executive officers.

Base Salary

The Compensation Committee reviews and approves base salaries of our named executive officers and sets the compensation of our chief executive officer. In setting the base salary of each named executive officer, the Committee relied on market data provided by our internal human resources department and survey data from industry resources. The Compensation Committee also retains independant consultants as it deems appropriate. Salary levels are typically considered annually as part of our performance review process and upon a promotion or other change in job responsibility.

Bonus

Each named executive officer's employment agreement specifies an annual bonus target amount, stated as a percentage of the executive's salary for the applicable year. For the 2014 and 2015 fiscal years, the specified annual bonus targets for Messrs. Holschbach, Ludwig and Tucker were 50%, 40% and 35%, respectively. For the 2014 and 2015 fiscal years, the calculation of the amount of the cash bonuses paid to our named executive officers was based on the level of achievement of specified financial targets of net income and revenue, with 70% of each officer's bonus calculation having been based on the specified net income target and 30% based on the revenue target. Annual bonuses are approved by the Compensation Committee subject to the terms of the Company's Management Incentive Plan (MIP), which establishes risk-based metrics that must be met before annual bonuses may be paid, as more fully described below. In addition, executives may receive additional performance related bonuses with respect to certain material projects and transactions.

Equity Awards

The equity awards reflected in the table above all relate to restricted stock, restricted stock unit and stock option awards issued pursuant to our Second Amended and Restated 2010 Long-Term

Incentive Plan (the "2010 LTIP"), which, as described more fully below, allows the Compensation Committee to establish the terms and conditions of the awards, subject to the plan terms.

Benefits and Other Perquisites

The named executive officers are eligible to participate in the same benefit plans designed for all of our full-time employees, including health, dental, vision, disability and basic group life insurance coverage. We also provide our employees, including our named executive officers, with various retirement benefits. Our retirement plans are designed to assist our employees in planning for retirement and securing appropriate levels of income during retirement. The purpose of our retirement plans is to attract and retain quality employees, including executives, by offering benefit plans similar to those typically offered by our competitors.

Midland States Bank 401(k) Profit Sharing Plan. The Midland States Bank 401(k) Profit Sharing Plan, or the 401(k) Plan, is designed to provide retirement benefits to all eligible full-time and part-time employees of the Bank and its subsidiaries. The 401(k) Plan provides employees with the opportunity to save for retirement on a tax-favored basis. Named executive officers, all of whom were eligible during 2015, may elect to participate in the 401(k) Plan on the same basis as all other employees. Employees may defer 1% to 100% of their compensation to the 401(k) Plan up to the applicable IRS limit. We currently match employee contributions on the first 6% of employee compensation (50 cents for each $1). The Company match is contributed in the form of cash and is invested according to the employee's current investment allocation. No discretionary profit sharing contribution was made to the 401(k) Plan for 2015 or 2014.

Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan. We maintain the Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan for the benefit of our eligible employees. The plan is not intended to constitute an "employee stock purchase plan" within the meaning of Section 423 of the Code. Any employee who has been employed by us or any subsidiary is eligible to participate in the plan upon completion of the service requirements determined by the Compensation Committee. Pursuant to the plan, participating employees are permitted to use after-tax dollars, up to a maximum of $25,000 per calendar year of their compensation, to purchase shares of our common stock at the end of each calendar quarter. The purchase price for the stock is currently 90% of the stock's fair market value as of the first day of each quarterly offering period. While the Compensation Committee could elect a different discount percentage, it does not expect to do so in the foreseeable future. At any time our common stock is listed for trading on a principal national securities exchange, including the NASDAQ Global Select Market, the fair market value under this plan is deemed to be the officially quoted closing selling price of the shares on the applicable day.

Second Amended and Restated Deferred Compensation Plan for Directors and Executives. We maintain the Second Amended and Restated Deferred Compensation Plan for Directors and Executives of Midland States Bancorp, Inc., (Deferred Compensation Plan), for the benefit of our directors and certain senior executives. The plan provides directors and executives an opportunity to better plan for their financial futures by providing a vehicle for the deferral of current income taxation. Under the plan, directors and eligible senior executives are permitted to elect to defer all or a portion of their annual director fees, salary and/or bonus, as the case may be. Any deferrals are credited to a plan account and earn interest based on the notional investment elections of the directors and executives from a selection of measurement funds generally available to participants under the 401(k) Plan. One available notional investment alternative is Company stock units, which track the value of our common stock. As an incentive to elect our common stock as a measurement for investment return, and thereby further tie the individual's financial success to the Company, any director who defers all of his or her annual director fees and directs their investment to common stock units will receive an additional matching credit to his or her plan account equal to 25% of his or her deferred director fees. The

matching contribution vests equally over the four years following crediting to a participant's plan account. The vesting will be accelerated in the case of a change in control of the Company or the participant's death, disability or retirement after reaching age 70. Participants can elect to receive their distributions in a lump sum or in installments spread over a period of up to 15 years.

Health and Welfare Benefits. Our named executive officers are eligible to participate in our standard health and welfare benefits program, which offers medical, dental, vision, life, accident, and disability coverage to all of our eligible employees. We do not provide the named executive officers with any health and welfare benefits that are not generally available to our other employees, except for Mr. Holschbach, to whom we provide supplemental life insurance coverage pursuant to the terms of his employment agreement.

Perquisites. We provide our named executive officers with certain perquisites that we believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to named executive officers. Based on this periodic review, perquisites are awarded or adjusted on an individual basis. The perquisites received by our named executive officers in 2015 included the following:

- allowance for annual country club/social club dues; and
- use of a Company-owned automobile.

With respect to our named executive officers, country club allowances and the use of a Company car are only provided to Messrs. Holschbach and Ludwig.

Employment Agreements

We have entered into employment agreements with each of our named executive officers, which generally describe the position and duties of each of the named executive officers, provide for a specified term of employment, describe base salary, bonus opportunity and other benefits and perquisites to which each executive officer is entitled, if any, set forth the duties and obligations of each party in the event of a termination of employment prior to expiration of the employment term and provide us with a measure of protection by obligating the named executive officers to abide by the terms of restrictive covenants during the terms of their employment and thereafter for a specified period of time.

Mr. Holschbach. As part of our executive management succession planning and development, effective as of November 16, 2015, we entered into a transitional employment agreement and supplemental retirement benefit agreement with Mr. Holschbach in order to provide for the systematic succession and transition of his duties as President and Chief Executive Officer of the Company and of the Bank, leading up to his anticipated retirement on December 31, 2018. As part of this process, in February 2016 Mr. Ludwig assumed responsibility as President of the Bank. The agreements with Mr. Holschbach provide for an employment period through December 31, 2018, which is Mr. Holschbach's planned retirement date. Mr. Holschbach will serve as President and Chief Executive Officer of the Company and Vice Chairman and Chief Executive Officer of the Bank until the boards appoint his successors for various duties on or after specified dates during the employment period. Mr. Holschbach will continue to serve as a member of the boards of directors of the Company and the Bank until the Company's annual shareholders meeting to be held in 2020. During the employment period, Mr. Holschbach is eligible for discretionary annual salary increases and continued participation in the bonus program. Under the agreement, Mr. Holschbach's target bonus is required to be at least 50% of his salary. Mr. Holschbach is also entitled to receive grants of restricted stock units in December of each of 2015, 2016, and 2017, each having a grant date fair value equal to 33% of his then current salary. He is also eligible to receive supplemental retirement payments in each of 2019,

2020, and 2021, equal to 50%, 40%, and 30%, respectively, of his final salary at his retirement date, provided that Mr. Holschbach remains employed through his retirement date and remains available to provide assistance to the Company in each of the subsequent years in which he is receiving benefits. Grants of restricted stock units and the supplemental retirement benefits will vest in $33^{1}/_{3}$% annual increments with any unvested amounts becoming fully vested upon his retirement date. Mr. Holschbach will also become fully vested in all restricted stock units and supplemental retirement benefits upon death, disability, change in control, or a termination without cause or resignation for good reason. Dividend equivalents on restricted stock units will only be paid upon vesting. In connection with entering into the agreements, the Company agreed to amend Mr. Holschbach's existing stock option awards to extend the period of exercisability to the earlier of December 31, 2020, or their original expiration date without regard to Mr. Holschbach's employment status, other than in the event of a termination for cause.

Following Mr. Holschbach's termination of employment during the employment period, he will be subject to non-competition and non-solicitation restrictions for a period of 18 months (12 months if such termination occurs within six months before or 24 months after a change in control of the Company). In the event Mr. Holschbach's employment is terminated other than for cause or he resigns for good reason, he will be entitled to the sum of his then current salary plus his average bonus payments for the prior three years, determined through the end of the employment period, with such amount paid in installments over 12 months. If such termination occurs in connection with a change of control, he will be entitled to a lump sum payment equal to 200% of the sum of his then current salary plus his average bonus payments for the prior three years. In both cases, he will also be entitled to continued COBRA insurance coverage at employee rates for up to 18 months post-termination and a pro rata bonus for the year of termination.

Mr. Ludwig. Our employment agreement with Mr. Ludwig provides for an initial term of three years, with an automatic renewal for an additional one-year period commencing on the first anniversary of the effective date and each anniversary thereafter, unless either party provides written notice of nonrenewal ninety days prior to the extension date. Under the agreement, Mr. Ludwig's target bonus was required to be at least 40% of his base salary. In connection with his appointment as President of the Bank in February 2016, Mr. Ludwig's employment agreement was amended to provide that his target bonus will be at least 45% of his base salary. If a change in control of the Company occurs during the term of the agreement, the agreement will remain in effect for the two-year period following the change in control. Following Mr. Ludwig's termination of employment, he will be subject to non-competition and non-solicitation restrictions for a period of 12 months. In the event Mr. Ludwig's employment is terminated other than for cause or he resigns for good reason, he will be entitled to a payment equal to 100% (150% if in connection with a change in control) of the sum of his salary plus the average of his bonus payments for the prior three years. He will also be entitled to COBRA coverage at employee rates for up to 18 months and a pro rata bonus for the year of termination.

Mr. Tucker. Our employment agreement with Mr. Tucker provides for an initial term of two years, with an automatic renewal for an additional one-year period commencing on the first anniversary of the effective date and each anniversary thereafter, unless either party provides written notice of nonrenewal ninety days prior to the extension date. Under the agreement, Mr. Tucker's target bonus is required to be at least 35% of his base salary. If a change in control of the Company occurs during the term of the agreement, the agreement will remain in effect for the two-year period following the change in control. Following Mr. Tucker's termination of employment, he will be subject to non-competition and non-solicitation restrictions for a period of 12 months. In the event Mr. Tucker's employment is terminated other than for cause or he resigns for good reason, he will be entitled to a payment equal to 50% (100% if in connection with a change in control) of the sum of his salary plus the average of his bonus payments for the prior three years. He will also be entitled to COBRA coverage at employee

rates for up to 12 months and if his termination is in connection with a change in control, a pro rata bonus for the year of termination.

Our obligation to pay any severance under each of the employment agreements is conditioned on the execution by the named executive officer of a general release and waiver of any and all claims with respect to their employment with the Company.

Management Incentive Plan (MIP)

General. In 2011, the Compensation Committee adopted the MIP to establish risk management guidelines for the payment of bonuses. The MIP specifies risk-based metrics for annual performance bonuses for the Company's and the Bank's executive officers, with complete or partial forfeitures of annual bonuses if the risk-based metrics are not met. The MIP also specifies the combination of cash and equity awards with respect to bonuses paid to our executives.

Performance and Risk-Based Metrics. The Committee has determined that maintaining specified capital levels and asset quality levels is critical to the Company's long-term performance, and has selected each of these as appropriate risk-based metrics under the MIP. As such, regardless of performance, each named executive officer's annual bonus is subject to partial or complete forfeiture if these risk-based metrics are not satisfied. With respect to capital levels, the MIP requires that as of the close of business for any given bonus year, the Bank's Tier 1 leverage ratio must be at least 7.25% for full bonuses to be paid. If the Bank's Tier 1 leverage ratio is below 7.25% bonuses will be reduced, and if the Tier 1 leverage ratio falls below 6.75%, no bonus will be paid for that year, provided, however, that the Compensation Committee is permitted to take into consideration strategic or other events believed to be in the long term interests of the Company and shareholder value that may have had a short term negative impact on the Tier 1 leverage ratio.

With respect to asset quality, the Company must achieve a ratio of nonperforming assets to total assets that is not greater than 120% of that of our peers, as determined by the Compensation Committee. However, regardless of the average level of the applicable peer group, the metric will be deemed to be satisfied if the Company's ratio of nonperforming assets to total assets is equal to or less than 2.0%. If the Company's ratio of nonperforming assets to total assets is above 2.0% and exceeds 120% of its peer group average, performance-based bonuses will be proportionately reduced.

In the event that either of the risk-based metrics are not fully achieved, and therefore performance bonuses for the respective year were partially or completely forfeited, the MIP provides that each executive officer will be eligible for a restoration bonus in the following year if the appropriate levels of capital and/or asset quality are restored, as of the end of that next fiscal year and the executive officer is still employed by the Company.

Mix of Cash and Equity

The MIP also establishes the percentage of any annual performance bonus to be paid in cash and equity. Under the MIP, bonuses up to 125% (in the case of our chief executive officer and chief financial officer) and 150% (in the case of our other executive officers) of the officer's annual salary will be payable solely in cash. Bonuses above such amounts, will be payable in equity awards. In determining these percentages, the Committee considered a variety of factors, including the significant aggregate equity ownership of our executive management team (including substantial cash investments in Company shares) and the after-tax consequences to our executives of granting bonuses in the form of equity.

Long Term Incentive Plans

Equity based incentive awards are currently made though the Company's 2010 LTIP. The Company also maintains the Midland States Bancorp, Inc. Omnibus Stock Ownership and Long Term Incentive Plan, and the Third Amendment and Restatement Midland States Bancorp, Inc. 1999 Stock Option Plan ("Prior Incentive Plans"). As of the effective date of the 2010 LTIP, no further awards may be granted under the Prior Incentive Plans. However, any previously outstanding incentive award granted under the Prior Incentive Plans remains subject to the terms of such plans until the time it is no longer outstanding.

Midland States Bancorp, Inc. Second Amended and Restated 2010 Long-Term Incentive Plan.

General. The 2010 LTIP was adopted by our board on October 18, 2010 and approved by our shareholders on November 23, 2010. The 2010 LTIP was designed to ensure continued availability of equity awards that will assist the Company in attracting, retaining and rewarding key employees, directors and other service providers. Pursuant to the 2010 LTIP, the Compensation Committee is allowed to grant awards to eligible persons in the form of qualified and non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights and other incentive awards. Up to 2,000,000 shares of common stock are available for issuance under the plan. As of February 29, 2016, there were 1,059,353 shares available for issuance under the plan. Awards vest, become exercisable and contain such other terms and conditions as determined by the Compensation Committee and set forth in individual agreements with the employees receiving the awards. The plan enables the Compensation Committee to set specific performance criteria that must be met before an award vests under the plan. The 2010 LTIP allows for acceleration of vesting and exercise privileges of grants if a participant's termination of employment is due to a change in control, death or total disability. If a participant's job is terminated for cause, then all unvested awards expire at the date of termination.

Eligibility. All employees and directors of, and service providers to, the Company and its subsidiaries are eligible to become participants in the Plan, except that non-employees may not be granted incentive stock options. The Committee will determine the specific individuals who will be granted awards under the Plan and the type and amount of any such awards.

Options. The Committee may grant incentive stock options and non-qualified stock options to purchase stock at an exercise price determined under the award. Each stock option must be granted pursuant to an award agreement setting forth the terms and conditions of the individual award. Awards of stock options may expire no later than 10 years from the date of grant (and no later than five years from the date of grant in the case of a 10% shareholder with respect to an incentive stock option).

The exercise price of an option generally may not be less than the fair market value of Company common stock on the date the option is granted (or, if greater, the par value of a share of stock). The exercise price of an incentive stock option awarded to a 10% shareholder may not be less than 110% of the fair market value of the stock on the date the option is granted. The exercise price of an option may, however, be higher or lower than the grant date fair market value for an option granted in replacement of an existing award held by an employee, director or service provider of a third party that is acquired by the Company or one of its subsidiaries. The exercise price of an option may not be decreased after the date of grant nor may an option be surrendered to the Company as consideration for the grant of a replacement option with a lower exercise price, except as approved by the Company's shareholders, or as adjusted for corporate transactions described above.

Options awarded under the Plan will be exercisable in accordance with the terms established by the Committee. Any incentive stock option granted under the Plan that does not qualify as an incentive stock option will be deemed to be a non-qualified stock option and the Committee may unilaterally modify any incentive stock option to disqualify it as an incentive stock option. The full purchase price of each share of stock purchased upon the exercise of any option must be paid at the time of exercise

of an option. Except as otherwise determined by the Committee, the purchase price of an option may be paid in cash, by personal, certified or cashiers' check, in shares of Company common stock (valued at fair market value as of the day of exercise) either via attestation or actual delivery, by net exercise such that, without the payment of any funds, the net number of shares of stock received will be equal in value to the number of shares of stock as to which the option is being exercised, multiplied by a fraction, the numerator of which is the fair market value less the exercise price, and the denominator of which is such fair market value, by other property deemed acceptable by the Committee, by irrevocably authorizing a third party to sell shares of Company common stock and remit a sufficient portion of the proceeds to the Company, or by other property deemed acceptable or a combination thereof.

Stock Appreciation Rights. Stock appreciation rights entitle the participant to receive cash and/or stock equal in value to, or based on the value of, the amount by which the fair market value of a specified number of shares on the exercise date exceeds an exercise price established by the Committee. The exercise price for a stock appreciation right generally may not be less than the fair market value of the stock on the date the stock appreciation right is granted, provided, however, that the exercise price may be higher or lower for a stock appreciation right granted in replacement of an existing award held by an employee, director or service provider of a third party that is acquired by the Company or one of its subsidiaries. Stock appreciation rights will be exercisable in accordance with the terms established by the Committee.

Stock Awards. A stock award is a grant of shares of Company common stock or a right to receive shares of Company common stock (or an equivalent amount of cash or a combination of both) in the future. Such awards may include, but are not limited to, bonus shares, stock units, performance shares, performance units, restricted stock or restricted stock units or any other equity-based award as determined by the Committee.

The specific conditions, including the performance measures, performance objectives or period of service requirements that may apply to stock awards are set by the Committee in its discretion.

Cash Incentive Awards. A cash incentive award is the grant of a right to receive a payment of cash (or Company common stock having a value equivalent to the cash otherwise payable), determined on an individual basis or as an allocation of an incentive pool that is contingent on the achievement of performance objectives established by the Committee. The Committee may grant cash incentive awards that may be contingent on achievement of a participant's performance objectives over a specified period established by the Committee. The grant of cash incentive awards may also be subject to such other conditions, restrictions and contingencies, as determined by the Committee.

Forfeiture. Unless specifically provided to the contrary in an award agreement, upon notification of termination of employment for cause, in the case of employees, and termination of service for cause, in the case of non-employee directors or other service providers, any outstanding award held by such employee, non-employee director or service provider will terminate immediately, the award will be forfeited and the participant will have no further rights thereunder.

Section 162(m) of the Code. Under Section 162(m) of the Internal Revenue Code, the deduction for a publicly held corporation for otherwise deductible compensation to a "covered employee" (the chief executive officer and the next three most highly compensated executive officers (other than the chief financial officer)) is limited to $1 million per year. However, in the case of a corporation that becomes a publicly held corporation in connection with an initial public offering, the $1 million per year deduction limit does not apply during a limited "transition period" to any remuneration paid pursuant to a compensation plan that existed during the period in which the corporation was not publicly held, if the prospectus accompanying the initial public offering disclosed information concerning those plans that satisfied all applicable securities laws then in effect.

The Company intends to rely on the transition relief described in the immediately preceding paragraph in connection with awards under the Plan until the earliest of the four following events: (i) the expiration of the Plan; (ii) the material modification of the Plan; (iii) the issuance of all stock and other compensation that has been allocated under the Plan; or (iv) the first meeting of the Company's shareholders at which directors are to be elected that occurs after the close of the third calendar year following the calendar year in which the initial public offering of the Company's common stock occurs.

Change in Control. Unless otherwise provided in an award agreement, upon the occurrence of a change in control of the Company (as defined in the Plan), all outstanding stock options and stock appreciation rights held by a participant will become fully exercisable and all stock awards or cash incentive awards held by a participant will become fully earned and vested. In the event an award constitutes "deferred compensation" for purposes of Section 409A of the Internal Revenue Code, and the settlement or distribution of benefits under such award are triggered by a change in control, such settlement or distribution will be subject to the change in control also constituting a "change in control event" under Section 409A of the Internal Revenue Code.

Amendment and Termination. The Plan will remain in effect as long as any awards under it are outstanding; provided, however, that no awards may be granted after the 10-year anniversary of the effective date of the Plan. The Company generally reserves the right to amend or terminate the Plan at any time, except that, once our shares have been listed on NASDAQ, the Plan may not be amended without the approval of the Company's shareholders to permit:

- a material increase of the benefits accruing to participants;
- a material increase of the number of shares of stock that may be issued; or
- a material modification of the requirements for participation;

provided, however, that the Plan may be amended at any time to conform to any present or future law, including but not limited to amendments to the Plan or outstanding awards in order to comply with, or to avoid the application of, Section 409A of the Internal Revenue Code, and related regulations and guidance.

U.S. Federal Income Tax Treatment. Under present U.S. federal income tax laws, awards granted under the Plan generally should have the following tax consequences:

Non-Qualified Stock Options. The grant of a non-qualified option generally will not result in taxable income to the participant. The participant generally will realize ordinary income at the time of exercise in an amount equal to the excess of the fair market value of the shares acquired over the exercise price for those shares and the Company will be entitled to a corresponding deduction. Gains or losses realized by the participant upon disposition of such shares generally will be treated as capital gains and losses, with the basis in such shares equal to the fair market value of the shares at the time of exercise.

Incentive Stock Options. The grant of an incentive stock option generally will not result in taxable income to the participant. The exercise of an incentive stock option generally will not result in taxable income to the participant provided that the participant was (without a break in service) an employee of the Company or a subsidiary during the period beginning on the date of the grant of the option and ending on the date three months prior to the date of exercise (one year prior to the date of exercise if the participant is "disabled," as that term is defined in the Internal Revenue Code).

The excess of the fair market value of the shares at the time of the exercise of an incentive stock option over the exercise price generally will be an adjustment that is included in the calculation of the participant's alternative minimum taxable income for the tax year in which the incentive stock option is

exercised. For purposes of determining the participant's alternative minimum tax liability for the year of disposition of the shares acquired pursuant to the incentive stock option exercise, the participant will have a basis in those shares equal to the fair market value of the shares at the time of exercise.

If the participant does not sell or otherwise dispose of the shares within two years from the date of the grant of the incentive stock option or within one year after the transfer of such stock to the participant, then, upon disposition of such shares, any amount realized in excess of the exercise price generally will be taxed to the participant as capital gain. A capital loss will be recognized to the extent that the amount realized is less than the exercise price.

If the foregoing holding period requirements are not met, the participant generally will realize ordinary income at the time of the disposition of the shares, in an amount equal to the lesser of (i) the excess of the fair market value of the shares on the date of exercise over the exercise price, or (ii) the excess, if any, of the amount realized upon disposition of the shares over the exercise price and the Company generally will be entitled to a corresponding deduction. If the amount realized exceeds the value of the shares on the date of exercise, any additional amount generally will be capital gain. If the amount realized is less than the exercise price, the participant generally will recognize no income, and a capital loss will be recognized equal to the excess of the exercise price over the amount realized upon the disposition of the shares.

Stock Appreciation Rights. The grant of a stock appreciation right generally will not result in taxable income to the participant. Upon exercise of a stock appreciation right, the fair market value of shares received generally will be taxable to the participant as ordinary income and the Company will be entitled to a corresponding deduction. Gains and losses realized by the participant upon disposition of any such shares generally will be treated as capital gains and losses, with the basis in such shares equal to the fair market value of the shares at the time of exercise.

Stock Awards. A participant who has been granted a stock award generally will not realize taxable income at the time of grant, provided that the stock subject to the award is not delivered at the time of grant, or if the stock is delivered, it is subject to restrictions that constitute a "substantial risk of forfeiture" for U.S. federal income tax purposes and the participant has not filed an Internal Revenue Code Section 83(b) election to be taxed at the time of grant. Upon the later of delivery or vesting of shares subject to an award (or the filing of a Code Section 83(b) election), the participant generally will realize ordinary income in an amount equal to the then fair market value of those shares and the Company will be entitled to a corresponding deduction. Gains or losses realized by the participant upon disposition of such shares generally will be treated as capital gains and losses, with the basis in such shares equal to the fair market value of the shares at the time of delivery or vesting (or the filing of a Code Section 83(b) election). Dividends paid to the participant during the restriction period, if so provided, generally will also be compensation income to the participant and the Company will be entitled to a corresponding deduction. In the case of stock awards settled in cash, the participant generally will realize taxable income at the time the cash is distributed and the Company will be entitled to a corresponding deduction.

Cash Incentive Awards. A participant generally will realize taxable income at the time the cash incentive award is distributed and the Company will be entitled to a corresponding deduction.

Withholding of Taxes. All distributions under the Plan are subject to withholding of all applicable taxes and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. Except as otherwise provided by the Committee, such withholding obligations generally may be satisfied through cash payment by the participant, through the surrender of shares of Company stock that the participant already owns or through the surrender of shares of Company stock to which the participant is otherwise entitled under the Plan.

Midland States Bancorp, Inc. Omnibus Stock Ownership and Long Term Incentive Plan. The Company adopted this plan in 2008 to replace our 1999 Stock Option Plan. Under the plan, we were permitted to grant awards to eligible persons in the form of qualified and non-qualified stock options, restricted stock, restricted stock units, and long-term incentive compensation units and stock appreciation rights. We had reserved up to 100,000 shares of common stock for issuance under the plan. After approval of our 2010 LTIP, no additional grants were to be made under this plan. Awards that were granted under this plan will vest, become exercisable and contain such other terms and conditions as determined by the Compensation Committee and set forth in individual agreements with the employees receiving the awards. The plan allows for acceleration of vesting and exercise privileges of grants prior to the consummation of a change in control transaction, or the death or total disability of the participant. If a participant's job is terminated for cause, then all unvested awards expire at the date of termination.

Third Amendment and Restatement Midland States Bancorp, Inc. 1999 Stock Option Plan. The Company adopted this plan in 1999. Under the plan, we were permitted to grant awards to eligible persons in the form of qualified and non-qualified stock options. We had reserved up to 49,325 shares of common stock for issuance under the plan. After approval of our Omnibus LTIP, no additional grants were to be made under this plan. Awards that were granted under this plan will become exercisable and contain such other terms and conditions as determined by the Compensation Committee and set forth in individual agreements with the employees receiving the awards. The plan allows for acceleration of exercise privileges of grants upon occurrence of a change in control. If a participant's job is terminated for cause, then all unvested awards expire at the date of termination.

Outstanding Equity Awards at Fiscal Year End

The following table provides information for each of our named executive officers regarding outstanding stock options and unvested stock awards held by the officers as of December 31, 2015. Market values are presented as of the end of 2015 (based on the assumed per share fair market value of our common stock of $23.00 on December 31, 2015) for outstanding stock awards, which include 2015 grants and prior-year grants.

	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options(1)					
Name	Exercisable (#)	Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested(1) (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Leon J. Holschbach	50,000	—	14.60	08/15/17	—	—
	8,500	—	14.70	05/05/18	—	—
	28,190	—	11.75	06/22/19	—	—
	31,500	—	15.20	12/31/19	—	—
	11,820	—	18.16	12/06/20	—	—
	14,556	—	14.75	12/16/21	—	—
	10,554	3,518	16.00	12/13/22	—	—
	8,136	8,138	16.59	12/10/23	—	—
	—	90,000	18.00	08/05/24	—	—
	5,691	17,071	21.00	12/02/24	—	—
	—	—	—	—	15,225(2)	350,175
Jeffrey G. Ludwig	7,000	—	14.70	05/05/18	—	—
	18,190	—	11.75	06/22/19	—	—
	15,000	—	15.20	12/31/19	—	—
	16,790	—	18.16	12/06/20	—	—
	8,356	—	14.75	12/16/21	—	—
	6,056	2,019	16.00	12/13/22	—	—
	4,740	4,742	16.59	12/10/23	—	—
	—	60,000	18.00	08/05/24	—	—
	3,188	9,565	21.00	12/02/24	—	—
	—	16,800	23.00	11/03/25	—	—
	—	—	—	—	7,036	161,828
Douglas J. Tucker	25,000	—	17.50	10/15/20	—	—
	5,424	—	14.75	12/16/21	—	—
	5,500	—	16.00	12/13/22	—	—
	2,949	2,950	16.59	12/10/23	—	—
	—	40,000	18.00	08/05/24	—	—
	1,788	5,365	21.00	12/02/24		
	—	11,566	23.00	11/03/25	—	—
	—	—	—	—	4,009	92,207

(1) Excluding the 2015 grant of restricted stock units to Mr. Holschbach, all awards vest in 25% increments on the first, second, third and fourth anniversary of the date of grant. All equity awards are accelerated and vest in full upon a change in control of the Company.

(2) Includes a grant of 7,596 restricted stock units made in 2015, which vest in $33^{1}/_{3}$% increments on the first, second and third anniversary of the date of grant. Mr. Holschbach's restricted stock units are accelerated and vest in full upon his retirement date, death, disability, change in control, or a termination without cause or for good reason.

Director Compensation

The following table sets forth information regarding 2015 compensation for each of our nonemployee directors.

Name	Fees Earned or Paid in Cash ($)	All Other Compensation ($)(1)	Total ($)
Deborah A. Golden(2)	3,281	820	4,101
Jerry L. McDaniel	64,050	16,013	80,063
Jeffrey M. McDonnell(3)	18,375	3,773	22,148
Dwight A. Miller	37,801	9,450	47,251
Richard T. Ramos	49,351	12,338	61,689
Laurence A. Schiffer(4)	—	—	—
John M. Schultz	91,837	22,959	114,796
Robert F. Schultz	68,250	17,063	85,313
Thomas D. Shaw	58,800	14,700	73,500
Jeffrey C. Smith	68,250	—	68,250

(1) Reflects amounts accrued during 2015 as the matching portion of director fees deferred under the Deferred Compensation Plan paid by the Company or the Bank.

(2) Ms. Golden became a director in November 2015.

(3) Mr. McDonnell became a participant in the Deferred Compensation Plan effective as of April 1, 2015. Director fees earned by Mr. McDonnell prior to April 1, 2015 were paid in cash.

(4) Under the terms of Mr. Schiffer's noncompetition agreement with the Company, which was entered into in connection with the Heartland Bank acquisition, Mr. Schiffer is entitled to receive an annual payment of $250,000 for each year of the three-year restricted period. During that period, Mr. Schiffer is not entitled to receive any director fees, but will be entitled to receive committee fees if he serves on more than one committee of the board.

Director fees for 2015 were based upon a per meeting attended schedule, with additional fees paid for serving as chairman of the full board of directors or of a committee of the board. Under the current compensation program, directors are provided with an annual retainer fee of $13,125 for service on the Company board and $13,125 for service on the Bank board. The chairman of the board is entitled to an additional chairperson fee of $51,250. The chairs of the audit and compensation committees are entitled to an additional fee of $12,600. Members of the audit, compensation, and capital management & M&A committees, as well as the chairs of the governance and capital management & M&A committee, receive an additional fee of $5,250. Members of the governance and ALCO committees each receive an additional fee of $3,150.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the compensation arrangements with directors and executive officers described in "Executive Compensation" above, the following is a description of transactions since January 1, 2015, to which we have been a party in which the amount involved exceeded or will exceed $120,000, and in which any of our directors, executive officers or beneficial holders of more than five percent of our capital stock, or their immediate family members or entities affiliated with them, had or will have a direct or indirect material interest.

Acquisition of Love Savings Holding Company

As previously described, on December 31, 2014, we acquired Love Savings Holding Company. Laurence A. Schiffer was president, co-chief executive officer and a principal owner of Love Savings Holding Company. Jeffrey M. McDonnell was a director of Love Savings Holding Company. John F. McDonnell, father of Jeffrey M. McDonnell, and James S. McDonnell III, brother of John F. McDonnell, were principal owners of Love Savings Holding Company. Andrew S. Love, Jr. was chairman, co-chief executive officer and a principal owner of Love Savings Holding Company.

As a result of the merger, Laurence A. Schiffer and Jeffrey M. McDonnell were named directors of the Company, as described in more detail under "Management—Board of Directors." Additionally, Andrew S. Love, Jr. and John F. McDonnell each became beneficial holders of more than five percent of our capital stock as a result of the merger. Andrew S. Love, Jr. and Laurence A. Schiffer are also entitled to receive additional consideration based on the earnings of Love Funding for two years after the closing of the Merger. See Note 2 (Acquisitions) of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

Pursuant to separate noncompetition agreements, each of Andrew S. Love, Jr. and Laurence A. Schiffer also receives $250,000 per year for three years after the effective date of the merger. Additionally, Laurence A. Schiffer, Andrew S. Love, Jr., John F. McDonnell, James S. McDonnell III, Hallmark Investment Corporation, or Hallmark, and Love Group, LLC, Love Investment Company, Love Real Estate Company, The Love Family Charitable Trust and a trust for the benefit of Andrew Sproule Love, Jr., or the Love Related Entities, have entered into an indemnification agreement pursuant to which the Love Related Entities agreed to indemnify the Company and the Company agreed to indemnify the Love Related Entities and the McDonnell Family for certain losses or claims following the closing date of the merger. Andrew S. Love, Jr. is the manager of Love Group, LLC, chairman of Hallmark, Love Investment Company and Love Real Estate Company, trustee of The Love Family Charitable Trust and co-trustee of the trust under the will of Andrew Sproule Love for the benefit of Andrew Sproule Love, Jr. Laurence A. Schiffer is the president of Hallmark, Love Investment Company and Love Real Estate Company.

Andrew S. Love, Jr. and the Love Related Entities have entered into a Shareholders' Agreement with the Company, and James S. McDonnell III and John F. McDonnell have entered into a similar Shareholders' Agreement with the Company. Each Shareholders' Agreement provides that, until their respective group owns less than 10 percent of the outstanding voting securities of the Company, such individuals or entities may not make proposals with respect to business combinations, restructuring, acquisitions or other matters, and may not acquire additional shares of common stock, subject to certain exceptions. The Shareholders' Agreements also require such individuals and entities generally to vote in favor of proposals approved by the board and against proposals not approved by the board until April 7, 2017.

Registration Rights

We have granted the Richard E. Workman 2001 Trust, beneficial holders of more than five percent of our capital stock, registration rights pursuant to a registration rights agreement. For a further description of these rights, see "Description of Capital Stock—Common Stock—Registration Rights."

We have also granted the Love Related Entities, Andrew S. Love, Jr., Laurence A. Schiffer, James S. McDonnell III, and John F. McDonnell, each a former shareholder of Love Savings Holding Company, registration rights pursuant to a registration rights agreement. For a further description of these rights, see "Description of Capital Stock—Common Stock—Registration Rights."

AKRA Builders Inc.

Robert F. Schultz, a member of our board of directors, is the chairman and a shareholder of the board of directors of AKRA Builders Inc., a national construction, design-build and project management firm headquartered in Teutopolis, Illinois. Since January 1, 2015, the Company has paid AKRA Builders Inc. approximately $1.8 million in connection with contracting and construction services provided to the Company. John M. Schultz, also a member of our board of directors, is the brother of Robert F. Schultz.

Leases

Our branch bank in Town and Country, Missouri, is leased from Mason Woods Village, LLC, of which Andrew S. Love, Jr. is the manager. Our regional office in Clayton, Missouri, is leased from Heartland Place, L.L.C. The sole member of Heartland Place, L.L.C. is the testamentary trust under will of Andrew Sproule Love, Deceased, of which Andrew S. Love, Jr. is a co-trustee. Andrew S. Love, Jr. beneficially owns more than five percent of our voting securities. Mr. Love became an affiliate of the Company in connection with the Heartland Bank acquisition. Since January 1, 2015, the Company has paid an aggregate of $693,000 in rent under these leases. The Company believes the terms of each of these leases are consistent with terms for similar properties that could be received in arm's-length negotiations with third parties, and each of these branches were in these locations prior to the Heartland Bank acquisition.

Ordinary Banking Relationships

Our directors, officers, beneficial owners of more than five percent of our voting securities and their associates were customers of and had transactions with us in the past, and additional transactions with these persons are expected to take place in the future. All outstanding loans and commitments to loan with these persons were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Company or the Bank and did not involve more than the normal risk of collectability or present other unfavorable features. All such loans are approved by the Bank's board of directors in accordance with the bank regulatory requirements. Similarly, all certificates of deposit and depository relationships with these persons were made in the ordinary course of business and involved substantially the same terms, including interest rates, as those prevailing at the time for comparable depository relationships with persons not related to the Company or the Bank.

Policies and Procedures Regarding Related Party Transactions

Transactions by the Company or the Bank with related parties are subject to certain regulatory requirements and restrictions, including Sections 23A and 23B of the Federal Reserve Act (which govern certain transactions by the Bank with its affiliates) and the Federal Reserve's Regulation O (which governs certain loans by the Bank to its executive officers, directors and principal shareholders).

Under applicable SEC and NASDAQ rules, related party transactions are transactions in which we are a participant, the amount involved exceeds $120,000 and a related party has or will have a direct or indirect material interest. Related parties of the Company include directors (including nominees for election as directors), executive officers, five percent shareholders and the immediate family members of these persons. Our Corporate Counsel, in consultation with management and outside counsel, as appropriate, will review potential related party transactions to determine if they are subject to the policy. If so, the transaction will be referred to Audit Committee for approval. In determining whether to approve a related party transaction, the Audit Committee will consider, among other factors, the fairness of the proposed transaction, the direct or indirect nature of the related party's interest in the transaction, the appearance of an improper conflict of interests for any director or executive officer taking into account the size of the transaction and the financial position of the related party, whether the transaction would impair an outside director's independence, the acceptability of the transaction to our regulators and the potential violations of other corporate policies.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information as of March 31, 2016 regarding the beneficial ownership of our common stock, and as adjusted to reflect the completion of this offering:

- each shareholder known by us to beneficially own more than 5% of our outstanding common stock;
- each of our directors;
- each of our named executive officers;
- all of our directors and executive officers as a group; and
- each selling shareholder.

We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally provide that a person is the beneficial owner of securities if such person has or shares the power to vote or direct the voting of securities, or to dispose or direct the disposition of securities, or has the right to acquire such powers within 60 days. For purposes of calculating each person's percentage ownership, common stock issuable pursuant to options exercisable within 60 days are included as outstanding and beneficially owned for that person or group, but are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as disclosed in the footnotes to this table and subject to applicable community property laws, we believe that each person identified in the table has sole voting and investment power over all of the shares shown opposite such person's name.

The percentage of beneficial ownership is based on 11,861,012 shares of our common stock outstanding as of February 29, 2016 and shares to be outstanding after the completion of this offering (or shares if the underwriters exercise their purchase option in full), in each case including 63,928 shares of restricted stock awarded under our stock incentive plan but not vested as of such date. The table does not reflect any shares of common stock that may be purchased in this offering.

The address for each shareholder listed in the table below is: c/o Midland States Bancorp, Inc., 1201 Network Centre Drive, Effingham, Illinois 62401.

	Shares Beneficially Owned Prior to the Offering(1)			Shares Beneficially Owned After the Offering(1)		
					If Option Not Exercised	If Option Exercised in Full
Name	#	%	Shares Offered	#	%	%
5% shareholders and selling shareholders:						
Richard E. Workman 2001 Trust(2)	1,354,277	11.4%			%	%
Andrew S. Love, Jr.(3)	983,350	8.3	11,852	888,847		
John F. McDonnell(4)	666,491	5.6	333,245	333,246		
Bank of America and Andrew Sproule Love, Jr. as Trustees U/T/W Andrew Sproule Love FBO Andrew Sproule Love, Jr.	282,671	2.4	32,671	250,000		
Love Real Estate Company	99,980	*	49,980	50,000		
Directors and named executive officers:						
Leon J. Holschbach(5)	311,896	2.6	—	311,896		
Jeffrey G. Ludwig(6)	236,066	2.0	—	236,066		
Douglas J. Tucker(7)	48,114	*	—	48,114		
Deborah A. Golden	—	—	—	—		
Jerry L. McDaniel(8)	194,648	1.6	—	194,648		
Jeffrey M. McDonnell	—	—	—	—		
Dwight A. Miller(9)	71,095	*	—	71,095		
Richard T. Ramos(10)	12,845	*	—	12,845		
Laurence A. Schiffer(11)	430,098	3.6	—	380,118		
John M. Schultz(12)	462,233	3.9	—	462,233		
Robert F. Schultz(13)	384,928	3.2	—	384,928		
Thomas D. Shaw(14)	8,618	*	—	8,618		
Jeffrey C. Smith(15)	30,498	*	—	30,498		
All directors and executive officers as a group (17 persons)(16)	2,410,705	19.6	—	2,410,705		

* Indicates one percent or less.

(1) Beneficial ownership includes shares of unvested restricted stock that officers are entitled to vote, but does not include common stock equivalent units owned by directors or officers under the Deferred Compensation Plan.

(2) Consists of 1,354,277 shares held by the Richard E. Workman 2001 Trust.

(3) Consists of 983,350 shares held by Mr. Love individually, or by entities he controls (including Love Real Estate Company and Bank of America and Andrew Sproule Love, Jr. as Trustees U/T/W of Andrew Sproule Love FBO Andrew Sproule Love, Jr., which are selling 49,980 and 32,671 shares, respectively, pursuant to this prospectus), and excludes shares held by family members of Mr. Love, for which Mr. Love disclaims beneficial ownership.

(4) Consists of 666,491 shares held by Mr. McDonnell individually and excludes 348,341 shares held by James S. McDonnell III, his brother, as to which John F. McDonnell disclaims beneficial ownership.

(5) Consists of: (i) 98,216 shares held by Mr. Holschbach individually; (ii) 44,553 shares held by Mr. Holschbach jointly with his spouse; and (iii) 168,947 shares subject to stock options that are currently exercisable or are exercisable within 60 days of February 29, 2016. 62,136 shares are pledged as security for indebtedness. Excludes 7,596 shares subject to restricted stock unit awards that are currently unvested and that are not deemed to be shares beneficially owned by Mr. Holschbach.

(6) Consists of: (i) 123,900 shares held individually; (ii) 21,277 shares held jointly with Mr. Ludwig's spouse; (iii) 11,569 shares held by JQ Properties, LLC; and (iv) 79,320 shares subject to stock options that are currently exercisable or are exercisable within 60 days of February 29, 2016. Mr. Ludwig is a Manager and a member of, and has shared voting and investment power over the shares held by JQ Properties, LLC, but disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein. 91,014 shares are pledged by Mr. Ludwig as security and 11,569 shares are pledged by JQ Properties, LLC as security for indebtedness.

(7) Consists of: (i) 7,453 shares of our common stock held individually; and (ii) 40,661 shares subject to stock options that are currently exercisable or are exercisable within 60 days of February 29, 2016. 2,414 shares are pledged as security for indebtedness.

(8) Consists of: (i) 8,680 shares held by Mr. McDaniel's minor children; (ii) 50,305 shares held in the James H. McDaniel Revocable Trust; and (iii) 135,663 shares held by Evalia Enterprises, LLC. Mr. McDaniel is a managing member, and has voting and investment power over the shares held by Evalia Enterprises, LLC, but disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein. Mr. McDaniel is the beneficiary of, and has voting and investment power over the shares held by, the James H. McDaniel Revocable Trust, but disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(9) 71,095 shares are pledged as security for indebtedness.

(10) Consists of: (i) 11,845 shares held by Mr. Ramos jointly with his spouse; and (ii) 1,000 shares held by Mr. Ramos' minor children.

(11) Consists of: (i) 24,381 shares held individually; (ii) 305,737 shares held by Love Investment Company; and (iii) 99,980 shares held by Love Real Estate Company, which is offering 49,980 shares pursuant to this prospectus. Mr. Schiffer owns 25% of each of Love Investment Company and Love Real Estate Company, and has voting and investment power over the shares held by each of Love Investment Company and Love Real Estate Company, but disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein. 430,098 shares are subject to pledge arrangements as security for indebtedness.

(12) Consists of: (i) 326,026 shares held by John Schultz individually; (ii) 2,750 shares held by his spouse individually; (iii) 42,554 shares held by Agracel, Inc.; and (iv) 90,903 shares held by JNJ, LLC, a family investment vehicle. John Schultz is: (i) the Chief Executive Officer and a shareholder of Agracel, Inc.; and (ii) a managing member of JNJ, LLC. He has voting and investment power over the shares held by Agracel, Inc. and JNJ, LLC, but disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein. An aggregate of 369,866 shares are pledged as security for indebtedness.

(13) Consists of: (i) 14,343 shares held by Robert Schultz individually; (ii) 2,033 shares held by his spouse; (iii) 45,054 shares held by AKRA Builders, Inc.; (iv) 250,030 shares held by J.M. Schultz Investment, L.L.C.; (v) 38,021 shares held by AKRA Investments, LLC; and (vi) 35,447 shares held by Summit Investors, LLP. Robert Schultz is: (i) the Chairman and a substantial shareholder of AKRA Builders, Inc.; (ii) the managing member of J.M. Schultz Investment, L.L.C.; (iii) the President and a managing member of AKRA Investments, LLC; and (iv) managing member of Summit Investors, LLP. He has voting and investment power over the shares held by AKRA Builders, Inc., J.M. Schultz Investment, L.L.C., AKRA Investments, LLC, and Summit Investors, LLP but disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(14) Consists of: (i) 1,200 shares held by Thomas Shaw Revocable Trust; and (ii) 7,418 shares held by Thomas Shaw Amended Trust.

(15) Consists of: (i) 13,929 shares held by Mr. Smith individually; and (ii) 16,569 shares held by Mr. Smith jointly with his spouse. 11,905 shares are pledged as security for indebtedness.

(16) Includes an aggregate of 258,878 shares subject to stock options that are currently exercisable or are exercisable within 60 days of February 29, 2016. An aggregate of 642,130 shares are pledged as security for indebtedness.

DESCRIPTION OF CAPITAL STOCK

The following is a summary of the material rights of our capital stock and related provisions of our articles of incorporation, or articles, and bylaws, as they each will be in effect prior to the completion of this offering. The following description of our capital stock does not purport to be complete and is subject to, and qualified in its entirety by, our articles and bylaws, which we have included as exhibits to the registration statement of which this prospectus is a part. We urge you to read these documents for a more complete understanding of shareholder rights.

Our articles authorize the issuance of up to 35,000,000 shares of common stock, par value $0.01 per share, up to 5,000,000 shares of non-voting common stock, par value $0.01 per share, and up to 4,000,000 shares of preferred stock, par value $2.00 per share. At February 29, 2016, we had issued and outstanding 11,797,084 shares of our common stock, no shares of non-voting common stock and no shares of preferred stock. We have reserved an additional 125,000 shares for issuance upon the exercise of an outstanding warrant, 1,223,054 shares for issuance upon the exercise of outstanding stock options, 1,059,353 shares in connection with options and restricted stock awards that remain available for issuance under our Second Amended and Restated 2010 Long-Term Incentive Plan, 63,928 shares issuable upon vesting of unvested restricted stock and 7,596 shares issuable upon vesting of unvested restricted stock unit awards.

Common Stock

Governing Documents. Holders of shares of our common stock have the rights set forth in our articles, our bylaws and Illinois law.

Dividends and Distributions. The holders of our common stock are entitled to share equally in any dividends that our board of directors may declare from time to time out of funds legally available for dividends, subject to limitations under Illinois law and any preferential rights of holders of our then outstanding preferred stock.

Ranking. Our common stock ranks junior with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company to all other securities and indebtedness of the Company.

Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of our common stock are entitled to share equally, on a per share basis, in all of our assets available for distribution, after payment to creditors and subject to any prior distribution rights granted to holders of any then outstanding shares of preferred stock.

Conversion Rights. Our common stock is not convertible into any other shares of our capital stock.

Preemptive Rights. Holders of our common stock do not have any preemptive rights.

Voting Rights. The holders of our common stock are entitled to one vote per share on any matter to be voted on by the shareholders. The holders of our common stock are not entitled to cumulative voting rights with respect to the election of directors. A plurality of the shares voted shall elect all of the directors then standing for election at a meeting of shareholders at which a quorum is present.

Our board of directors is divided into three classes of directors, each serving a staggered three-year term. Class I directors hold office for a term expiring at the annual meeting of shareholders to be held in 2017, Class II directors hold office for a term expiring at the annual meeting of shareholders to be held in 2018 and Class III directors hold office for a term expiring at the annual meeting of shareholders to be held in 2016. At each annual meeting, the successors to the class of directors whose terms expire at that meeting will be elected for a term of office to expire at the third succeeding annual meeting after their election and until their successors have been duly elected and qualified.

As described under "Certain Relationships and Related Party Transactions—Acquisition of Love Savings Holding Company," certain shareholders who were former shareholders of Love Savings Holding Company, have entered into Shareholders' Agreements with the Company. The Shareholders' Agreements generally require the parties to the agreements to vote in favor of proposals approved by the board and against proposals not approved by the board until April 7, 2017.

Redemption. We have no obligation or right to redeem our common stock.

Registration Rights. We have entered into a Registration Rights Agreement, dated as of January 18, 2011 (as amended by an Amendment Agreement, dated May 11, 2011, and by Amendment No. 2 to Registration Rights Agreement, dated December 10, 2013), with the Richard E. Workman 2001 Trust, beneficial holder of more than five percent of our capital stock. Pursuant to the registration rights agreement, the Richard E. Workman 2001 Trust has the right to demand (but only once) that we, at our expense, prepare and file a registration statement to register under the Securities Act the shares of our common stock that it owns; *provided that* the aggregate fair market value of the common stock registered is at least $5.0 million. Such demand right does not become operative until 180 days following the effective date of the registration statement of which this prospectus is a part. The Richard E. Workman 2001 Trust also has piggyback registration rights, which give it the right to require us to include in a registration statement filed by us the shares of common stock it owns. The registration rights agreement terminates on the earlier of the fifth anniversary of the effective date of the registration statement of which this prospectus is a part, and the date on which no party with rights under the agreement owns any shares of our common stock.

We have also entered into a Registration Rights Agreement, dated as of April 7, 2014, with the Love Related Entities, Andrew S. Love, Jr., Laurence A. Schiffer, James S. McDonnell III, and John F. McDonnell, all of whom were shareholders of Love Savings Holding Company and received shares of our common stock as merger consideration. Pursuant to the registration rights agreement, these shareholders have the right to demand (but only twice as to registrations on Form S-1 and three times as to registrations on Form S-3) that we, at our expense, prepare and file a registration statement to register under the Securities Act the shares of our common stock that they own. Such demand rights do not become operative until 180 days following the effective date of the registration statement of which this prospectus is a part and are subject to certain other customary conditions. These shareholders also have piggyback registration rights, which give them the right to require us to include in a registration statement filed by us the shares of common stock they own. The registration rights agreement terminates on the earlier of the fifth anniversary of the effective date of the registration statement of which this prospectus is a part, and the date on which no party with rights under the agreement owns any shares of our common stock.

Stock Exchange Listing. We have applied to list our common stock on the NASDAQ Global Select Market under the symbol "MSBI."

Non-Voting Common Stock

The holders of our non-voting common stock are entitled to all rights and privileges afforded to holders of our common stock as described above under "—Common Stock," except the holders of our non-voting common stock are not entitled to vote on any matter to be voted on by the shareholders.

Preferred Stock

Upon authorization of our board of directors, we may issue shares of one or more series of our preferred stock from time to time. Our board of directors may, without any action by holders of common stock and except as may be otherwise provided in the terms of any series of preferred stock of which there are shares outstanding, adopt resolutions to designate and establish a new series of

preferred stock. Upon establishing such a series of preferred stock, the board will determine the number of shares of preferred stock of that series that may be issued and the rights and preferences of that series of preferred stock. The rights of any series of preferred stock may include, among others:

- general or special voting rights;
- preferential liquidation rights;
- preferential cumulative or noncumulative dividend rights;
- redemption or put rights; and
- conversion or exchange rights.

We may issue shares of, or rights to purchase shares of, one or more series of our preferred stock that have been designated from time to time, the terms of which might:

- adversely affect voting or other rights evidenced by, or amounts otherwise payable with respect to, the common stock or other series of preferred stock;
- discourage an unsolicited proposal to acquire us; or
- facilitate a particular business combination involving us.

Any of these actions could have an anti-takeover effect and discourage a transaction that some or a majority of our shareholders might believe to be in their best interests or in which our shareholders might receive a premium for their stock over our then market price.

Anti-Takeover Considerations and Special Provisions of Our Articles, Bylaws and Illinois Law

Illinois law and certain provisions of our articles and bylaws could have the effect of delaying or deferring the removal of incumbent directors or delaying, deferring or discouraging another party from acquiring control of us, even if such removal or acquisition would be viewed by our shareholders to be in their best interests. These provisions, summarized below, are intended to encourage persons seeking to acquire control of us to first negotiate with our board of directors. These provisions also serve to discourage hostile takeover practices and inadequate takeover bids. We believe that these provisions are beneficial because the negotiation they encourage could result in improved terms of any unsolicited proposal.

Classified Board of Directors; Noncumulative Voting for Directors. Our articles provide that our board of directors is classified into three classes of directors, with the members of one class to be elected each year, which prevents a majority of our directors from being removed at a single annual meeting. In addition, our articles specify that, as permitted by the IBCA, directors may be removed during their three-year terms only for "cause." See the discussion below under "—Filling of Board Vacancies; Removals" for the definition of "cause."

Our articles also provide for noncumulative voting for directors, which may make it more difficult for a non-company nominee to be elected to our board of directors.

Authorized But Unissued Capital Stock. We have authorized but unissued shares of common stock, non-voting common stock, and preferred stock, and our board of directors may authorize the issuance of one or more series of preferred stock without shareholder approval. These shares could be used by our board of directors to make it more difficult or to discourage an attempt to obtain control of us through a merger, tender offer, proxy contest or otherwise.

Limitation on Right to Call a Special Meeting of Shareholders. Our bylaws provide that special meetings of shareholders may only be called by our board or our president or by the holders of not less

than 20% of our outstanding shares of capital stock entitled to vote for the purpose or purposes for which the meeting is being called.

Advance Notice Provisions. Our bylaws generally require a shareholder desiring to propose new business at a shareholder meeting to provide advance written notice to our corporate secretary, not less than 90 days nor more than 120 days prior to the date of the meeting, containing certain information about the shareholder and the business to be brought. Only business within the purposes described in the notice of the meeting may be conducted at a special meeting. This provision could delay shareholder actions that are favored by the holders of a majority of our outstanding stock until the next shareholders' meeting.

Additionally, our bylaws provide that nominations for directors must be made in accordance with the provisions of our bylaws, which generally require, among other things, that such nominations be provided in writing to our corporate secretary, not less than 90 days nor more than 120 days prior to the meeting, and that the notice to our corporate secretary contain certain information about the shareholder and the director nominee.

No Action By Written Consent of Shareholders. Our articles of incorporation provide that any action required or permitted to be taken by the holders of our capital stock must be effected at a duly called annual or special meeting of the holders of our capital stock and may not be effected by any consent in writing by our shareholders.

Filling of Board Vacancies; Removals. Any vacancies in our board of directors and any directorships resulting from any increase in the number of directors may be filled by the board, acting by not less than two-thirds of the directors then in office, although less than a quorum, and any directors so chosen will hold office until the next election of the class for which such directors have been chosen and until their successors have been elected and qualified. Furthermore, our articles specify that directors may only be removed by shareholders for "cause," and that removal of a director for cause by our shareholders requires the affirmative vote of the holders of not less than 70% of the outstanding shares of capital stock entitled to vote generally in the election of directors. "Cause" will be deemed to exist only if the director whose removal is proposed has been convicted of a felony or has been adjudged by a court to be liable for gross negligence or willful misconduct in the performance of such director's duty to us and such adjudication is no longer subject to direct appeal.

Amendment of the Bylaws. Our articles and bylaws provide that our bylaws may be altered, amended or repealed by our board without prior notice to or approval by our shareholders. Our bylaws may also be altered, amended or repealed by the affirmative vote of holders of not less than 70% of the outstanding shares of our capital stock entitled to vote generally in the election of directors. Accordingly, our board could take action to amend our bylaws in a manner that could have the effect of delaying, deferring or discouraging another party from acquiring control of us.

Supermajority Voting Provisions. Our articles provide for certain heightened voting thresholds needed to consummate a change in control transaction, such as a merger, the sale of substantially all of our assets or other similar transaction. Accordingly, we will not be able to consummate a change in control transaction or sell all or substantially all of our assets without obtaining the affirmative vote of the holders of shares of our capital stock having at least 70% of the voting power of all outstanding capital stock entitled to vote thereon. Notwithstanding the foregoing, if at least $66^{2}/_{3}$% of our directors approve any such transaction, then the supermajority voting provisions set forth in our articles will not apply and only a majority vote of our shareholders will be required to approve such transaction.

Illinois Law. Our articles expressly provide that Section 7.85 of the IBCA, which applies to interested shareholder transactions, will apply to the Company. Section 7.85 requires that, except in limited circumstances, a "business combination" with an "interested shareholder" be approved by

(i) the affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares entitled to vote generally in the election of directors; and (ii) the affirmative vote of a majority of the voting shares of stock held by "disinterested shareholders." A "disinterested shareholder" is a shareholder who is not an "interested shareholder" or an affiliate or an associate of an interested shareholder. An "interested shareholder" means: (i) a person that is the owner of 15% or more of the outstanding voting shares of the Company or is an affiliate or associate of the Company and was the owner of 15% or more of the outstanding voting shares of the Company at any time within the three year period immediately before the date on which it is sought to be determined whether the person is an interested shareholder; and (ii) the affiliates and associates of that person. This provision may have the effect of inhibiting a non-negotiated merger or other business combination involving us, even if such event would be beneficial to our shareholders.

Notwithstanding the foregoing, the higher vote requirement set forth in Section 7.85 of the IBCA will not be applicable to any transaction if either: (i) the transaction has been approved by $66^{2}/_{3}$% of the disinterested directors; or (ii) the transaction satisfies certain fair price and procedure requirements.

Consideration of Non-Shareholder Interests. Section 8.85 of the IBCA provides that, in discharging their duties, the board of directors, committees of the board, individual directors and individual officers of an Illinois corporation may, in considering the best long term and short term interests of the corporation, consider the effects of any action (including without limitation, action which may involve or relate to a change or potential change in control of the corporation) upon employees, suppliers and customers of the corporation or its subsidiaries, communities in which offices or other establishments of the corporation or its subsidiaries are located, and all other pertinent factors. Our articles incorporate the concept in Section 8.85 of the IBCA and permit our board to consider, in connection with the exercise of its judgment in determining what is in the best interests of the Company and our shareholders when evaluating a potential change in control transaction, a variety of interests beyond the direct financial interests of our shareholders, including the social and economic effects of the transaction on the Company and the other elements of the communities in which we operate.

Limitation on Liability and Indemnification of Officers and Directors

Our articles provide that, to the fullest extent permitted by Illinois law, our directors will not be liable to us or our shareholders for monetary damages for breach of fiduciary duty in such director's capacity as a director.

Our articles also provide that, subject to the limits of applicable federal and state banking laws and regulations, we must indemnify each of our directors and officers in accordance with and to the fullest extent permitted by law.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare, Inc.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no established public market for our common stock. Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect market prices prevailing from time to time. Furthermore, because only a limited number of shares will be available for sale shortly after this offering due to existing contractual and legal restrictions on resale as described below, there may be sales of substantial amounts of our common stock in the public market after the restrictions lapse. This may adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have shares of common stock outstanding. Of these shares, shares of our common stock (or shares if the underwriters exercise their purchase option in full) sold in this offering will be freely transferable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining shares of our common stock (or shares if the underwriters exercise their purchase option in full) outstanding are "restricted shares" as defined in Rule 144. Restricted shares may be sold in the public market only if registered under the Securities Act or if they qualify for an exemption from registration under Rule 144. As a result of the contractual 180-day lock-up period described below, of these shares will be available for sale in the public market only after 180 days from the date of this prospectus (generally subject to volume and other offering limitations).

Rule 144

In general, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell such securities, provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the 90 days preceding, the sale and (ii) we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Persons who have beneficially owned restricted shares of our common stock for at least six months but who are our affiliates at the time of, or any time during the 90 days preceding, the sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of the following:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately shares immediately after this offering (or approximately shares if the underwriters exercise their purchase option in full); or
- the average weekly trading volume of our common stock on the NASDAQ Global Select Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale;

provided, in each case, that we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Such sales both by affiliates and by non-affiliates must also comply with the manner of sale and notice provisions of Rule 144 to the extent applicable.

Registration Rights

Beginning 180 days following the effective date of the registration statement of which this prospectus forms a part, and subject to the lock-up agreements described below, certain of our shareholders will be entitled to require us to register under the Securities Act shares of our common stock (or shares of our common stock if the underwriters exercise their purchase option in full) that they will beneficially own immediately following the completion of this offering. Registration and sale of these shares under the Securities Act would result in these shares, other than shares purchased by any of our affiliates, becoming freely tradable without restriction under the

Securities Act immediately upon the effectiveness of the registration statement. See "Description of Capital Stock—Common Stock—Registration Rights."

Registration Statement on Form S-8

In connection with or as soon as practicable following the completion of this offering, we intend to file a registration statement with the SEC on Form S-8 to register an aggregate of approximately shares of our common stock reserved for future issuance under our equity incentive plans, as described further under "Executive Compensation—Long Term Incentive Plans." That registration statement will become effective upon filing and shares of common stock covered by such registration statement will be eligible for sale in the public market immediately after the effective date of such registration statement (unless held by affiliates) subject to the lock-up agreements described below.

Lock-up Agreements

We, the selling shareholders and each of our directors and executive officers have agreed, subject to certain exceptions, not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, otherwise dispose of or transfer any shares of our common stock or any securities convertible into or exchangeable or exercisable for common stock for a period of 180 days after the date of this prospectus, without the prior written consent of Sandler O'Neill + Partners, L.P. on behalf of the underwriters. See "Underwriting." The underwriters do not have any present intention or arrangement to release any shares of our common stock subject to lock-up agreements prior to the expiration of the 180-day lock-up period.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a summary of the material United States federal income tax consequences relevant to non-U.S. holders, as defined below, of the purchase, ownership and disposition of our common stock. The following summary is based on current provisions of the Code, Treasury regulations and judicial and administrative authority, all of which are subject to change, possibly with retroactive effect. This section does not consider state, local, estate or foreign tax consequences, nor does it address tax consequences to special classes of investors, including, but not limited to, tax-exempt organizations, insurance companies, banks or other financial institutions, partnerships or other entities classified as partnerships for United States federal income tax purposes, dealers in securities, persons liable for the alternative minimum tax, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons who have acquired our common stock as compensation or otherwise in connection with the performance of services, or persons that will hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction. Tax consequences may vary depending upon the particular status of an investor. The summary is limited to non-U.S. holders who will hold our common stock as "capital assets" (generally, property held for investment). Each potential non-U.S. investor should consult its own tax advisor as to the United States federal, state, local, foreign and any other tax consequences of the purchase, ownership and disposition of our common stock.

You are a "non-U.S. holder" if you are a beneficial owner of our common stock for United States federal income tax purposes that is:

(1) a nonresident alien individual, other than certain former citizens and residents of the United States subject to U.S. tax as expatriates;

(2) a corporation (or other entity that is taxable as a corporation) not created or organized in the United States or under the laws of the United States or of any State (or the District of Columbia);

(3) an estate whose income falls outside of the federal income tax jurisdiction of the United States, regardless of the source of such income; or

(4) a trust that is not subject to United States federal income tax on a net income basis on income or gain from our shares.

If an entity or arrangement treated as a partnership for United States federal income tax purposes holds our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. If you are treated as a partner in such an entity holding our common stock, you should consult your tax advisor as to the United States federal income tax consequences applicable to you.

Distributions

Distributions with respect to our common stock will be treated as dividends when paid to the extent of our current and accumulated earnings and profits as determined for United States federal income tax purposes. Except as described below, if you are a non-U.S. holder of our shares, dividends paid to you are subject to withholding of United States federal income tax at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate. Even if you are eligible for a lower treaty rate, we and other payors will generally be required to withhold at a

30% rate (rather than the lower treaty rate) on dividends paid to you, unless you have furnished to us or another payor:

- a valid IRS Form W-8BEN, W-8BEN-E or an acceptable substitute form upon which you certify, under penalties of perjury, your status as a non-U.S. person and your entitlement to the lower treaty rate with respect to such payments, or

- in the case of payments made outside the United States to an offshore account (generally, an account maintained by you at an office or branch of a bank or other financial institution at any location outside the United States), other documentary evidence establishing your entitlement to the lower treaty rate in accordance with Treasury regulations.

If you are eligible for a reduced rate of U.S. withholding tax under a tax treaty, you may obtain a refund of any amounts withheld in excess of that rate by timely filing a refund claim with the IRS.

If dividends paid to you are "effectively connected" with your conduct of a trade or business within the United States, and, if required by a tax treaty, the dividends are attributable to a permanent establishment that you maintain in the United States, we and other payors generally are not required to withhold tax from the dividends, provided that you have furnished to us or another payor a valid IRS Form W-8ECI or an acceptable substitute form upon which you represent, under penalties of perjury, that:

- you are a non-U.S. person; and

- the dividends are effectively connected with your conduct of a trade or business within the United States and are includible in your gross income.

"Effectively connected" dividends are taxed at rates applicable to United States citizens, resident aliens and domestic United States corporations. If you are a corporate non-U.S. holder, "effectively connected" dividends that you receive may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate, or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Sale or Redemption

If you are a non-U.S. holder, you generally will not be subject to United States federal income or withholding tax on gain realized on the sale, exchange or other disposition of our common stock unless (i) you are an individual, you hold our shares as a capital asset, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist, or (ii) the gain is "effectively connected" with your conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment that you maintain in the United States, if that is required by an applicable income tax treaty as a condition to subjecting you to United States taxation on a net income basis.

Information Reporting and Backup Withholding

Payment of dividends, and the tax withheld on those payments, are subject to information reporting requirements. These information reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable income tax treaty. Under the provisions of an applicable income tax treaty or agreement, copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides. U.S. backup withholding will generally apply on payment of dividends to non-U.S. holders unless such non-U.S. holders furnish to the payor a Form W-8BEN (or other applicable form), or otherwise establish an exemption and the payor does not have actual knowledge or reason to know that the holder is a U.S. person, as defined under the Code, that is not an exempt recipient.

Payment of the proceeds of a sale of our common stock within the United States or conducted through certain U.S.-related financial intermediaries is subject to information reporting and, depending on the circumstances, backup withholding, unless the non-U.S. holder, or beneficial owner thereof, as applicable, certifies that it is a non-U.S. holder on Form W-8BEN, W-8BEN-E (or other applicable form), or otherwise establishes an exemption and the payor does not have actual knowledge or reason to know the holder is a U.S. person, as defined under the Code, that is not an exempt recipient.

Any amount withheld under the backup withholding rules from a payment to a non-U.S. holder is allowable as a credit against the non-U.S. holder's United States federal income tax, which may entitle the non-U.S. holder to a refund, provided that the non-U.S. holder timely provides the required information to the IRS. Moreover, certain penalties may be imposed by the IRS on a non-U.S. holder who is required to furnish information but does not do so in the proper manner. Non-U.S. holders should consult their tax advisors regarding the application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury regulations.

Recent Legislation Relating to Foreign Accounts

The Foreign Account Tax Compliance Act, or FATCA, imposes a 30% withholding tax on certain types of payments made to "foreign financial institutions" ("FFI") and certain other non-U.S. entities unless certain due diligence, reporting, withholding, and certification requirements are satisfied.

As a general matter, FATCA imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, our common stock if paid to a foreign entity unless either (i) the foreign entity is an FFI that undertakes certain due diligence, reporting, withholding, and certification obligations, (ii) the foreign entity is not an FFI and identifies certain of its U.S. investors, or (iii) the foreign entity otherwise is excepted under FATCA.

Different rules from those described above may apply to non-U.S. holders resident in jurisdictions that have entered into inter-governmental agreements with the United States.

Pursuant to the delayed effective dates provided for in the final regulations and a recent IRS Notice announcing the IRS's intent to amend these regulations to provide for further extension of certain effective dates, the required withholding currently applies to dividends on our common stock and will apply to gross proceeds from a sale or other disposition of our common stock beginning on January 1, 2019. If withholding is required under FATCA on a payment related to our common stock, investors that otherwise would not be subject to withholding (or that otherwise would be entitled to a reduced rate of withholding) generally will be required to seek a refund or credit from the IRS to obtain the benefit of such exemption or reduction (provided that such benefit is available). Prospective investors should consult their tax advisors regarding the effect of FATCA in their particular circumstances.

Non-U.S. holders are encouraged to consult with their tax advisors regarding the possible implications of the legislation on their investment in our common stock.

UNDERWRITING

We and the selling stockholders are offering the shares of our common stock described in this prospectus through several underwriters for whom Sandler O'Neill & Partners, L.P. and Keefe, Bruyette & Woods, Inc. are acting as representatives. We, the selling stockholders and the underwriters have entered into an underwriting agreement dated , 2016. Subject to the terms and conditions of the underwriting agreement, the underwriters have agreed to purchase on a firm commitment basis the number of shares of common stock in the following table:

Underwriter	Number of Shares
Sandler O'Neill & Partners, L.P.	
Keefe, Bruyette & Woods, Inc.	
D.A. Davidson & Co.	
Stephens, Inc.	
Total	

Our common stock is offered subject to a number of conditions, including receipt and acceptance of the common stock by the underwriters.

In connection with this offering, the underwriters or securities dealers may distribute offering documents to investors electronically.

Commission and Discounts

Shares of common stock sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus. Any shares of common stock sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the public offering price. Any of these securities dealers may resell any shares of common stock purchased from the underwriters to other brokers or dealers at a discount of up to $ per share from the public offering price. If all of the shares of common stock are not sold at the public offering price, the underwriters may change the offering price and the other selling terms.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their over-allotment option to purchase additional shares of our common stock:

	Per Share	No Exercise	Full Exercise
Public offering price			
Underwriting discount			
Proceeds to us, before expenses			

We estimate the expenses of this offering payable by us, including the expenses of the selling stockholders but not including the underwriting discounts, will be approximately $ million. This amount includes the amount we have agreed to reimburse the underwriters for certain fees and expenses incurred in connection with this offering, including fees and expenses incurred by the underwriters in connection with marketing, syndication and travel expenses, not to exceed $ in total.

Option to Purchase Additional Shares

We have granted the underwriters an option to buy up to additional shares of our common stock, at the public offering price less underwriting discounts. The underwriters may exercise this option, in whole or from time to time in part, solely for the purpose of covering over-allotments, if any,

made in connection with this offering. The underwriters have 30 days from the date of this prospectus to exercise this option.

Lock-up Agreements

We, our executive officers and directors and each of the selling shareholders have entered into lock-up agreements with the underwriters. Under these agreements, each of these persons will not be permitted to, without the prior written approval of the underwriters, subject to limited exceptions,

- issue, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of our common stock or any securities convertible into or exchangeable or exercisable for our common stock or file any registration statement under the Securities Act with respect to any of the foregoing; or

- enter into any swap, hedge or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the shares of our common stock, whether any such swap, hedge or transaction is to be settled by delivery of shares of our common stock or other securities, in cash or otherwise.

These restrictions will be in effect for a period of 180 days after the date of the underwriting agreement. At any time and without public notice, the underwriters will be permitted to, in their sole discretion, release all or some of the securities from these lock-up agreements. In addition, under the terms of its lock-up agreement, if the Richard E. Workman 2001 Trust is not permitted to sell shares with an aggregate fair market value of $10 million in this offering, it will be entitled to sell additional shares of common stock with a value of up to $10 million, less the value of the shares that are sold in this offering.

These restrictions also apply to securities convertible into or exchangeable or exercisable for or repayable with common stock to the same extent as they apply to our common stock. They also apply to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

Pricing of the Offering

This is the initial public offering of our common stock and no public market currently exists for our shares. The initial public offering price will be negotiated among us, the selling stockholders and the underwriters. The factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, include the information set forth in, or incorporated by reference into, this prospectus, our financial and operating performance, estimates of our business potential and earnings prospects and those of our industry in general, an assessment of management and the consideration of the above factors in relation to market valuation of companies in related businesses. The estimated public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors. Neither we nor the underwriters can assure investors than an active trading market will develop for our common stock or that the common stock will trade in the public market at or above the initial offering price.

Our common stock has been approved for listing on the NASDAQ Global Select Market under the symbol "MSBI."

Indemnification and Contribution

We have agreed to indemnify the underwriters and their affiliates, selling agents and controlling persons against certain liabilities, including under the Securities Act. If we are unable to provide this

indemnification, we will contribute to the payments the underwriters and their affiliates, selling agents and controlling persons may be required to make in respect of those liabilities.

Price Stabilization, Short Positions and Penalty Bids

To facilitate the offering of our common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock, including:

- stabilizing transactions;
- short sales; and
- purchases to cover positions created by short sales.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. These transactions may also include making short sales of our common stock, which involve the sale by the underwriters of a greater number of shares of common stock than it is required to purchase in this offering. Short sales may be "covered short sales," which are short positions in an amount not greater than the underwriters' purchase option referred to above, or may be "naked short sales," which are short positions in excess of that amount.

The underwriters may close out any covered short position either by exercising its purchase option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which it may purchase shares through the purchase option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchased shares in this offering.

As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time without notice. The underwriters may carry out these transactions on the NASDAQ Global Select Market, in the over-the-counter market or otherwise.

Passive Market Making

In connection with this offering, the underwriters and selling group members may engage in passive marketmaking transactions in our common stock on the NASDAQ Global Select Market in accordance with Rule 103 of Regulation M under the Exchange Act during a period before the commencement of offers or sales of common stock and extending through the completion of the distribution of this offering. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded. Passive market making may cause the price of our common stock to be higher than the price that otherwise would exist in the open market in the absence of those transactions. The underwriters and dealers are not required to engage in passive market making and may end passive market-making activities at any time.

Electronic Distribution

A prospectus in electronic format may be made available by e-mail or on the websites or through online services maintained by the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree

with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus in electronic format, the information on the underwriters' websites and any information contained on any other website maintained by the underwriters is not part of this prospectus, has not been approved and/or endorsed by the underwriters or us, and should not be relied upon by investors.

Affiliations

The underwriters and their affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing, valuation and brokerage activities. From time to time, the underwriters and/or their affiliates have directly and indirectly engaged, or may engage, in various financial advisory, investment banking and commercial banking services for us and our affiliates, for which they received, or may receive, customary compensation, fees and expense reimbursement. Sandler O'Neill & Partners, L.P. and Keefe, Bruyette & Woods, Inc. served as co-placement agents in connection with our recent subordinated debt private placement offering in June 2015, and each of those firms received a fee for services rendered to us in connection therewith. In the ordinary course of their various business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and those investment and securities activities may involve securities and/or instruments of ours. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of those securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in those securities and instruments.

LEGAL MATTERS

The validity of the shares of common stock being offered by this prospectus will be passed upon for us by Barack Ferrazzano Kirschbaum & Nagelberg LLP, Chicago, Illinois. Vedder Price P.C., Chicago, Illinois, is acting as counsel for the underwriters in connection with this offering.

EXPERTS

The consolidated financial statements of Midland States Bancorp, Inc. and subsidiaries as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015 have been included herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to our common stock offered hereby. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits or schedules filed therewith. Some items are omitted in accordance with the rules and regulations of the SEC. For further information about us and our common stock that we propose to sell in this offering, we refer you to the registration statement and the exhibits and schedules filed as a part of the registration statement. Statements or summaries in this prospectus as to the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract or document is filed as an exhibit to the registration statement, each statement or summary is qualified in all respects by reference to the exhibit to which the reference relates. You may read and copy the registration statement, including the exhibits and schedules to the registration statement, at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our filings with the SEC, including the registration statement, are also available to you for free on the SEC's internet website at www.sec.gov.

Following the offering, we will become subject to the informational and reporting requirements of the Exchange Act and, in accordance with those requirements, will file reports and proxy and information statements and other information with the SEC. You will be able to inspect and copy these reports and proxy and information statements and other information at the addresses set forth above. We intend to furnish to our shareholders our annual reports containing our audited consolidated financial statements certified by an independent public accounting firm.

We also maintain an internet site at www.midlandsb.com. Information on, or accessible through, our website is not part of this prospectus.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements

Independent Auditors' Report

The Board of Directors
Midland States Bancorp, Inc.:

We have audited the accompanying consolidated financial statements of Midland States Bancorp, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Midland States Bancorp, Inc. and its subsidiaries as of December 31, 2015 and 2014 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in accordance with U.S. generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our

report dated March 1, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

St. Louis, Missouri
March 1, 2016

MIDLAND STATES BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

(dollars expressed in thousands, except for share and per share data)

	2015	2014
Assets		
Cash and due from banks	$ 211,976	$ 159,769
Federal funds sold	499	134
Cash and cash equivalents	212,475	159,903
Investment securities available for sale, at fair value ($75,979 and $92,319 covered by FDIC loss-share at December 31, 2015 and 2014, respectively)	236,627	253,768
Investment securities held to maturity, at amortized cost (fair value of $92,816 and $106,891 at December 31, 2015 and 2014, respectively)	87,521	101,763
Loans	1,995,589	1,798,015
Allowance for loan losses	(15,988)	(12,300)
Total loans, net	1,979,601	1,785,715
Loans held for sale, at fair value	54,413	96,407
Premises and equipment, net	73,133	72,331
Other real estate owned	5,472	8,291
Nonmarketable equity securities	15,472	12,194
Accrued interest receivable	7,697	8,642
Mortgage servicing rights, at lower of cost or market	66,651	62,781
Intangible assets	7,004	9,464
Goodwill	46,519	47,946
Cash surrender value of life insurance policies	52,729	31,255
Accrued income taxes receivable	8,754	3,426
Deferred tax assets, net	1,496	3,683
Other assets	29,260	19,045
Total assets	$2,884,824	$2,676,614
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 543,401	$ 507,188
Interest-bearing	1,824,247	1,643,445
Total deposits	2,367,648	2,150,633
Short-term borrowings	107,538	129,714
FHLB advances and other borrowings	40,178	74,349
Subordinated debt	61,859	7,370
Trust preferred debentures	37,057	36,930
Accrued interest payable	979	1,067
Other liabilities	36,509	56,622
Total liabilities	2,651,768	2,456,685
Shareholders' Equity:		
Common stock, $0.01 par value; 40,000,000 shares authorized; 11,797,404 and 11,725,158 shares issued and outstanding at December 31, 2015 and 2014, respectively	118	117
Capital surplus	135,822	134,423
Retained earnings	90,911	74,279
Accumulated other comprehensive income	6,029	10,637
Total Midland States Bancorp, Inc. shareholders' equity	232,880	219,456
Noncontrolling interest in subsidiaries	176	473
Total shareholders' equity	233,056	219,929
Total liabilities and shareholders' equity	$2,884,824	$2,676,614

See accompanying notes to consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(dollars expressed in thousands, except for share and per share data)

	2015	2014	2013
Interest income:			
Loans:			
Taxable	$ 100,814	$ 55,514	$ 55,598
Tax exempt	1,175	782	1,260
Investment securities:			
Taxable	11,502	12,063	12,801
Tax exempt	3,916	4,604	5,137
Federal funds sold and cash investments	389	178	193
Total interest income	117,796	73,141	74,989
Interest expense:			
Deposits	7,511	5,198	5,713
Short-term borrowings	237	179	161
FHLB advances and other borrowings	741	1,682	1,766
Subordinated debt	2,731	728	755
Trust preferred debentures	1,669	756	674
Total interest expense	12,889	8,543	9,069
Net interest income	104,907	64,598	65,920
Provision for loan losses	11,127	92	173
Net interest income after provision for loan losses	93,780	64,506	65,747
Noninterest income:			
Commercial mortgage banking revenue	20,175	—	—
Residential mortgage banking revenue	17,634	3,000	3,366
Wealth management revenue	7,292	7,098	6,149
Merchant services revenue	1,529	1,083	742
Service charges on deposit accounts	3,969	3,036	2,741
Interchange revenue	3,562	2,613	2,260
Gain on bargain purchase	—	—	2,154
FDIC loss-sharing expense	(566)	(3,491)	(1,149)
Amortization of FDIC indemnification asset	(397)	(954)	(2,705)
Gain on sales of investment securities, net	193	77	321
Other-than-temporary impairment on investment securities	(461)	(190)	(190)
Gain (loss) on sales of other real estate owned	600	761	(26)
Gain on sales of other assets	—	3,224	—
Other income	5,952	4,184	2,567
Total noninterest income	59,482	20,441	16,230
Noninterest expense:			
Salaries and employee benefits	63,313	32,503	30,537
Occupancy and equipment	13,151	7,587	6,999
Data processing	10,197	6,402	5,593
FDIC insurance	2,051	1,328	1,121
Professional	8,687	5,677	4,794
Marketing	2,891	2,530	1,470
Communications	2,354	1,541	1,100
Loan expense	2,960	1,204	1,577
Other real estate owned	945	2,189	2,247
Intangible assets amortization	2,460	2,115	2,257
FHLB advances prepayment fee	—	1,746	—
Other	8,755	4,658	3,754
Total noninterest expense	117,764	69,480	61,449
Income before income taxes	35,498	15,467	20,528
Income taxes	11,091	4,651	6,023
Net income	24,407	10,816	14,505
Less: net income attributable to noncontrolling interest in subsidiaries	83	—	—
Net income attributable to Midland States Bancorp, Inc.	24,324	10,816	14,505
Preferred stock dividends	—	7,601	4,718
Net income available to common shareholders	$ 24,324	$ 3,215	$ 9,787
Per common share data:			
Basic earnings per common share	$ 2.03	$ 0.53	$ 2.12
Diluted earnings per common share	$ 2.00	$ 0.53	$ 1.70
Weighted average common shares outstanding	11,902,455	5,945,615	4,558,549
Weighted average diluted common shares outstanding	12,112,403	6,025,454	7,151,471

See accompanying notes to consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(dollars expressed in thousands)

	2015	2014	2013
Net income	$ 24,407	$ 10,816	$ 14,505
Other comprehensive (loss) income:			
Change in investment securities available for sale:			
Unrealized (losses) gains that occurred during the period	(7,278)	7,517	8,184
Reclassification adjustment for realized net gains on sales of investment securities included in net income	(193)	(77)	(321)
Income tax effect	3,007	(3,519)	(2,752)
	(4,464)	3,921	5,111
Change in investment securities held to maturity:			
Amortization of unrealized gain on investment securities transferred from available-for-sale	(356)	(537)	(837)
Income tax effect	143	156	293
	(213)	(381)	(544)
Cash flow hedges:			
Change in fair value of interest rate swap	115	112	182
Income tax effect	(46)	(27)	(64)
	69	85	118
Other comprehensive (loss) income, net of tax	(4,608)	3,625	4,685
Total comprehensive income	19,799	14,441	19,190
Net income attributable to noncontrolling interest in subsidiaries	83	—	—
Total comprehensive income attributable to Midland States Bancorp, Inc.	$ 19,716	$ 14,441	$ 19,190

See accompanying notes to consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(dollars expressed in thousands, except for share and per share data)

	Preferred stock	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock	Midland States Bancorp, Inc.'s Shareholders' Equity	Noncontrolling interest in subsidiaries	Total
Balances, December 31, 2012	$ 57,370	$ 50	$ 10,595	$ 67,192	$ 2,327	$ (6,616)	$ 130,918	$ —	$ 130,918
Net income	—	—	—	14,505	—	—	14,505	—	14,505
Compensation expense for stock option grants	—	—	358	—	—	—	358	—	358
Amortization of restricted stock awards	—	—	349	—	—	—	349	—	349
Common dividends declared ($0.53 per share)	—	—	—	(2,403)	—	—	(2,403)	—	(2,403)
Preferred dividends declared	—	—	—	(4,718)	—	—	(4,718)	—	(4,718)
Issuance of common stock warrants to an investor	—	—	615	—	—	—	615	—	615
Purchase of treasury stock	—	—	—	—	—	(9)	(9)	—	(9)
Sale of treasury stock to an investor	—	—	1,102	—	—	868	1,970	—	1,970
Issuance of treasury stock for an acquisition	—	—	1,624	—	—	1,110	2,734	—	2,734
Issuance of common stock under employee benefit plans	—	—	154	—	—	282	436	—	436
Other comprehensive income	—	—	—	—	4,685	—	4,685	—	4,685
Balances, December 31, 2013	$ 57,370	$ 50	$ 14,797	$ 74,576	$ 7,012	$ (4,365)	$ 149,440	$ —	$ 149,440
Net income	—	—	—	10,816	—	—	10,816	—	10,816
Compensation expense for stock option grants	—	—	240	—	—	—	240	—	240
Amortization of restricted stock awards	—	—	468	—	—	—	468	—	468
Common dividends declared ($0.59 per share)	—	—	—	(3,512)	—	—	(3,512)	—	(3,512)
Preferred dividends declared	—	—	—	(4,698)	—	—	(4,698)	—	(4,698)
Conversion of Series C preferred stock	(23,600)	17	19,259	—	—	4,324	—	—	—

into 2,008,543 shares of common stock									
Conversion of Series D preferred stock into 1,039,823 shares of common stock	(22,470)	10	22,460	—	—	—	—	—	—
Conversion of Series E preferred stock into 536,171 shares of common stock	(6,300)	5	6,295	—	—	—	—	—	—
Conversion of Series F preferred stock into 231,375 shares of common stock	(5,000)	2	4,998	—	—	—	—	—	—
Issuance of 138,239 shares of common stock for preferred dividends	—	1	2,902	(2,903)	—	—	—	—	—
Private placement issuance of 887,562 shares of common stock	—	9	16,147	—	—	—	16,156	—	16,156
Issuance of 2,224,091 shares of common stock for an acquisition	—	22	46,684	—	—	—	46,706	—	46,706
Fair value of noncontrolling interest recognized from business combination	—	—	—	—	—	—	—	473	473
Issuance of common stock under employee benefit plans	—	1	173	—	—	41	215	—	215
Other comprehensive income	—	—	—	—	3,625	—	3,625	—	3,625
Balances, December 31, 2014	$ —	$ 117	$ 134,423	$ 74,279	$ 10,637	$ —	$ 219,456	$ 473	$ 219,929
Net income	—	—	—	24,324	—	—	24,324	83	24,407
Cash distributions to noncontrolling interests	—	—	—	—	—	—	—	(380)	(380)
Compensation expense for stock option grants	—	—	413	—	—	—	413	—	413
Amortization of restricted stock awards	—	—	517	—	—	—	517	—	517
Common dividends declared ($0.65 per share)	—	—	—	(7,692)	—	—	(7,692)	—	(7,692)
Issuance of common stock under	—	1	469	—	—	—	470	—	470

employee benefit plans									
Other comprehensive loss	—	—	—	—	(4,608)	—	(4,608)	—	(4,608)
Balances, December 31, 2015	$ —	$ 118	$ 135,822	$ 90,911	$ 6,029	$ —	$ 232,880	$ 176	$ 233,056

See accompanying notes to consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(dollars expressed in thousands)

	2015	2014	2013
Cash flows from operating activities:			
Net income	$ 24,407	$ 10,816	$ 14,505
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	11,127	92	173
Depreciation on premises and equipment	5,139	3,464	3,185
Amortization of intangible assets	2,460	2,115	2,257
Amortization of FDIC indemnification asset	397	954	2,705
FDIC loss-sharing expense	566	3,491	1,149
Amortization of restricted stock awards	517	468	349
Compensation expense for stock option grants	413	240	358
Increase in cash surrender value of life insurance	(1,474)	(1,065)	(1,066)
Provision for deferred income taxes	6,474	4,064	1,024
Investment securities amortization, net	1,202	857	703
Other-than-temporary impairment on investment securities	461	190	190
Gain on sales of investment securities, net	(193)	(77)	(321)
(Gain) loss on sale of other real estate owned	(600)	(761)	26
Write-down of other real estate owned	114	1,530	1,542
Origination of loans held for sale	(943,844)	(88,444)	(111,008)
Proceeds from sale of loans held for sale	1,002,770	88,562	117,329
Gain on loans sold and held for sale	(34,017)	(1,994)	(2,071)
Gain on bargain purchase	—	—	(2,154)
Gain on sale of other assets	—	(3,224)	—
Net change in operating assets and liabilities:			
Accrued interest receivable	945	646	1,581
Accrued interest payable	(88)	50	(912)
Accrued income taxes receivable	(4,775)	(3,048)	4,056
Other assets	2,168	(148)	(3,638)
Other liabilities	(648)	1,391	1,028
Net cash provided by operating activities	73,521	20,169	30,990
Cash flows from investing activities:			
Investment securities available for sale:			
Purchases	(83,668)	(30,405)	(91,097)
Sales	62,751	24,958	33,707
Maturities and payments	29,989	30,594	122,253
Investment securities held to maturity:			
Purchases	(809)	(8,509)	(4,477)
Maturities	14,225	15,283	8,937
Net increase in loans	(209,109)	(94,858)	(190,414)
Purchases of premises and equipment	(6,008)	(2,920)	(3,593)
Purchase of bank-owned life insurance	(20,000)	—	—
Purchases of nonmarketable equity securities	(5,311)	—	(278)
Sales of nonmarketable equity securities	1,918	—	309
Proceeds from sales of other real estate owned	6,617	10,928	7,443
Proceeds from FDIC loss-sharing agreement, net	124	1,329	3,210
Net cash (paid) acquired in acquisitions	(20,053)	85,021	13,830
Net cash (used in) provided by investing activities	(229,334)	31,421	(100,170)

See accompanying notes to consolidated financial statements.

MIDLAND STATES BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(dollars expressed in thousands)

	2015	2014	2013
Cash flows from financing activities:			
Net increase in deposits	217,015	2,674	16,604
Net (decrease) increase in short-term borrowings	(22,176)	25,324	14,746
Proceeds from FHLB borrowings	47,500	112,500	—
Payments made on FHLB borrowings	(67,500)	(117,500)	(29)
Proceeds from other borrowings	—	14,000	—
Payments made on other borrowings	(14,177)	(7,857)	(3,517)
Proceeds from issuance of subordinated debt	55,325	—	8,000
Payment made on subordinated debt	—	—	(5,000)
Cash dividends paid on preferred stock	—	(4,254)	(5,163)
Cash dividends paid on common stock	(7,692)	(3,512)	(2,403)
Proceeds from issuance of common stock	—	—	1,970
Proceeds from common stock subscriptions	—	—	16,222
Proceeds from issuance of common stock under employee benefit plans	470	215	436
Purchase of treasury stock	—	—	(9)
Cash distributions to noncontrolling shareholders	(380)	—	—
Net cash provided by financing activities	208,385	21,590	41,857
Net increase (decrease) in cash and cash equivalents	52,572	73,180	(27,323)
Cash and cash equivalents:			
Beginning of year	$ 159,903	$ 86,723	$ 114,046
End of year	$ 212,475	$ 159,903	$ 86,723
Supplemental disclosures of cash flow information:			
Cash payments for:			
Interest paid on deposits and borrowed funds	$ 12,977	$ 8,493	$ 9,981
Income tax paid	8,541	4,684	848
Supplemental disclosures of noncash investing and financing activities:			
Transfer of loans to other real estate owned	$ 3,533	$ 6,509	$ 6,509
Issuance of common stock warrants	—	—	615
Conversion of Series C preferred stock into common stock	—	23,600	—
Conversion of Series D preferred stock into common stock	—	22,470	—
Conversion of Series E preferred stock into common stock	—	6,300	—
Conversion of Series F preferred stock into common stock	—	5,000	—
Issuance of common stock for preferred dividends	—	2,903	—
Cash portion of merger consideration accrued for at year-end	—	20,053	—
Issuance of common stock for private placement	—	16,156	—

See accompanying notes to consolidated financial statements.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Midland States Bancorp, Inc. ("the Company", "we", "our", or "us") is a diversified financial holding company headquartered in Effingham, Illinois. Our 135-year old banking subsidiary, Midland States Bank ("Midland" or "the Bank"), has branches across Illinois and in Missouri and Colorado, and provides a broad array of traditional community banking and other complementary financial services, including lending, residential mortgage origination, wealth management, merchant services and prime consumer lending. Our Federal Housing Administration ("FHA") origination and servicing business, based in Washington, D.C., is one of the largest originators of government sponsored mortgages for multifamily and healthcare facilities in the United States. Our commercial equipment leasing business, based in Denver, provides financing to business customers across the country.

In late 2007, we developed a strategic plan to build a diversified financial services company anchored by a strong community bank. Since then, we have grown organically and through a series of nine acquisitions, with an over-arching focus on enhancing shareholder value and building a platform for scalability. Most recently, we acquired Love Savings Holding Company ("LSHC") in December 2014, which greatly expanded our commercial and retail banking services in the St. Louis metropolitan area, added a branch and three mortgage offices in Colorado, and provided us the opportunity to enter complementary lending and leasing business lines. In total, we have grown from a community bank with six locations in 2007 to a financial services company with 81 locations and nationwide operations.

Our principal business activity has been lending to and accepting deposits from individuals, businesses, municipalities and other entities. We have derived income principally from interest charged on loans and, to a lesser extent, from interest and dividends earned on investment securities. We have also derived income from noninterest sources, such as: fees received in connection with various lending and deposit services; wealth management services; residential mortgage loan originations, sales and servicing; merchant services; and, from time to time, gains on sales of assets. With the acquisition of LSHC, we have expanded our income sources to include a greater emphasis on residential mortgage loan origination and servicing, Love Funding Corporation's ("Love Funding") commercial mortgage loan origination and servicing and Heartland Business Credit's ("Business Credit") interest income on direct financing leases. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment expenses, data processing costs, professional fees and other noninterest expenses, provisions for loan losses and income tax expense.

Refer to Note 2 in the consolidated financial statements for additional information about the Company's recent acquisitions.

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and conform to predominant practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and that affect the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates reported within the consolidated financial statements include the fair value of investment securities, the determination of the allowance for loan losses, estimated fair values of

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

purchased loans, valuation of real estate and other properties acquired in connection with foreclosures or in satisfaction of amounts due from borrowers on loans, and the carrying value of mortgage servicing rights.

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and its subsidiaries, giving effect to the noncontrolling interest in subsidiaries, as more fully described below. All significant intercompany accounts and transactions have been eliminated. Assets held for customers in a fiduciary or agency capacity, other than trust cash on deposit with Midland, are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

The Company operates through its wholly owned subsidiary bank, Midland, headquartered in Effingham, IL. Midland operates through its branch banking offices and subsidiaries: Love Funding, Business Credit, Heartland Premier LLC ("Premier") and Heartland Preferred Mortgage Company LLC ("Preferred"). All of the subsidiaries are wholly owned as of December 31, 2015, except Premier and Preferred, which were each formed as a joint venture mortgage origination operation, of which the Bank owns 51% and acts as a manager. Premier and Preferred are included in the consolidated financial statements and the noncontrolling ownership interest is reported as a component of shareholders' equity in the consolidated balance sheets as "noncontrolling interest in subsidiaries" and the earnings or loss attributable to the noncontrolling ownership interest is reported as "net income attributable to noncontrolling interest in subsidiaries" in the consolidated statements of income.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting. Under the acquisition method, tangible and intangible identifiable assets acquired, liabilities assumed and any noncontrolling interests in the acquiree are recorded at fair value as of the acquisition date. The Company includes the results of operations of the acquired companies in the consolidated statements of income from the date of acquisition. Transaction costs and costs to restructure the acquired company are expensed as incurred. Goodwill is recognized as the excess of the acquisition price over the estimated fair value of the net assets acquired. If the fair value of the net assets acquired is greater than the acquisition price, a bargain purchase gain is recognized and recorded in noninterest income.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, which includes amounts on deposit with the Federal Reserve, interest-bearing deposits with banks or other financial institutions and federal funds sold. Generally federal funds are sold for one-day periods, but not longer than 30 days.

Investment Securities

Investment securities consist of debt securities of the U.S. Treasury, government sponsored entities, states, counties, municipalities, corporations, agency mortgage-backed securities, non-agency mortgage-backed securities and covered non-agency mortgage-backed securities. Securities transactions are recorded on a trade date basis. The Company classifies its securities as trading, available for sale, or

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

held to maturity at the time of purchase. Securities purchased with the intention of recognizing short-term profits or which are actively bought and sold are classified as trading account securities and reported at fair value. Unrealized gains and losses on trading securities are included in earnings. Held-to-maturity securities are those debt instruments, which the Company has the positive intent and ability to hold until maturity. Held-to-maturity securities are recorded at cost, adjusted for the amortization of premiums or accretion of discounts. All other securities are classified as available for sale. Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are included in other comprehensive income and the related accumulated unrealized holding gains and losses are reported as a separate component of shareholders' equity until realized.

On a quarterly basis, the Company makes an assessment to determine whether there have been any events or circumstances to indicate that a security for which there is an unrealized loss is impaired on an other than temporary basis. This determination requires significant judgment. A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. In estimating other-than-temporary impairment losses, we consider the severity and duration of the impairment; the financial condition and near-term prospects of the issuer, which for debt securities considers external credit ratings and recent downgrades; projected cash flows on covered non-agency mortgage-backed securities; and the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value.

Purchase premiums are amortized and purchase discounts are accreted over the estimated life of the related investment security as an adjustment to yield using the effective interest method. Unamortized premiums, unaccreted discounts, and early payment premiums are recognized in interest income upon disposition of the related security. Interest and dividend income are recognized when earned. Realized gains and losses from the sale of available-for-sale securities are determined using the specific identification method and are included in other noninterest income. Also, when applicable, realized gains and losses are reported as a reclassification adjustment, net of tax, in other comprehensive income.

Covered investment securities. Covered investment securities include non-agency mortgage-backed securities acquired from the Federal Deposit Insurance Corporation ("FDIC") as receiver of Strategic Capital Bank ("Strategic"). Investment securities covered under loss-sharing agreements with the FDIC are reported exclusive of the expected reimbursement cash flows from the FDIC. Reimbursements can be claimed for realized losses including losses realized on the sale of the securities and losses due to other-than-temporary impairment. The securities are initially recorded at fair value at the acquisition date and continue to be carried at fair value. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses in other-than-temporary impairment of investment securities on the consolidated statements of income. Refer to the section titled "Indemnification Asset Due from FDIC" for additional information.

Nonmarketable Equity Securities

Nonmarketable equity securities include the Bank's required investments in the stock of the Federal Home Loan Bank ("FHLB") and the Federal Reserve Bank ("FRB"), and other nonmarketable equity securities. The Bank is a member of the FHLB system. Members are required to

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is also a member of its regional FRB. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans

Five of our acquisitions included loans acquired with deteriorated credit quality that were classified by us as Purchased Credit Impaired ("PCI"). Loans classified as non-PCI are loans we originated or purchased without deteriorated credit quality. PCI and non-PCI loans are described more fully below.

In addition, as a result of the Strategic and Westbridge acquisitions, we have loans that are covered by loss-sharing agreements with the FDIC which we refer to as "covered loans." When we refer to non-covered loans, we are referring to loans not covered by our loss-sharing agreements with the FDIC.

Covered loans. We refer to "covered loans" as those loans that we acquired in the Strategic and Westbridge acquisitions for which we will be reimbursed for a substantial portion of any future losses under the terms of the FDIC loss-sharing agreements. Loans covered under loss-sharing or similar credit protection agreements with the FDIC are reported in loans exclusive of the expected reimbursement cash flows from the FDIC. Covered loans are initially recorded at fair value at the acquisition date. Subsequent decreases in the amount expected to be collected results in a provision for loan losses and a corresponding increase is recorded to the indemnification asset due from FDIC on the consolidated balance sheet. Covered loans are accounted for as either non-PCI loans or PCI loans, as discussed below.

Non-Purchased Credit Impaired loans. Non-PCI loans for which the Company has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified as loans in the consolidated balance sheets. Non-PCI loans are stated at the principal amount outstanding, net of unamortized deferred loan origination fees and costs and net of any unearned discount or unamortized premium. Interest income is recorded on the accrual basis in accordance with the terms of the respective loan. Loans are considered delinquent when principal or interest payments are past due 30 days or more; delinquent loans may remain on accrual status between 30 days and 89 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable. Nonrefundable loan fees and related direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The net deferred fees or costs are recognized as an adjustment to

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

interest income over the contractual life of the loans using the interest method or taken into income when the related loans are paid off or sold. The amortization of loan fees or costs is discontinued when a loan is placed on nonaccrual status.

Lease Financing. The Company provides direct financing leases to small businesses for purchases of business equipment. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual values (approximately 3% to 15% of the cost of the related equipment), are recorded as lease receivables when the lease is signed and the lease property is delivered to the customer. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned lease income. Unearned lease income is recognized over the term of the lease on a basis that results in an approximate level rate of return on the unrecovered lease investment. Lease income is recognized on the interest method. Residual value is the estimated fair market value of the equipment on lease at lease termination. In estimating the equipment's fair value at lease termination, we rely on historical experience by equipment type and manufacturer and, where available, valuations by independent appraisers, adjusted for known trends. Our estimates are reviewed continuously to ensure reasonableness; however, the amounts we will ultimately realize could differ from the estimated amounts. If the review results in a lower estimate than had been previously established, a determination is made as to whether the decline in estimated residual value is other-than-temporary. If the decline in estimated unguaranteed residual value is judged to be other-than-temporary, the accounting for the transaction is revised using the changed estimate. The resulting reduction in the investment is recognized as a loss in the period in which the estimate is changed. An upward adjustment of the estimated residual value is not recorded.

Purchased Credit Impaired loans. We account for loans under Accounting Standards Codification ("ASC") 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("acquired impaired loan accounting") when we acquire loans deemed to be impaired or when there is evidence of credit deterioration since their origination and it is probable at the date of acquisition that we would be unable to collect all contractually required payments. Revolving credit agreements, such as commercial lines of credit and home equity lines, and lease financings are excluded from PCI loans.

For PCI loans, we (i) determine the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows") and (ii) estimate the amount and timing of undiscounted expected principal and interest payments including expected prepayments (the "undiscounted expected cash flows"). Under acquired impaired loan accounting, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference represents an estimate of the loss exposure of principal and interest related to the PCI loans and such amount is subject to change over time based on the performance of such loans. The carrying value of PCI loans is initially determined by discounting expected cash flows. The carrying value of PCI loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income on a level-yield basis over the estimated life of the acquired loans.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The excess of expected cash flows at acquisition over the initial fair value of the PCI loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the loans using the effective yield method if the timing and amount of the future cash flows is reasonably estimable. Subsequent to acquisition, the Company aggregates loans into pools of loans with common credit risk characteristics such as loan type and risk rating. Increases in expected cash flows compared to those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in expected cash flows compared to those previously estimated decrease the accretable yield and usually result in a provision for loan losses and the establishment of an allowance for loan losses. As the accretable yield increases or decreases from changes in cash flow expectations, the offset is a decrease or increase to the nonaccretable difference or an addition to accretable yield. The accretable yield is measured at each financial reporting date based on information then currently available and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

Under acquired impaired loan accounting, PCI loans are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, PCI loans that are contractually past due are still considered to be accruing and performing loans as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans.

Impaired loans. A loan is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include loans on nonaccrual status, any loan past due 90 days or more and still accruing interest, and performing restructured loans. Income from loans on nonaccrual status is recognized to the extent cash is received and when the loan's principal balance is deemed collectible. Depending on a particular loan's circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. A loan is considered collateral dependent when repayment of the loan is based solely on the liquidation of the collateral. Fair value, where possible, is determined by independent appraisals, typically on an annual basis. Between appraisal periods, the fair value may be adjusted based on specific events, such as if deterioration of quality of the collateral comes to our attention as part of our problem loan monitoring process, or if discussions with the borrower lead us to believe the last appraised value no longer reflects the actual market for the collateral. The impairment amount on a collateral-dependent loan is charged-off to the allowance if deemed not collectible and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve.

Troubled Debt Restructurings. A loan is classified as a troubled debt restructuring when we grant a concession to a borrower experiencing financial difficulties. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses. Loans restructured at a market rate of a new loan with comparable risk at the time the loan is modified may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. A loan that has been placed on nonaccrual that is subsequently restructured will usually remain on nonaccrual status until the borrower is able to demonstrate repayment performance in compliance with the

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

restructured terms for a sustained period, typically for six months. A loan that has not been placed on nonaccrual may be restructured and such loan may remain on accrual status after such restructuring. In these circumstances, the borrower has made payments before and after the restructuring. Generally, this restructuring involves a reduction in the loan interest rate and/or a change to interest-only payments for a period of time. A restructured loan is considered impaired despite its accrual status and a specific reserve is calculated based on the present value of expected cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent.

Allowance for Loan Losses. The allowance for loan losses ("allowance") provides for probable losses in the loan portfolio that have been identified with specific customer relationships and for probable losses believed to be inherent in the remainder of the loan portfolio but that have not been specifically identified. The allowance is comprised of specific allowances (assessed for loans that have known credit weaknesses), general allowances based on historical loan loss experience for each loan type and other factors for imprecision in the subjective nature of the general allowance methodology and an allowance for PCI loans. Management evaluates the allowance on a quarterly basis in an effort to ensure the level is appropriate to absorb probable losses inherent in the loan portfolio. Our federal and state banking regulators, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Our regulators may require the Company to recognize additions to the allowance based on their judgments related to information available to them at the time of their examinations.

Acquired non-PCI and PCI loans are recorded at their estimated fair value at the date of acquisition, with the estimated fair value including a component for estimated credit losses. These loans, however, may require an allowance subsequent to their acquisition. An allowance may be set aside in the future for acquired non-PCI loans based on our allowance methodology for non-PCI loans. An allowance may be set aside in the future for PCI loans if the PCI loan pools experience a decrease in expected cash flows as compared to those projected at the acquisition date. An allowance related to PCI loans was required at December 31, 2015 and 2014 due to changes in expected cash flows since the date of acquisition.

In determining the allowance and the related provision for loan losses, the Company considers three principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired commercial, commercial real estate, construction and land development loans, (ii) allocations, by loan classes, on loan portfolios based on historical loan loss experience and on other factors for the imprecision in the overall allowance methodology and (iii) valuation allowances on PCI loan pools based on decreases in expected cash flows.

The first element reflects the Company's establishment of valuation allowances based upon probable losses identified during the systematic review of impaired commercial, commercial real estate, construction and land development loans in the non-purchased credit impaired loan portfolios. These estimates are based upon a number of objective factors, such as payment history, financial condition of the borrower, expected future cash flows and discounted collateral exposure. The Company measures the investment in an impaired loan based on one of three methods: the loan's observable market price; the fair value of the collateral; or the present value of expected future cash flows discounted at the loan's effective interest rate. At December 31, 2015 and 2014, generally, loans in the commercial loan portfolio that were in nonaccrual status were valued based on the fair value of the collateral securing

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the loan, while certain of the impaired loans in the commercial loan portfolio that were modified under troubled debt restructurings and in an accrual status were valued based on the present value of expected future cash flows discounted at the loan's effective interest rate. It is the Company's general policy to, at least annually, obtain new appraisals on impaired loans that are primarily secured by real estate. When the Company determines that the net realizable value of the collateral is less than the carrying value of an impaired loan on nonaccrual status and a portion is deemed not collectible, the portion of the impairment that is deemed not collectible is charged off and deducted from the allowance. The remaining carrying value of the impaired loan is classified as a nonperforming loan. When the Company determines that the net realizable value of the collateral is less than the carrying value of an impaired loan but believes it is probable it will recover this impairment, the Company establishes a valuation allowance for such impairment.

The second element relates to allocations, by loan classes, on loan portfolios based on historical loan loss experience and on other factors for the imprecision in the overall allowance methodology. All loans are not evaluated individually for impairment and any individually evaluated loans determined not to be impaired are segmented into groups based on similar risk characteristics, as described above. Historical loss rates for each risk group, which are updated quarterly, are quantified using all recorded loan charge-offs and recoveries and changes in specific allowances on loans. These historical loss rates for each risk group are used as the starting point to determine the level of the allowance. The Company's methodology incorporates an estimated loss emergence period for each loan category. The loss emergence period is the period of time from when a borrower experiences a loss event and when the actual loss is recognized in the financial statements, generally at the time of initial charge-off of the loan balance. The Company's methodology also includes qualitative risk factors that allow management to adjust its estimate of losses based on the most recent information available and to address other limitations in the quantitative component that is based on historical loss rates. Such risk factors are generally reviewed and updated quarterly, as appropriate, and are adjusted to reflect actual changes and anticipated changes in national and local economic conditions and developments, the volume and severity of delinquent and internally classified loans, loan concentrations, assessment of trends in collateral values, and changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices.

The third element relates to PCI loans. PCI loans are aggregated into pools based upon common risk characteristics. On a quarterly basis, the expected future cash flow of each pool is estimated based on various factors including changes in property values of collateral dependent loans, default rates and loss severities. Decreases in estimates of expected cash flows within a pool generally result in a charge to the provision for loan losses and a corresponding increase in the allowance allocated to PCI loans for the particular pool. Increases in estimates of expected cash flows within a pool generally result in, first, a reduction in the allowance allocated to PCI loans for the particular pool to the extent an allowance has been previously recorded, and then as an adjustment to the accretable yield for the pool, which will increase amounts recognized in interest income in subsequent periods.

Covered loans include PCI and non-PCI loans and are subject to our internal and external credit review. If and when credit deterioration occurs subsequent to the acquisition dates, a provision for loan losses for covered loans will be charged to earnings for the full amount without regard to the FDIC loss-sharing agreements. The portion of the loss on covered loans reimbursable from the FDIC is recorded in noninterest income as "FDIC loss-sharing income, net" and increases the FDIC indemnification asset.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale

Loans held for sale consist of residential and commercial mortgage loans that management intends to sell. Loans held for sale are carried at either fair value, if elected, or the lower of cost or fair value on an individual loan basis. The Company elected the fair value option for loans held for sale at December 31, 2015. At December 31, 2014, the Company elected the fair value option for $4.8 million of residential mortgages originated by the Company, and the held for sale residential and commercial mortgage loans associated with the LSHC transaction, as more fully described in Note 2 to the consolidated financial statements, were recorded at acquisition date fair value of $36.2 million and $55.4 million, respectively, and are subsequently being measured under the fair value option. The Company believes the fair value method better reflects the economic risks associated with these loans. Fair value measurements on loans held for sale are based on quoted market prices for similar loans in the secondary market, market quotes from anticipated sales contracts and commitments, or contract prices from firm sales commitments. The changes in the fair value of loans held for sale are reflected in mortgage banking revenue.

Mortgage Repurchase Reserve

The Company sells residential mortgage loans to investors in the normal course of business. Residential mortgage loans sold to investors are predominantly conventional residential first lien mortgages originated under our usual underwriting procedures, and are sold on a nonrecourse basis. The Company's agreements to sell residential mortgage loans usually require general representations and warranties on the underlying loans sold, related to credit information, loan documentation, collateral, and insurability, which if subsequently untrue or breached, could require the Company to indemnify or repurchase certain loans affected. The balance in the repurchase reserve at the balance sheet date reflects the estimated amount of potential loss the Company could incur from repurchasing a loan, as well as loss reimbursements, indemnification, and other "make whole" settlement resolutions. Refer to Note 23 in the consolidated financial statements for additional information on the mortgage repurchase reserve.

Premises and Equipment

Premises, furniture and equipment, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the asset or the lease term. Estimated useful lives of premises and equipment range from 10 to 40 years and from 3 to 10 years, respectively. Maintenance and repairs are charged to operating expenses as incurred, while improvements that extend the useful life of assets are capitalized and depreciated over the estimated remaining life.

We periodically review the carrying value of our long-lived assets to determine if impairment has occurred or whether changes in circumstances have occurred that would require a revision to the remaining useful life. In making such determination, we evaluate the performance, on an undiscounted basis, of the underlying operations or assets which give rise to such amount.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

Other real estate owned ("OREO") represents properties acquired through foreclosure or other proceedings and is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost basis. After foreclosure, OREO is held for sale and is carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to OREO is charged to the allowance for loan losses. Fair value for OREO is based upon an appraisal performed upon foreclosure. Property is evaluated regularly to ensure the recorded amount is supported by its fair value less estimated costs to dispose. After the initial foreclosure appraisal, fair value is generally determined by an annual appraisal unless known events warrant adjustments to the recorded value. Revenue and expense from the operations of OREO and decreases in valuations are included in OREO expense on the consolidated statements of income.

OREO covered under a loss-sharing agreement with the FDIC is reported exclusive of expected reimbursement cash flows from the FDIC. Upon transferring covered loan collateral to covered OREO status, acquisition date fair value discounts on the related loan are also transferred to covered OREO. Fair value adjustments on covered OREO result in a reduction of the covered OREO carrying amount and a corresponding increase in the estimated FDIC indemnification asset, with the estimated net loss charged against earnings in OREO expense on the consolidated statements of income.

Goodwill and Intangible Assets

Goodwill resulting from a business combination is generally determined as the excess of the fair value of consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected September 30th as of the date to perform the annual impairment test. Refer to Note 9 in the consolidated financial statements for additional information on the annual impairment test results.

Other intangible assets, which consist of core deposit and acquired customer relationship intangible assets, are being amortized over a period ranging from 1 to 10 years using primarily an accelerated method of amortization. On a periodic basis, we evaluate events and circumstances that may indicate a change in the recoverability of the carrying value.

Mortgage Servicing Rights

The Company sells residential and commercial mortgage loans in the secondary market and typically retains the right to service the loans sold. Upon sale, a mortgage servicing rights asset is capitalized, which represents the then current fair value of future net cash flows expected to be realized for performing servicing activities. Mortgage servicing rights, when purchased, are initially recorded at fair value. As the Company has not elected to subsequently measure either of its classes of servicing assets, residential or commercial, under the fair value measurement method, the Company follows the amortization method. Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income, and assessed for impairment at each reporting date. Mortgage servicing

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

rights are carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value.

The Company periodically evaluates its mortgage servicing rights asset for impairment. Impairment is assessed based on the fair value of net servicing cash flows at each reporting date using estimated prepayment speeds of the underlying mortgage loans serviced and stratifications based on the risk characteristics of the underlying loans. The fair value of our servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, servicing costs, replacement reserves and other economic factors which are determined based on current market conditions. A valuation allowance is established, through a charge to earnings, to the extent the amortized cost of the mortgage servicing rights exceeds the estimated fair value by stratification. If it is later determined that all or a portion of the temporary impairment no longer exists for a stratification, the valuation is reduced through a recovery to earnings. An other-than-temporary impairment (i.e., recoverability is considered remote when considering interest rates and loan pay off activity) is recognized as a write-down of the mortgage servicing rights asset and the related valuation allowance (to the extent a valuation allowance is available) and then against earnings. A direct write-down permanently reduces the carrying value of the mortgage servicing rights asset and valuation allowance, precluding subsequent recoveries.

We recognize revenue from servicing residential and commercial mortgages as earned based on the specific contractual terms. This revenue, along with changes in impairment on servicing rights, is reported in mortgage banking revenue.

Cash Surrender Value of Life Insurance Policies

We have purchased life insurance policies on the lives of certain officers and key employees and are the owner and beneficiary of the policies. These policies provide an efficient form of funding for long-term retirement and other employee benefits costs. These policies are recorded as cash surrender value of life insurance policies in the consolidated balance sheets at each policy's respective cash surrender value, with changes in value recorded in noninterest income in the consolidated statements of income.

Indemnification Asset Due from FDIC

As part of the Strategic and WestBridge transactions, the Company entered into loss-share agreements with the FDIC.

Under the Strategic loss-share agreement, the FDIC is obligated to reimburse the Company for losses with respect to covered assets, which include non-agency mortgage backed securities, certain loans and other real estate owned. Under the terms of the agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries on the first $167 million of losses on covered assets and absorb 95% of losses and receive 95% of loss recoveries on covered assets exceeding $167 million. The term for loss-sharing on residential real estate loans is ten years, which will expire on July 1, 2019, the term for loss-sharing on nonresidential real estate loans was five years with respect to losses, which expired on July 1, 2014, and seven years with respect to recoveries, which will expire on July 1, 2016, and the term for loss-sharing on investment securities is seven years with respect to losses, which will expire on July 1, 2016, and ten years with respect to recoveries, which will expire on July 1, 2019. At

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

December 31, 2015 and 2014, losses submitted on covered assets totaled $120.3 million and $120.7 million, respectively.

In accordance with the WestBridge loss-share agreement, the FDIC is obligated to reimburse the Company for losses with respect to covered assets, which include certain loans and other real estate owned. Under the terms of the agreement, the FDIC will absorb 80% of losses and receive 80% of loss recoveries. In addition, on December 15, 2020, the Company will pay to the FDIC a "true-up payment" defined as 50% of the excess, if any, of (1) $3.6 million minus (2) the sum of (a) 20% of cumulative shared losses, (b) 25% of the asset discount bid, expressed in dollars, of total assets subject to loss sharing ($(9.1) million) and (c) 3.5% of the total assets subject to loss sharing ($68.2 million). The term for loss-sharing on residential real estate loans is ten years, which will expire on January 1, 2021, and the term for loss-sharing on nonresidential real estate loans was five years with respect to losses, which expired on January 1, 2016, and eight years with respect to recoveries, which will expire on January 1, 2019. At December 31, 2015 and 2014, losses on covered assets totaled $15.2 million and $15.6 million, respectively. Also, the true-up payment accrual due to the FDIC at the end of the loss-sharing agreement totaled $208,000 and $155,000 at December 31, 2015 and 2014, respectively, and is recorded in other liabilities in the consolidated balance sheets.

An increase in the expected amount of losses on the covered loans and other real estate owned, which is primarily due to a decrease in expected cash flows, will increase the indemnification asset by recording FDIC loss-sharing income. Recoveries on previous losses paid to us by the FDIC or increases in expected cash flows will reduce the indemnification asset by a charge to FDIC loss-sharing income. Since the indemnification asset was initially recorded at estimated fair value using a discount rate, a portion of the discount is recognized as amortization of the FDIC indemnification asset in the consolidated statements of income.

The indemnification asset due from the FDIC related to the Strategic transaction may be impacted by other-than-temporary impairment expense related to the covered investment securities. If a decrease in expected cash flows for covered investment securities results in other-than-temporary impairment, the indemnification asset may be increased for the portion covered by a loss-share agreement. An increase in the expected cashflows on the covered investment securities will not impact the indemnification asset but rather results in an increase in accretion income reflected on the consolidated statement of income.

The Bank submits claims to the FDIC thirty days after each quarter end for losses incurred in the quarter. Claims consist of charge-offs on loans, write-downs on OREO, other-than-temporary losses on non-agency mortgage-backed securities and expense reimbursements, net of any recoveries. Claims are typically paid by the FDIC within thirty days of submission. The FDIC indemnification asset, net is reduced when claim payments are received. Claims submitted by the Bank are subject to audit by the FDIC.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments

All derivatives are recognized on the consolidated balance sheet as a component of other assets or other liabilities at their fair value. On the date the derivative contract is entered into, the derivative is designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability "cash flow" hedge. Changes in the fair value of a derivative that is highly effective as—and that is designated and qualifies as—a cash flow hedge are recorded in accumulated other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the balance sheet or forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, hedge accounting is prospectively discontinued, as discussed below.

Hedge accounting is prospectively discontinued when (a) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); (b) the derivative expires or is sold, terminated, or exercised; (c) the derivative is no longer designated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or (d) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the consolidated balance sheet at its fair value, and gains and losses that were in accumulated other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the consolidated balance sheet, with subsequent changes in its fair value recognized in current-period earnings.

The Company also enters into interest rate lock commitments, which are agreements to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. Interest rate lock commitments for mortgage loans that will be held for resale are carried at fair value on the consolidated balance sheet with changes in fair value reflected in mortgage banking revenue. The Company also has forward loan sales commitments related to its interest rate lock commitments and its loans held for sale. Forward loan sales commitments that meet the definition of a derivative are recorded at fair value in the consolidated balance sheet with changes in fair value reflected in mortgage banking income.

Credit-Related Financial Instruments

In the ordinary course of business, the Company has entered into credit-related financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. The notional amount of these commitments is not reflected in the consolidated financial statements until they are funded.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A liability for losses related to unfunded commitments is maintained by the Company at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the consolidated balance sheets. The determination of the adequacy of the liability is based upon an evaluation of the unfunded credit facilities, including an assessment of historical commitment utilization experience, credit risk grading and historical loss rates. This process takes into consideration the same risk elements that are analyzed in the determination of the adequacy of the Company's allowance for loan losses, as discussed above. Net adjustments to the liability for unfunded commitments are included in other noninterest expense in the consolidated statements of income. The liability for unfunded commitments totaled $220,000 and $69,000 at December 31, 2015 and 2014, respectively.

Income Taxes

We file consolidated federal and state income tax returns, with each organization computing its taxes on a separate return basis. The provision for income taxes is based on income as reported in the consolidated financial statements.

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. The deferred tax assets and liabilities are computed based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. Interest and penalties associated with unrecognized tax benefits are to be classified as additional income taxes in the consolidated statements of income. The Company evaluated its tax positions and concluded that it had taken no uncertain tax positions that require adjustment in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, states or local tax authorities for the years before 2010.

Stock Compensation Plans

Compensation cost for share-based payment awards is based on the fair value of the award at the date of grant. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model. The fair value of restricted stock is determined based on the Company's current market price on the date of grant. Compensation cost is recognized in the consolidated financial

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

statements on a straight-line basis over the requisite service period, which is generally defined as the vesting period. Additionally, the Company estimates the number of awards for which it is probable service will be rendered and adjusts compensation accordingly.

Comprehensive Income

Comprehensive income is defined as net income plus transactions and other occurrences that are the result of non-owner changes in equity. Non-owner equity changes include unrealized gains and losses on available for sale securities and changes in the fair value of cash flow hedges. These are components of comprehensive income and do not have an impact on the Company's net income.

Earnings per Share

Earnings per share are calculated utilizing the two-class method. Basic earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of shares adjusted for the dilutive effect of common stock awards and common stock warrants using the treasury stock method and convertible preferred stock and convertible debentures using the if-converted method.

Reclassifications

Certain reclassifications were made in the prior year financial statements to conform to current year presentation. Such reclassifications had no effect on prior year net income or shareholders' equity.

Impact of Recently Issued Accounting Standards

FASB ASC 323—In January 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* impacting FASB ASC 323, *Investments—Equity Method and Joint Ventures*. The ASU permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). This ASU became effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 and did not have a material impact on the Company's consolidated financial statements.

FASB ASC 310—In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*) impacting FASB ASC 310-40. The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the property in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of foreclosure or through a similar legal agreement. The amendments also require disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. This ASU became effective for annual and interim periods in fiscal years beginning after December 15, 2014 and did not have a material impact on the Company's consolidated financial statements.

FASB ASC 606—In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and in August 2015, the FASB issued proposed ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The ASU supersedes revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance in the FASB ASC. The ASU requires an entity to recognize revenue that depicts the transfer of promised goods or services to customers in an amount reflecting the consideration the entity expects to receive in exchange for those goods or services. The ASU identifies specific steps that entities should apply to achieve this principle. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted only as of the annual reporting periods beginning after December 15, 2016, including interim periods within that period. Entities can elect to adopt the guidance either on a full or modified retrospective basis. Full retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning of the earliest comparative period presented. Modified retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance. The Company is in the process of evaluating the impact of this ASU on its consolidated financial statements, and is not expected to have a material impact.

FASB ASC 860—In June 2014, the FASB issued ASU No. 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* impacting FASB ASC 860, *Transfers and Servicing*. The ASU issued guidance that requires repurchase-to-maturity transactions be accounted for as secured borrowings rather than sales. New disclosures for certain transactions accounted for as secured borrowings and transfers accounted for as sales when the transferor retains substantially all of the exposure to the economic return on the transferred financial assets will also be required. An entity is required to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. An entity must also provide additional information about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. This ASU became effective for annual and interim periods in fiscal years beginning after December 15, 2014 and did not have a material impact on the Company's consolidated financial statements.

FASB ASC 718—In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* impacting FASB ASC 718, *Compensation—Stock Compensation*. Generally, an award with a performance target also requires an employee to render service until the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. This update requires a performance target contained within a share-based payment award, which affects vesting and that

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

could be achieved after the requisite service period, is to be accounted for as a performance condition. An entity should apply guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the service has already been rendered. This ASU becomes effective for annual and interim periods in fiscal years beginning after December 15, 2015. The adoption is not expected to have a significant effect on the Company's consolidated financial statements.

FASB ASC 310—In August 2014, the FASB issued ASU No. 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure* impacting FASB ASC 310-40, *Receivables—Troubled Debt Restructuring by Creditors*. This ASU affects creditors that hold government-guaranteed mortgage loans. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim, and (3) at the time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This ASU became effective for annual and interim periods in fiscal years beginning after December 15, 2014 and did not have a material impact on the Company's consolidated financial statements.

FASB ASC 205—In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods in fiscal years ending after December 15, 2016 and interim periods in fiscal years beginning after December 15, 2016, with early adoption permitted. The adoption is not expected to have a significant effect on the Company's consolidated financial statements.

FASB ASC 835—In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* impacting FASB ASC 835-30, *Interest—Imputation of Interest*. The FASB Board received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. To simplify presentation of debt issuance costs, the amendments in the update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. This ASU becomes effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the new guidance in 2015 and did not have a material impact on the Company's consolidated financial statements.

FASB ASC 350—In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* impacting FASB ASC 350-40, *Intangibles: Goodwill and Other: Internal-Use Software*. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change generally accepted accounting principles for a customer's accounting for service contracts. This ASU becomes effective for annual and interim periods in fiscal years beginning after December 15, 2015, with early adoption permitted. The amended guidance may be applied either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. The Company is in the process of evaluating the impact of this ASU on its consolidated financial statements, and is not expected to have a material impact.

FASB ASC 805—In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. This update applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This ASU requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2015, with early adoption permitted. This ASU should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. The Company adopted the new guidance during the third quarter of 2015 with no material impact on the Company's consolidated financial statements.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FASB ASC 842—In February 2016, the FASB issued ASU 2016-02, *Lease Accounting*. This update revises the model to assess how a lease should be classified and provides guidance for lessees and lessors, when presenting right-of-use assets and lease liabilities on the balance sheet. The update is effective for the Company for the year ended December 31, 2020, although the Company may elect to adopt guidance earlier. The Company is continuing to evaluate the effect of this new guidance on the Company's consolidated financial statements.

NOTE 2—ACQUISITIONS

On December 31, 2014, the Company completed its acquisition of LSHC. At closing, LSHC primarily consisted of Heartland Bank, its wholly owned subsidiaries LFC and HBC ("Heartland"), and $40.0 million of trust preferred debentures. Heartland Bank provided commercial and retail banking services in the St. Louis metropolitan area, its primary market, through the operation of 10 full-service banking offices, a full-service cyber office, three limited service loan production offices, and a retirement center office in Missouri, and one branch office in Colorado. LFC is an approved Federal Housing Administration insured lender and Government National Mortgage Association issuer engaged in commercial mortgage origination and servicing, and HBC provides custom leasing and financing programs to equipment and software vendors.

The Company acquired LSHC for $67.3 million, which consisted of 2,224,091 shares of common stock, $20.1 million in cash and an accrual in other liabilities of $530,000 for the fair value of additional consideration based on the earnings of LFC over a two year period after acquisition date. The additional consideration is defined as the amount, if any, by which 50% of LFC's adjusted net income (for the two year period ending December 31, 2016) exceeds $9.1 million, multiplied by an earn-out multiple. This contingent consideration amount is capped at $12.0 million and any payment will be made through issuance of the Company's common stock.

As of December 31, 2015, the Company finalized its valuation of all assets and liabilities acquired, resulting in immaterial adjustments to the purchase price allocation in 2015 that affected the amounts

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2—ACQUISITIONS (Continued)

allocated to goodwill, investment securities available for sale, loans, other assets and deferred tax assets, net. A summary of the final purchase price allocation is as follows (in thousands):

	LSHC
Assets acquired:	
Cash and cash equivalents	$ 85,021
Investment securities available for sale	70,775
Loans	541,686
Loans held for sale	91,579
Premises and equipment	18,637
Other real estate owned	3,263
Nonmarketable equity securities	1,580
Accrued interest receivable	1,844
Mortgage servicing rights	60,335
Intangible assets	3,390
Deferred tax assets, net	841
Other assets	10,007
Total assets acquired	888,958
Liabilities assumed:	
Deposits	765,641
Short-term borrowings	25,051
Other borrowings	18,894
Trust preferred debentures	24,911
Accrued interest payable	381
Accrued income taxes payable	2,292
Other liabilities	23,493
Total liabilities assumed	860,663
Net assets acquired	28,295
Noncontrolling interest recognized	(473)
Contingent consideration	530
Goodwill	38,937
Purchase price	$ 67,289

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes.

The acquired identifiable assets included the establishment of a $3.4 million core deposit intangible, which is being amortized on an accelerated basis over 10 years. The Company also recognized $0.5 million for the fair value of noncontrolling interests associated with two mortgage origination joint ventures owned 51% by Heartland Bank.

On June 5, 2013, the Company acquired Grant Park Bancshares, Inc. ("Grant Park") for $3.6 million, which consisted of $0.9 million in cash and 170,899 shares of common stock. Grant Park's wholly owned subsidiary, First National Bank of Grant Park, has its principal bank in Grant Park, Illinois and operated two additional branches. The assets acquired of $108.7 million and liabilities

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2—ACQUISITIONS (Continued)

assumed of $102.9 million were recorded at fair value. The acquisition also resulted in the establishment of a $1.3 million core deposit intangible, which is being amortized on an accelerated basis over 10 years. Based upon the acquisition date fair values of the net assets acquired, a $2.2 million gain on bargain purchase was recorded in the 2013 consolidated statement of income.

On March 1, 2013, the Bank completed the acquisition of Settlement Trust Group ("Settlement Trust"), the trust business of Securant Bank & Trust, a bank headquartered in Milwaukee, Wisconsin. At the time of the acquisition, Settlement Trust had $34.6 million in assets under administration. The purchase price of $665,000 was recorded as an intangible asset and is being amortized on an accelerated basis over 10 years.

In April 2012, the Company acquired EnablePay, a merchant acquisition business and licensed affiliate of Visa, Mastercard and other major credit cards. The Company paid EnablePay $150,000 in cash at closing. The $150,000 cash payment made at closing was recorded as goodwill. In 2015, the Company evaluated the goodwill associated with EnablePay and recorded an impairment charge of $150,000.

NOTE 3—CASH AND DUE FROM BANKS

The Bank is required to maintain cash reserves based on the level of certain of its deposits. This reserve requirement may be met by funds on deposit with the FRB and cash on hand. The required balance at December 31, 2015 and 2014 was $20.3 million and $3.5 million, respectively.

The Bank maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts. The Bank believes it is not exposed to any significant credit risk from cash and cash equivalents.

NOTE 4—INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities classified as available for sale as of December 31, 2015 and 2014 are as follows (in thousands):

	2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities	$ 48,483	$ 1	$ 182	$ 48,302
Government sponsored entity debt securities	9,404	58	8	9,454
Agency mortgage-backed securities	66,902	835	210	67,527
Non-agency mortgage-backed securities	2	—	—	2
Covered non-agency mortgage-backed securities	66,397	10,886	1,304	75,979
State and municipal securities	15,441	77	24	15,494
Corporate securities	20,036	28	195	19,869
Total	$ 226,665	$ 11,885	$ 1,923	$ 236,627

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4—INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities	$ 5,995	$ 1	$ 2	$ 5,994
Government sponsored entity debt securities	9,434	62	102	9,394
Agency mortgage-backed securities	93,356	883	146	94,093
Non-agency mortgage-backed securities	12,458	1	—	12,459
Covered non-agency mortgage-backed securities	75,575	16,916	172	92,319
State and municipal securities	10,762	45	54	10,753
Corporate securities	28,754	38	36	28,756
Total	$ 236,334	$ 17,946	$ 512	$ 253,768

Market valuations for our investment securities classified as available for sale are provided by independent third parties. The fair values are determined using several sources for valuing fixed income securities. Their techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid and other market information. The market valuation sources include observable market inputs for the majority of our securities and are therefore considered Level 2 inputs for the purpose of determining fair values. As of December 31, 2014, the valuation techniques for the majority of our non-agency mortgage-backed securities were considered Level 3. In the first quarter of 2015, the covered non-agency mortgage-backed securities that were considered Level 3 were moved from Level 3 to Level 2 because a more liquid market for these securities had developed and prices supported by observable market inputs had become more readily available. The fair values for U.S. Treasury securities are determined using quoted market prices and are considered Level 1.

Unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows (in thousands):

	2015					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Securities available for sale:						
U.S. Treasury securities	$ 42,301	$ 182	$ —	$ —	$ 42,301	$ 182
Government sponsored entity debt securities	4,229	8	—	—	4,229	8
Agency mortgage-backed securities	19,404	167	1,932	43	21,336	210
Covered non-agency mortgage-backed securities	14,149	1,114	1,431	190	15,580	1,304
State and municipal securities	4,959	20	812	4	5,771	24
Corporate securities	11,245	172	813	23	12,058	195
Total	$ 96,287	$ 1,663	$ 4,988	$ 260	$ 101,275	$ 1,923

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4—INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	2014					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Securities available for sale:						
U.S. Treasury securities	$ 2,995	$ 2	$ —	$ —	$ 2,995	$ 2
Government sponsored entity debt securities	1,080	2	5,609	100	6,689	102
Agency mortgage-backed securities	2,729	19	5,502	127	8,231	146
Covered non-agency mortgage-backed securities	4,092	172	—	—	4,092	172
State and municipal securities	4,253	39	868	15	5,121	54
Corporate securities	1,009	1	2,817	35	3,826	36
Total	$ 16,158	$ 235	$ 14,796	$ 277	$ 30,954	$ 512

For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and continued financial market stress and unrealized losses are considered to be temporary.

We evaluate securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. In estimating other-than-temporary impairment losses, we consider the severity and duration of the impairment; the financial condition and near-term prospects of the issuer, which for debt securities considers external credit ratings and recent downgrades; projected cash flows on non-agency mortgage backed securities; and the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value.

At December 31, 2015 and 2014, 54 and 34 available-for-sale securities, respectively, had unrealized losses with aggregate depreciation of 1.86% and 1.63%, respectively, from their amortized cost basis. These unrealized losses relate principally to the fluctuations in the current interest rate environment. In analyzing an issuer's financial condition, we consider whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. As we have the intent and ability to hold debt securities for a period of time sufficient for a recovery in value, no declines are deemed to be other than temporary.

During 2015, the Company determined that three covered non-agency mortgage-backed securities had other-than-temporary impairment of $461,000, primarily resulting from deteriorating cash flows. These amounts were recognized as losses in the consolidated statements of income.

During 2014, the Company determined that one non-agency mortgage-backed security had other-than-temporary impairment of $20,000 and one covered non-agency mortgage-backed security had other-than-temporary impairment of $170,000, both due to deteriorating cash flows. These amounts were recognized as losses in the consolidated statements of income.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4—INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

During 2013, the Company determined that one non-agency mortgage-backed security had other-than-temporary impairment of $3,000 and one covered non-agency mortgage-backed security had other-than-temporary impairment of $187,000, both due to deteriorating cash flows. These amounts were recognized as losses in the consolidated statements of income.

Expected maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following maturity summary. The amortized cost and fair value of available-for-sale securities as of December 31, 2015, by contractual maturity, are as follows (in thousands):

	Amortized cost	Fair value
Within one year	$ 24,704	$ 24,684
One to five years	39,917	39,737
Five to ten years	24,568	24,516
After ten years	4,175	4,182
	93,364	93,119
Agency mortgage-backed securities	66,902	67,527
Non-agency mortgage-backed securities	2	2
Covered non-agency mortgage-backed securities	66,397	75,979
Total	$ 226,665	$ 236,627

Gross realized gains from the sale of securities available for sale were $368,000, $173,000 and $328,000 for the years ended December 31, 2015, 2014 and 2013, respectively. Gross realized losses were $175,000, $96,000 and $7,000, for the years ended December 31, 2015, 2014 and 2013, respectively.

NOTE 5—INVESTMENT SECURITIES HELD TO MATURITY

Investment securities classified as held to maturity as of December 31, 2015 and 2014 are as follows (in thousands):

	2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
State and municipal securities	$ 87,521	$ 5,364	$ 69	$ 92,816

	2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
State and municipal securities	$ 101,763	$ 5,331	$ 203	$ 106,891

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5—INVESTMENT SECURITIES HELD TO MATURITY (Continued)

Market valuations for our investment securities held to maturity are provided by independent third parties. The fair values are determined using several sources for valuing fixed income securities. Their techniques include pricing models that vary based on the type of asset being valued and incorporate available trade, bid and other market information. The market valuation sources provide the significant observable market inputs for these securities and are therefore considered Level 2 inputs for the purpose of determining fair values.

Unrealized losses and fair value for investment securities held to maturity as of December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows (in thousands):

	2015					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
State and municipal securities	$ 3,573	$ 24	$ 2,743	$ 45	$ 6,316	$ 69

	2014					
	Less than 12 Months		12 Months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
State and municipal securities	$ 7,607	$ 67	$ 5,757	$ 136	$ 13,364	$ 203

For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and continued financial market stress and unrealized losses are considered to be temporary.

We evaluate securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. In estimating other-than-temporary impairment losses, we consider the severity and duration of the impairment; the financial condition and near-term prospects of the issuer, which for debt securities considers external credit ratings and recent downgrades; and the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value.

At December 31, 2015 and 2014, 25 and 44 held-to-maturity securities, respectively, have unrealized losses with aggregate depreciation of 1.08% and 1.50%, respectively, from their amortized cost basis. These unrealized losses relate principally to the fluctuations in the current interest rate environment. In analyzing an issuer's financial condition, we consider who issued the securities and whether downgrades by bond rating agencies have occurred. As we have the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5—INVESTMENT SECURITIES HELD TO MATURITY (Continued)

The amortized cost and fair value of held-to-maturity securities as of December 31, 2015, by contractual maturity, are as follows (in thousands):

	Amortized cost	Fair value
Within one year	$ 1,429	$ 1,436
One to five years	15,895	16,582
Five to ten years	44,231	47,200
After ten years	25,966	27,598
Total	$ 87,521	$ 92,816

NOTE 6—LOANS

The following table presents total loans outstanding by portfolio, which includes PCI loans. A summary of loans as of December 31, 2015 and 2014 follows (in thousands):

	2015	2014
Commercial loan portfolio:		
Commercial	$ 499,573	$ 467,349
Commercial real estate	876,784	786,665
Construction and land development	150,266	136,985
Total commercial	1,526,623	1,390,999
Residential real estate	163,224	172,075
Consumer	161,512	120,434
Lease financing	144,230	114,507
Total loans	$ 1,995,589	$ 1,798,015

Total loans include net deferred loan fees of $5.8 million and $0.2 million at December 31, 2015 and 2014, respectively, and unearned discounts of $1.5 million at December 31, 2014. There were no unearned discounts at December 31, 2015.

At December 31, 2015 and 2014, the Company had commercial and residential loans held for sale totaling $54.4 million and $96.4 million, respectively. During the year ended December 31, 2015, the Company sold commercial and residential real estate loans with proceeds totaling $1.00 billion. During the years ended December 31, 2014 and 2013, the Company sold residential real estate loans with proceeds totaling $88.6 million and $117.3 million, respectively.

The Company monitors and assesses the credit risk of its loan portfolio using the classes set forth below. These classes also represent the segments by which the Company monitors the performance of its loan portfolio and estimates its allowance for loan losses.

Commercial—Loans to varying types of businesses, including municipalities, school districts and nonprofit organizations, for the purpose of supporting working capital, operational needs and term financing of equipment. Repayment of such loans is generally provided through operating cash flows of the business. Commercial loans are predominately secured by equipment, inventory, accounts

NOTE 6—LOANS (Continued)

receivable, and other sources of repayment, although the Company may also secure commercial loans with real estate.

Commercial real estate—Loans secured by real estate occupied by the borrower for ongoing operations, non-owner occupied real estate leased to one or more tenants and vacant land that has been acquired for investment or future land development.

Construction and land development—Secured loans for the construction of business properties. Real estate construction loans often convert to a real estate commercial loan at the completion of the construction period. Secured development loans are made to borrowers for the purpose of infrastructure improvements to vacant land to create finished marketable residential and commercial lots/land. Most land development loans are originated with the intention that the loans will be paid through the sale of developed lots/land by the developers within twelve months of the completion date. Interest reserves are generally established on real estate construction loans.

Residential real estate—Loans secured by residential properties generally with fixed interest rates of 15 years or less. The loan-to-value ratio at the time of origination is generally 80% or less. Residential real estate loans with a loan-to-value ratio of more than 80% generally require private mortgage insurance. Also includes loans whereby consumers utilize equity in their personal residence, generally through a second mortgage, as collateral to secure the loan.

Consumer—Loans to consumers primarily for the purpose of home improvements, acquiring automobiles, recreational vehicles and boats. These loans consist of relatively small amounts that are spread across many individual borrowers.

Lease financing—Direct financing leases to varying types of small businesses for purchases of business equipment. All direct financing leases require monthly payments, and the weighted average maturity of our leases is less than four years.

Commercial, commercial real estate, construction and land development loans are referred to as the Company's commercial loan portfolio, while residential real estate and consumer loans are referred to as the Company's consumer loan portfolio.

We have extended loans to certain of our directors, executive officers and their affiliates. These loans were made in the ordinary course of business upon normal terms, including collateralization and interest rates prevailing at the time and did not involve more than the normal risk of repayment by the borrower. The aggregate loans outstanding to the directors, executive officers, principal shareholders and their affiliates totaled $39.2 million and $18.0 million at December 31, 2015 and 2014, respectively. During 2015 and 2014, there were $36.2 million and $5.7 million, respectively, of new loans and other additions, while repayments and other reductions totaled $15.0 million and $4.4 million, respectively.

Credit Quality Monitoring

The Company maintains loan policies and credit underwriting standards as part of the process of managing credit risk. These standards include making loans generally within the Company's four main market areas, which consist of southern Illinois, central Illinois, northern Illinois and the St. Louis metropolitan area. Our equipment leasing business, based in Denver, provides financing to business customers across the country.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The Company has a loan approval process involving underwriting and individual and group loan approval authorities to consider credit quality and loss exposure at loan origination. The loans in the Company's commercial loan portfolio are risk rated at origination based on the grading system set forth below. All loan authority is based on the aggregate credit to a borrower and its' related entities. Most approvals are handled by Credit Officers with approval authority ranging from $1.0 million to $2.0 million. All consumer loans and business loans with exposure less than $750,000 are approved within an underwriting group with designated approval authority to the underwriters. The Company has a Directors Credit Risk Committee, consisting of the CEO, the Chief Credit Officer and four outside directors. The committee meets weekly to consider loans in amounts greater than $3.5 million for new requests and greater than $6 million for renewals of credits rated 1 to 4 or renewals of $3.5 million or greater if the risk rating is greater than 4.

The Company's consumer loan portfolio is comprised of both secured and unsecured loans that are relatively small and are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer loan portfolio is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Company's Special Assets Group for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Loans in the commercial loan portfolio tend to be larger and more complex than those in the consumer loan portfolio, and therefore, are subject to more intensive monitoring. All loans in the commercial loan portfolio have an assigned relationship manager, and most borrowers provide periodic financial and operating information that allows the relationship managers to stay abreast of credit quality during the life of the loans. The risk ratings of loans in the commercial loan portfolio are reassessed at least annually, with loans below an acceptable risk rating reassessed more frequently and reviewed by various individuals within the Company at least quarterly.

The Company maintains a centralized independent loan review function that monitors the approval process and on-going asset quality of the loan portfolio, including the accuracy of loan grades. The Company also maintains an independent appraisal review function that participates in the review of all appraisals obtained by the Company.

Credit Quality Indicators

The Company uses a ten grade risk rating system to monitor the ongoing credit quality of its commercial loan portfolio. These loan grades rank the credit quality of a borrower by measuring liquidity, debt capacity, and coverage and payment behavior as shown in the borrower's financial statements. The loan grades also measure the quality of the borrower's management and the repayment support offered by any guarantors. A summary of the Company's loan grades (or, characteristics of the loans within each grade) follows:

Risk Grades 1-6 (Acceptable Credit Quality)—All loans in risk grades 1 - 6 are considered to be acceptable credit risks by the Company and are grouped for purposes of allowance for loan loss considerations and financial reporting. The six grades essentially represent a ranking of loans that are all viewed to be of acceptable credit quality, taking into consideration the various factors mentioned

NOTE 6—LOANS (Continued)

above, but with varying degrees of financial strength, debt coverage, management and factors that could impact credit quality. Business credits within risk grades 1 - 6 range from Risk Grade 1: Excellent (factors include: excellent business credit; excellent debt capacity and coverage; outstanding management; strong guarantors; superior liquidity and net worth; favorable loan-to-value ratios; debt secured by cash or equivalents, or backed by the full faith and credit of the U.S. Government) to Risk Grade 6: Marginal (factors include: acceptable business credit, but with added risk due to specific industry or internal situations; uncertainty associated with performance or repayment ability).

Risk Grade 7 (Special Mention)—A business credit that is not acceptable within the Company's loan origination criteria; cash flow may not be adequate or is continually inconsistent to service current debt; financial condition has deteriorated as company trends/management have become inconsistent; the company is slow in furnishing quality financial information; working capital needs of the company are reliant on short-term borrowings; personal guarantees are weak and/or with little or no liquidity; the net worth of the company has deteriorated after recent or continued losses; the loan has potential weaknesses that require the Company's close attention; payment delinquencies becoming more serious; if left uncorrected, these potential weaknesses may, at some future date, result in deterioration of repayment prospects.

Risk Grade 8 (Substandard)—A business credit that is inadequately protected by the current financial net worth and paying capacity of the obligor or of the collateral pledged, if any; management has deteriorated or has become non-existent; quality financial information is unattainable; a high level of maintenance is required by the Company; cash flow can no longer support debt requirements; loan payments are continually and/or severely delinquent; negative net worth; personal guaranty has become insignificant; a credit that has a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. The Company still expects a full recovery of all contractual principal and interest payments; however, a possibility exists that the Company will sustain some loss if deficiencies are not corrected.

Risk Grade 9 (Substandard-Nonaccrual)—A business credit accounted for on a nonaccrual basis that has all the weaknesses inherent in a loan classified as risk grade 8 with the added characteristic that the weaknesses are so pronounced that, on the basis of current financial information, conditions, and values, collection in full is highly questionable; a partial loss is possible and interest is no longer being accrued. This loan meets the definition of an impaired loan. The risk of loss requires analysis to determine whether a valuation allowance needs to be established.

Risk Grade 10 (Doubtful)—A business credit that has all the weaknesses inherent in a loan classified as risk grade 8 and interest is no longer being accrued, but additional deficiencies make it highly probable that liquidation will not satisfy the majority of the obligation; the primary source of repayment is nonexistent and there is doubt as to the value of the secondary source of repayment; the possibility of loss is likely, but current pending factors could strengthen the credit. This loan meets the definition of an impaired loan. A loan charge-off is recorded when management deems an amount uncollectible; however, the Company will establish a valuation allowance for probable losses, if required.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The Company considers all loans graded 1 - 6 as acceptable credit risks and structures and manages such relationships accordingly. Periodic financial and operating data combined with regular loan officer interactions are deemed adequate to monitor borrower performance. Loans with risk grades of 7 are considered "watch credits" and the frequency of loan officer contact and receipt of financial data is increased to stay abreast of borrower performance. Loans with risk grades of 8 - 10 are considered problematic and require special care. Further, loans with risk grades of 7 - 10 are managed and monitored regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive and senior management of the Company, which includes highly structured reporting of financial and operating data, intensive loan officer intervention and strategies to exit, as well as potential management by the Company's special assets group. Loans not graded are small loans that are monitored by aging status and payment activity.

The following table presents the recorded investment of commercial loans (excluding PCI loans) by risk category as of December 31, 2015 (in thousands):

	Commercial	Commercial Real Estate	Construction and Land Development	Total
Pass	$ 467,355	$ 821,314	$ 136,288	$ 1,424,957
Special mention	16,589	23,737	540	40,866
Substandard	3,448	8,103	—	11,551
Substandard—nonaccrual	5,702	8,844	—	14,546
Doubtful	—	—	—	—
Not graded	351	746	3,379	4,476
Total (excluding PCI)	$ 493,445	$ 862,744	$ 140,207	$ 1,496,396

The Company evaluates the credit quality of its other loans based primarily on the aging status of the loan and payment activity. Accordingly, loans on nonaccrual status, any loan past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings of loans past due in accordance with the loans' original contractual terms are considered to be impaired for purposes of credit quality evaluation. The following table presents the recorded investment of our other loans (excluding PCI loans) based on the credit risk profile of loans that are performing and loans that are impaired as of December 31, 2015 (in thousands):

	Residential Real Estate	Consumer	Lease Financing	Total
Performing	$ 151,111	$ 161,169	$ 143,832	$ 456,112
Impaired	4,155	51	398	4,604
Total (excluding PCI)	$ 155,266	$ 161,220	$ 144,230	$ 460,716

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The following table presents the recorded investment of commercial loans (excluding PCI loans) by risk category as of December 31, 2014 (in thousands):

	Commercial	Commercial Real Estate	Construction and Land Development	Total
Pass	$ 442,668	$ 737,130	$ 121,901	$ 1,301,699
Special mention	2,233	9,281	451	11,965
Substandard	2,330	13,134	—	15,464
Substandard—nonaccrual	14,239	9,098	127	23,464
Doubtful	—	—	—	—
Not graded	142	833	3,000	3,975
Total (excluding PCI)	$ 461,612	$ 769,476	$ 125,479	$ 1,356,567

The following table presents the recorded investment of our other loans (excluding PCI loans) based on the credit risk profile of loans that are performing and loans that are impaired as of December 31, 2014 (in thousands):

	Residential Real Estate	Consumer	Lease Financing	Total
Performing	$ 159,425	$ 119,995	$ 114,271	$ 393,691
Impaired	3,272	48	236	3,556
Total (excluding PCI)	$ 162,697	$ 120,043	$ 114,507	$ 397,247

Impaired Loans

Impaired loans include loans on nonaccrual status, any loan past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. Impaired loans at December 31, 2015 and 2014 do not include $38.5 million and $44.2 million, respectively, of PCI loans. The risk of credit loss on acquired loans was recognized as part of the fair value adjustment at the acquisition date.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

A summary of impaired loans (excluding PCI loans) as of December 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Nonaccrual loans:		
Commercial	$ 5,702	$ 14,239
Commercial real estate	8,844	9,098
Construction and land development	—	127
Residential real estate	3,516	2,750
Consumer	2	3
Lease financing	398	236
Total nonaccrual loans	18,462	26,453
Accruing loans contractually past due 90 days or more as to interest or principal payments:		
Commercial	865	—
Commercial real estate	—	—
Construction and land development	—	—
Residential real estate	228	60
Consumer	49	45
Lease financing	—	—
Total accruing loans contractually past due 90 days or more as to interest or principal payments	1,142	105
Loans modified under troubled debt restructurings:		
Commercial	3	64
Commercial real estate	4,873	5,088
Residential real estate	411	462
Total loans modified under troubled debt restructurings	5,287	5,614
Total impaired loans (excluding PCI)	$ 24,891	$ 32,172

There was no interest income recognized on nonaccrual loans during 2015, 2014 and 2013 while the loans were in nonaccrual status. Additional interest income that would have been recorded on these loans had they been current in accordance with their original terms was $992,000, $615,000 and $686,000 in 2015, 2014 and 2013, respectively. The Company recognized interest income on loans modified under troubled debt restructurings-commercial and commercial real estate of $267,000, $222,000, and $288,000 in 2015, 2014 and 2013, respectively.

As of December 31, 2015 and 2014, there were no commercial or commercial real estate loans included in loans modified under troubled debt restructurings that were past due 31 to 89 days or past due 90 days or more.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The following table presents impaired loans (excluding PCI loans) by portfolio as of December 31, 2015 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Valuation Allowance	Average Annual Recorded Investment	Interest Income Recognized While on Impaired Status
Impaired loans with a valuation allowance:					
Commercial	$ 5,789	$ 8,760	$ 1,797	$ 7,088	$ —
Commercial real estate	9,197	9,489	514	9,225	267
Construction and land development	—	26	—	—	—
Residential real estate	3,206	3,798	626	3,231	16
Consumer	51	52	7	52	—
Lease financing	398	398	50	398	—
Total impaired loans with a valuation allowance	18,641	22,523	2,994	19,994	283
Impaired loans with no related valuation allowance:					
Commercial	781	781	—	781	—
Commercial real estate	4,520	5,840	—	4,599	—
Construction and land development	—	—	—	—	—
Residential real estate	949	989	—	954	2
Consumer	—	—	—	—	—
Lease financing	—	—	—	—	—
Total impaired loans with no related valuation allowance	6,250	7,610	—	6,334	2
Total impaired loans:					
Commercial	6,570	9,541	1,797	7,869	—
Commercial real estate	13,717	15,329	514	13,824	267
Construction and land development	—	26	—	—	—
Residential real estate	4,155	4,787	626	4,185	18
Consumer	51	52	7	52	—
Lease financing	398	398	50	398	—
Total impaired loans (excludes PCI)	$ 24,891	$ 30,133	$ 2,994	$ 26,328	$ 285

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The following table presents impaired loans (excluding PCI loans) by portfolio as of December 31, 2014 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Valuation Allowance	Average Annual Recorded Investment	Interest Income Recognized While on Impaired Status
Impaired loans with a valuation allowance:					
Commercial	$ 9,269	$ 9,488	$ 713	$ 9,281	$ 4
Commercial real estate	9,681	9,956	1,414	8,914	218
Construction and land development	126	202	22	146	—
Residential real estate	1,984	2,406	359	1,267	14
Consumer	48	6	6	45	—
Lease financing	—	—	—	—	—
Total impaired loans with a valuation allowance	21,108	22,058	2,514	19,653	236
Impaired loans with no related valuation allowance:					
Commercial	5,034	6,282	—	252	—
Commercial real estate	4,505	5,910	—	4,892	—
Construction and land development	1	—	—	—	—
Residential real estate	1,288	1,592	—	1,878	—
Consumer	—	44	—	3	—
Lease financing	236	317	—	1	—
Total impaired loans with no related valuation allowance	11,064	14,145	—	7,026	—
Total impaired loans:					
Commercial	14,303	15,770	713	9,533	4
Commercial real estate	14,186	15,866	1,414	13,806	218
Construction and land development	127	202	22	146	—
Residential real estate	3,272	3,998	359	3,145	14
Consumer	48	50	6	48	—
Lease financing	236	317	—	1	—
Total impaired loans (excludes PCI)	$ 32,172	$ 36,203	$ 2,514	$ 26,679	$ 236

The difference between a loan's recorded investment and the unpaid principal balance represents a partial charge-off resulting from a confirmed loss due to the value of the collateral securing the loan being below the loan's principal balance and management's assessment that the full collection of the loan balance is not likely. The difference between the recorded investment and the unpaid principal balance of $5.2 million and $4.0 million at December 31, 2015 and 2014, respectively, represents confirmed losses (partial charge-offs).

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The following table presents the aging status of the recorded investment in loans by portfolio (excluding PCI loans) as of December 31, 2015 (in thousands):

	31 - 59 Days Past Due	60 - 89 Days Past Due	Accruing Loans Past Due 90 Days or More	Nonaccrual Loans	Total Past Due	Current	Total Loans
Commercial	$ 1,911	$ 2,296	$ 865	$ 5,702	$ 10,774	$ 482,671	$ 493,445
Commercial real estate	288	1,989	—	8,844	11,121	851,623	862,744
Construction and land development	340	—	—	—	340	139,867	140,207
Residential real estate	1,983	438	228	3,516	6,165	149,101	155,266
Consumer	565	273	49	2	889	160,331	161,220
Lease financing	37	—	—	398	435	143,795	144,230
Total (excluding PCI)	$ 5,124	$ 4,996	$ 1,142	$ 18,462	$ 29,724	$ 1,927,388	$ 1,957,112

The following table presents the aging status of the recorded investment in loans by portfolio (excluding PCI loans) as of December 31, 2014 (in thousands):

	31 - 59 Days Past Due	60 - 89 Days Past Due	Accruing Loans Past Due 90 Days or More	Nonaccrual Loans	Total Past Due	Current	Total Loans
Commercial	$ 1,054	$ 916	$ —	$ 14,239	$ 16,209	$ 445,403	$ 461,612
Commercial real estate	979	366	—	9,098	10,443	759,033	769,476
Construction and land development	—	—	—	127	127	125,352	125,479
Residential real estate	441	461	60	2,750	3,712	158,985	162,697
Consumer	846	460	45	3	1,354	118,689	120,043
Lease financing	216	5	—	236	457	114,050	114,507
Total (excluding PCI)	$ 3,536	$ 2,208	$ 105	$ 26,453	$ 32,302	$ 1,721,512	$ 1,753,814

Troubled Debt Restructurings

A loan is categorized as a troubled debt restructuring ("TDR") if a significant concession is granted to provide for a reduction of either interest or principal due to deterioration in the financial condition of the borrower. TDRs can take the form of a reduction of the stated interest rate, splitting a loan into separate loans with market terms on one loan and concessionary terms on the other loans, receipts of assets from a debtor in partial or full satisfaction of a loan, the extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, the reduction of the face amount or maturity of the debt as stated in the instrument or other agreement, the reduction of accrued interest or any other concessionary type of renegotiated debt. Loans are not classified as TDR's when the modification is short-term or results in only an insignificant delay or shortfall in the payments to be received.

Loans modified as TDRs for commercial and commercial real estate loans generally consist of allowing commercial borrowers to defer scheduled principal payments and make interest only payments

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

for a specified period of time at the stated interest rate of the original loan agreement or lower payments due to a modification of the loans' contractual terms. TDRs that continue to accrue interest are individually evaluated for impairment quarterly and transferred to nonaccrual status when it is probable that any remaining principal and interest payments due on the loan will not be collected in accordance with the contractual terms of the loan. TDRs greater than $50,000 are individually evaluated for impairment on a quarterly basis. TDRs that subsequently default are individually evaluated for impairment at the time of default. The allowance for loan losses on TDRs totaled $109,000 and $877,000 as of December 31, 2015 and 2014, respectively. The Company had no unfunded commitments in connection with TDRs at December 31, 2015 and 2014.

The Company's TDRs are identified on a case-by-case basis in connection with the ongoing loan collection processes. The following table presents TDRs by loan portfolio (excluding PCI loans) as of December 31, 2015 and 2014 (in thousands):

	December 31, 2015			December 31, 2014		
	Accruing(1)	Non-accrual(2)	Total	Accruing(1)	Non-accrual(2)	Total
Commercial	$ 3	$ 40	$ 43	$ 64	$ 1,019	$ 1,083
Commercial real estate	4,873	5,332	10,205	5,088	5,474	10,562
Construction and land development	—	—	—	—	47	47
Residential	411	383	794	462	443	905
Consumer	—	—	—	—	—	—
Lease financing	—	—	—	—	—	—
Total loans	$ 5,287	$ 5,755	$ 11,042	$ 5,614	$ 6,983	$ 12,597

(1) These loans are still accruing interest.

(2) These loans are included in non-accrual loans in the preceding tables.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The following table presents a summary of loans by portfolio that were restructured during the year ended December 31, 2015 and the TDRs by loan portfolio that occurred within the previous twelve months that subsequently defaulted during the year ended December 31, 2015 (in thousands):

	Commercial Loan Portfolio			Other Loan Portfolio			
	Commercial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Lease Financing	Total
Troubled debt restructurings:							
Number of loans	—	1	—	—	—	—	1
Pre-modification outstanding balance	$ —	$ 58	$ —	$ —	$ —	$ —	$ 58
Post-modification outstanding balance	—	58	—	—	—	—	58
Troubled debt restructurings that subsequently defaulted							
Number of loans	—	1	—	—	—	—	1
Recorded balance	$ —	$ 54	$ —	$ —	$ —	$ —	$ 54

The following table presents a summary of loans by portfolio that were restructured during the year ended December 31, 2014 and the TDRs by loan portfolio that occurred within the previous twelve months that subsequently defaulted during the year ended December 31, 2014 (in thousands):

	Commercial Loan Portfolio			Other Loan Portfolio			
	Commercial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Lease Financing	Total
Troubled debt restructurings:							
Number of loans	1	1	—	6	1	—	9
Pre-modification outstanding balance	$ 894	$ 472	$ —	$ 648	$ 4	$ —	$ 2,018
Post-modification outstanding balance	894	472	—	648	4	—	2,018
Troubled debt restructurings that subsequently defaulted							
Number of loans	—	—	—	—	—	—	—
Recorded balance	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Allowance for Loan Losses

The Company's loan portfolio is principally comprised of Commercial, Commercial Real Estate, Construction and Land Development, Lease financing, Residential Real Estate and Consumer loans. The principal risks to each category of loans are as follows:

Commercial—The principal risk of commercial loans is that these loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. As such, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the general economy.

Commercial Real Estate—As with commercial loans, repayment of commercial real estate loans is often dependent on the borrowers' ability to make repayment from the cash flow of the commercial venture. While commercial real estate loans are collateralized by the borrower's underlying real estate, foreclosure on such assets may be more difficult than with other types of collateralized loans because of the possible effect the foreclosure would have on the borrower's business, and property values may tend to be partially based upon the value of the business situated on the property.

Construction and Land Development—Construction and land development lending involves additional risks not generally present in other types of lending because funds are advanced upon the estimated future value of the project, which is uncertain prior to its completion and at the time the loan is made, and costs may exceed realizable values in declining real estate markets. Moreover, if the estimate of the value of the completed project proves to be overstated or market values or rental rates decline, the collateral may prove to be inadequate security for the repayment of the loan. Additional funds may also be required to complete the project, and the project may have to be held for an unspecified period of time before a disposition can occur.

Residential Real Estate—The principal risk to residential real estate lending is associated with residential loans not sold into the secondary market. In such cases, given the present state of the residential real estate market, the value of the underlying property may have deteriorated, perhaps rapidly, and the borrower may have little incentive to repay the loan or continue living in the property. Additionally, in areas with high vacancy rates, reselling the property without substantial loss may be difficult.

Consumer—The repayment of consumer loans is typically dependent on the borrower remaining employed through the life of the loan, as well as the possibility that the collateral underlying the loan may not be adequately maintained by the borrower.

Lease financing—Our direct financing leases are primarily for business equipment leased to varying types of small businesses. If the cash flow from business operations is reduced, the businesses ability to repay may become impaired.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

Changes in the allowance for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	2015			2014			2013		
	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total	Non-PCI Loans	PCI Loans	Total
Balance at beginning of year:	$ 10,503	$ 1,797	$ 12,300	$ 11,985	$ 11,687	$ 23,672	$ 11,118	$ 15,072	$ 26,190
Provision for loan losses	11,061	66	11,127	300	(208)	92	2,420	(2,247)	173
Loan charge-offs	(9,565)	(92)	(9,657)	(2,271)	(9,825)	(12,096)	(1,892)	(1,138)	(3,030)
Loan recoveries	2,094	124	2,218	489	143	632	339	—	339
Net loan charge-offs	(7,471)	32	(7,439)	(1,782)	(9,682)	(11,464)	(1,553)	(1,138)	(2,691)
Balance at end of year	$ 14,093	$ 1,895	$ 15,988	$ 10,503	$ 1,797	$ 12,300	$ 11,985	$ 11,687	$ 23,672

The $9.6 million of Non-PCI loan charge-offs in 2015 primarily resulted from a $7.5 million charge-off on a group of nonperforming loans to one borrower due to deterioration in the Company's collateral position on these loans. The $9.8 million of PCI loan charge-offs in 2014 resulted from a PCI loan pool of commercial real estate loans from a previous acquisition being closed out in 2014 due to no more active loans remaining in the pool.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The following table presents, by loan portfolio, the changes in the allowance for the year ended December 31, 2015 and provides details regarding the balance in the allowance and the recorded investment in loans as of December 31, 2015 by impairment evaluation method (in thousands):

	Commercial Loan Portfolio			Other Loan Portfolio			
	Commercial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Lease Financing	Total
Changes in allowance for loan losses in 2015:							
Beginning balance	$ 2,284	$ 6,925	$ 486	$ 2,038	$ 567	$ —	$ 12,300
Provision for loan losses	11,154	(2,001)	86	663	405	820	11,127
Charge-offs	(7,742)	(379)	(171)	(742)	(334)	(289)	(9,657)
Recoveries	1,221	634	34	161	111	57	2,218
Ending balance	$ 6,917	$ 5,179	$ 435	$ 2,120	$ 749	$ 588	$ 15,988
Allowance for loan losses balance at December 31, 2015 attributable to:							
Loans individually evaluated for impairment	1,765	479	—	452	—	—	2,696
Loans collectively evaluated for impairment	32	35	—	174	7	50	298
Non-impaired loans collectively evaluated for impairment	4,745	3,662	419	1,000	735	538	11,099
Loans acquired with deteriorated credit quality(1)	375	1,003	16	494	7	—	1,895
Total	$ 6,917	$ 5,179	$ 435	$ 2,120	$ 749	$ 588	$ 15,988
Recorded investment (loan balance) at December 31, 2015:							
Impaired loans individually evaluated for impairment	6,316	13,434	—	2,778	—	—	22,528
Impaired loans collectively evaluated for impairment	254	283	—	1,377	51	398	2,363
Non-impaired loans collectively evaluated for impairment	486,875	849,027	140,207	151,111	161,169	143,832	1,932,221
Loans acquired with deteriorated credit quality(1)	6,128	14,040	10,059	7,958	292	—	38,477
Total	$ 499,573	$ 876,784	$ 150,266	$ 163,224	$ 161,512	$ 144,230	$ 1,995,589

(1) Loans acquired with deteriorated credit quality were originally recorded at fair value at the acquisition date and the risk of credit loss was recognized at that date based on estimates of expected cash flows.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The following table presents, by loan portfolio, the changes in the allowance for the year ended December 31, 2014 and details regarding the balance in the allowance and the recorded investment in loans as of December 31, 2014 by impairment evaluation method (in thousands):

	Commercial Loan Portfolio			Other Loan Portfolio			
	Commercial	Commercial Real Estate	Construction and Land Development	Residential Real Estate	Consumer	Lease Financing	Total
Changes in allowance for loan losses in 2014:							
Beginning balance	$ 2,062	$ 8,560	$ 10,912	$ 1,784	$ 354	$ —	$ 23,672
Provision for loan losses	307	9,111	(10,376)	723	327	—	92
Charge-offs	(153)	(11,120)	(62)	(569)	(192)	—	(12,096)
Recoveries	68	374	12	100	78	—	632
Ending balance	$ 2,284	$ 6,925	$ 486	$ 2,038	$ 567	$ —	$ 12,300
Allowance for loan losses balance at December 31, 2014 attributable to:							
Loans individually evaluated for impairment	707	1,385	22	268	—	—	2,382
Loans collectively evaluated for impairment	6	28	—	92	6	—	132
Non-impaired loans collectively evaluated for impairment	1,220	4,607	452	1,149	561	—	7,989
Loans acquired with deteriorated credit quality(1)	351	905	12	529	—	—	1,797
Total	$ 2,284	$ 6,925	$ 486	$ 2,038	$ 567	$ —	$ 12,300
Recorded investment (loan balance) at December 31, 2014:							
Impaired loans individually evaluated for impairment	14,255	13,955	127	2,528	—	236	31,101
Impaired loans collectively evaluated for impairment	47	231	—	745	48	—	1,071
Non-impaired loans collectively evaluated for impairment	447,310	755,290	125,352	159,424	119,995	114,271	1,721,642
Loans acquired with deteriorated credit quality(1)	5,737	17,189	11,506	9,378	391	—	44,201
Total	$ 467,349	$ 786,665	$ 136,985	$ 172,075	$ 120,434	$ 114,507	$ 1,798,015

(1) Loans acquired with deteriorated credit quality were originally recorded at fair value at the acquisition date and the risk of credit loss was recognized at that date based on estimates of expected cash flows.

Purchased Credit Impaired (PCI) Loans

Purchased loans acquired in a business combination, including loans purchased in our FDIC-assisted transactions, are recorded at estimated fair value on their purchase date without a

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

carryover of the related allowance for loan losses. PCI loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include factors such as past due and nonaccrual status. The difference between contractually required principal and interest at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in impairment, which is recorded as provision for loan losses in the condensed consolidated statements of income. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reclassification of the difference from non-accretable to accretable with a positive impact on interest income. Further, any excess cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

Changes in the accretable yield for PCI loans were as follows for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Balance at beginning of period	$ 16,198	$ 5,480	$ 7,427
New loans acquired—Heartland acquisition	—	11,242	—
New loans acquired—Grant Park acquisition	—	—	328
Accretion	(5,676)	(1,393)	(2,265)
Disposals related to foreclosures	—	(3)	(727)
Other adjustments (including maturities, charge-offs and impact of changes in timing of expected cash flows)	—	608	576
Reclassification from (to) non-accretable	4	264	141
Balance at end of period	$ 10,526	$ 16,198	$ 5,480

The fair value of purchased credit-impaired loans, on the acquisition date, was determined based on assigned risk ratings, expected cash flows and the fair value of loan collateral.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6—LOANS (Continued)

The carrying amount of covered loans and non-covered loans as of December 31, 2015, and 2014 consisted of purchased credit-impaired loans and non-purchased credit-impaired loans as shown in the following table (in thousands):

	December 31, 2015			December 31, 2014		
	Non-Purchased Credit-Impaired Loans	Purchased Credit-Impaired Loans	Total	Non-Purchased Credit-Impaired Loans	Purchased Credit-Impaired Loans	Total
Covered loans:(1)						
Commercial	$ 378	$ 1,067	$ 1,445	$ 392	$ —	$ 392
Commercial real estate	876	318	1,194	1,384	3,073	4,457
Construction and land development	—	—	—	—	933	933
Residential	715	275	990	774	293	1,067
Consumer	—	—	—	—	—	—
Lease financing	—	—	—	—	—	—
Total covered loans	1,969	1,660	3,629	2,550	4,299	6,849
Non-covered loans:						
Commercial	493,067	5,061	498,128	461,220	5,737	466,957
Commercial real estate	861,868	13,722	875,590	768,092	14,116	782,208
Construction and land development	140,207	10,059	150,266	125,479	10,573	136,052
Residential	154,551	7,683	162,234	161,923	9,085	171,008
Consumer	161,220	292	161,512	120,043	391	120,434
Lease financing	144,230	—	144,230	114,507	—	114,507
Total non-covered loans	1,955,143	36,817	1,991,960	1,751,264	39,902	1,791,166
Total loans	$ 1,957,112	$ 38,477	$ 1,995,589	$ 1,753,814	$ 44,201	$ 1,798,015

(1) Covered loans include loans from Strategic and WestBridge.

The outstanding customer balance for PCI loans totaled $44.5 million and $89.9 million as of December 31, 2015 and 2014, respectively. Of the $541.7 million of loans acquired in the LSHC acquisition completed on December 31, 2014, the Company identified PCI loans with contractually required payments, cash flows expected to be collected and estimated fair value of $50.5 million, $41.7 million and $30.4 million, respectively.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7—PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Land	$ 14,942	$ 14,942
Buildings and improvements	58,922	56,773
Furniture and equipment	21,803	18,969
Total cost	95,667	90,684
Accumulated depreciation	(22,534)	(18,353)
Net premises and equipment	$ 73,133	$ 72,331

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 was $5.1 million, $3.5 million, and $3.2 million, respectively.

NOTE 8—MORTGAGE SERVICING RIGHTS

At December 31, 2015 and 2014, the Company serviced mortgage loans for others totaling $5.48 billion and $5.15 billion, respectively. A summary of mortgage loans serviced for others as of December 31, 2015 and 2014 follows (in thousands):

	2015	2014
Commercial mortgage loans	$ 3,649,524	$ 3,443,646
Residential mortgage loans	1,826,280	1,702,105
Total loans serviced for others	$ 5,475,804	$ 5,145,751

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8—MORTGAGE SERVICING RIGHTS (Continued)

Changes in our mortgage servicing rights were as follows for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Mortgage servicing rights:			
Balance at beginning of period	$ 62,900	$ 2,522	$ 1,997
Servicing rights acquired—commercial mortgage loans	—	45,544	—
Servicing rights acquired—residential mortgage loans	—	14,791	229
Servicing rights capitalized—commercial mortgage loans	4,318	—	—
Servicing rights capitalized—residential mortgage loans	5,015	464	735
Amortization—commercial mortgage loans	(2,272)	—	—
Amortization—residential mortgage loans	(2,743)	(421)	(439)
Balance at end of period	67,218	62,900	2,522
Valuation allowances—residential mortgage loans:			
Balance at beginning of period	119	202	795
Additions	1,630	92	—
Reductions	(1,182)	(175)	(593)
Balance at end of period	567	119	202
Mortgage servicing rights, net	$ 66,651	$ 62,781	$ 2,320
Fair value:			
At beginning of period	$ 62,781	$ 2,320	$ 1,202
At end of period	66,700	62,781	2,320

The following table is a summary of key assumptions, representing both general economic and other published information and the weighted average characteristics of the commercial and residential portfolios, used in the valuation of servicing rights at December 31, 2015 and 2014. Assumptions used in the prepayment rate consider many factors as appropriate, including lockouts, balloons, prepayment penalties, interest rate ranges, delinquencies and geographic location. The discount rate is based on an average pre-tax internal rate of return utilized by market participants in pricing the servicing portfolios. Significant increases or decreases in any one of these assumptions would result in a significantly lower or higher fair value measurement.

	Servicing Fee	Interest Rate	Remaining Years to Maturity	Prepayment Rate	Servicing Cost	Discount Rate
December 31, 2015:						
Commercial mortgage loans	0.12%	3.85%	30.6	8.53%	$ 1,000	10 - 13%
Residential mortgage loans	0.27%	3.96%	24.4	11.22%	$ 73.66	9 - 11%
December 31, 2014:						
Commercial mortgage loans	0.12%	3.94%	31.1	8.80%	$ 1,000	10 - 13%
Residential mortgage loans	0.26%	4.03%	24.3	11.10%	$ 73.35	9 - 11%

We recognize revenue from servicing residential and commercial mortgages as earned based on the specific contractual terms. This revenue, along with amortization of and changes in impairment on

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8—MORTGAGE SERVICING RIGHTS (Continued)

servicing rights, is reported in mortgage banking revenue. Mortgage servicing rights do not trade in an active market with readily observable prices. The fair value of mortgage servicing rights and their sensitivity to changes in interest rates is influenced by the mix of the servicing portfolio and characteristics of each segment of the portfolio. The Company's servicing portfolio consists of the distinct portfolios of government-insured residential and commercial mortgages and conventional residential mortgages. The fair value of our servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rates, cost to service, contractual servicing fee income, ancillary income, late fees, replacement reserves and other economic factors which are determined based on current market conditions.

NOTE 9—GOODWILL AND INTANGIBLE ASSETS

At December 31, 2015 and 2014, goodwill totaled $46.5 million and $47.9 million, respectively, reflecting a decrease of approximately $1.4 million as a result of the Company finalizing its valuation of all assets and liabilities acquired in the LSHC acquisition with immaterial adjustments made in 2015 to the purchase price allocation and a write-off associated with the EnablePay acquisition, as further discussed in Note 2 to the consolidated financial statements. Goodwill represents the amount by which the cost of an acquisition exceeded fair value of net assets acquired in connection with the purchase of another financial institution. Goodwill is tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company engaged an independent third party to assist with the completion of its most recent annual goodwill impairment test as of September 30, 2015 and concluded that no impairment existed as of that date.

The Company's intangible assets, consisting of core deposit and trust relationship intangibles, as of December 31, 2015 and 2014 are summarized as follows (in thousands):

	2015			2014		
	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Core deposit intangibles	$ 20,542	$ (14,471)	$ 6,071	$ 20,542	$ (12,439)	$ 8,103
Customer relationship intangibles	3,141	(2,208)	933	3,141	(1,780)	1,361
Total intangible assets	$ 23,683	$ (16,679)	$ 7,004	$ 23,683	$ (14,219)	$ 9,464

In conjunction with the acquisition of LSHC on December 31, 2014, we recorded $3.4 million of core deposit intangibles which are being amortized using an accelerated method over 10 years.

Amortization of intangible assets was $2.5 million, $2.1 million and $2.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9—GOODWILL AND INTANGIBLE ASSETS (Continued)

Estimated amortization expense for future years is as follows (in thousands):

	Amount
Year ending December 31,	
2016	$ 2,127
2017	1,711
2018	1,130
2019	797
2020	480
Thereafter	759
Total	$ 7,004

NOTE 10—DERIVATIVE INSTRUMENTS

As part of the Company's overall management of interest rate sensitivity, the Company utilizes derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility, including interest rate lock commitments, forward commitments to sell mortgage-backed securities and interest rate swap agreements.

Interest Rate Lock Commitments / Forward Commitments to Sell Mortgage-Backed Securities

Derivative instruments issued by the Company consist of interest rate lock commitments to originate fixed-rate loans to be sold. Commitments to originate fixed-rate loans consist of commercial and residential real estate loans. These interest rate lock commitments and loans held for sale are hedged with forward contracts to sell mortgage-backed securities. The fair value of the interest rate lock commitments and forward contracts to sell mortgage-backed securities are included in other assets or other liabilities in the consolidated balance sheets. Changes in the fair value of these derivative financial instruments are recognized in mortgage banking revenue in the consolidated statements of income.

The following table summarizes the interest rate lock commitments and forward commitments to sell mortgage-backed securities held by the Company, their notional amount, estimated fair values and the location in which these derivative instruments are reported in the consolidated balances sheets at December 31, 2015 and 2014 (in thousands):

	Notional Amount		Fair Value Gain	
	2015	2014	2015	2014
Derivative Instruments (included in Other Assets):				
Interest rate lock commitments	$ 257,023	$ —	$ 6,029	$ 91

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10—DERIVATIVE INSTRUMENTS (Continued)

	Notional Amount		Fair Value Loss	
	2015	2014	2015	2014
Derivative Instruments (included in Other Liabilities):				
Forward commitments to sell mortgage-backed securities	$ 278,313	$ —	$ 2	$ 19

Net gains recognized on derivative instruments was $6.0 million and $97,000 for the years ended December 31, 2015 and 2014, respectively, which were recognized in mortgage banking revenue in the consolidated statements of income.

Interest Rate Swap Agreements

In August 2011, the Company entered into an interest rate swap agreement to convert its variable rate trust preferred debentures to a fixed rate. The agreement commenced on August 15, 2012 at a notional amount of $10.0 million and matures on October 15, 2016. Under the agreement, the Company receives interest at a variable rate equal to 2.75% over the three-month London Interbank Offering Rate ("LIBOR") and pays interest at a fixed rate of 4.66%. As of December 31, 2015 and 2014, the fair value of the agreement reflected losses of $126,000 and $240,000, respectively, which were included in other liabilities in the consolidated balance sheets.

NOTE 11—DEPOSITS

The following table summarizes the classification of deposits as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Noninterest-bearing demand	$ 543,401	$ 507,188
Interest-bearing:		
NOW	621,925	545,174
Money market	377,654	359,597
Savings	155,778	160,769
Time	668,890	577,905
Total deposits	$ 2,367,648	$ 2,150,633

Included in time deposits are time certificates of $250,000 or more and brokered certificates of deposits of $52.2 million and $222.3 million as of December 31, 2015, respectively, and $56.3 million and $168.1 million as of December 31, 2014, respectively.

Investment securities with a carrying amount of $126.4 million and $118.9 million were pledged for public deposits at December 31, 2015 and 2014, respectively.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11—DEPOSITS (Continued)

As of December 31, 2015, the scheduled maturities of time deposits are as follows (in thousands):

	Amount
Year ending December 31,	
2016	$ 313,783
2017	209,602
2018	113,882
2019	27,080
2020	4,516
Thereafter	27
	$ 668,890

NOTE 12—SHORT-TERM BORROWINGS

The following table presents the distribution of our short-term borrowings and related weighted average interest rates for each of the years ended December 31, 2015 and 2014 (in thousands):

	Repurchase Agreements	
	2015	2014
Outstanding at year-end	$ 107,538	$ 129,714
Average amount outstanding	123,447	93,178
Maximum amount outstanding at any month end	147,542	129,714
Weighted average interest rate:		
During year	0.19%	0.19%
End of year	0.21%	0.19%

At December 31, 2015, the Bank had federal funds lines of credit totaling $83.0 million. These lines of credit were unused at December 31, 2015.

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction, which represents the amount of the Bank's obligation. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Investment securities with a carrying amount of $113.4 million and $137.7 million at December 31, 2015 and 2014, respectively, were pledged for securities sold under agreements to repurchase.

The Bank had lines of credit of $62.1 million and $28.6 million at December 31, 2015 and 2014, respectively, from the Federal Reserve Discount Window. The lines are collateralized by a collateral agreement with respect to a pool of commercial real estate loans totaling $76.7 million and $48.5 million, respectively. There were no outstanding advances at December 31, 2015 and 2014.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13—FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes the Company's and its subsidiary's FHLB advances and other borrowings as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Midland States Bancorp, Inc.		
Term loan—fixed interest rate 4.85%—maturing December 18, 2019	$ —	$ 13,994
Midland States Bank		
FHLB advances—fixed rate, fixed term, at rates averaging 0.93% and 0.97% at December 31, 2015 and 2014, respectively—maturing through April 2017	40,000	50,000
FHLB advances—variable rate, fixed term, at 0.13% at December 31, 2014—maturing October 2015	—	10,000
Obligations under capital leases—implicit interest rate of 1.70%—maturing through July 2018	178	355
Total FHLB advances and other borrowings	$ 40,178	$ 74,349

On December 18, 2014, the Company entered into a $14.0 million term loan agreement with another bank. The interest rate was fixed at 4.85% for the term of the loan. This loan was paid off in June 2015.

On December 31, 2014, the Company repaid $40.0 million of FHLB advances with a weighted average interest rate of 2.86% and maturity dates ranging from 2016 to 2017. As a result, the Company paid a prepayment fee of $1.7 million that was recorded as noninterest expense in the consolidated statements of income.

The Company's advances from the FHLB are collateralized by a blanket collateral agreement of qualifying mortgage and home equity line of credit loans and certain commercial loans and investment securities totaling approximately $509.0 million and $444.4 million at December 31, 2015 and 2014, respectively.

Payments over the next five years for FHLB advances and other borrowings are as follows (in thousands):

	Amount
2016	$ 27,660
2017	12,514
2018	4
Total	$ 40,178

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14—SUBORDINATED DEBT

The following table summarizes the Company's subordinated debt as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Subordinated debt issued June 2013—fixed interest rate of 8.25%, $8,000 maturing June 28, 2021	$ 7,448	$ 7,370
Subordinated debt issued June 2015—fixed interest rate of 6.00% for the first five years through June 2020 and a variable interest rate equivalent to three month LIBOR plus 4.35% thereafter, $40,325 maturing June 18, 2025	39,659	—
Subordinated debt issued June 2015—fixed interest rate of 6.50%, $15,000 maturing June 18, 2025	14,752	—
Total subordinated debt	$ 61,859	$ 7,370

In June 2015, the Company issued $55.3 million of subordinated debt in a private placement. The transaction was structured in two tranches: (1) $40.3 million, maturing on June 18, 2025 with a redemption option on or after June 18, 2020, with a fixed rate of interest of 6.00% for the first five years, payable semiannually in arrears beginning December 18, 2015, and a floating rate of interest equivalent to the three-month LIBOR plus 435.0 basis points thereafter, payable quarterly beginning on September 18, 2020; and (2) $15.0 million, maturing on June 18, 2025, with a fixed rate of interest of 6.50%, payable semiannually in arrears beginning December 18, 2015. The value of the subordinated debentures was reduced by $0.9 million with the recording of debt issuance costs associated with the issuance of the subordinated debentures, which are being amortized on a straight line basis through maturity of the subordinated notes.

On January 2, 2013, a third party committed to invest a total of $10.0 million in the Company in the form of $8.0 million of subordinated notes and $2.0 million of common stock. On March 26, 2013, the Company issued 125,000 shares of common stock per the terms of the commitment. In addition, 8.25% subordinated notes totaling $8.0 million were issued on June 28, 2013. These subordinated notes are due June 28, 2021. An 8-year detachable warrant for the purchase of 125,000 shares at $16.00 per share of common stock of the Company was issued concurrently with the funding of the notes. The detachable warrants become exercisable one year after issuance. The detachable warrants were valued at $0.6 million and recorded on a relative value basis separately in shareholders' equity. Correspondingly, the value of the subordinated notes was reduced by $0.6 million with the recording of a discount that the Company is amortizing using the interest method over the life of the subordinated notes.

The subordinated debentures may be included in Tier 1 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—TRUST PREFERRED DEBENTURES

The following table summarizes the Company's trust preferred debentures as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Grant Park Statutory Trust I—variable interest rate equal to LIBOR plus 2.85%, which was 3.17% and 3.08% at December 31, 2015 and 2014, respectively—$3,000 maturing January 23, 2034	$ 1,932	$ 2,067
Midland States Preferred Securities Trust—variable interest rate equal to LIBOR plus 2.75%, which was 3.07% and 2.98% at December 31, 2015 and 2014, respectively—$10,000 maturing April 23, 2034	9,954	9,952
LSHC Capital Trust III—variable interest rate equal to LIBOR plus 1.75%, which was 2.26% and 1.99% at December 31, 2015 and 2014, respectively—$20,000 maturing December 31, 2036	13,001	12,872
LSHC Capital Trust IV—variable interest rate equal to LIBOR plus 1.47%, which was 1.92% and 1.71% at December 31, 2015 and 2014, respectively—$20,000 maturing September 6, 2037	12,170	12,039
Total trust preferred debentures	$ 37,057	$ 36,930

On March 26, 2004, Midland States Preferred Securities Trust ("Midland Trust"), a statutory trust under the Delaware Statutory Trust Act, was formed by the Company. The Midland Trust issued a pool of $10.0 million of floating rate Cumulative Trust Preferred Debentures with a liquidation amount of $1,000 per security. The Company issued $10.0 million of subordinated debentures to the Midland Trust in exchange for ownership of all the common securities of the Midland Trust. The Company is not considered the primary beneficiary of this trust; therefore, the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Company's investment in the common stock of the trust was $310,000 and is included in other assets.

These debentures mature on April 23, 2034 and pay a variable rate of interest equal to the LIBOR plus 2.75%. Interest is payable quarterly. The debentures, net assets of the Midland Trust, and the common securities issued by the trust are redeemable in whole or in part on dates each quarter at the redemption price plus interest accrued to the redemption date, as specified in the trust indenture document. The debentures are also redeemable in whole or in part from time to time upon the occurrence of "special events" defined within the indenture document. Subject to certain exceptions and limitations, the Company may, from time to time, defer subordinated debenture interest payments, which would result in a deferral of distribution payments on the related debentures, and with certain exceptions, prevent the Company from declaring or paying cash distributions on common stock or debt securities that rank pari passu or junior to the subordinated debenture.

In conjunction with the acquisition of Grant Park, the Company assumed $3.0 million of subordinated debentures that were recorded at a fair value of $1.8 million at the time of acquisition. On December 19, 2003, the Grant Park Statutory Trust I ("Grant Park Trust") issued 3,000 shares of preferred securities with a liquidation amount of $1,000 per security. Grant Park issued $3.0 million of subordinated debentures to the Grant Park Trust in exchange for ownership of all the common securities of the trust. The Company is not considered the primary beneficiary of the Grant Park Trust, therefore the trust is not consolidated in the Company's financial statements, but rather the

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—TRUST PREFERRED DEBENTURES (Continued)

subordinated debentures are shown as a liability. The Company's investment in the common stock of the trust was $93,000 and is included in other assets.

These debentures mature on January 23, 2034 and pay a variable rate of interest equal to LIBOR plus 2.85%. Interest is payable quarterly. The debentures, net assets of the Grant Park Trust, and the common securities issued by the trust are redeemable in whole or in part on dates each quarter at the redemption price plus interest accrued to the redemption date, as specified in the trust indenture document. The debentures are also redeemable in whole or in part from time to time upon the occurrence of "special events" defined within the indenture document. Subject to certain exceptions and limitations, the Company may, from time to time, defer subordinated debenture interest payments, which would result in a deferral of distribution payments on the related debentures, and with certain exceptions, prevent the Company from declaring or paying cash distributions on common stock or debt securities that rank pari passu or junior to the subordinated debenture.

In conjunction with the acquisition of LSHC, the Company assumed $40.0 million of subordinated debentures that were recorded at a fair value of $26.1 million at the time of acquisition. On November 30, 2006, the Love Savings/Heartland Capital Trust III ("LSHC Trust III") issued 20,000 shares of capital securities with a liquidation amount of $1,000 per security. LSHC issued $20.0 million of subordinated debentures to LSHC Trust III in exchange for ownership of all the common securities of the trust. On June 6, 2007, the Love Savings/Heartland Capital Trust IV ("LSHC Trust IV") issued 20,000 shares of capital securities with a liquidation amount of $1,000 per security. LSHC issued $20.0 million of subordinated debentures to LSHC Trust IV in exchange for ownership of all the common securities of the trust. The Company is not considered the primary beneficiary of LSHC Trust III or LSHC Trust IV, therefore the trusts are not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability. The Company's investment in the common stock of the trusts was $1.2 million and is included in other assets.

The debentures associated with LSHC Trust III mature on December 31, 2036 and pay a variable rate of interest equal to LIBOR plus 1.75%. The debentures associated with LSHC Trust IV mature on September 6, 2037 and pay a variable rate of interest equal to LIBOR plus 1.47%. Interest is payable quarterly. The debentures, net assets of LSHC Trust III, net assets of LSHC Trust IV and the common securities issued by the trusts are redeemable in whole or in part on dates each quarter at the redemption price plus interest accrued to the redemption date, as specified in the trust indenture document. The debentures are also redeemable in whole or in part from time to time upon the occurrence of "special events" defined within the indenture document. Subject to certain exceptions and limitations, the Company may, from time to time, defer subordinated debenture interest payments, which would result in a deferral of distribution payments on the related debentures, and with certain exceptions, prevent the Company from declaring or paying cash distributions on common stock or debt securities that rank pari passu or junior to the subordinated debenture.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16—INCOME TAXES

The components of income taxes for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	2015	2014	2013
Federal:			
Current	$ 3,500	$ 217	$ 3,497
Deferred	5,604	2,970	936
State:			
Current	1,117	370	1,502
Deferred	870	1,094	88
Total income tax expense	$ 11,091	$ 4,651	$ 6,023

The Company's income tax expense differed from the statutory federal rate of 35% for the years ended December 31, 2015, 2014 and 2013 as follows (in thousands):

	2015	2014	2013
Expected income taxes	$ 12,424	$ 5,414	$ 7,185
Less income tax effect of:			
Tax exempt interest	(1,934)	(1,809)	(2,078)
Interest expense disallowance	29	38	47
State tax, net of federal benefit	1,292	1,540	1,034
Increase in cash surrender value of life insurance policies	(516)	(373)	(373)
Indemnification income	(311)	—	—
Other	107	(159)	208
Actual tax expense	$ 11,091	$ 4,651	$ 6,023

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16—INCOME TAXES (Continued)

Deferred tax assets, net in the accompanying consolidated balance sheets as of December 31, 2015 and 2014 include the following amounts of deferred tax assets and liabilities (in thousands):

	2015	2014
Assets:		
Allowance for loan losses	$ 6,435	$ 4,951
Deferred compensation	2,029	2,269
Loans acquired in FDIC assisted transactions	3,878	4,755
Investments acquired in FDIC assisted transactions	3,504	3,355
Loans	2,889	7,910
Write-down of other real estate owned	1,758	2,566
Tax credits	3,076	2,464
Nonaccrual interest	727	592
Other, net	2,428	3,107
Deferred tax assets	26,724	31,969
Liabilities:		
Premises and equipment	2,414	2,148
Unrealized gain on securities	4,061	7,262
Mortgage servicing rights	12,084	10,743
Fair value adjustment on trust preferred debentures	6,387	6,436
Federal Home Loan Bank stock dividends	235	235
Deferred gain on FDIC assisted transactions	—	265
Indemnification asset due from FDIC	(82)	97
OREO acquired in FDIC assisted transactions	—	74
Deferred loan fees, net of costs	103	326
Intangible assets	26	700
Deferred tax liabilities	25,228	28,286
Deferred tax assets, net	$ 1,496	$ 3,683

At December 31, 2015 and 2014, the accumulation of prior year's earnings representing tax bad debt deductions was approximately $3.1 million for both years. If these tax bad debt reserves were charged for losses other than bad debt losses, the Company would be required to recognize taxable income in the amount of the charge. It is not expected that such tax-restricted retained earnings will be used in a manner that would create federal income tax liabilities.

The Company had no material federal or state net operating loss carryforwards at December 31, 2015.

We had no unrecognized tax benefits as of December 31, 2015 and 2014, and did not recognize any increase of unrecognized benefits during 2015 relative to any tax positions taken during the year.

Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in other income or expense; no such accruals existed as of December 31, 2015 and 2014.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16—INCOME TAXES (Continued)

Based on our taxpaying history and estimates of taxable income over the years in which the items giving rise to the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences.

The Company is subject to U.S. federal income tax as well as income tax of various states. Years that remain open for potential review by the Internal Revenue Service are 2012 through 2014 and for state taxing authorities are 2011 through 2014.

NOTE 17—RETIREMENT PLANS

We have a profit sharing and 401k defined contribution plan covering substantially all of our employees. There were no contributions made to the profit sharing plan in 2015, 2014 and 2013. The 401k component of the plan allows participants to defer a portion of their compensation ranging from 1% to 15%. Such deferral accumulates on a tax deferred basis until the employee withdraws the funds. The Company matches 50% of employee contributions up to 6% of their compensation. Total expense recorded for the Company match was $1.1 million, $484,000 and $550,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Certain directors and executive officers participate in a deferred compensation arrangement. We match 25% of the amount deferred by directors who defer all of their director fees into Company stock unit accounts. The directors vest in the Company match at a rate of 25% per year. Distributions of amounts vested under the plan are made to participants upon their separation from service. At December 31, 2015 and 2014, the accrued liability for these arrangements totaled $2.7 million and $2.1 million, respectively, and was reflected in other liabilities in the consolidated balance sheets. Expense associated with these arrangements was $596,000, $519,000 and $451,000 for the years ended December 31, 2015, 2014 and 2013, respectively. Distributions of $56,000 and $115,000 were made to directors who resigned during the years ended December 31, 2015 and 2014, respectively. No distributions were made during the year ended December 31, 2013.

Midland participates in the Pentegra Defined Benefit Plan for Financial Institutions, a noncontributory defined benefit pension plan for all current and former employees of Heartland who have met prescribed eligibility requirements. The multiple-employer plan operates as a single plan under Internal Revenue code 413(c) and, as a result, all of the amounts contributed by the participating institutions are maintained in the aggregate. The plan is funded based on an annual determination performed by the plan administrator. Benefits under the plan were frozen in 2004. The funded status of the plan (market value of assets divided by funding target) was 119.26% as of July 1, 2015, the latest actuarial valuation date. Future costs for administration, shortfalls in funds to maintain the frozen level of benefit coverage and differences of actuarial assumptions related to the frozen benefits will be expensed as incurred. The minimum required contribution for these costs in 2015 was $132,000.

NOTE 18—STOCK BASED COMPENSATION

We have a stock option plan which may grant options to purchase common stock at a price that shall equal, but may exceed, fair market value on the date of the grant. The options are granted by the compensation committee comprising members of the board of directors.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18—STOCK BASED COMPENSATION (Continued)

On October 18, 2010, the board of directors approved the Midland States Bancorp, Inc. 2010 Long-Term Incentive Plan (2010 Incentive Plan), which made available 1,000,000 shares to be issued to selected employees and directors of, and service providers to, the Company or its subsidiaries. The granting of awards under this plan can be in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other awards. The 2010 Incentive Plan replaced all prior incentive plans.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2015	2014	2013
Dividend yield	3.14%	3.36%	3.53%
Expected volatility	16.94	21.80	22.70
Risk free interest rate	1.93	1.90	1.81
Expected life	6.25 years	6.25 years	6.25 years

The summary of our stock option plan and changes during the years ended December 31, 2015 and 2014 is as follows:

	2015			2014		
	Shares	Weighted average exercise price	Weighted average remaining contractual life	Shares	Weighted average exercise price	Weighted average remaining contractual life
Options outstanding, beginning of year	1,115,841	$ 16.57		1,028,837	$ 15.71	
Options granted	176,093	22.81		344,730	19.01	
Options exercised	(39,448)	14.15		(5,025)	14.71	
Options forfeited	(18,880)	18.00		(252,701)	16.46	
Options outstanding, end of year	1,233,606	$ 17.52	6.8 years	1,115,841	$ 16.57	7.1 years
Options exercisable	667,808	$ 15.68	5.0 years	596,205	$ 15.26	5.3 years
Options vested and expected to vest	1,158,706	$ 17.37	6.6 years	1,047,156	$ 16.47	7.0 years

The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2015 was $6.8 million and $4.9 million, respectively. As of December 31, 2015, there was $1.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under our stock option plans. This cost is expected to be recognized over a period of 2.9 years. The weighted average fair value of options granted during the years ended December 31, 2015, 2014 and 2013 was $2.55, $2.75 and $2.41, respectively.

The total intrinsic value and cash received from options exercised under all share-based payment arrangements was $299,000 and $558,000, respectively, for the year ended December 31, 2015, $32,000 and $74,000, respectively, for the year ended December 31, 2014, and $104,000 and $379,000, respectively for the year ended December 31, 2013.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18—STOCK BASED COMPENSATION (Continued)

The following table summarizes information about the Company's nonvested stock option activity for 2015:

Stock Options	Shares	Weighted average grant date fair value
Nonvested at December 31, 2014	519,636	$ 2.58
Granted	176,093	2.55
Vested	(112,258)	2.41
Forfeited	(17,673)	2.63
Nonvested at December 31, 2015	565,798	$ 2.61

In 2015 and 2014, the Company granted 21,789 and 27,792 shares of restricted stock awards, respectively. These awards have a vesting period of four years. Compensation expense is recognized over the vesting period of the award based on the fair value of the stock at the date of issue. Also, in 2015, the Company granted 7,596 restricted stock unit awards that may be settled in cash or stock, at the election of the recipient. These awards have a vesting period of three years. They are classified as a liability and measured at each financial reporting date until settlement of the award.

A summary of the activity for restricted stock awards for the year follows:

	Number outstanding	Weighted average grant date fair value
Nonvested at December 31, 2014	78,402	$ 17.87
Granted during the year	29,385	22.95
Vested during the year	(30,087)	17.03
Forfeited during the year	(4,553)	18.71
Nonvested at December 31, 2015	73,147	$ 20.21

As of December 31, 2015, there was $1.4 million of total unrecognized compensation cost related to the nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted average period of three years.

The weighted average grant date fair value for restricted stock awards was $22.95, $20.87 and $16.56 during the years ended December 31, 2015, 2014 and 2013, respectively.

Compensation cost that has been charged against income for these plans was $940,000, $708,000 and $707,000 for 2015, 2014 and 2013, respectively.

NOTE 19—PREFERRED STOCK

In 2009, the Company issued $23.6 million of Series C preferred stock through a private placement to qualified accredited investors. The stock paid noncumulative dividends semiannually at a rate of 9% per year. On June 26, 2014, the Company exercised its right and converted all of the 2,360 shares of Series C preferred stock into 2,008,543 shares of common stock.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19—PREFERRED STOCK (Continued)

In 2010, the Company issued $23.8 million of Series D preferred stock through a private placement to qualified accredited investors. The stock paid noncumulative dividends semiannually at a rate of 9% per year. In 2011, the Company initiated the repurchase of its Series D preferred stock pursuant to an optional repurchase offer which ended on June 20, 2011. Out of an aggregate 2,377 shares of Series D preferred stock that were originally issued, holders of 130 shares accepted the offer. The repurchase transaction, which was fulfilled on August 31, 2011, totaled $1.3 million based on the original redemption amount of $10,000 per share.

In 2011, the Company issued $6.3 million of Series E preferred stock through the exchange of the corresponding principal amount of the May 2009 convertible subordinated debt. The stock paid noncumulative dividends semiannually at a rate of 9% per year.

In 2011, the Company issued $5.0 million of Series F preferred stock through the exchange of the corresponding principal amount of the March 2010 convertible subordinated debt. The stock paid noncumulative dividends semiannually at a rate of 9% per year.

To further facilitate the acquisition of LSHC, as previously discussed in Note 2 to the consolidated financial statements, all holders of the Company's outstanding Series D, E, and F preferred stock voluntarily agreed during the fourth quarter of 2013 to convert their preferred holdings into shares of the Company's common stock at the stated conversion rates, as adjusted, for each series. Preferred shareholders concurrently made an election to receive the amount of any unpaid dividends that would have been payable through the applicable call dates with respect to their preferred shares, at the holders' option, in the form of either cash or additional common stock. In conjunction with the acquisition of LSHC on December 31, 2014, all of the 3,377 shares of Series D, E and F preferred stock were converted into 1,807,369 shares of common stock. An additional 138,239 shares of common stock were issued to preferred shareholders who elected to receive some or all of their unpaid dividends in the form of additional common stock, while $0.4 million was accrued for those who elected to receive some or all of their unpaid dividends in cash.

NOTE 20—EARNINGS PER SHARE

Earnings per share are calculated utilizing the two-class method. Basic earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of shares adjusted for the dilutive effect of common stock awards using the treasury stock method (outstanding stock options and unvested restricted stock), convertible preferred stock and convertible subordinated debt. Presented below are the calculations for basic and diluted earnings per

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20—EARNINGS PER SHARE (Continued)

common share for the years ended December 31, 2015, 2014 and 2013 (in thousands, except for share and per share data):

	2015	2014	2013
Net income	$ 24,324	$ 10,816	$ 14,505
Preferred stock dividends	—	(7,601)	(4,718)
Net income available to common equity	24,324	3,215	9,787
Common shareholder dividends	(7,642)	(3,465)	(2,366)
Unvested restricted stock award dividends	(50)	(47)	(37)
Undistributed earnings to unvested restricted stock awards	(108)	—	(107)
Undistributed earnings (loss) to common shareholders	$ 16,524	$ (297)	$ 7,277
Basic			
Distributed earnings to common shareholders	$ 7,642	$ 3,465	$ 2,366
Undistributed earnings (loss) to common shareholders	16,524	(297)	7,277
Total common shareholders' earnings, basic	$ 24,166	$ 3,168	$ 9,643
Diluted			
Distributed earnings to common shareholders	$ 7,642	$ 3,465	$ 2,366
Undistributed earnings (loss) to common shareholders	16,524	(297)	7,277
Total common shareholders' earnings	24,166	3,168	9,643
Add back:			
Convertible preferred stock dividends	—	—	2,467
Undistributed earnings reallocated from unvested restricted stock awards	2	—	39
Total common shareholders' earnings, diluted	$ 24,168	$ 3,168	$ 12,149
Weighted average common shares outstanding, basic	11,902,455	5,945,615	4,558,549
Add back—convertible preferred stock	—	—	2,544,680
Options and warrants	209,948	79,839	48,242
Weighted average common shares outstanding, diluted	12,112,403	6,025,454	7,151,471
Basic earnings per common share	$ 2.03	$ 0.53	$ 2.12
Diluted earnings per common share	2.00	0.53	1.70

Diluted earnings per share computations for the years ended December 31, 2014 and 2013 excluded 2,770,875 and 1,227,984 of common shares, respectively, related to convertible preferred stock because they were anti-dilutive.

NOTE 21—CAPITAL REQUIREMENTS

Our primary source of cash is dividends received from the Bank. The Bank is restricted by Illinois law and regulations of the Illinois Department of Financial and Professional Regulations and the FDIC as to the maximum amount of dividends the Bank can pay to us. As a practical matter, the Bank restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21—CAPITAL REQUIREMENTS (Continued)

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Midland to maintain minimum amounts and ratios of Total capital, Tier 1 capital and common equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and of Tier 1 capital to average assets (as defined in the regulations).

In July 2013, the federal bank regulators approved final rules (the "Basel III Rule") implementing Basel III framework as well as certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Basel III Rule also substantially revises the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and Midland, as compared to the general risk-based capital rules. The Basel III Rule revises the components of capital and addresses other issues affecting the numerator in regulatory capital ratios. The Basel III Rule also address asset risk weights and other issues affecting the denominator in regulatory capital ratios and replace the existing general risk-weighting approach based on Basel I with a more risk-sensitive approach. The Basel III Rule became effective for the Company and Midland on January 1, 2015 (subject to a phase-in period for certain provisions). As of December 31, 2015, the capital ratios (as set forth in the table below) are calculated under the new Basel III rules. As of December 31, 2014, the capital ratios (as set forth in the table below) are calculated under the former Basel I rules.

As of December 31, 2015, the Company and Midland met all capital adequacy requirements. Also, as of December 31, 2015, the most recent notification from the FDIC categorized Midland as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, we must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21—CAPITAL REQUIREMENTS (Continued)

set forth in the table. There are no conditions or events since that notification that we believe have changed our category.

	2015					
	Actual		Required for adequate capital		To be well capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets):						
Midland States Bancorp, Inc.	$ 288,958	11.82%	$ 195,550	8.00%	N/A	N/A
Midland States Bank	270,436	11.06	195,702	8.00	244,628	10.00%
Tier 1 capital (to risk-weighted assets):						
Midland States Bancorp, Inc.	210,614	8.62%	146,662	6.00%	N/A	N/A
Midland States Bank	254,228	10.39	146,777	6.00	195,702	8.00%
Common equity Tier 1 capital (to risk-weighted assets):						
Midland States Bancorp, Inc.	158,969	6.50%	109,997	4.50%	N/A	N/A
Midland States Bank	254,228	10.39	110,082	4.50	159,008	6.50%
Tier 1 leverage (to average assets):						
Midland States Bancorp, Inc.	210,614	7.49%	112,500	4.00%	N/A	N/A
Midland States Bank	254,228	9.01	112,827	4.00	141,034	5.00%

	2014					
	Actual		Required for adequate capital		To be well capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets):						
Midland States Bancorp, Inc.	$ 202,990	9.59%	$ 169,355	8.00%	N/A	N/A
Midland States Bank	165,707	11.18	118,661	8.00	148,327	10.00%
Heartland Bank	87,577	13.03	53,774	8.00	67,218	10.00%
Tier 1 capital (to risk-weighted assets):						
Midland States Bancorp, Inc.	183,150	8.65%	84,678	4.00%	N/A	N/A
Midland States Bank	153,334	10.34	59,331	4.00	88,996	6.00%
Heartland Bank	79,143	11.77	26,887	4.00	40,331	6.00%
Tier 1 leverage (to average assets):						
Midland States Bancorp, Inc.	183,150	10.48%	69,892	4.00%	N/A	N/A
Midland States Bank	153,334	8.65	70,925	4.00	88,656	5.00%
Heartland Bank	79,143	8.76	36,142	4.00	45,178	5.00%

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

date reflecting assumptions that a market participant would use when pricing an asset or liability. The hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2: Observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3: Inputs to a valuation methodology that are unobservable, supported by little or no market activity, and significant to the fair value measurement. These valuation methodologies generally include pricing models, discounted cash flow models, or a determination of fair value that requires significant management judgment or estimation. This category also includes observable inputs from a pricing service not corroborated by observable market data, such as pricing non-agency mortgage backed securities.

Fair value is used on a recurring basis to account for securities available for sale and derivative liabilities, and for financial assets for which the Company has elected the fair value option. For assets and liabilities measured at the lower of cost or fair value, the fair value measurement criteria may or may not be met during a reporting period and such measurements are therefore considered "nonrecurring" for purposes of disclosing our fair value measurements. Fair value is used on a nonrecurring basis to adjust carrying values for impaired loans and other real estate owned and also to record impairment on certain assets, such as goodwill, core deposit intangibles and other long-lived assets.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets and liabilities measured and recorded at fair value, including financial assets for which the Company has elected the fair value option, on a recurring and nonrecurring basis at and for the years ended December 31, 2015 and 2014 are summarized below (in thousands):

	2015			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Securities available for sale:				
U.S. Treasury securities	$ 48,302	$ 48,302	$ —	$ —
Government sponsored entity debt securities	9,454	—	9,454	—
Agency mortgage-backed securities	67,527	—	67,527	—
Non-agency mortgage-backed securities	2	—	2	—
Covered non-agency mortgage-backed securities	75,979	—	75,979	—
State and municipal securities	15,494	—	15,494	—
Corporate securities	19,869	—	19,869	—
Loans held for sale	54,413	—	54,413	—
Interest rate lock commitments	6,029	—	6,029	—
	$ 297,069	$ 48,302	$ 248,767	$ —
Liabilities				
Interest rate swap agreement	$ 126	$ —	$ 126	$ —
Forward commitments to sell mortgage-backed securities	2	—	2	—
Contingent consideration	350	—	—	350
	$ 478	—	$ 128	$ 350
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ 16,667	$ —	$ 8,821	$ 7,846
Other real estate owned	535	—	535	—

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	2014			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Securities available for sale:				
U.S. Treasury securities	$ 5,994	$ 5,994	$ —	$ —
Government sponsored entity debt securities	9,394	—	9,394	—
Agency mortgage-backed securities	94,093	—	94,093	—
Non-agency mortgage-backed securities	12,459	—	12,459	—
Covered non-agency mortgage-backed securities	92,319	—	35,882	56,437
State and municipal securities	10,753	—	10,753	—
Corporate securities	28,756	—	28,756	—
Loans held for sale	96,407	—	96,407	—
Interest rate lock commitments	1	—	1	—
	$ 350,176	$ 5,994	$ 287,745	$ 56,437
Liabilities				
Interest rate swap agreement	$ 240	$ —	$ 240	$ —
Contingent consideration	530	—	—	530
	$ 770	—	$ 240	$ 530
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ 3,670	$ —	$ 2,660	$ 1,010
Other real estate owned	2,147	—	2,147	—

The following table presents losses recognized on assets measured on a non-recurring basis for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014
Impaired loans	$ (1,589)	$ (580)
Other real estate owned	(114)	(1,530)
Total loss on assets measured on a nonrecurring basis	$ (1,703)	$ (2,110)

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014
Covered non-agency mortgage-backed securities, beginning of year	$ 56,437	$ 57,782
Total realized in earnings(1)	1,487	6,681
Total unrealized in other comprehensive income	—	7,322
Transferred to Level 2	(55,910)	(5,208)
Net settlements subsequent to acquisition	(2,014)	(10,140)
Covered non-agency mortgage-backed securities, end of year	$ —	$ 56,437

(1) Amounts included in interest income from investment securities taxable in the consolidated statements of income.

ASC Topic 825, *Financial Instruments*, requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the applicable disclosure requirements.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following tables are a summary of the carrying values and fair value estimates of certain financial instruments as of December 31, 2015 and 2014 (in thousands):

	2015				
	Carrying Amount	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Cash and due from banks	$ 211,976	$ 211,976	$ 211,976	$ —	$ —
Federal funds sold	499	499	499	—	—
Investment securities available for sale	236,627	236,627	48,302	188,325	—
Investment securities held to maturity	87,521	92,816	—	92,816	—
Nonmarketable equity securities	15,472	15,472	—	15,472	—
Loans, net	1,979,601	1,992,745	—	—	1,992,745
Loans held for sale	54,413	54,413	—	54,413	—
Accrued interest receivable	7,697	7,697	—	7,697	—
Interest rate lock commitments	6,029	6,029	—	6,029	—
Liabilities					
Deposits	$ 2,367,648	$ 2,371,397	$ —	$ 2,371,397	$ —
Short-term borrowings	107,538	107,538	—	107,538	—
FHLB and other borrowings	40,178	40,054	—	40,054	—
Subordinated debt	61,859	58,198	—	58,198	—
Trust preferred debentures	37,057	33,537	—	33,537	—
Accrued interest payable	979	979	—	979	—
Forward commitments to sell mortgage-backed securities	2	2	—	2	—
Interest rate swap agreement	126	126	—	126	—

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	2014				
	Carrying Amount	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Cash and due from banks	$ 159,769	$ 159,769	$ 159,769	$ —	$ —
Federal funds sold	134	134	134	—	—
Investment securities available for sale	253,768	253,768	5,994	191,337	56,437
Investment securities held to maturity	101,763	106,891	—	106,891	—
Nonmarketable equity securities	12,194	12,194	—	12,194	—
Loans, net	1,785,715	1,753,160	—	—	1,753,160
Loans held for sale	96,407	96,407	—	96,407	—
Accrued interest receivable	8,642	8,642	—	8,642	—
Interest rate lock commitments	1	1	—	1	—
Liabilities					
Deposits	$ 2,150,633	$ 2,153,678	$ —	$ 2,153,678	$ —
Short-term borrowings	129,714	129,714	—	129,714	—
FHLB and other borrowings	74,349	74,209	—	74,209	—
Subordinated debt	7,370	8,375	—	8,375	—
Trust preferred debentures	36,930	34,535	—	34,535	—
Accrued interest payable	1,067	1,067	—	1,067	—
Interest rate swap agreement	240	240	—	240	—

The following is a description of the valuation methodologies used to measure our assets recorded at fair value (under ASC Topic 820) and for estimating fair value for financial instruments not recorded at fair value (under ASC Topic 825):

Cash and due from banks and Federal funds sold. The carrying amounts are assumed to be the fair value because of the liquidity of these instruments.

Investment securities available for sale. Securities available for sale are measured and carried at fair value on a recurring basis. Unrealized gains and losses on available-for-sale securities are reported as a component of accumulated other comprehensive income in the condensed consolidated balance sheets.

In determining the fair value of the securities categorized as Level 2, we obtain a report from a nationally recognized broker-dealer detailing the fair value of each investment security we hold as of each reporting date. The broker-dealer uses observable market information to value our fixed income securities, with the primary source being a nationally recognized pricing service. The fair value of the municipal securities is based on a proprietary model maintained by the broker-dealer. We review all of the broker-dealer supplied quotes on the securities we own as of the reporting date for reasonableness based on our understanding of the marketplace and we consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy.

At December 31, 2014, the majority of our covered non-agency mortgage-backed securities were categorized as Level 3 due in part to the inactive market for such securities. There was a wide range of

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

prices quoted for non-agency mortgage-backed securities among independent third party pricing services and this range reflected the significant judgment being exercised over the assumptions and variables that determine the pricing of such securities. We considered this subjectivity to be a significant unobservable input and concluded that the majority of the non-agency mortgage-backed securities should be categorized as a Level 3 measured asset. During the years ended December 31, 2015 and 2014, we recorded $461,000 and $170,000, respectively, of other-than-temporary impairment, net of applicable loss-share reimbursements, on non-agency mortgage-backed securities covered by FDIC loss-sharing agreements.

In 2015 and 2014, $55.9 million and $5.2 million, respectively, of covered non-agency mortgage-backed securities were moved from Level 3 to Level 2 because a more liquid market for these securities had developed and prices supported by observable market inputs had become available.

Investment securities held to maturity. Held-to-maturity securities are those debt instruments which the Company has the positive intent and ability to hold until maturity. Securities held to maturity are recorded at cost, adjusted for the amortization of premiums or accretion of discounts.

In determining the fair value of held-to-maturity securities categorized as Level 2, we obtain a report from a nationally recognized broker-dealer detailing the fair value of each investment security we hold as of each reporting date. The fair value of the municipal securities is based on a proprietary model maintained by the broker-dealer. We review all of the broker-dealer supplied quotes on the securities we own as of the reporting date for reasonableness based on our understanding of the marketplace and we consider any credit issues related to the bonds. As we have not made any adjustments to the market quotes provided to us and they are based on observable market data, they have been categorized as Level 2 within the fair value hierarchy.

Nonmarketable equity securities. The carrying amounts approximate their fair values.

Loans (excluding covered loans). Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest terms and by credit risk categories. The fair value estimates do not take into consideration the value of the loan portfolio in the event the loans have to be sold outside the parameters of normal operating activities. The fair value of performing fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market prepayment speeds and estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. The estimated market discount rates used for performing fixed rate loans are the Company's current offering rates for comparable instruments with similar terms. The fair value of performing adjustable rate loans is estimated by discounting scheduled cash flows through the next repricing date. As these loans reprice frequently at market rates and the credit risk is not considered to be greater than normal, the market value is typically close to the carrying amount of these loans. The method of estimating fair value does not incorporate the exit-price concept of fair value prescribed by ASC Topic 820.

Non-covered impaired loans. Non-covered impaired loans are measured and recorded at fair value on a non-recurring basis. All of our non-covered nonaccrual loans and restructured loans are considered impaired and are reviewed individually for the amount of impairment, if any. Most of our loans are collateral dependent and, accordingly, we measure impaired loans based on the estimated fair value of such collateral. The fair value of each loan's collateral is generally based on estimated market

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 2 measurement. When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. The impaired loans categorized as Level 3 also include unsecured loans and other secured loans whose fair values are based significantly on unobservable inputs such as the strength of a guarantor, cash flows discounted at the effective loan rate, and management's judgment. The loan balances shown in the above tables represent nonaccrual and restructured loans for which impairment was recognized during 2015 and 2014. The amounts shown as losses represent, for the loan balances shown, the impairment recognized during those same years.

Covered loans. Covered loans were measured at estimated fair value on the date of acquisition. Thereafter, the fair value of covered loans is measured using the same methodology as that for non-covered loans. The above discussion for non-covered loans and non-covered impaired loans is applicable to covered loans following their acquisition date.

Loans held for sale. Loans held for sale are carried at either fair value, if elected, or the lower of cost or fair value on an individual loan basis. Fair value measurements on loans held for sale are based on quoted market prices for similar loans in the secondary market. At December 31, 2015 and 2014, loans held for sale were carried at fair value.

Other real estate owned. The fair value of foreclosed real estate, both non-covered and covered, is generally based on estimated market prices from independently prepared current appraisals or negotiated sales prices with potential buyers; such valuation inputs result in a fair value measurement that is categorized as a Level 2 measurement on a nonrecurring basis. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value as a result of known changes in the market or the collateral and there is no observable market price, such valuation inputs result in a fair value measurement that is categorized as a Level 3 measurement. To the extent a negotiated sales price or reduced listing price represents a significant discount to an observable market price, such valuation input would result in a fair value measurement that is also considered a Level 3 measurement.

Accrued interest receivable. The carrying amounts approximate their fair values.

Deposits. Deposits are carried at historical cost. The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, money market, savings and checking accounts, is equal to the amount payable on demand as of the reporting date. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Short-term borrowings. Short-term borrowings consist of repurchase agreements. These borrowings typically have terms of less than 30 days and therefore, their carrying amounts are a reasonable estimate of fair value.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

FHLB advances and other borrowings and subordinated debt. Borrowings are carried at amortized cost. The fair value of fixed rate borrowings is calculated by discounting scheduled cash flows through the estimated maturity or call dates using estimated market discount rates that reflect rates offered at that time for borrowings with similar remaining maturities and other characteristics.

Trust preferred debentures. Debentures are carried at amortized cost. The fair value of variable rate debentures is calculated by discounting scheduled cash flows through the estimated maturity or call dates using estimated market discount rates that reflect spreads offered at that time for borrowings with similar remaining maturities and other characteristics.

Accrued interest payable. The carrying amounts approximate their fair values.

Derivative financial instruments. The Company enters into interest rate lock commitments which are agreements to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. These commitments are carried at fair value in other assets on the consolidated balance sheets with changes in fair value reflected in mortgage banking revenue. The Company also has forward loan sales commitments related to its interest rate lock commitments and its loans held for sale. These commitments are carried at fair value in other assets or other liabilities on the consolidated balance sheets with changes in fair value reflected in mortgage banking revenue. The interest rate swap is carried at fair value on a recurring basis based upon the amounts required to settle the contracts.

NOTE 23—COMMITMENTS, CONTINGENCIES AND CREDIT RISK

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal actions, which are not reflected in the consolidated financial statements. No material losses are anticipated as a result of these actions or claims.

We are obligated under noncancelable operating leases for office space and other commitments. Certain leases contain escalation clauses providing for increased rental payments based primarily on increases in real estate taxes or in the average consumer price index. Net rent expense under operating leases included in occupancy and equipment expense was approximately $2.4 million, $460,000 and $637,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

The projected minimum rental payments under the terms of the leases as of December 31, 2015 are as follows (in thousands):

	Amount
Year ending December 31:	
2016	$ 2,529
2017	2,168
2018	2,032
2019	1,803
2020	1,702
Thereafter	6,707
Total estimated lease payments	$ 16,941

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 23—COMMITMENTS, CONTINGENCIES AND CREDIT RISK (Continued)

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank used the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The commitments are principally tied to variable rates. Loan commitments as of December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Commitments to extend credit	$ 495,506	$ 555,661
Financial guarantees—standby letters of credit	16,694	20,407

The Company sells residential mortgage loans to investors in the normal course of business. Residential mortgage loans sold to others are predominantly conventional residential first lien mortgages originated under our usual underwriting procedures, and are sold on a nonrecourse basis, primarily to government-sponsored enterprises ("GSEs"). The Company's agreements to sell residential mortgage loans in the normal course of business usually require certain representations and warranties on the underlying loans sold, related to credit information, loan documentation, collateral, and insurability. Subsequent to being sold, if a material underwriting deficiency or documentation defect is discovered, the Company may be obligated to repurchase the loan or reimburse the GSEs for losses incurred. The make whole requests and any related risk of loss under the representations and warranties are largely driven by borrower performance. The Company establishes a mortgage repurchase liability related to these events that reflect management's estimate of losses on loans for which the Company could have a repurchase obligation based on a combination of factors. Such factors incorporate the volume of loans sold in 2015 and years prior, borrower default expectations, historical investor repurchase demand and appeals success rates, and estimated loss severity. Loans repurchased from investors are initially recorded at fair value, which becomes the Company's new accounting basis. Any difference between the loan's fair value and the outstanding principal amount is charged or credited to the mortgage repurchase liability, as appropriate. Subsequent to repurchase, such loans are carried in loans receivable. As a result of make whole requests and loan repurchases, the Company incurred losses totaling $63,000, $86,000 and $348,000 for the years ended December 31, 2015, 2014 and 2013, respectively. The liability for unresolved repurchase demands totaled $378,000 and $722,000 at December 31, 2015 and 2014, respectively.

In 2015, the Company recorded a loss contingency liability related to a Love Funding legal dispute with a former employee. The claim is expressly covered by the indemnities received by the Company pursuant to the terms of certain agreements associated with the acquisition of LSHC and as a result, a corresponding indemnification asset was recorded. As of December 31, 2015, the loss contingency liability was $1.2 million and the corresponding indemnification asset, net of the loss contingency tax benefit, was $890,000, which were included in other liabilities and other assets, respectively, in the 2015 consolidated balance sheet.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 24—SEGMENT INFORMATION

Our business segments are defined as Banking and Commercial FHA Origination and Servicing. The reportable business segments are consistent with the internal reporting and evaluation of the principle lines of business of the Company. The banking segment provides a wide range of financial products and services to consumers and businesses, including commercial, commercial real estate, mortgage and other consumer loan products; commercial equipment leasing; mortgage loan sales and servicing; letters of credit; various types of deposit products, including checking, savings and time deposit accounts; merchant services; and corporate treasury management services. The commercial FHA origination and servicing segment provides for the origination and servicing of government sponsored mortgages for multifamily and healthcare facilities. The other segment includes the operating results of the Parent Company, the elimination of intercompany transactions and our Wealth Management business unit. Wealth management activities consist of trust and fiduciary services, brokerage and retirement planning services.

During 2015, the Company re-evaluated its business segments and changed the composition of its reportable segments to those described above and restated all prior period information. The Wealth Management segment has been aggregated into the other segment as this business is not considered to be quantitatively significant.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 24—SEGMENT INFORMATION (Continued)

Selected business segment financial information as of and for the years ended December 31, 2015, 2014 and 2013 were as follows (in thousands):

	Banking	Commercial FHA Origination and Servicing	Other	Total
December 31, 2015				
Net interest income	$ 107,825	$ 1,762	$ (4,680)	$ 104,907
Provision for loan losses	11,127	—	—	11,127
Noninterest income	34,751	20,148	4,583	59,482
Noninterest expense	95,712	16,232	5,820	117,764
Income before income taxes	35,737	5,678	(5,917)	35,498
Income taxes (benefit)	10,626	2,271	(1,806)	11,091
Net income	$ 25,111	$ 3,407	$ (4,111)	$ 24,407
Total assets	$ 2,886,539	$ 89,242	$ (90,957)	$ 2,884,824
December 31, 2014				
Net interest income	$ 66,449	$ —	$ (1,851)	$ 64,598
Provision for loan losses	92	—	—	92
Noninterest income	13,343	—	7,098	20,441
Noninterest expense	63,351	—	6,129	69,480
Income before income taxes	16,349	—	(882)	15,467
Income taxes (benefit)	5,181	—	(530)	4,651
Net income	$ 11,168	$ —	$ (352)	$ 10,816
Total assets	$ 2,710,476	$ 119,649	$ (153,511)	$ 2,676,614
December 31, 2013				
Net interest income	$ 67,766	$ —	$ (1,846)	$ 65,920
Provision for loan losses	173	—	—	173
Noninterest income	8,849	—	7,381	16,230
Noninterest expense	56,306	—	5,143	61,449
Income before income taxes	20,136	—	392	20,528
Income taxes (benefit)	6,788	—	(765)	6,023
Net income	$ 13,348	$ —	$ 1,157	$ 14,505
Total assets	$ 1,738,657	$ —	$ 891	$ 1,739,548

NOTE 25—RELATED PARTY TRANSACTIONS

The Company utilizes the services of a company to act as general manager for the construction of new branch facilities. A member of our board of directors is a substantial shareholder of this company and currently serves as its Chairman. During the years ended December 31, 2015, 2014 and 2013, the Company paid this company $1.8 million, $306,000 and $936,000, respectively, for work on various projects.

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 25—RELATED PARTY TRANSACTIONS (Continued)

A member of our board of directors has an ownership interest in the office building located in Clayton, Missouri and three of the Bank's full-service branch facilities. The Company paid rent of $693,000 on these properties during the year ended December 31, 2015.

NOTE 26—PARENT COMPANY ONLY FINANCIAL INFORMATION

Presented below is condensed financial information for Midland States Bancorp, Inc.:

Condensed Balance Sheets
December 31, 2015 and 2014
(dollars expressed in thousands)

	2015	2014
Assets:		
Cash	$ 8,318	$ 22,759
Investment in common stock of subsidiaries	325,682	291,606
Other assets	1,214	2,142
Total assets	$ 335,214	$ 316,507
Liabilities:		
Other borrowings	$ —	$ 13,994
Subordinated debt	61,859	7,370
Trust preferred debentures	37,057	36,930
Other liabilities	3,418	38,757
Total liabilities	102,334	97,051
Shareholders' equity	232,880	219,456
Total liabilities and shareholders' equity	$ 335,214	$ 316,507

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 26—PARENT COMPANY ONLY FINANCIAL INFORMATION (Continued)

Condensed Statements of Income
Years ended December 31, 2015, 2014 and 2013
(dollars expressed in thousands)

	2015	2014	2013
Dividends from subsidiary	$ 14,500	$ 13,600	$ 8,500
Gain on bargain purchase	—	—	1,229
Other income	1,070	—	—
Interest expense	(4,680)	(1,851)	(1,848)
Other expenses	(132)	(60)	(43)
Income before income taxes and equity in undistributed income of subsidiary	10,758	11,689	7,838
Equity in undistributed income of subsidiary	11,760	(1,403)	5,903
Income before income taxes	22,518	10,286	13,741
Income tax benefit	1,806	530	764
Net income	$ 24,324	$ 10,816	$ 14,505

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 26—PARENT COMPANY ONLY FINANCIAL INFORMATION (Continued)

Condensed Statements of Cash Flows
Years ended December 31, 2015, 2014 and 2013
(dollars expressed in thousands)

	2015	2014	2013
Cash flows from operating activities:			
Net income	$ 24,324	$ 10,816	$ 14,505
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiary	(11,760)	1,403	(5,903)
Compensation expense for stock option grants	413	240	358
Amortization of restricted stock awards	517	468	349
Change in other assets	(3,559)	576	(34)
Change in other liabilities	(8,426)	(1,065)	(411)
Gain on bargain purchase	—	—	(1,229)
Net cash provided by operating activities	1,509	12,438	7,635
Cash flows from investing activities:			
Net cash (paid) acquired in acquisition	(20,053)	1,500	5,769
Capital injection to Midland	(30,000)	—	(8,500)
Net cash (used in) provided by investing activities	(50,053)	1,500	(2,731)
Cash flows from financing activities:			
Payment made on subordinated debt	—	—	(5,000)
Proceeds from issuance of subordinated debt	55,325	—	8,000
Proceeds from term loan	—	14,000	—
Payments made on term loan and other borrowings	(14,000)	(15,938)	(1,429)
Cash dividends paid on common stock	(7,692)	(3,512)	(2,403)
Cash dividends paid on preferred stock	—	(4,254)	(5,163)
Proceeds from issuance of common stock	—	—	1,970
Proceeds from sale of common stock subscriptions	—	—	16,222
Purchase of common stock	—	—	(9)
Proceeds from issuance of common stock under employee benefit plans	470	215	436
Net cash provided by (used in) financing activities	34,103	(9,489)	12,624
Net (decrease) increase in cash	(14,441)	4,449	17,528
Cash and restricted cash:			
Beginning of year	22,759	18,310	782
End of year	$ 8,318	$ 22,759	$ 18,310
Supplemental disclosures of noncash investing and financing activities:			
Issuance of common stock warrants	$ —	$ —	$ 615
Conversion of Series C preferred stock into common stock	—	23,600	—
Conversion of Series D preferred stock into common stock	—	22,470	—
Conversion of Series E preferred stock into common stock	—	6,300	—
Conversion of Series F preferred stock into common stock	—	5,000	—
Issuance of common stock for preferred dividends	—	2,903	—
Cash portion of merger consideration accrued for at year-end	—	20,053	—
Private placement issuance of common stock	—	16,156	—

MIDLAND STATES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 27—SUBSEQUENT EVENTS

On February 23, 2016, the Bank and Sterling National Bank of Yonkers, New York entered into a Trust Company Agreement and Plan of Merger, pursuant to which the Bank will acquire approximately $400 million in wealth management assets from Sterling. Under the terms of the agreement, the Bank will pay Sterling approximately $4.8 million in cash, subject to adjustment. The transaction is subject to regulatory approval and other customary closing conditions, and is expected to close in the second or third quarter of 2016. We expect to retain all 10 members of Sterling's trust department upon consummation of the transaction, which would bring the total number of employees in our wealth management group to 45.

Shares

Common Stock

PROSPECTUS
, 2016

Sandler O'Neill + Partners, L.P. **Keefe, Bruyette & Woods**
A Stifel Company

D. A. Davidson & Co. **Stephens Inc.**

Through and including , 2016 (25 days after the date of this prospectus), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II—INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, in connection with the sale of shares of our common stock being registered, all of which will be paid by us. All amounts shown are estimates, except for the SEC registration fee, the FINRA filing fee and the NASDAQ listing fee.

	Amount
SEC registration fee	$ 12,084
FINRA filing fee	18,500
NASDAQ listing fee	25,000
Legal fees and expenses	*
Accounting fees and expenses	*
Printing fees and expenses	*
Transfer agent and registrar fees and expenses	*
Blue sky qualification fees and expenses	*
Miscellaneous	*
Total	$ *

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers.

Under Section 8.75 of the Illinois Business Corporation Act of 1983, or the IBCA, an Illinois corporation may indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

In addition, an Illinois corporation may indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, provided that no indemnification shall be made with respect to any claim, issue, or matter as to which such person has been adjudged to have been liable to the corporation, unless, and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper.

Section 8.75 of the IBCA also provides that, to the extent that a present or former director, officer or employee of a corporation has been successful, on the merits or otherwise, in the defense of any action, suit or proceeding referred to in either of the foregoing paragraphs, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith, if the person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation.

Our articles of incorporation and bylaws provide that, subject to the limits of applicable federal and state banking laws and regulations, we must indemnify each person who is or was a director or officer of the Company and each person who serves or served at the request of the Company as a director, officer or partner of another enterprise in accordance with, and to the fullest extent authorized by, the IBCA, as the same now exists or may be amended in the future.

We have also obtained officers' and directors' liability insurance which insures against liabilities that officers and directors may, in such capacities, incur. Section 8.75 of the IBCA provides that an Illinois corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify such person against such liability under the IBCA.

Reference is made to the form of underwriting agreement to be filed as Exhibit 1.1 hereto for provisions providing that the underwriters are obligated under certain circumstances to indemnify our directors, officers and controlling persons against certain liabilities under the Securities Act of 1933, as amended (the "Securities Act").

Item 15. Recent Sales of Unregistered Securities.

The following sets forth information regarding unregistered securities that were sold by the Company within the past three years.

2013 Capital Raising Transactions. On March 26, 2013, we issued 125,000 shares of common stock to a third party at a price of $16 per share. In addition, on June 28, 2013 we issued $8.0 million of 8.25% subordinated notes due 2021 to the same party, along with an eight-year detachable warrant for the purchase of 125,000 shares of common stock of the Company at an exercise price of $16.00 per share in exchange for aggregate consideration of $8.0 million. The securities were issued under an exemption from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering.

Grant Park Bancshares, Inc. Acquisition. On June 5, 2013, the Company issued an aggregate of 170,899 shares of our common stock to the shareholders of Grant Park Bancshares, Inc. as stock consideration in connection with the completion of the Company's merger with Grant Park Bancshares, Inc. No underwriters or placement agents were used in this transaction. The common stock was issued under an exemption from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering.

Conversion of Preferred Stock. On June 26, 2014, the Company issued 2,008,543 shares of common stock in connection with the conversion of $23.6 million of our Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock. On December 31, 2014, the Company issued: (i) 1,039,823 shares of common stock in connection with the conversion of $22.5 million of our Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock; (ii) 536,171 shares of common stock in connection with the

conversion of $6.3 million of our Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock; (iii) 231,375 shares of common stock in connection with the conversion of $5.0 million of our Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock; and (iv) 138,239 shares of common stock in connection with the payment of dividends of the preferred stock described herein. No underwriters or placement agents were used in this transaction. The common stock was issued under an exemption from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering.

Common Stock Offering. In November 2014, the Company issued an aggregate of 887,562 shares of our common stock to accredited investors. The cash proceeds from the sale of common stock were used primarily to fund a portion of the cash purchase price of the consideration to be paid in connection with the merger with Love Savings Holding Company. The aggregate offering price of the shares of common stock was $16,383,302. No underwriters or placement agents were used in this transaction. The common stock was issued under an exemption from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering.

Love Savings Holding Company Acquisition. On December 31, 2014, the Company issued an aggregate of 2,224,091 shares of our common stock to the shareholders of Love Savings Holding Company as stock consideration in connection with the completion of the Company's merger with Love Savings Holding Company. No underwriters or placement agents were used in this transaction. The common stock was issued under an exemption from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering.

Subordinated Note Offering. On June 4, 2015, the Company entered into several Subordinated Note Purchase Agreements with accredited institutional investors, pursuant to which the Company sold $15.0 million of 6.50% Subordinated Notes due June 18, 2025, and $35.325 million of Fixed-to-Floating Rate Subordinated Notes due June 18, 2025. On June 19, 2015, the Company entered into an additional Subordinated Note Purchase Agreement with an accredited institutional investor, pursuant to which the Company sold an additional $5.0 million of Fixed-to-Floating Rate Subordinated Notes due June 18, 2025. The aggregate offering price of the subordinated notes was $55.325 million, with aggregate placement agent commissions of $829,875. The subordinated notes were issued in a private placement exempt from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder as a transaction by an issuer not involving any public offering. The placement agents for the private placement were Sandler O'Neill & Partners, L.P. and Keefe Bruyette & Woods, Inc.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits

The exhibit index attached hereto is incorporated herein by reference.

(b) Financial Statement Schedules

All schedules have been omitted as not applicable or not required under the rules of Regulation S-X.

Item 17. Undertakings.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Effingham, State of Illinois, on April 11, 2016.

MIDLAND STATES BANCORP, INC.

By: /s/ LEON J. HOLSCHBACH

Name: Leon J. Holschbach
Title: *Chief Executive Officer and President*

Power of Attorney

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities and on the dates indicated. Each of the undersigned officers and directors of Midland States Bancorp, Inc. hereby constitutes and appoints Leon J. Holschbach and Jeffrey G. Ludwig, and each of them singly (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution in each of them for him or her and in his or her name, place and stead, and in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement (or any other registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ LEON J. HOLSCHBACH Leon J. Holschbach	Director (Vice Chairman); Chief Executive Officer and President (principal executive officer)	April 11, 2016
/s/ JEFFREY G. LUDWIG Jeffrey G. Ludwig	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	April 11, 2016
/s/ JOHN M. SCHULTZ John M. Schultz	Director (Chairman)	April 11, 2016
/s/ DEBORAH GOLDEN Deborah Golden	Director	April 11, 2016

Signature	Title	Date
/s/ JERRY L. MCDANIEL Jerry L. McDaniel	Director	April 11, 2016
/s/ JEFFREY M. MCDONNELL Jeffrey M. McDonnell	Director	April 11, 2016
/s/ DWIGHT A. MILLER Dwight A. Miller	Director	April 11, 2016
/s/ RICHARD T. RAMOS Richard T. Ramos	Director	April 11, 2016
/s/ LAURENCE A. SCHIFFER Laurence A. Schiffer	Director	April 11, 2016
/s/ ROBERT F. SCHULTZ Robert F. Schultz	Director	April 11, 2016
/s/ THOMAS D. SHAW Thomas D. Shaw	Director	April 11, 2016
/s/ JEFFREY C. SMITH Jeffrey C. Smith	Director	April 11, 2016

EXHIBIT INDEX

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
2.1	Agreement and Plan of Merger, dated April 7, 2014, among Midland States Bancorp, Inc., HB Acquisition LLC and Love Savings Holding Company.†
2.2	Amendment to Agreement and Plan of Merger, dated November 6, 2014, among Midland States Bancorp, Inc., HB Acquisition LLC and Love Savings Holding Company.
3.1	Articles of Incorporation of Midland States Bancorp, Inc.
3.2	By-laws of Midland States Bancorp, Inc.
4.1	Specimen common stock certificate of Midland States Bancorp, Inc.
4.2	Stock Purchase Warrant of Midland States Bancorp, Inc., issued March 25, 2013.
	The other instruments defining the rights of holders of the long-term debt securities of the Company and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company hereby agrees to furnish copies of these instruments to the SEC upon request.
5.1	Form of Opinion of Barack Ferrazzano Kirschbaum & Nagelberg LLP.
10.1	Registration Rights Agreement, dated January 18, 2011, between Midland States Bancorp, Inc. and Richard E. Workman 2001 Trust (as amended by the Amendment Agreement, dated May 11, 2011, between Midland States Bancorp, Inc. and Richard E. Workman 2001 Trust, included as Exhibit 10.2, and by Amendment No. 2 to Registration Rights Agreement, dated December 10, 2013, between Midland States Bancorp, Inc. and Richard E. Workman 2001 Trust, included as Exhibit 10.3).
10.2	Amendment Agreement, dated May 11, 2011, between Midland States Bancorp, Inc. and Richard E. Workman 2001 Trust.
10.3	Amendment No. 2 to Registration Rights Agreement, dated December 10, 2013, between Midland States Bancorp, Inc. and Richard E. Workman 2001 Trust.
10.4	Transitional Employment Agreement, dated November 16, 2015, between Midland States Bancorp, Inc., Midland States Bank and Leon J. Holschbach.
10.5	Employment Agreement, dated as of December 1, 2010, between Midland States Bancorp, Inc., Midland States Bank and Jeffrey G. Ludwig.
10.6	Amendment No. 1 to Employment Agreement, dated as of February 2, 2016, between Midland States Bancorp, Inc., Midland States Bank and Jeffrey G. Ludwig.
10.7	Employment Agreement, dated as of December 1, 2010, between Midland States Bancorp, Inc., Midland States Bank and Douglas J. Tucker.
10.8	Midland States Bancorp, Inc. Omnibus Stock Ownership and Long-Term Incentive Plan.
10.9	Third Amendment and Restatement of Midland States Bancorp, Inc. 1999 Stock Option Plan.
10.10	Midland States Bancorp, Inc. Second Amended and Restated 2010 Long-Term Incentive Plan.
10.11	Second Amended and Restated Deferred Compensation Plan for Directors and Executives of Midland States Bancorp, Inc.

Exhibit Number	Description
10.12	Form of Incentive Stock Option Award Terms under the Midland States Bancorp, Inc. Amended and Restated 2010 Long-Term Incentive Plan.
10.13	Form of Non-Qualified Stock Option Award Terms under the Midland States Bancorp, Inc. Amended and Restated 2010 Long-Term Incentive Plan.
10.14	Form of Restricted Stock Unit Award Terms under the Midland States Bancorp, Inc. Amended and Restated 2010 Long-Term Incentive Plan.
10.15	Form of Restricted Stock Award Terms under the Midland States Bancorp, Inc. Amended and Restated 2010 Long-Term Incentive Plan.
10.16	Midland States Bancorp, Inc. Management Incentive Program.
10.17	Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan, as amended.
10.18	Registration Rights Agreement, dated April 7, 2014, among Midland States Bancorp, Inc., Love Group, LLC, Love Real Estate Company, Bank of America and Andrew S. Love, Jr., as Trustees U/T/W of Andrew Sproule Love FBO Andrew Sproule Love, Jr., Love Investment Company, Andrew Sproule Love, Jr., as Trustee of The Love Family Charitable Trust, Andrew S. Love, Jr., Laurence A. Schiffer, James S. McDonnell III, and John F. McDonnell.
10.19	Indemnification Agreement, dated April 7, 2014, among Midland States Bancorp, Inc., Hallmark Investment Corporation, Love Group, LLC, Love Real Estate Company, Bank of America and Andrew S. Love, Jr., as Trustees U/T/W of Andrew Sproule Love FBO Andrew Sproule Love, Jr., Love Investment Company, Andrew Sproule Love, Jr., as Trustee of The Love Family Charitable Trust, Andrew S. Love, Jr., Laurence A. Schiffer, James S. McDonnell III, and John F. McDonnell.
10.20	Noncompetition Agreement, dated April 7, 2014, between Midland States Bancorp, Inc. and Andrew S. Love, Jr.
10.21	Noncompetition Agreement, dated April 7, 2014, between Midland States Bancorp, Inc. and Laurence A. Schiffer.
10.22	Shareholders' Agreement, dated April 7, 2014, among Midland States Bancorp, Inc., Love Group, LLC, Love Real Estate Company, Bank of America and Andrew S. Love, Jr., as Trustees U/T/W of Andrew Sproule Love FBO Andrew Sproule Love, Jr., Love Investment Company, Andrew Sproule Love, Jr., as Trustee of The Love Family Charitable Trust and Andrew S. Love, Jr.
10.23	Shareholders' Agreement, dated April 7, 2014, among Midland States Bancorp, Inc., James S. McDonnell III, and John F. McDonnell.
10.24	Supplemental Retirement Benefit Agreement, effective November 16, 2015, by and between Midland States Bancorp, Inc. and Leon J. Holschbach.
21.1	Subsidiaries of Midland States Bancorp, Inc.
23.1	Consent of KPMG LLP.
23.2	Consent of Barack Ferrazzano Kirschbaum & Nagelberg LLP (included as part of Exhibit 5.1).

Exhibit Number	Description
24.1	Power of Attorney (included on the signature page).

* To be filed by amendment

† Schedules and/or exhibits to this Exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule or exhibit to the SEC upon request.

Exhibit 2.1

FINAL VERSION

AGREEMENT AND PLAN OF MERGER

AMONG

MIDLAND STATES BANCORP, INC.,

HB ACQUISITION LLC

AND

LOVE SAVINGS HOLDING COMPANY

APRIL 7, 2014

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "**Agreement**") is entered into as of April 7, 2014, by and among **MIDLAND STATES BANCORP, INC.**, an Illinois corporation ("**Acquiror**"), **HB ACQUISITION LLC**, an Illinois limited liability company and wholly-owned subsidiary of Acquiror ("**Merger Sub**"), and **LOVE SAVINGS HOLDING COMPANY**, a Missouri corporation (the "**Company**").

RECITALS

A. The parties to this Agreement desire to effect a merger of the Company with and into Merger Sub (the "**Merger**") in accordance with this Agreement, the General and Business Corporation Law of Missouri, as amended (the "**GBCM**"), and the Illinois Limited Liability Company Act, as amended (the "**Illinois LLC Act**"), with Merger Sub to be the surviving entity in the Merger.

B. Acquiror and the Company previously entered into that certain Stock Purchase Agreement, dated as of September 12, 2013 (the "**Stock Purchase Agreement**"), pursuant to which Acquiror agreed to, among other things, purchase from the Company all of the outstanding capital stock of Heartland Bank, a federal savings bank with its main office located in Clayton, Missouri, and a wholly-owned subsidiary of the Company (the "**Bank**").

C. Simultaneously with the execution of the Stock Purchase Agreement, Midland States Bank, an Illinois chartered commercial member bank with its main office located in Effingham, Illinois, and a wholly-owned subsidiary of Acquiror ("**Acquiror Bank**"), and the Bank entered into that certain Bank Merger Agreement (the "**Bank Merger Agreement**") pursuant to which the parties agreed that, at a time following consummation of Acquiror's acquisition of the outstanding capital stock of the Bank, the Bank would merge (the "**Bank Merger**") with and into Acquiror Bank, in accordance with the Illinois Banking Act and the Federal Reserve Act, with Acquiror Bank being the surviving bank in the Bank Merger.

D. Acquiror and the Company have mutually agreed to restructure the transactions contemplated by the Stock Purchase Agreement as a merger transaction and, accordingly, have terminated the Stock Purchase Agreement simultaneously with the execution of this Agreement.

E. Acquiror Bank and the Bank also will amend and restate the Bank Merger Agreement (the "**Amended and Restated Bank Merger Agreement**") to provide for the consummation of the Bank Merger at a time following the Merger and otherwise conform the terms thereof to the terms of this Agreement.

F. The Company is a unitary savings and loan holding company registered under the Home Owners' Loan Act that, through its subsidiaries, conducts a variety of businesses and activities, some of which are not permissible for a bank holding company to conduct pursuant to Sections 4(c) and 4(k) of the Bank Holding Company Act of 1956, as amended (the "**BHC Act**"), and Federal Reserve regulations promulgated thereunder (such businesses, collectively, the "**Non-Banking Business**").

G. Prior to the closing of the Merger, the parties contemplate that: (i) pursuant to an internal restructuring transaction to be effected by the Company and its subsidiaries (the "**Internal Restructuring**"), the Non-Banking Business, as well as private equity investments, marketable securities and cash as determined by the Company (as necessary and appropriate to provide for adequate working capital), will be transferred by the Company to Hallmark

Investment Corporation, a Missouri corporation and wholly-owned Subsidiary of the Company (together with its Subsidiaries following the Internal Restructuring, the "**Hallmark Group**"); and (ii) the Company will consummate the disposition of 100% of the capital stock of the Hallmark Group to certain of its shareholders (the "**Distribution**") in such manner as may be elected by the Company in its sole discretion (provided that the method of the Internal Restructuring and the Distribution does not adversely affect Acquiror or the tax treatment of the Merger).

H. The respective boards of directors of Acquiror and the Company, and the sole member of Merger Sub, have approved the Merger upon the terms and subject to the conditions of this Agreement and in accordance with the GBCM and the Illinois LLC Act, approved and declared the advisability of this Agreement and have determined that consummation of the Merger in accordance with the terms of this Agreement is in the best interests of their respective companies and shareholders (or member, in the case of Merger Sub).

I. The parties intend that the Merger qualify as a "reorganization" under the provisions of Section 368(a) of the Code, and that this Agreement be and hereby is adopted as a "plan of reorganization" within the meaning of Sections 354 and 361 of the Code.

J. In connection with the Merger, Acquiror wishes to assume, upon the terms and conditions set forth herein: (i) certain assets and certain liabilities related to the trust preferred securities (the "**Trust Preferred Securities**") issued by each of Love Savings/Heartland Capital Trust III and Love Savings/Heartland Capital Trust IV Trust (the "**Trusts**"), Delaware statutory trusts for which Wilmington Trust Company serves as trustee (the "**Trustee**"); and (ii) the obligations of the Company pursuant to the subordinated notes issued by the Company to each Trust (the "**Trust Debentures**" and such transfer and assumption described in clauses (i) and (ii), the "**TRUPS Assumption**").

K. The parties desire to make certain representations, warranties and agreements in connection with the Merger and the TRUPS Assumption and the other transactions contemplated by this Agreement and also to prescribe certain conditions to the Merger, TRUPS Assumption and other transactions.

AGREEMENTS

In consideration of the foregoing premises, which are incorporated herein by this reference, and the following mutual promises, covenants and agreements, the parties hereby agree as follows:

Article 1

Definitions

Section 1.1. Definitions The following terms, when used herein, shall have the following meanings.

"**ABV Calculation**" has the meaning set forth in **Section 2.11**.

"**Accredited Investor**" means a Person who qualifies as an "accredited investor," as such term is defined in Rule 501(a) promulgated by the Securities and Exchange Commission under the Securities Act.

"**Accrued TRUPS Interest**" means the amount of accrued and deferred interest on the Trust Debentures as of the Effective Time that Acquiror is required to pay to the Trustee at the Closing.

"**Acquired Subsidiaries**" means, collectively: (i) the Bank and each of its Subsidiaries, which include those entities set forth on **Exhibit A**; and (ii) the Trusts.

"**Acquiror**" has the meaning set forth in the Preamble.

"**Acquiror Bank Equity**" has the meaning set forth in **Section 5.4(b)**.

"**Acquiror Common Stock**" means the common stock of the Company, $0.01 par value per share.

"**Acquiror Disclosure Schedules**" has the meaning set forth in **Section 1.2(b)**.

"**Acquiror Employee Benefit Plan**" means each "employee benefit plan" (as defined in Section 3(3) of ERISA), employment, compensation, pension, retirement, supplemental retirement, profit sharing, deferred compensation, savings, stock option, stock purchase, stock ownership, stock appreciation right, phantom stock, equity compensation, consulting, bonus, incentive, medical, dental, vision, disability, flexible spending, workers' compensation, vacation, paid time off, group insurance, severance and other similar plan, program, policy, agreement and arrangement, and each trust agreement related thereto, for which Acquiror has or may have any Liabilities, including by reason of having an ERISA Affiliate.

"**Acquiror Financial Statements**" has the meaning set forth in **Section 5.6**.

"**Acquiror Indemnified Parties**" has the meaning set forth in **Section 10.2**.

"**Acquiror Investment Securities**" has the meaning set forth in **Section 5.12**.

"Acquiror Key Employee" means any of Leon J. Holschbach, Jeffrey Ludwig, Douglas J. Tucker, John M. Schultz and Eric A. Chojnicki.

"**Acquiror Owned Properties**" has the meaning set forth in **Section 5.16(a)**.

"**Acquiror Properties**" means: (a) real estate currently owned or leased by Acquiror or any Acquiror Subsidiary and used or formerly used in the conduct of its respective business; (b) OREO held by Acquiror or any Acquiror Subsidiary; (c) real estate that is in the process of pending foreclosure or forfeiture Proceedings conducted by Acquiror or any Acquiror Subsidiary; (d) real estate that is held in trust for others by Acquiror or any Acquiror Subsidiary; (e) real estate owned or leased by a partnership or joint venture in which Acquiror or any Acquiror Subsidiary has an ownership interest; (f) the fee interests owned by Acquiror or any Acquiror Subsidiary in any Mortgaged Premises; and (g) any other real estate owned or leased by Acquiror or any Acquiror Subsidiary.

"**Acquiror Qualified Plan**" means each of the Acquiror Employee Benefit Plans that is intended to be "qualified" under Section 401(a) of the Code.

"**Acquiror Regulatory Reports**" has the meaning set forth in **Section 5.5**.

"**Acquiror Subsidiary**" means any Subsidiary of Acquiror.

"**Acquiror Tax Affiliate**" has the meaning set forth in **Section 5.9(a)**.

"**Acquisition Transaction**" means any of the following, whether occurring directly or indirectly: (a) a merger or consolidation, or any similar transaction (other than the Merger, the Internal Restructuring or the Distribution) of any company with the Company or any Acquired Subsidiary; (b) a purchase, lease or other acquisition of all or substantially all the assets of the Company or any Acquired Subsidiary; (c) a purchase or other acquisition of "beneficial ownership" by any "person" or "group" (as such terms are defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) (including by way of merger, consolidation, share exchange or otherwise) that would cause such person or group to become the beneficial owner of securities representing twenty percent (20%) or more of the voting power of the Company or any Acquired Subsidiary; or (d) a tender or exchange offer to acquire securities representing twenty percent (20%) or more of the voting power of the Company or any Acquired Subsidiary.

"**Adjusted Book Value**" means: (a) the total consolidated shareholders' equity of the Company as of the Calculation Date (but after reflecting the reduction of consolidated shareholders' equity resulting from the Internal Restructuring and the Distribution, if such transactions occur after the Calculation Date, and any liability for Taxes associated therewith, including by reason of the application of Section 355(e) of the Code to such transactions), calculated in accordance with the terms of this Agreement, and with GAAP as consistently applied by the Company; *less* (b) the sum of (i) any amounts required to be paid by Acquiror or the Company or any Acquired Subsidiary at or after the Calculation Date to any director, officer or employee of the Company or an Acquired Subsidiary pursuant to any change of control agreement or other contractual obligation, including under any benefit plan or employment practice of the Company or an Acquired Subsidiary, by reason of the consummation of the Contemplated Transactions, other than amounts that have been accrued or amounts payable pursuant to the agreements described on **Exhibit B**, (ii) the amount, if any, by which the Company's Loan Loss Reserve at the Calculation Date is less than Eleven Million Dollars ($11,000,000), (iii) any payment made, or cost or expense accrued, by the Company or any Acquired Subsidiary after the Calculation Date, but before the Closing, that is not otherwise

permitted, or that is prohibited, by the terms of this Agreement, (iv) the amount of any cost or expense that should have been incurred or accrued by the Company or any Acquired Subsidiary prior to Closing to bring the Company or such Acquired Subsidiary into compliance with the terms of this Agreement, but which cost or expense was not incurred or accrued, (v) all Company Transaction Expenses, (vi) any Remediation Cost required by **Section 6.7(b)** to be included in the calculation of Adjusted Book Value and (vii) the payment for Taxes that the Company will be required to make between the date of this Agreement and the Effective Time (to the extent such amount has not been accrued and included in total consolidated shareholders' equity of the Company as of the Calculation Date). The Adjusted Book Value shall be calculated in accordance with the procedures set forth in **Section 2.11**.

"**Affiliate**" of, or a Person "**Affiliated**" with, a specific Person means a Person that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.

"**Agreement**" has the meaning set forth in the Preamble.

"**Applicable Governmental Authorities**" means, with respect to a Person, the Regulatory Authorities and any other federal, state, county or local governmental body, instrumentality, agency, board or official having authority or jurisdiction to enforce any Applicable Law and Regulation.

"**Applicable Laws and Regulations**" means, with respect to a Person, all federal, state, local, municipal, foreign, international, multinational or other administrative Orders, constitutions, laws, ordinances, regulations and rules and rulings, and all published guidelines, interpretive letters, policy statements, directives advisories or bulletins, of any Applicable Governmental Authority that are applicable to or binding upon such Person, the conduct of its business or any of its assets.

"**Bank**" has the meaning set forth in the Recitals.

"**Bank Merger**" has the meaning set forth in the Recitals.

"**Best Efforts**" means the commercially reasonable efforts that a prudent Person desirous of achieving a result would use in similar circumstances to achieve such result as expeditiously as possible; *provided*, *however*, that an obligation to use best efforts under this Agreement does not require the Person subject to that obligation to take actions that would result in a materially adverse change in the benefits to such Person of this Agreement and the Contemplated Transactions.

"**Borrowing Affiliate**" has the meaning set forth in **Section 6.3(e)(ii)**.

"**Breach**" means any breach of, or any inaccuracy in, any representation or warranty or breach of, or failure to perform or comply with, any covenant or obligation in this Agreement or any instrument delivered pursuant to this Agreement.

"**Business Day**" means any day except Saturday, Sunday and any day on which Acquiror Bank is authorized or required by law or other government action to close.

"**Calculation Date**" means the end of the calendar month preceding the Closing Date.

"**Certificate**" means a stock certificate representing one or more shares of Company Preferred Stock or Company Common Stock.

"**Clayton Lease**" has the meaning set forth in **Section 2.6(i)**.

"**Closing**" has the meaning set forth in **Section 2.2(a)**.

"**Closing Date**" has the meaning set forth in set forth in **Section 2.2(a)**.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Company Common Stock**" means the common stock, $0.001 par value per share, of the Company.

"**Company Disclosure Schedules**" has the meaning set forth in **Section 1.2(b)**.

"**Company Employee Benefit Plan**" means each "employee benefit plan" (as defined in Section 3(3) of ERISA), employment, compensation, pension, retirement, supplemental retirement, profit sharing, deferred compensation, savings, stock option, stock purchase, stock ownership, stock appreciation right, phantom stock, equity compensation, consulting, bonus, incentive, medical, dental, vision, disability, flexible spending, workers' compensation, vacation, paid time off, group insurance, severance and other similar plan, program, policy, agreement and arrangement, and each trust agreement related thereto, for which the Company or an Acquired Subsidiary has or may have any Liabilities, including by reason of having an ERISA Affiliate.

"**Company Financial Statements**" has the meaning set forth in **Section 4.6**.

"**Company Indemnified Parties**" has the meaning set forth in **Section 10.3**.

"**Company Investment Securities**" has the meaning set forth in **Section 4.12(a)**.

"**Company Owned Properties**" has the meaning set forth in **Section 4.16(a)**.

"**Company Preferred Stock**" means, collectively, the Company Senior Preferred Stock and the Company Series A Preferred Stock.

"**Company Properties**" means: (a) real estate currently owned or leased by the Company or an Acquired Subsidiary and used or formerly used in the conduct of its respective business; (b) OREO held by the Company or an Acquired Subsidiary; (c) real estate that is in the process of pending foreclosure or forfeiture Proceedings conducted by the Company or an Acquired Subsidiary; (d) real estate that is held in trust for others by the Company or an Acquired Subsidiary; (e) real estate owned or leased by a partnership or joint venture in which the Company or an Acquired Subsidiary has an ownership interest; (f) the fee interests owned by the Company or an Acquired Subsidiary in any Mortgaged Premises; and (g) any other real estate owned or leased by the Company or an Acquired Subsidiary.

"**Company Qualified Plan**" means each of the Company Employee Benefit Plans that is intended to be "qualified" under Section 401(a) of the Code.

"**Company Real Estate**" means all interests in real property owned by the Company or any Acquired Subsidiary.

"**Company Regulatory Reports**" has the meaning set forth in **Section 4.5**.

"**Company Senior Preferred Stock**" means the Preferred Stock, $1.00 par value per share, of the Company.

"**Company Series A Preferred Stock**" means the Series A New Preferred Stock, $1.00 par value per share, of the Company created by the Certificate of Designation of Class A New Preferred Stock of the Company.

"**Company Subsequent Reports**" has the meaning set forth in **Section 6.4**.

"**Company Tax Affiliate**" has the meaning set forth in **Section 4.9(a)**.

"**Company Transaction Expenses**" means all fees and expenses of all attorneys, accountants, consultants, financial advisors and other professional advisors of the Company and the Acquired Subsidiaries, and all other costs and expenses incurred by the Company and the Acquired Subsidiaries, in connection with the Contemplated Transactions for which the Company or any Acquired Subsidiary is liable.

"**Confidentiality Agreement**" means that certain Mutual Nondisclosure Agreement dated March 15, 2012, between Acquiror and the Company.

"**Contemplated Transactions**" means all of the transactions contemplated by this Agreement, including the Internal Restructuring, the Distribution, the Merger, the Bank Merger, the performance by Acquiror, Merger Sub and the Company of their respective covenants and obligations under this Agreement and the performance by each party to the Voting Agreement, the Registration Rights Agreement and the Shareholders' Agreement.

"**Contract**" means any agreement, contract, commitment, obligation, understanding, arrangement or promise (whether written or oral and whether express or implied) that is legally binding.

"**Covered Employees**" has the meaning set forth in **Section 7.10(b)**.

"**Dissenting Shareholder**" has the meaning set forth in **Section 3.4**.

"**Dissenting Shares**" has the meaning set forth in **Section 3.4**.

"**Distribution**" has the meaning set forth in the Recitals.

"**Effective Time**" has the meaning set forth in **Section 2.2(b)**.

"**Eligible Shareholder**" means an owner of Company Preferred Stock or Company Common Stock as of the Effective Time who qualifies as an Accredited Investor.

"**Engagement Date**" has the meaning set forth in **Section 2.11**.

"**Environmental Laws**" means any federal, state, county and municipal law, including any statute, regulation, rule, ordinance, Order, restriction and requirement, relating to underground storage tanks, petroleum products, air pollutants, mold, water pollutants or process waste water or otherwise relating to the environment or toxic or hazardous substances or to the manufacture, processing, distribution, use, recycling, generation, treatment, handling, storage, disposal or transport of any hazardous or toxic substances or petroleum products (including polychlorinated biphenyls, whether contained or uncontained, and asbestos-containing materials, whether friable or not), including, the Federal Solid Waste Disposal Act, the Hazardous and Solid Waste Amendments, the Federal Clean Air Act, the Federal Clean Water Act, the Occupational Health and Safety Act, the Federal Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the Superfund Amendments and Reauthorization Act of 1986, all as amended, and regulations of the Environmental Protection Agency, the Nuclear Regulatory Agency and any state department of natural resources or state environmental protection agency now or at any time hereafter in effect.

"**Environmental Report**" has the meaning set forth in **Section 6.7(a)**.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended.

"**ERISA Affiliate**" means each "person" (as defined in Section 3(9) of ERISA) that has been treated as a single employer with the respective entity, or any predecessor of the respective entity, for purposes of Section 414 of the Code.

"**Fannie Mae**" means the Federal National Mortgage Association.

"**Federal Reserve**" means the Board of Governors of the Federal Reserve System.

"**FDIC**" means the Federal Deposit Insurance Corporation.

"**FHA**" means the Federal Housing Administration of the United States Department of Housing and Urban Development.

"**Freddie Mac**" means the Federal Home Loan Mortgage Corporation.

"**GAAP**" means generally accepted accounting principles in the United States, consistently applied.

"**GBCM**" has the meaning set forth in the Recitals.

"**Ginnie Mae**" means the Government National Mortgage Association.

"**Hallmark Group**" has the meaning set forth in the Recitals.

"**HPS**" has the meaning set forth in **Section 2.6(n)**.

"**HPS Relationship**" has the meaning set forth in **Section 10.1**.

"**IDFPR**" means the Illinois Department of Financial and Professional Regulation.

"**Illinois Articles of Merger**" has the meaning set forth in **Section 2.2(b)**.

"**Illinois LLC Act**" has the meaning set forth in the Recitals.

"**Immediate Family**" means a Person's spouse and, if they reside with such Person, parents and children.

"**Independent Accountants**" has the meaning set forth in **Section 2.11**.

"**Intellectual Property**" means all trademarks, trade names, service marks, patents, and copyrights, whether registered or the subject of an application for registration, that are owned by a Person or licensed from a third party (excluding "shrink wrap" retail computer software programs), and used by such Person in its business.

"**Intellectual Property Assets**" has the meaning set forth in **Section 4.20(e)**.

"**Internal Restructuring**" has the meaning set forth in the Recitals.

"**IRS**" means the Internal Revenue Service.

"**Key Employee**" means each executive level employee (as defined by Regulation O*)* of the respective entity, including, with respect to the Company and the Acquired Subsidiaries, Andrew S. Love, Laurence A. Schiffer, Mark Dellonte, David Minton and Larry White.

"**Knowledge**" with respect to: (a) an individual means that such individual will be deemed to have "Knowledge" of a particular fact or other matter if: (i) such individual is actually aware of such fact or other matter; or (ii) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the existence of such fact or other matters; and (b) a Person (other than an individual) means that such Person will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is serving, or who has served in the past twelve (12) months, as the Chief Executive Officer, Chief Operating Officer, Chief Credit/Lending Officer or Chief Financial Officer of such Person (or in any similar capacity) has Knowledge (determined in the manner described in clause (a) above) of such fact or other matter.

"**Letter of Transmittal**" has the meaning set forth in **Section 3.3(a)**.

"**LFC**" means Love Funding Corporation, a Subsidiary of the Bank.

"**LFC Dispute**" has the meaning set forth in **Section 10.2**.

"**Liabilities**" means, with respect to a Person, all of the obligations or liabilities of such Person, whether accrued, absolute, contingent, unliquidated or otherwise, whether due or becoming due, and regardless of when asserted, arising out of transactions or events previously entered into, or any action or inaction, including Taxes with respect to or based upon transactions or events previously occurring, that are required to be reflected, disclosed or reserved against in such Person's audited consolidated financial statements in accordance with GAAP.

"**Loan**" means each loan, loan agreement, promissory note, financing lease or other borrowing or credit agreement, any participation therein, and any guaranty, renewal or extension thereof.

"**Loan Loss Reserve**" means the allowance for loan and lease losses of a Person, calculated in accordance with GAAP and all Applicable Laws and Regulations.

"**Losses**" has the meaning set forth in **Section 10.2**.

"**Love Family**" means the Persons listed on **Schedule 1.1** under the heading "Love Family."

"**Love Family Board Representative**" has the meaning set forth in **Section 7.8(a)**.

"**Love Family Non-Voting Observer**" has the meaning set forth in **Section 7.8(a)**.

"**Mason Woods Lease**" has the meaning set forth in **Section 2.6(j)**.

"**Material Adverse Effect**" means any condition, event, change or occurrence that has or may reasonably be expected to: (a) have a material adverse effect on the condition (financial or otherwise), properties, assets, Liabilities, business, operations or results of operations, of a Person and any of its Subsidiaries on a consolidated basis; or (b) impair in any material respect the ability of a Person to timely perform its obligations under this Agreement; it being understood that a Material Adverse Effect shall not include: (x) a change with respect to, or effect on, a Person resulting from a change in law, rule, regulation, GAAP or regulatory accounting principles, as such would apply to the financial statements of any Person on a consolidated basis; (y) a change with respect to, or effect on, a Person and any of its Subsidiaries resulting from any other matter affecting depository institutions generally (including financial institutions and their holding companies), including changes in general economic conditions and changes in prevailing interest and deposit rates; and (z) actions or omissions taken by any Person as required hereunder.

"**McDonnell Family**" means the Persons listed on **Schedule 1.1** under the heading "McDonnell Family."

"**McDonnell Family Board Representative**" has the meaning set forth in **Section 7.8(b)**.

"**Merger**" has the meaning set forth in the Recitals.

"**Merger Sub**" has the meaning set forth in the Preamble.

"**Missouri Articles of Merger**" has the meaning set forth in **Section 2.2(b)**.

"**Mortgage Loan Investors**" means, collectively, Ginnie Mae, Fannie Mae, Freddie Mac, the FHA, the VA, the USDA and the Mortgage Purchasers.

"**Mortgage Purchasers**" means the institutional investors in, and purchasers of, mortgage loan products pursuant to existing mortgage loan purchase agreements with the Company and/or any Acquired Subsidiary.

"**Mortgaged Premises**" means: (a) each real property interest (including any fee or leasehold interest) that is encumbered or affected by any mortgage, deed of trust, deed to secure debt or other similar document or instrument granting to a Person a lien on or security interest in such real property interest; and (b) any other real property interest upon which is situated assets or other property (other than personal property) affected or encumbered by any document or instrument granting to a Person a lien thereon or security interest therein.

"**MSR Offer**" has the meaning set forth in **Section 6.22**.

"**New Instruments**" has the meaning set forth in **Section 3.3(b)**.

"**New Plans**" has the meaning set forth in **Section 7.10(c)**.

"**Non-Banking Business**" has the meaning set forth in the Recitals.

"**Objection Notice**" has the meaning set forth in **Section 2.11**.

"**OCC**" means the Office of the Comptroller of the Currency.

"**Old Plans**" has the meaning set forth in **Section 7.10(d)**.

"**Order**" means any award, decision, injunction, judgment, order, ruling, extraordinary supervisory letter, policy statement, memorandum of understanding, resolution, agreement, directive, subpoena or verdict entered, issued, made, rendered or required by any court, administrative or other governmental agency, including any Regulatory Authority, or by any arbitrator.

"**Ordinary Course of Business**" means an action taken by a Person that: (a) is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; (b) is not required to be authorized by the board of directors of such Person (or by any Person or group of Persons exercising similar authority), other than Loan approvals for customers of a financial institution; and (c) is similar in nature and magnitude to actions customarily taken, without any authorization by the board of directors (or by any Person or group of Persons exercising similar authority), other than Loan approvals for customers of a financial institution, in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person.

"**OREO**" means real estate owned by a Person and designated as "other real estate owned."

"**Organizational Documents**" means: (a) the articles or certificate of incorporation and bylaws of a corporation; (b) the certificate of formation or articles of organization and limited liability company agreement, operating agreement, or like agreement of a limited liability company; (c) the partnership agreement of a general partnership; (d) the limited partnership agreement and certificate of limited partnership of a limited partnership; and (e) the charter or articles of association and bylaws of a bank.

"**PBGC**" means the U.S. Pension Benefit Guaranty Corporation.

"**Permitted Liens**" means: (a) liens arising out of judgments or awards in respect of which the Company or an Acquired Subsidiary, Acquiror or Acquiror Bank, as the case may be, is in good faith prosecuting an appeal or Proceedings for review and in respect of which it has secured a subsisting stay of execution pending such appeal or Proceedings; (b) liens for real estate taxes, assessments and other governmental charges or levies the payment of which is not past due, or as to which the Company or an Acquired Subsidiary, Acquiror or Acquiror Bank, as the case may be, is diligently contesting in good faith and by appropriate Proceedings either the amount thereof or the Liability therefor or both; (c) deposits, liens or pledges to secure payments of worker's compensation, unemployment insurance, pensions or other social security obligations, or the performance of bids, tenders, leases, Contracts (other than Contracts for the payment of money), public or statutory obligations, surety, stay or appeal bonds, or similar obligations arising in the Ordinary Course of Business; (d) zoning restrictions, easements, licenses and other restrictions on the use of real property or any interest therein, or minor irregularities in title thereto, in any case that do not materially impair the use of such property in the operation of the business of the Company or an Acquired Subsidiary, Acquiror or Acquiror Bank, as the case may be, or the merchantability or the value of such property or interest therein for the purpose of such business; (e) purchase money mortgages or other purchase money or vendor's liens or security interests (including finance leases), provided that no such mortgage, lien or security interest shall extend to or cover any other property of the Company or an Acquired Subsidiary, Acquiror or Acquiror Bank, as the case may be, other than that so purchased; (f) pledges and liens given to secure deposits and other Liabilities of the Company or an Acquired Subsidiary, Acquiror or Acquiror Bank, as the case may be, arising in the ordinary course of banking business; (g) liens, charges or encumbrances reflected in the applicable financial statements delivered to the other party to this Agreement, including liens imposed by law, such as mechanics', workmen's, materialmen's, landlords', carriers' or other similar liens arising in the Ordinary Course of Business; and (h) any other liens, charges or encumbrances that are not material, individually or in the aggregate, in kind or amount.

"**Person**" means any individual, corporation (including any nonprofit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union or other entity or Regulatory Authority.

"**Phase I Report**" has the meaning set forth in **Section 6.7(a)**.

"**Phase II Report**" has the meaning set forth in **Section 6.7(a)**.

"**Proceeding**" means any claim, action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, quasi-judicial, administrative, investigative or informal)

commenced, brought, conducted or heard by or before, or otherwise involving, any judicial or governmental authority, including a Regulatory Authority, or arbitrator.

"**Proposed MSR Sale**" has the meaning set forth in **Section 6.22**.

"**Registration Rights Agreement**" has the meaning set forth in **Section 6.16**.

"**Regulation O**" means Regulation O adopted by the Federal Reserve and found at 12 CFR 215.

"**Regulatory Authority**" means any federal, state or local governmental body, agency, court, judicial body or authority that, under Applicable Laws and Regulations: (a) has supervisory, judicial, administrative, police, enforcement, taxing or other power or authority over the Company or any Acquired Subsidiary, Acquiror or Acquiror Bank; (b) is required to approve, or give its consent to, the Contemplated Transactions; or (c) with which a filing must be made in connection therewith, including in any case, the Federal Reserve, the IDFPR and the OCC.

"**Regulatory Approvals**" means the approval, non-objection or waiver of the Federal Reserve, the IDFPR, the U.S. Department of Justice and any other Applicable Governmental Authorities whose approval, non-objection or waiver is necessary for the consummation of the Contemplated Transactions.

"**Remediation Cost**" has the meaning set forth in **Section 6.7(b)**.

"**Representative**" means with respect to a particular Person, any director, officer, manager, employee, agent, consultant, advisor or other representative of such Person, including legal counsel, accountants and financial advisors.

"**Schedules**" has the meaning set forth in **Section 1.2(b)**.

"**Securities Act**" has the meaning set forth in **Section 2.2**.

"**Shareholders' Agreement**" has the meaning set forth in **Section 6.17**.

"**Shareholder Representative**" has the meaning set forth in **Section 6.23(c)**.

"**Stock Purchase Agreement**" has the meaning set forth in the Recitals.

"**Subsidiary**" means with respect to any Person (the "**Owner**"), any corporation or other Person of which securities or other interests having the power to elect a majority of that corporation's or other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries.

"**Superior Proposal**" means an Unsolicited Proposal that is determined in good faith by the Company's board of directors to be on terms that are more favorable to the shareholders of the Company (other than those individuals executing the voting agreement referenced in

Section 6.15) than the Merger and has a reasonable prospect of being consummated in accordance with its terms.

"**Supplemental Indenture**" has the meaning set forth in **Section 2.6(h)**.

"**Tax**" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, prohibited transaction, stamp, occupation, premium, property or windfall profits tax, environmental tax, customs duty, capital stock, franchise, employees' income withholding, foreign or domestic withholding, social security, unemployment, disability, workers' compensation, employment-related insurance, real property, personal property, sales, use, transfer, value added, alternative or add-on minimum or other tax, fee or assessment imposed by a taxing jurisdiction, including any interest, penalties or additional amounts in respect of the foregoing, for each party hereto and its commonly controlled entities and all members of any consolidated, affiliated, combined or unitary group of which any of them is a member.

"**Tax Return**" means any return (including any information return), report, statement, schedule, notice, form or other document or information filed with or submitted to, or required to be filed with or submitted to, any Regulatory Authority in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Applicable Laws and Regulations relating to any Tax.

"**Termination Date**" means five (5) months after the date of this Agreement, or such other date as shall have been agreed to in writing by Acquiror and the Company.

"**Threatened**" with respect to a Proceeding, dispute or other matter means a Proceeding, dispute or other matter for which any demand or statement has been made (orally or in writing) or any notice has been given (orally or in writing), or any other event has occurred or any other circumstances exist, that would lead a prudent Person to conclude that such a Proceeding, dispute or other matter may be asserted, commenced, taken or otherwise pursued in the future.

"**Transaction Documents**" means this Agreement and all of the other documents to be executed in connection with the Contemplated Transactions.

"**Transition Date**" has the meaning set forth in **Section 7.10(c)**.

"**TRUPS Assumption**" has the meaning set forth in the Recitals.

"**Trusts**" has the meaning set forth in the Recitals.

"**Trust Debentures**" has the meaning set forth in the Recitals.

"**Trust Preferred Securities**" has the meaning set forth in the Recitals.

"**Trustee**" has the meaning set forth in the Recitals.

"**Unsolicited Proposal**" means an Acquisition Transaction that was not, after the date of this Agreement, made, encouraged, facilitated, solicited, initiated or assisted by the Company, any of its Subsidiaries or any of their respective Representatives or Affiliates.

"**USDA**" means the U.S. Department of Agriculture.

"**VA**" means the U.S. Department of Veterans Affairs.

"**Visa Ownership**" has the meaning set forth in **Section 10.1**.

"**Voting Agreement**" has the meaning set forth in **Section 6.15**.

Section 1.2. Principles of Construction.

(a) In this Agreement, unless otherwise stated or the context otherwise requires, the following uses apply:

(i) unless otherwise provided herein, actions permitted but not required under this Agreement may be taken at any time, and from time to time, in the actor's sole discretion;

(ii) references to a statute shall refer to the statute and any successor statute, and to all regulations promulgated under or implementing the statute or its successor, as in effect at the relevant time;

(iii) in computing periods from a specified date to a later specified date, the words "from" and "commencing on" (and the like) mean "from and including," and the words "to," "until" and "ending on" (and the like) mean "to, but excluding";

(iv) references to a governmental or quasi-governmental agency, authority or instrumentality shall also refer to a regulatory body that succeeds to the functions of the agency, authority or instrumentality;

(v) indications of time of day mean Effingham, Illinois, time;

(vi) "including" means "including, but not limited to";

(vii) all references to articles, sections, schedules and exhibits are to articles, sections, schedules and exhibits in or to this Agreement unless otherwise specified;

(viii) any reference to a document or set of documents in this Agreement, and the rights and obligations of the parties under any such documents, shall mean such document or documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof;

(ix) all words used in this Agreement will be construed to be of such gender or number as the circumstances require;

(x) except as expressly provided herein, or as the context clearly requires otherwise, all representations, warranties and covenants with respect to any Person mean the applicable Person and any Subsidiary thereof; and

(xi) the captions and headings of articles, sections, schedules and exhibits appearing in or attached to this Agreement have been inserted solely for convenience of reference and shall not be considered a part of this Agreement nor shall any of them affect the meaning or interpretation of this Agreement or any of its provisions.

(b) The schedules of each of Acquiror and the Company referred to in this Agreement (the "**Acquiror Disclosure Schedules**" and the "**Company Disclosure Schedules**," respectively, and collectively, the "**Schedules**") shall consist of items, the disclosure of which with respect to a specific party is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained herein or to one or more covenants contained herein, which Schedules were delivered by each of Acquiror and the Company to the other on the date of this Agreement. Subject to the requirement that all disclosures made in the Schedules include appropriate cross-references to the section(s) of this Agreement to which such disclosure is responsive, any matter disclosed in the Schedules pursuant to one section of this Agreement shall be deemed disclosed for all cross-referenced sections of this Agreement. In the event of any inconsistency between the statements in the body of this Agreement and those in the Schedules (other than an exception expressly set forth as such in the Schedules with respect to a specifically identified representation or warranty), the statements in the body of this Agreement will control.

(c) All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

(d) With regard to each and every term and condition of this Agreement and any and all agreements and instruments subject to the terms hereof, the parties hereto understand and agree that the same have or has been mutually negotiated, prepared and drafted, and that if at any time the parties hereto desire or are required to interpret or construe any such term or condition or any agreement or instrument subject hereto, no consideration shall

be given to the issue of which party hereto actually prepared, drafted or requested any term or condition of this Agreement or any agreement or instrument subject hereto.

(e) If in any case pursuant to this Agreement, the consent of either the Company or Acquiror is required or necessary, the party from whom such consent is required or necessary may not unreasonably withhold or delay the giving of such consent.

Article 2

The Merger

Section 2.1. **The Merger**. Provided that this Agreement shall not prior thereto have been terminated in accordance with its express terms, upon the terms and subject to the conditions of this Agreement and in accordance with the applicable provisions of the Illinois LLC Act and the GBCM, at the Effective Time, the Company shall be merged with and into

Merger Sub pursuant to the provisions of, and with the effects provided in, the Illinois LLC Act and the GBCM, the separate corporate existence of Company shall cease and Merger Sub will be the Surviving Entity.

Section 2.2. **Effective Time; Closing**.

(a) Provided that this Agreement shall not prior thereto have been terminated in accordance with its express terms, the closing of the Merger (the "**Closing**") shall occur on a date (the "**Closing Date**") that is mutually agreed upon by the parties; *provided* that, in the absence of an agreement, the Closing shall occur on the fifteenth (15th) Business Day of the calendar month following the calendar month during which all of the conditions set forth in **Article 9** have been satisfied or waived (other than those conditions that by their nature are to be satisfied or waived at the Closing, such as the required delivery of the certificates, documents and other closing items listed in **Section 2.6** and **Section 2.7**); *provided further, however*, that the Closing Date shall be delayed if Independent Accountants have been engaged pursuant to **Section 2.11** to make a determination of Adjusted Book Value, and in that event, the Closing Date shall be no later than thirty (30) days after the Engagement Date. The Closing shall occur at a time and place that is mutually acceptable to Acquiror and the Company, or if they fail to agree, at 10:00 a.m., Central Time, on the Closing Date at the offices of the Company, located at 212 South Central Avenue, St. Louis, Missouri. Subject to the provisions of **Section 11.1**, failure to consummate the Contemplated Transactions on the date and time and at the place determined pursuant to this Section 2.2 will not result in the termination of this Agreement and will not relieve any party of any obligation under this Agreement.

(b) The parties hereto agree to file on the Closing Date articles of merger, as contemplated by the Illinois LLC Act (the "**Illinois Articles of Merger**"), with the Secretary of State of the State of Illinois, and articles of merger, as contemplated by the GBCM (the "**Missouri Articles of Merger**"), with the Secretary of State of the State of Missouri. The Merger shall become effective as of the date and time specified in the Illinois Articles of Merger (the "**Effective Time**").

Section 2.3. **Effects of the Merger**. At the Effective Time, the effects of the Merger shall be as provided in this Agreement, the Illinois Articles of Merger, the Missouri Articles of Merger and Section 37-30 of the Illinois LLC Act and Section 351.450 of the GBCM. Without limiting the generality of the foregoing, at the Effective Time, all of the property, rights, privileges, powers and franchises of the Company shall be vested in the Surviving Entity, and all debts, liabilities and duties of Company shall become the debts, liabilities and duties of the Surviving Entity.

Section 2.4. **Organizational Documents of the Surviving Entity**. The articles of organization and operating agreement of Merger Sub, as in effect immediately prior to the Effective Time, shall be the articles of organization and operating agreement of the Surviving Entity until thereafter amended in accordance with the provisions thereof and applicable law.

Section 2.5. **Manager of the Surviving Entity**. The manager of Merger Sub immediately prior to the Effective Time shall be the manager of the Surviving Entity.

Section 2.6. **The Company's Deliveries at Closing**. At the Closing, the Company shall deliver, or cause to be delivered, to Acquiror the following items:

(a) a good standing certificate for the Company and each of the Acquired Subsidiaries issued by the secretary of state of the state of organization or the applicable Regulatory Authority (in the case of the Bank) dated not more than ten (10) Business Days prior to the Closing Date;

(b) a copy of the charter, articles of incorporation or similar Organizational Documents, as applicable, of the Company and each of the Acquired Subsidiaries issued by the secretary of state of the state of organization or the applicable Regulatory Authority (in the case of the Bank) and dated not more than ten (10) Business Days prior to the Closing Date;

(c) a certificate of the Secretary, Assistant Secretary, Manager, or comparable officer of the Company and each Acquired Subsidiary dated the Closing Date certifying a copy of the bylaws or similar Organizational Document of the Company or Acquired Subsidiary and stating that there have been no further amendments to the charter, articles of incorporation or similar Organizational Document, as applicable, of the Company or Acquired Subsidiary delivered pursuant to this **Section 2.6**;

(d) a certificate of the Secretary or any Assistant Secretary of the Company certifying as of the Closing Date: (i) copies of resolutions of the board of directors and the shareholders of the Company approving this Agreement and the consummation of any of the Contemplated Transactions for which their approval is required; and (ii) a list of the shareholders of the Company with the number of shares of Company Preferred Stock and/or Company Common Stock owned by each and the number(s) on the Certificate(s) issued to each;

(e) a certificate executed by the President of the Company dated the Closing Date stating that: (i) all of the representations and warranties of the Company set forth in this Agreement are true and correct in all material respects with the same force and effect as if all of such representations and warranties were made at the Closing Date; and (ii) the Company has performed or complied in all material respects with all of the covenants and obligations to be performed or complied with by it under the terms of this Agreement on or prior to the Closing Date; *provided, however,* that to the extent any representations and warranties, or performance and compliance with any covenants and obligations, are subject in this Agreement to a standard of materiality, such representations and warranties shall be true and correct in all respects, and the Company shall have performed and complied in all respects with such covenants and obligations, in each case to the extent of the materiality standard set forth herein;

(f) a certificate executed by the President of the Company dated the Closing Date stating that: (i) all intercompany assets and liabilities owing to or by the Company or any Acquired Subsidiary with respect to the Hallmark Group (including any guarantees of the indebtedness of the Hallmark Group provided by the Company or any Acquired Subsidiary) have been settled in full as of the Effective Time; and (ii) there are no outstanding loans or other amounts owing to or by the Company to any director or shareholder of the Company;

(g) a certificate executed by the President of the Company dated the Closing Date stating that all fees and expenses of the Company's legal counsel, accountants and financial advisor or investment banker, if any, incurred or reasonably expected to be incurred by the Company and Acquired Subsidiaries in connection with the Contemplated Transactions prior to and including the Effective Time, including all of the Company Transaction Expenses for which the Company is liable, have as of the Closing Date been paid or accrued in full;

(h) an assignment and assumption agreement or supplemental indenture, in a form satisfactory to the Trustee and Acquiror, assigning all of the Company's covenants, agreements and obligations under the Trust Debentures to Acquiror (the "**Supplemental Indenture**"), signed by a duly authorized officer of the Company, and any and all other documentation and consents required by the Trustee, in a form satisfactory to the Trustee and Acquiror, to effectuate the TRUPS Assumption;

(i) a lease (the "**Clayton Lease**") relating to the approximately 26,073 square feet of space at 212 South Central Avenue, Clayton, Missouri (representing the portion of the building currently occupied by the Bank and LFC), and which shall include principal building naming and signage rights, in substantially the form attached hereto as **Exhibit C**, permitting the use of such property by Acquiror or Acquiror Bank, signed by a duly authorized officer of Heartland Place, L.L.C., the owner of the property;

(j) a lease (the "**Mason Woods Lease**") relating to the Bank's branch office located at 13402 Clayton Road, Town & Country, Missouri, permitting the use of such property by Acquiror or Acquiror Bank, in substantially the form attached hereto as **Exhibit D**, signed by a duly authorized officer of Mason Woods Village, LLC, the owner of the property

(k) the written resignations of each of such directors and officers of the Company and any Acquired Subsidiary as may be requested by Acquiror no later than ten (10) Business Days prior to the Closing, other than: (i) the resignations of Andrew S. Love, Laurence A. Schiffer and Mark Dellonte as directors of LFC; and (ii) the resignations of Andrew S. Love, Laurence A. Schiffer and Larry White as directors of Heartland Business Credit Corporation;

(l) a list of all of the Company's shareholders who the Company reasonably believes are Eligible Shareholders;

(m) a Confidential Investor Questionnaire, in substantially the form attached hereto as **Exhibit E**, signed by each Eligible Shareholder, demonstrating to the reasonable satisfaction of Acquiror that each such Eligible Shareholder is an Accredited Investor;

(n) evidence of the termination of any and all sponsor bank or other similar agreements between Heartland Payment Systems ("**HPS**") and the Bank, as described in **Section 6.20**;

(o) copies of resolutions of the board of directors of the Company and the Bank authorizing and approving the consummation of the Bank Merger and the merger agreement to effect the Bank Merger, as described in **Section 8.3**, certified as of the Closing Date by the Secretary, Assistant Secretary or comparable officer of the Company and the Bank;

(p) legal opinions, dated the Closing Date, of counsel to the Company, Acquired Bank and certain shareholders of the Company, in the forms attached to this Agreement as **Exhibit F-1**, **Exhibit F-2** and **Exhibit F-3**; and

(q) such other documents as Acquiror or its counsel shall reasonably request.

All of such items shall be reasonably satisfactory in form and substance to Acquiror and its counsel.

Section 2.7. **Acquiror's Deliveries at Closing**. At the Closing, Acquiror shall deliver, or cause to be delivered, to the Company the following items:

(a) evidence of the delivery by Acquiror or Merger Sub to the Exchange Agent (as defined in **Section 3.3(b)**) of: (i) an amount of cash equal to the portion of the Aggregate Merger Consideration to be paid in cash; and (ii) that number of shares of Acquiror Common Stock representing the portion of the Aggregate Merger Consideration to be paid in shares of Acquiror Common Stock at the Closing, in each case pursuant to **Article 3**;

(b) a good standing certificate for each of Acquiror, Merger Sub and Acquiror Bank issued by the Secretary of State of Illinois (in the case of Acquiror and Merger Sub) or the applicable Regulatory Authority (in the case of Acquiror Bank) dated not more than ten (10) Business Days prior to the Closing Date;

(c) a copy of the charter, articles of incorporation or similar Organizational Documents, as applicable, of each of Acquiror, Merger Sub and Acquiror Bank certified by the Secretary of State of Illinois (in the case of Acquiror and Merger Sub) or the applicable Regulatory Authority (in the case of Acquiror Bank) and dated not more than ten (10) Business Days prior to the Closing Date;

(d) a certificate of the Secretary, any Assistant Secretary or comparable officer of each of Acquiror, Merger Sub and Acquiror Bank dated the Closing Date certifying a copy of the bylaws, operating agreement or similar Organizational Document of such entity and stating that there have been no further amendments to the charter, articles of incorporation or similar Organizational Document, as applicable, of Acquiror, Merger Sub or Acquiror Bank that is delivered pursuant to this **Section 2.7**;

(e) copies of resolutions of the board of directors of Acquiror approving this Agreement and the consummation of any of the Contemplated Transactions for which its approval is required, certified as of the Closing Date by the Secretary or any Assistant Secretary of Acquiror;

(f) copies of resolutions of the sole member and manager of Merger Sub approving this Agreement and the consummation of any of the Contemplated Transactions for which its approval is required, certified as of the Closing Date by any authorized officer of Merger Sub;

(g) the Supplemental Indenture signed by a duly authorized officer of Acquiror and any and all other documentation required by the Trustee to effectuate the TRUPS Assumption;

(h) the Clayton Lease signed by a duly authorized officer of Acquiror;

(i) the Mason Woods Lease signed by a duly authorized officer of Acquiror;

(j) a certificate executed by the President or any Executive Vice President of Acquiror dated the Closing Date stating that: (i) all of the representations and warranties of Acquiror set forth in this Agreement are true and correct in all material respects with the same force and effect as if all of such representations and warranties were made at the Closing Date; and (ii) Acquiror has performed or complied in all material respects with all of the covenants and obligations to be performed or complied with by it under the terms of this Agreement on or prior to the Closing Date; *provided, however*, that to the extent any representations and warranties, or performance and compliance with any covenants and obligations, are subject in this Agreement to a standard of materiality, such representations and warranties shall be true and correct in all respects, and Acquiror shall have performed and complied in all respects with such covenants and obligations, in each case to the extent of the materiality standard set forth herein;

(k) evidence of the appointment of the Love Family Board Representative and the McDonnell Family Board Representative as members of the board of directors of Acquiror and the granting of non-voting board observer rights to the Love Family Non-Voting Observer, in each case pursuant to **Section 7.8**;

(l) the legal opinion of counsel to Acquiror, dated the Closing Date, in the form attached to this Agreement as **Exhibit G**; and

(m) such other documents as the Company or the Company's counsel shall reasonably request.

All of such items shall be reasonably satisfactory in form and substance to the Company and its counsel.

Section 2.8. **TRUPS Assumption**. As of the Effective Time and upon the terms and conditions set forth herein: (a) the Company will sell, assign, transfer, convey and deliver to Acquiror, and Acquiror will acquire from the Company, all of the rights, title and interests of the Company in the Trusts, free and clear of any security interest, lien, encumbrance or other charge and all records associated therewith; (b) Acquiror will assume and discharge all of the Company's covenants, agreements and obligations under and relating to the Trust Preferred Securities and the Trust Debentures, including the due and punctual payment of interest on all of the Trust Debentures; and (c) Acquiror will cause each Trust to discharge its obligations with respect to the Trust Preferred Securities arising after the Effective Time in accordance with the terms and conditions of the agreements related to the Trust Preferred Securities and the TRUPS Assumption. In addition, at the Closing, Acquiror will pay, on behalf of the Company, the Accrued TRUPS Interest to the Trustee.

Section 2.9. **Alternative Structure**. Notwithstanding anything herein to the contrary, before the Effective Time, upon receipt by the Company of a certification from Acquiror that all of the conditions to Acquiror's obligations at Closing have been satisfied other than delivery of certificates, opinions of counsel and other documents that, in the reasonable opinion of the Company, are not an impediment to Closing, at Acquiror's request, Acquiror and the Company shall, before the Effective Time, negotiate in good faith with respect to changing the method of effecting the Contemplated Transactions if and to the extent that Acquiror deems such change to be desirable; *provided*, that any such change shall not: (a) affect the U.S. federal income tax consequences of the Merger to holders of Company Preferred Stock or Company Common Stock; (ii) alter or change the amount or kind of the consideration to be issued to shareholders of the Company as consideration in the Merger; (iii) delay the Closing Date by more than thirty (30) calendar days in the aggregate; or (iv) adversely affect the economic benefits to the shareholders of the Company or the corporate governance provisions in this Agreement. If the parties agree to make any such change, they shall execute appropriate documents to reflect the change.

Section 2.10. **Absence of Control**. Subject to any specific provisions of this Agreement, it is the intent of the parties to this Agreement that neither Acquiror nor the Company by reason of this Agreement shall be deemed (until consummation of the Contemplated Transactions) to control, directly or indirectly, the other party or any of its respective Subsidiaries and shall not exercise, or be deemed to exercise, directly or indirectly, a controlling influence over the management or policies of such other party or any of its respective Subsidiaries.

Section 2.11. **Calculation of Adjusted Book Value**. Adjusted Book Value shall be calculated by the Company using reasonable estimates of revenues and expenses where actual amounts are not available. The calculation of Adjusted Book Value (the **"ABV Calculation"**) shall be delivered to Acquiror, accompanied by appropriate supporting detail, no later than the close of business on the tenth (10^{th}) day following the Calculation Date. If prior to the close of business on the fifth (5^{th}) day following delivery of the ABV Calculation to Acquiror, Acquiror has not given the Company notice of an objection to the ABV Calculation (which notice shall state in reasonable detail the basis of Acquiror's objection and its proposed adjustments (the **"Objection**

Notice")), the ABV Calculation as prepared by the Company will be final, binding, and conclusive on the parties. If Acquiror timely gives the Company an Objection Notice and if the Company and Acquiror fail to resolve the issues raised in the Objection Notice prior to the close of business on the fifth (5th) day following delivery of the Objection Notice by Acquiror, the determination of the Adjusted Book Value shall be submitted to the Chicago, Illinois, office of Deloitte & Touche LLP (or, if the Chicago, Illinois, office of Deloitte & Touche LLP is unable or unwilling to serve in such capacity, a recognized national or regional independent accounting firm mutually acceptable to the Company and Acquiror) (the "**Independent Accountants**") for a binding determination of the Adjusted Book Value. The Independent Accountants' determination of the Adjusted Book Value shall be no greater than the amount proposed by the Company, and no less than the amount proposed by Acquiror. The Independent Accountants shall be directed by the Company and Acquiror to use their Best Efforts to make a determination as soon as practicable within ten (10) days after the date of its engagement (the "**Engagement Date**"), but in no event later than thirty (30) days after the Engagement Date, and the Independent Accountants' resolution of the Adjusted Book Value shall be conclusive and

binding upon Acquiror and the Company. The Company and Acquiror shall execute any agreement required by the Independent Accountants to accept their engagement and shall each bear one-half of the fees and costs of the Independent Accountants. Notwithstanding anything contained herein to the contrary, if there is a determination of any issues raised in an Objection Notice (other than a determination duly rendered by the Independent Accountants) that would have the effect of reducing the Adjusted Book Value by One Million Dollars ($1,000,000) or more, such determination shall not be valid or effective against the Company unless approved by: (i) the Company's board of directors; and (ii) the Shareholder Representative, *provided, however*, that if either the Company's board of directors or the Shareholder Representative fails to agree with such determination, then the issues raised in the Objection Notice shall be submitted to the Independent Accountants for a binding determination as provided above in this **Section 2.11**.

Article 3

Merger Consideration; Exchange Procedures

Section 3.1. **Merger Consideration; Conversion of Stock**.

(a) The following terms first used in this **Article 3** shall have the following meanings:

(i) "**Aggregate Merger Consideration**" means an amount in cash and shares of Acquiror Common Stock equal to Seventy-Six Million Two Hundred Thousand Dollars ($76,200,000) (as adjusted, if applicable, pursuant to **Section 3.1(b)(v)**). The Aggregate Merger Consideration shall consist of: (1) cash in the amount of Sixteen Million Seven Hundred Thousand Dollars ($16,700,000) (as adjusted, if applicable, pursuant to **Section 3.1(b)(v)**) (the "**Aggregate Cash Consideration**"), and (2) shares of Acquiror Common Stock with a value (based on the Per Share Acquiror Stock Valuation, as adjusted, if applicable, pursuant to **Section 3.1(a)(iii)**) equal to Fifty-Nine Million Five Hundred Thousand Dollars ($59,500,000) (as adjusted, if applicable, pursuant **Section 3.1(b)(v)**) (the "**Aggregate Stock Consideration**").

(ii) "**Cash Consideration to Common Shareholders**" means an amount in cash equal to: (1) the Aggregate Cash Consideration, *less* (2) the aggregate amount of cash payable to holders of the Company Senior Preferred Stock and the Company Series A Preferred Stock pursuant to **Section 3.1(b)**.

(iii) "**Per Share Acquiror Stock Valuation**" means $16.50, adjusted as follows: (1) increased by the amount that the tangible book value per share of Acquiror Common Stock as of the Calculation Date is greater than the tangible book value per share as of September 30, 2013 (except to the extent any increase in the tangible book value per share results from the conversion to Acquiror Common Stock of convertible preferred stock of Acquiror), subject to a maximum increase of $0.50 per calendar quarter; and (2) if Acquiror, at any time after March 31, 2013, but prior to ninety (90) days after the Closing Date, issues or agrees to issue additional Acquiror Common Stock at a price per share less than the Per Share Acquiror Stock Valuation, then the Per Share Acquiror Stock Valuation shall be decreased to the price per share at which the additional Acquiror Common Stock was issued or agreed to be

issued. Notwithstanding the foregoing, no adjustment shall be made on account of any Acquiror Common Stock issued or issuable in connection with Acquiror's acquisition of Grant Park Bancshares, Inc. or any sales, awards and grants made in the Ordinary Course of Business under any Acquiror Employee Benefit Plan.

(iv) "**Per Share Senior Preferred Liquidation Preference**" means an amount equal to the per share Liquidation Preference, as such term is defined in subparagraph 4 of Article Three of the Company's Articles of Incorporation, as amended, as of the Closing Date.

(v) "**Per Share Series A Preferred Liquidation Preference**" means an amount equal to the per share Series A Liquidation Preference, as such term is defined in paragraph B of the Company's Certificate of Designation of Class A New Preferred Stock filed with the Missouri Secretary of State on September 25, 2006, as of the Closing Date.

(vi) "**Senior Preferred Per Share Consideration**" means an amount equal to: (1) (A) the Per Share Senior Preferred Liquidation Preference, *multiplied by* (B) Fifteen Thousand Eighty-Eight (15,088), *less* (C) Four Million Dollars ($4,000,000), *divided by* (2) Fifteen Thousand Eighty-Eight (15,088).

(vii) "**Series A Preferred Per Share Consideration**" means an amount equal to: (1) the Per Share Series A Preferred Liquidation Preference, *multiplied by* (2) 0.80.

(viii) "**Stock Consideration to Common Shareholders**" means an amount in shares of Acquiror Common Stock equal to: (1) the Aggregate Stock Consideration, *less* (2) the aggregate value of shares of Acquiror Common Stock (based on the Per Share Acquiror Stock Valuation) payable to holders of the Company Senior Preferred Stock and the Company Series A Preferred Stock pursuant to **Section 3.1(b)**.

(b) At the Effective Time, by virtue of the Merger and without any action on the part of Acquiror, Merger Sub, the Company or the holder of any of the following securities:

(i) Each membership interest of Merger Sub issued and outstanding immediately prior to the Effective Time shall be unaffected by the Merger and shall thereafter represent one membership interest of the Surviving Entity.

(ii) Each share of Company Senior Preferred Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Senior Preferred Stock to be cancelled and retired pursuant to **Section 3.1(d)** and Dissenting Shares) shall be converted into the right to receive a combination of cash and shares of Acquiror Common Stock in an aggregate amount equal to the Senior Preferred Per Share Consideration. Each holder of Company Senior Preferred Stock shall have the right to elect to receive a portion of the Senior Preferred Per Share Consideration in cash, up to a maximum of $927.889714 per share, with the remaining amount of such holder's Senior Preferred Per Share Consideration to be received in shares of Acquiror Common Stock based on the Per Share Acquiror Stock Valuation. Notwithstanding the foregoing, each share of Company Senior Preferred Stock held by a shareholder that is not an Eligible Shareholder shall instead be converted only into the right to receive cash (and not any shares of Acquiror Common Stock) in an amount equal to the Senior Preferred Per Share Consideration.

(iii) Each share of Company Series A Preferred Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Series A Preferred Stock to be cancelled and retired pursuant to **Section 3.1(d)** and Dissenting Shares) shall be converted into the right to receive that number of shares of Acquiror Common Stock equal to the Series A Preferred Per Share Consideration divided by the Per Share Acquiror Stock Valuation. Notwithstanding the foregoing, each share of Company Series A Preferred Stock held by a shareholder that is not an Eligible Shareholder shall instead be converted only into the right to receive cash (and not any shares of Acquiror Common Stock) in an amount equal to the Series A Preferred Per Share Consideration.

(iv) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Common Stock to be cancelled and retired pursuant to **Section 3.1(d)** and Dissenting Shares) shall be converted into the right to receive: (1) an amount of cash equal to the Cash Consideration to Common Shareholders divided by the total number of issued and outstanding shares of Company Common Stock (including Dissenting Shares) (the "**Per Common Share Cash Consideration**"); and (2) that number of shares of Acquiror Common Stock equal to (A) the Stock Consideration to Common Shareholders, *divided by* (B) the total number of issued and outstanding shares of Company Common Stock (including Dissenting Shares), *divided by* (C) the Per Share Acquiror Stock Valuation. Notwithstanding the foregoing, each share of Company Common Stock held by a shareholder that is not an Eligible Shareholder shall instead be converted only into the right to receive cash (and not any shares of Acquiror Common Stock) in an amount equal to: (x) the Per Common Share Cash Consideration; *plus* (y) the quotient obtained by dividing the Stock Consideration to Common Shareholders by the total number of issued and outstanding shares of Company Common Stock (including Dissenting Shares).

(v) If the aggregate amount of cash to be paid to holders of Company Senior Preferred Stock and Company Series A Preferred Stock pursuant to this **Section 3.1(b)** exceeds Fourteen Million Dollars ($14,000,000) (such difference being hereinafter referred to as the "**Cash Deficiency**"): (1) the amount of the Aggregate Cash Consideration shall be increased up to a maximum of Twenty Million Seven Hundred Thousand Dollars ($20,700,000), but only to the extent of the Cash Deficiency; and (2) the amount of the Aggregate Stock Consideration shall be decreased on a corresponding dollar-for-dollar basis; *provided, however*, that if the aggregate amount of cash to be paid to holders of Company Senior Preferred Stock and Company Series A Preferred Stock pursuant to this **Section 3.1(b)** would exceed Eighteen Million Dollars ($18,000,000), then the amount of cash which each holder of Company Senior Preferred Stock owning less than 5,000 shares of Company Senior Preferred Stock as of the date of this Agreement may elect to receive pursuant to **Section 3.1(b)(ii)** shall be reduced proportionately per share so that the total amount of cash necessary to satisfy the amounts payable in cash to holders of Company Senior Preferred Stock and Company Series A Preferred Stock shall not exceed Eighteen Million Dollars ($18,000,000). Additionally, the Aggregate Stock Consideration shall be increased or decreased, as the case may be, on a dollar-for-dollar basis by the amount by which the Adjusted Book Value exceeds or is less than Twenty-Six Million Eight Hundred Thousand Dollars ($26,800,000).

(c) From and after the Effective Time, shares of Company Preferred Stock and Company Common Stock shall be no longer outstanding and shall automatically be

canceled and shall cease to exist, and holders of Certificates formerly representing shares of Company Preferred Stock or Company Common Stock issued and outstanding immediately prior to the Effective Time will cease to be, and will have no rights as, shareholders of the Company, other than rights to receive the consideration to which such holders are entitled in accordance with this **Article 3** (or as to Dissenting Shares, such rights as provided by the GBCM). After the Effective Time, there will be no transfers of shares of Company Preferred Stock or Company Common Stock on the stock transfer books of the Company or the Surviving Entity, and shares of Company Preferred Stock or Company Common Stock presented to Acquiror or the Surviving Entity for any reason will be canceled and exchanged in accordance with this **Article 3**.

(d) Each share of Company Preferred Stock or Company Common Stock held as treasury stock or otherwise held by the Company or an Acquired Subsidiary (other than in a fiduciary capacity), if any, immediately prior to the Effective Time shall automatically be canceled and retired and cease to exist, and no cash, Acquiror Common Stock or any other consideration will be issued or paid in exchange therefor.

Section 3.2. **No Fractional Shares**. Notwithstanding anything to the contrary contained in this Agreement, no fractional shares of Acquiror Common Stock shall be issued in the Merger. Each holder of shares of Company Preferred Stock and Company Common Stock who would otherwise be entitled to receive a fractional share of Acquiror Common Stock pursuant to this **Article 3** shall instead be entitled to receive an amount in cash (without interest) rounded to the nearest whole cent, determined by multiplying the Per Share Acquiror Stock Valuation by the fractional share of Acquiror Common Stock to which such former holder would otherwise be entitled.

Section 3.3. **Exchange Procedures**.

(a) No less than twenty (20) Business Days prior to the Closing Date, Acquiror shall send to each Company shareholder a transmittal letter in a form reasonably acceptable to the Company (the "**Letter of Transmittal**"). Prior to the Closing Date, the Company shall use its Best Efforts to obtain from each shareholder a fully executed Letter of Transmittal and the Certificate(s) representing the shares of Company Preferred Stock or Company Common Stock described in each such Letter of Transmittal. Subsequent to the Closing Date, the Shareholder Representative shall cooperate with Acquiror

to obtain a Letter of Transmittal from any Company shareholder not providing a fully executed and properly completed Letter of Transmittal and related Certificate(s) prior to Closing.

(b) The parties to this Agreement agree that Acquiror Bank shall serve, pursuant to the terms of an exchange agent agreement in substantially the form attached hereto as **Exhibit N**, as the exchange agent for purposes of this Agreement (the "**Exchange Agent**"). No later than the Closing Date, and continuing until the date that is one hundred eighty (180) days after the Effective Time, Acquiror shall make available on a timely basis or cause to be made available to the Exchange Agent cash and instruments representing Acquiror Common Stock ("**New Instruments**") in such amounts as may be sufficient to allow the Exchange Agent to make all payments and deliveries that may be required pursuant to this **Article 3** to be made to the holders of Company Preferred Stock and Company Common Stock in exchange

for Certificates accompanied by a properly completed and executed Letter of Transmittal. On the date that is one hundred eighty (180) days after the Effective Time, any such cash or New Instruments remaining in the possession of the Exchange Agent (together with any accrued but unpaid dividends or distributions in respect thereof) shall be delivered to (or as directed by) Acquiror. Any holder of Certificates who has not theretofore exchanged his, her or its existing Certificates pursuant to this **Article 3** shall thereafter be entitled to look exclusively to Acquiror, and only as a general creditor thereof, for the consideration to which he, she or it may be entitled upon exchange of such Certificates pursuant to this **Article 3**. Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to any holder of Certificates for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(c) If the Exchange Agent receives a properly completed Letter of Transmittal and related Certificate from a Company shareholder:

(i) prior to the Closing Date, the Surviving Entity shall cause the Exchange Agent to mail or deliver to such shareholder a check and/or a New Instrument in the amount or amounts to which such shareholder is entitled pursuant to this **Article 3** at the Effective Time;

(ii) after the Effective Time, the Surviving Entity shall cause the Exchange Agent to mail or deliver to such shareholder a check and/or a New Instrument in the amount or amounts to which such shareholder is entitled pursuant to this **Article 3**, together with a check representing any dividends on Acquiror Common Stock with a record date following the Effective Time, no later than ten (10) Business Days after the Exchange Agent receives such Person's properly completed Letter of Transmittal and Certificate.

(d) If, after the Effective Time, the Per Share Acquiror Stock Valuation is required to be reduced pursuant to clause (2) of **Section 3.1(a)(iii)**, Acquiror agrees to issue the applicable number of additional shares of Acquiror Common Stock to former Company shareholders who were entitled to receive shares of Acquiror Common Stock pursuant to **Section 3.1(b)(v)**, effective as of the later of the Effective Time or the date of issuance that triggered such reduction. In such case, Acquiror shall make available or cause to be made available to the Exchange Agent New Instruments representing the additional shares. Thereafter, the Exchange Agent shall deliver such New Instruments to the former Company shareholders who have delivered their Certificates and a properly completed and executed Letter of Transmittal to the Exchange Agent. Any such New Instruments remaining in the possession of the Exchange Agent on the date that is one hundred eighty (180) days after the Effective Time (together with any accrued but unpaid dividends or distributions in respect thereof) shall be delivered to (or as directed by) Acquiror.

(e) If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by Acquiror or the Exchange Agent, the posting by such Person of a bond in such reasonable amount as Acquiror or the Exchange Agent may direct as indemnity against any claim that may be made against it with respect to such Certificate, Acquiror or the Exchange Agent shall, in exchange for such lost, stolen or destroyed Certificate, pay or cause

to be paid the consideration deliverable in respect of the shares formerly represented by such Certificate pursuant to this **Article 3**. Notwithstanding the foregoing, Acquiror agrees not to require the posting of a bond if the Person making the affidavit regarding a lost, stolen or destroyed Certificate is entitled to consideration of not more than $25,000 pursuant to this **Article 3**.

(f) The New Instruments will include a legend identifying the shares of Acquiror Common Stock represented thereby as "RESTRICTED SECURITIES THAT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE, AND WHICH MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS." Each holder of Acquiror Common Stock desiring to transfer any of the shares of Acquiror Common Stock received in connection with the Merger must first furnish Acquiror with: (i) if reasonably required by Acquiror, a written opinion, in form and substance and from counsel reasonably satisfactory to Acquiror, to the effect that such transfer is exempt from registration under the Securities Act of 1933, as amended (the "**Securities Act**"); and (ii) a written undertaking executed by the desired transferee reasonably satisfactory to Acquiror in form and substance agreeing to be bound by the restrictions on transfer contained herein.

Section 3.4. **Dissenting Shares**. Any shareholder of the Company who perfects such shareholder's dissenters' rights in accordance with and as contemplated by Section 351.455 of the GBCM (a "**Dissenting Shareholder**") shall be entitled to receive from the Surviving Entity in exchange for the Dissenting Shareholder's shares of Company Preferred Stock or Company Common Stock (the "**Dissenting Shares**") the value of such shares in cash as determined pursuant to such provisions of law; *provided*, *however*, that no such payment shall be made to any Dissenting Shareholder unless and until such Dissenting Shareholder has complied with the applicable provisions of the GBCM and surrendered to the Surviving Entity the Certificate representing the shares for which payment is being made. If, after the Effective Time, a Dissenting Shareholder of the Company fails to perfect, or effectively withdraws or loses, such shareholder's right to appraisal of and payment for such shareholder's shares, the Surviving Entity shall issue and deliver, upon surrender by such shareholder of his or her Certificate(s), the consideration to which such shareholder is entitled under this **Article 3** (without interest) as if such shareholder's shares of Company Preferred Stock or Company Common Stock, as of the Effective Time, had been converted in the Merger into a right to receive the applicable portion of the Aggregate Merger Consideration.

Article 4

Representations and Warranties of the Company

The Company hereby represents and warrants to Acquiror that each of the following statements is true and correct on the date hereof. Notwithstanding the foregoing, Acquiror and Merger Sub acknowledge and agree that the representations and warranties made by the Company as of the date hereof shall be deemed to be made by the Company assuming that the

Internal Restructuring and the Distribution have been completed immediately prior to the date hereof.

Section 4.1. Organization of the Company; Authorization and Enforceability.

(a) The Company: (i) is a corporation duly organized, validly existing and in good standing under the laws of the State of Missouri and is also in good standing in each other jurisdiction in which the nature of the business conducted or the properties or assets owned or leased by it makes such qualification necessary; (ii) is registered with the Federal Reserve as a savings and loan holding company under the Home Owners' Loan Act, as amended; and (iii) has full power and authority, corporate and otherwise, to operate as a savings and loan holding company and to own, operate and lease its properties as presently owned, operated and leased, and to carry on its business as it is now being conducted. At the Closing, the Company will have no direct or indirect Subsidiaries, or any assets, other than the Acquired Subsidiaries. Copies of the articles of incorporation and bylaws of the Company and all amendments thereto are set forth on **Schedule 4.1** and are complete and correct.

(b) The Company has all necessary power and authority to execute and deliver all Transaction Documents to which it is a party, and to perform all obligations of the Company contained therein. The execution and delivery of the Transaction Documents to which the Company is a party and the performance of all obligations of the Company contained therein have been duly approved by the Company's board of directors and authorized by all necessary corporate or other action on the part of the Company, except for any necessary approval by the holders of shares of the Company's outstanding voting stock. The Company is not required, by any Applicable Laws and Regulations, by Contract or otherwise, to obtain approval of this Agreement or any of the Contemplated Transactions to which it is a party from the holders of any securities issued by it other than the holders of shares of its voting stock. This Agreement is, and all other Transaction Documents to which the Company is a party when executed and delivered by the Company will be, assuming due execution and delivery thereof by the other parties thereto, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles or doctrines.

Section 4.2. Acquired Subsidiary Organization. The Bank is a federal savings bank duly organized, validly existing and in good standing under the laws of the United States of America and its deposits are insured by the FDIC under the Deposit Insurance Fund to the fullest extent permitted under the Federal Deposit Insurance Act. Each of the other Acquired Subsidiaries is duly organized, validly existing and in good standing under the laws of its respective state of formation. Each of the Acquired Subsidiaries has full power and authority, corporate and otherwise, to own, operate and lease its properties as presently owned, operated and leased, and to carry on its business as it is now being conducted, and is duly qualified to do business and is in good standing in each jurisdiction in which the nature of the business conducted or the properties or assets owned or leased by it makes such qualification necessary. Full and correct copies of the Organizational Documents of the Acquired Subsidiaries and all amendments thereto have been provided to Acquiror**.** None of the Acquired Subsidiaries owns

voting stock or equity securities of any corporation, association, partnership or other entity except as set forth on **Schedule 4.2**.

Section 4.3. No Conflict. Except as set forth on **Schedule 4.3**, neither the execution nor delivery of this Agreement nor, assuming the receipt of the Regulatory Approvals and the approval of the Company's board of directors and the holders of its voting stock as referenced in **Section 4.1(b)**, the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):

(a) contravene, conflict with or result in a violation of any provision of the Organizational Documents of the Company or any Acquired Subsidiary as in effect on the date of this Agreement, or any currently effective resolution adopted by the board of directors or shareholders of the Company or any Acquired Subsidiary;

(b) contravene, conflict with or result in a violation of, or give any Regulatory Authority or other Person the valid and enforceable right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Applicable Law or Regulation or any Order to which the Company or any Acquired Subsidiary, or any of their respective assets that are owned or used by them, are subject;

(c) contravene, conflict with or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify any material Contract to which the Company or any Acquired Subsidiary is a party or by which any of their respective assets is bound; or

(d) result in the creation of any lien, charge or encumbrance upon or with respect to any of the assets owned or used by the Company or any Acquired Subsidiary.

Except for the items set forth on **Schedule 4.3** and the approval of the holders of the Company's voting stock as referenced in **Section 4.1(b)**, none of the Company or any Acquired Subsidiary is or will be required to give any notice to or obtain any consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

Section 4.4. Capitalization of the Company and Acquired Subsidiaries.

(a) The authorized capital stock of the Company currently consists exclusively of 25,000,000 shares of Company Common Stock, 24,000 shares of Company Senior Preferred Stock and 10,000,000 shares of Company Series A Preferred Stock, of which 34,758 shares, 24,000 shares and

5,362 shares, respectively, are validly issued and outstanding and fully paid and nonassessable. None of the shares of Company Common Stock or Company Preferred Stock have been issued in violation of any federal or state securities laws or any other applicable laws. Except as disclosed in or permitted by this Agreement or as provided on **Schedule 4.4**, since December 31, 2012, no shares of Company Common Stock or Company Preferred Stock have been purchased, redeemed or otherwise acquired, directly or indirectly, by the Company, and no dividends or other distributions payable in any equity securities of the Company have been declared, set aside, made or paid to the shareholders. To

the Knowledge of the Company, none of the shares of authorized capital stock of the Company are subject to any claim of right inconsistent with this Agreement. There are, as of the Agreement Date, no outstanding subscriptions, Contracts, conversion privileges, options, warrants, calls or other rights obligating the Company to issue, sell or otherwise dispose of, or to purchase, redeem or otherwise acquire, any shares of capital stock of the Company, and except as provided in this **Section 4.4** or otherwise disclosed in this Agreement, the Company is not a party to any Contract relating to the issuance, purchase, sale or transfer of any equity securities or other securities of the Company. The Company does not own or have any Contract to acquire any equity securities or other securities of any Person or any direct or indirect equity or ownership interest in any other business except as set forth on **Schedule 4.4**.

(b) The authorized equity interests of the Acquired Subsidiaries consist exclusively of those equity interests set forth on **Schedule 4.4**. All of the issued and outstanding equity interests of the Acquired Subsidiaries have been duly and validly authorized and issued, and are fully paid and non-assessable and owned of record by the Company or the Bank. None of the outstanding equity interests of the Acquired Subsidiaries are subject to any preemptive rights. Except for the Equity Securities owned by the Company or the Bank, there are no equity interests of the Acquired Subsidiaries outstanding, and no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, the equity interests of the Acquired Subsidiaries, and no Contracts by which any of the Acquired Subsidiaries is or may be bound to issue additional equity interests or options, warrants, or rights to purchase or acquire any additional equity interests or any of its indebtedness. Except as set forth on **Schedule 4.4**, no Acquired Subsidiary owns, or has any Contract to acquire, any equity interests or other securities of any Person or any direct or indirect equity or ownership interest in any other business. No Acquired Subsidiary has outstanding any indebtedness which entitles the holder or holders thereof to exercise voting rights in connection with the election of its directors, nor are there outstanding any options, warrants, calls, rights, commitments or agreements of any kind obligating any Acquired Subsidiary to issue or sell any such indebtedness. There are no outstanding contractual obligations of any Acquired Subsidiary to repurchase, redeem or otherwise acquire any of its equity interests or any of its indebtedness.

Section 4.5. **Regulatory Reports**. Prior to the execution of this Agreement, the Company has delivered or made available to Acquiror complete and accurate copies of all reports that the Company or any Acquired Subsidiary has filed with the Federal Reserve, the OCC or any other Regulatory Authority since January 1, 2011 (collectively with the future reports required to be delivered to Acquiror by **Section 6.4**, the "**Company Regulatory Reports**"). The Company and each Acquired Subsidiary has filed in a timely manner all the Company Regulatory Reports that it was required to file with the Regulatory Authorities. As of their respective dates or as subsequently amended prior to the date hereof, each of the Company Regulatory Reports:

(a) is true and correct in all material respects and does not make any untrue statement of material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(b) complies in all material respects with Applicable Laws and Regulations; and

(c) fairly presents the financial and operating condition of the Company or applicable Acquired Subsidiary, as the case may be, as of the dates thereof.

Section 4.6. **Financial Statements and Reports**.

(a) True, correct and complete copies of the following financial statements are included in **Schedule 4.6**: (i) audited consolidated balance sheets and related statements of income for the Company as of and for the years ended December 31, 2012, 2011 and 2010, and an unaudited consolidated balance sheet and related statement of income for the Company as of and for the nine (9) months ended September 30, 2013; and (ii) unaudited consolidated balance sheets and related statements of income for each Acquired Subsidiary, as of and for the years ended December 31, 2012, 2011 and 2010, and as of and for the nine (9) months ended September 30, 2013.

(b) The financial statements described in **Section 4.6(a)** have been prepared in accordance with GAAP applied on a consistent basis during the period involved, except that: (i) the audited financial statements as of and for the years ended December 31, 2011 and 2010 have not been restated to reflect the contribution by the Company of the capital stock of LFC to the Bank and have not been restated to reflect the cumulative deferred income tax adjustment (as described in Footnote 1(a) of the December 31, 2012 audited financial statements) of $921,487 as of December 31, 2011 and $733,902 as of December 31, 2010; and (ii) any unaudited statements are subject to normal year-end adjustments, the absence of footnotes and exceptions stated therein. The financial statements described in **Section 4.6(a)(ii)** have been prepared on a basis consistent with past accounting practices and as required by Applicable Laws and Regulations. Taken together, the financial statements described in **Section 4.6(a)** (collectively, and including the notes thereto, the "**Company Financial Statements**") are complete and correct in all material respects and fairly and accurately present the financial position, assets, Liabilities and results of operations of each of the Company (on a consolidated basis) and each Acquired Subsidiary as of the respective dates thereof, and for the periods referred to therein, except as otherwise stated above or therein. The Company Financial Statements do not include any material assets or omit to state any material Liabilities, absolute or contingent, or other facts, which inclusion or omission would render the Company Financial Statements misleading in any material respect as of the respective dates thereof and for the periods referred to therein.

Section 4.7. **Legal Proceedings; Orders**.

(a) Except as set forth on **Schedule 4.7(a),** there is no Proceeding pending or, to the Knowledge of the Company, Threatened which, if adversely determined, would have a Material Adverse Effect on the Company or any Acquired Subsidiary or prevent the consummation of the Contemplated Transactions. Except as set forth on **Schedule 4.7(a)**, there is no existing Order applicable to or affecting the Company, any Acquired Subsidiary or any of

their assets or businesses which would have a Material Adverse Effect on the Company or any Acquired Subsidiary or prevent the consummation of the Contemplated Transactions. No executive officer or director, or to the Company's Knowledge, any agent or employee, of the

Company or any Acquired Subsidiary is subject to any Order that prohibits such officer, director, agent or employee from engaging in or continuing any conduct, activity or practice relating to the business of the Company or applicable Acquired Subsidiary as currently conducted.

(b) Except as set forth on **Schedule 4.7(b)**, none of the Company or any Acquired Subsidiary: (i) is subject to any cease and desist or other Order or enforcement action issued by; (ii) is a party to any written agreement, consent agreement or memorandum of understanding with; (iii) is a party to any commitment letter or similar undertaking to; (iv) is subject to any Order or directive by; (v) is subject to any supervisory letter from; (vi) has been ordered to pay any civil money penalty, which has not been paid to; and (vii) has adopted any policies, procedures or board resolutions at the request of, any Regulatory Authority that currently restricts in any respect the conduct of its business, relates in any manner to its capital adequacy, restricts its ability to pay dividends, or limits in any manner its credit or risk management policies or its management.

Section 4.8. **Compliance with Applicable Laws and Regulations**. The Company and each Acquired Subsidiary holds all licenses, certificates, permits, franchises and rights from all appropriate Regulatory Authorities necessary for the conduct of its business. Except as set forth on **Schedule 4.8**, the Company and each Acquired Subsidiary is, and at all times since December 31, 2010, has been, in compliance with all Applicable Laws and Regulations that are or were applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets, except where the failure to comply would not reasonably be expected to have a Material Adverse Effect on it. No event has occurred or circumstance exists that (with or without notice or lapse of time): (a) may constitute or result in a violation by the Company or an Acquired Subsidiary of, or a failure on the part of the Company or an Acquired Subsidiary to comply with, any Applicable Laws and Regulations; or (b) may give rise to any obligation on the part of the Company or any Acquired Subsidiary to undertake, or to bear all or any portion of the cost of, any remedial action of any nature in connection with a failure to comply with any Applicable Laws and Regulations; except, in either case, where the failure to comply or the violation would not have a Material Adverse Effect on it. Except as set forth on **Schedule 4.8**, none of the Company or any Acquired Subsidiary has received, at any time since December 31, 2010, any notice or other communication (whether oral or written) from any Regulatory Authority or any other Person, nor does the Company have any Knowledge regarding: (x) any actual, alleged, possible or potential violation of, or failure to comply with, any Applicable Laws and Regulations; or (y) any actual, alleged, possible or potential obligation on the part of the Company or any Acquired Subsidiary to undertake, or to bear all or any portion of the cost of, any remedial action of any nature in connection with a failure to comply with any Applicable Laws and Regulations, except where any such violation, failure or obligation would not have a Material Adverse Effect on the Company or an Acquired Subsidiary.

Section 4.9. **Taxes**. Except as set forth on **Schedule 4.9**:

(a) The Company and all members of any consolidated, affiliated, combined or unitary group of which any Acquired Subsidiary is a member (a "**Company Tax Affiliate**") has duly and timely filed all Tax Returns required to be filed by it, and each such Tax Return is true, correct and complete in all material respects. The Company and each Company Tax Affiliate has paid, or made adequate provision for the payment of, all Taxes (whether or not

reflected in Tax Returns as filed or to be filed) due and payable by it, or claimed to be due and payable by any Regulatory Authority, and is not delinquent in the payment of any Tax, except such Taxes as are being contested in good faith and as to which adequate reserves have been provided.

(b) There is no claim or assessment pending or, to the Knowledge of the Company, Threatened against the Company or any Acquired Subsidiary for any Taxes owed. No audit, examination or investigation related to Taxes paid or payable by the Company, any Acquired Subsidiary or Company Tax Affiliate is presently being conducted or, to the Knowledge of the Company, Threatened by any Regulatory Authority. None of the Company, any Acquired Subsidiary or Company Tax Affiliate is the beneficiary of any extension of time within which to file any Tax Return, and there are no liens for Taxes (other than Taxes not yet due and payable) upon any of the Company's or any Acquired Subsidiary's assets. None of the Company, any Acquired Subsidiary or Company Tax Affiliate has executed an extension or waiver of any statute of limitations on the assessment or collection of any Tax that is currently in effect.

(c) None of the Company or any Acquired Subsidiary has been a member of an affiliated group (within the meaning of Section 1504(a) of the Code) filing a consolidated federal Tax Return other than a group the common parent of which is the Company.

(d) The Company has delivered or made available to Acquiror true, correct and complete copies of all portions of each Tax Return relating to the franchise taxes owed by the Company or any Acquired Subsidiary to any state with respect to the last three (3) fiscal years.

(e) None of the Company or any Acquired Subsidiary will be subject to any liability for Taxes as a result of consummation of the Internal Restructuring and/or the Distribution, other than those Taxes that are taken into account in the calculation of Adjusted Book Value.

Section 4.10. **Insurance**. **Schedule 4.10** sets forth a list of all insurance policies and bonds, with the coverage schedules for each, owned or held by the Company and each Acquired Subsidiary with respect to the business, operations, properties or assets of each (including bankers' blanket bond and insurance providing benefits for employees). All such insurance policies and bonds are in full force and effect (except for any expiring policy which is replaced by coverage at least as extensive) and all premiums due on such policies have been paid in full. None of the Company or any Acquired Subsidiary is in default of any of its obligations under any such insurance policy or bond. The Company and each Acquired Subsidiary maintains all insurance and bonds it is required to carry by law or by any agreement by which it is bound. **Schedule 4.10** lists and briefly describes all claims that have been filed under such insurance policies and bonds within the past three (3) years that individually or in the aggregate exceed One Hundred Thousand Dollars ($100,000) and the current status of such claims. All such claims have been filed in due and timely fashion. None of the Company or any Acquired Subsidiary has had any insurance policy or bond cancelled or nonrenewed by the issuer of the policy or bond within the past five (5) years.

Section 4.11. Loans; Loan Loss Reserves.

(a) Except as set forth on **Schedule 4.11**, each Loan outstanding as of the date of this Agreement and reflected as an asset on any of the Company Financial Statements or Regulatory Reports is evidenced by documentation that is customary and legally sufficient in all material respects and constitutes the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally or equitable principles or doctrines. To the Company's Knowledge, no obligor named therein is seeking to avoid the enforceability of any term of any Loan under any such laws or equitable principles or doctrines, and no Loan is subject to any defense, offset or counterclaim.

(b) All Loans originated or purchased by the Company or any Acquired Subsidiary were made or purchased in the Ordinary Course of Business of the Company or such Acquired Subsidiary. Except as set forth on **Schedule 4.11**, all Loans are free and clear of any security interest, lien, encumbrance or other charge, and the Company or applicable Acquired Subsidiary has complied in all material respects with all Applicable Laws and Regulations relating to the Loans.

(c) Except as disclosed on **Schedule 4.11**, none of the Company or any Acquired Subsidiary is a party to any Loan: (i) under the terms of which the obligor is more than ninety (90) days delinquent in payment of principal or interest or in default of any other material provision as of the dates shown thereon or for which the Company or applicable Acquired Subsidiary has discontinued the accrual of interest; (ii) that has been classified as "substandard," "doubtful," "loss," "other loans especially mentioned," a "troubled debt restructuring" or any comparable classifications by the Company or applicable Acquired Subsidiary, or by any Applicable Governmental Authority; (iii) that has been listed on any "watch list" or similar internal report of the Company or the applicable Acquired Subsidiary; (iv) to an Affiliate of an obligor under any Loan described in clauses (i), (ii) or (iii) hereof; (v) that has been the subject of any notice from any obligor of adverse environmental conditions potentially affecting the value of any collateral for such Loan; or (vi) with respect to which the Company or applicable Acquired Subsidiary is aware of potential violations of any Environmental Laws that may have occurred on the property serving as collateral for such Loan or by any obligor of such Loan.

(d) Each Loan Loss Reserve reflected in the Company Financial Statements (including footnotes thereto) was determined on the basis of the Company's or applicable Acquired Subsidiary's continuing review and evaluation of its Loan portfolio under the requirements of GAAP and all Applicable Laws and Regulations, was established in a manner consistent with the Company's or applicable Acquired Subsidiary's internal policies and was adequate in all material respects under the requirements of GAAP and all Applicable Laws and Regulations to provide for possible or specific losses, net of recoveries relating to Loans previously charged-off, on Loans outstanding, and contained an additional amount of unallocated reserves for unanticipated future losses at a level that was adequate under the requirements of GAAP and all Applicable Laws and Regulations. The Company has no Knowledge that the aggregate principal amount of the Loans in excess of any Loan Loss Reserve is not fully collectible.

(e) There are no interest rate swaps, caps, floors, option agreements or other interest rate risk management arrangements with respect to the Loans to which the Company or any Acquired Subsidiary is a party or by which any of its assets or properties may be bound, other than as contained in the respective loan documents and forward sale commitments with respect to Loans that will not be owned by any Acquired Subsidiary after the Closing, or as otherwise listed on **Schedule 4.11**.

(f) Set forth on **Schedule 4.11** is a complete and accurate list of each outstanding letter of credit and each committed line of credit (not including home equity lines of credit) in excess of Two Hundred Fifty Thousand Dollars ($250,000).

(g) Except as set forth on **Schedule 4.11**, since December 31, 2011, none of the Company or any Acquired Subsidiary has repurchased or otherwise reacquired, or received a request to repurchase or otherwise reacquire, any Loan or interest therein from any Mortgage Loan Investor or any other Person.

Section 4.12. Investments.

(a) Set forth on **Schedule 4.12** is a complete and accurate list, organized by category, of all investment and debt securities, mortgage-backed and related securities, marketable equity securities and securities purchased under agreements to resell that are owned by the Company or any Acquired Subsidiary (together with any securities hereafter acquired, the "**Company Investment Securities**"). **Schedule 4.12** shows, as of September 30, 2013, the applicable CUSIP numbers, the applicable maturity dates and the applicable coupon rates of the Company Investment Securities, the carrying values and estimated fair values of investment and debt securities, the gross carrying value and estimated fair value of the mortgage-backed and related securities, and the estimated cost and the estimated fair value of the marketable equity securities.

(b) Except as set forth on **Schedule 4.12**, none of the Company Investment Securities is subject to any restriction, whether contractual or statutory, that materially impairs the ability of the Company or any Acquired Subsidiary freely to dispose of such investment at any time. With respect to all material repurchase agreements to which the Company or any Acquired Subsidiary is a party, the Company or applicable Acquired Subsidiary has a valid, perfected first lien or security interest in the securities or other collateral securing each such repurchase agreement, and the value of the collateral securing each such repurchase agreement equals or exceeds the amount of the debt secured by such collateral under such agreement.

(c) Except for customary provisions in contracts with Mortgage Loan Investors and Mortgage Purchasers, and except as set forth on **Schedule 4.12**, none of the Company or any Acquired Subsidiary has sold or otherwise disposed of any assets in a transaction (including the sale of any participation in any Loan) in which the acquirer of such assets or other Person has the right, either conditionally or absolutely, to require the Company or applicable Acquired Subsidiary to repurchase or otherwise reacquire any such assets.

(d) All Company Investment Securities that are classified as "held to maturity," "available for sale" and "trading" held by the Company or any Acquired Subsidiary

have been classified and accounted for in accordance with Accounting Standards Codification 320.

(e) There are no interest rate swaps, caps, floors, option agreements or other interest rate risk management arrangements with respect to the Company Investment Securities to which the Company or any Acquired Subsidiary is a party or by which any of its assets or properties may be bound.

Section 4.13. Company Employee Matters.

(a) **Schedule 4.13(a)(i)** sets forth a complete and correct list of all current employees of each of the Company and Acquired Subsidiaries, showing for each the following: (i) name; (ii) hire date; (iii) current job title; (iv) actual base compensation, bonus, commission and other remuneration paid during 2013; and (v) 2014 base compensation level and target bonus, commission and other remuneration. **Schedule 4.13(a)(ii)** sets forth a complete and correct list of all consultants and independent contractors of each of the Company and Acquired Subsidiaries, showing for each the following: (1) name; (2) responsibilities; (3) date of engagement; (4) compensation paid during 2013; and (5) the compensation reasonably expected to be due for 2014 pursuant to any agreement between such consultant or independent contractor and any of the Company or Acquired Subsidiaries.

(b) To the Company's Knowledge, no Key Employee intends to terminate employment with the Company or an Acquired Subsidiary or is otherwise likely to become unavailable to continue as a Key Employee, nor does the Company or any Acquired Subsidiary have a present intention to terminate the employment of any of the foregoing. Except as set forth on **Schedule 4.13(b)**, the employment of each employee of the Company or an Acquired Subsidiary is terminable at the will of the respective entity.

(c) No employee of the Company or an Acquired Subsidiary is represented in his or her capacity as an employee of the Company or an Acquired Subsidiary by any labor organization and neither the Company nor any Acquired Subsidiary has recognized any labor organization, nor has any labor organization been elected as the collective bargaining agent of any such employee. Neither the Company nor any Acquired Subsidiary has experienced or been Threatened with any strike, slow down, work stoppage, material grievance, claim of unfair labor practices or other collective bargaining dispute within the past three (3) years. Neither the Company nor any Acquired Subsidiary has committed any material unfair labor practice. To the Company's Knowledge, no organizational effort is presently being made or Threatened by or on behalf of any labor union with respect to employees of the Company or an Acquired Subsidiary.

(d) The Company and each Acquired Subsidiary has complied in all material respects with all Applicable Laws and Regulations relating to employment and the environment of labor, including those related to wages, hours, collective bargaining, withholding, collection and payment of social security, termination of employment, unemployment compensation and similar payroll taxes, equal pay, workers' compensation, occupational health and safety, immigration, payment of overtime and the classification of employees as overtime eligible and overtime exempt, fair labor standards, discrimination on the basis of race, age, sex, religion, color, national origin, disability and other protected classifications.

(e) **Schedule 4.13(e)** sets forth a list of all the Company Employee Benefit Plans. All of the Company Employee Benefit Plans have been maintained and operated in material compliance with both their terms and with all Applicable Laws and Regulations. No non-exempt prohibited transaction for purposes of ERISA or the Code has occurred with respect to any of the Company Employee Benefit Plans. There are no Proceedings pending (other than routine claims for benefits) or Threatened against the Company, any of the Company Employee Benefit Plans, any fiduciary of any of the Company Employee Benefit Plans or the assets of any of the Company Employee Benefit Plans as to which the Company or an Acquired Subsidiary could have Liabilities. For each of the Company Employee Benefit Plans, the Company has provided or made available to Acquiror complete, correct and current copies of the following: (i) the plan document, if written, or a written description of such plan, if not written; and (ii) to the extent applicable to such plan, (A) for the three (3) most recently completed plan years, the Form 5500 and all financial schedules thereto and all other annual reports required by any Regulatory Authority; (B) the most recent IRS determination or opinion letter or any pending request for an IRS determination or opinion letter; (C) the three (3) most recent reports regarding coverage and nondiscrimination testing; (D) all correspondence from any Regulatory Authority within the last three (3) years; and (E) all current summary plan descriptions and summaries of material modifications.

(f) Each Company Qualified Plan and trust forming a part thereof has received a current, favorable determination or opinion letter from the IRS as to its qualification under the Code and to the effect that each such trust is exempt from federal income tax under the Code, and nothing has occurred since the date of the most recent favorable determination or opinion letter that could reasonably be expected to adversely affect such qualification or tax-exempt status.

(g) Except as set forth on **Schedule 4.13(g)**: (i) no Company Qualified Plan is subject to Title IV of ERISA; (ii) none of the Company, any Acquired Subsidiary or any ERISA Affiliate thereof (A) has participated in a "multiemployer plan" (as defined in Section 3(37) of ERISA) or (B) has withdrawn, partially withdrawn, or received any notice of any claim or demand for withdrawal Liability or partial withdrawal Liability from such a multiemployer plan; (iii) none of the Company or any Acquired Subsidiary has any Liabilities to the IRS with respect to any Company Qualified Plan, including any Liabilities imposed by Chapter 43 of the Code; and (iv) none of the Company or any Acquired Subsidiary has any Liabilities to the PBGC or under Section 502 or 4071 of ERISA with respect to any Company Qualified Plan.

(h) Except as set forth on **Schedule 4.13(h)**, with respect to all of the Company Employee Benefit Plans, all contributions and fees that are due from the Company or an Acquired Subsidiary have been paid; and all unpaid contributions and fees for prior plan years, and the portion of the current plan year ending on the Closing Date, that are owed by the Company or an Acquired Subsidiary but not yet due have been accrued in full on the books of the applicable entity and reflected in the applicable financial statements to the extent required by and in accordance with GAAP. All contributions, fees and payments made or accrued with respect to the Company Employee Benefit Plans are deductible under Section 162 or 404 of the Code.

(i) Except as set forth on **Schedule 4.13(i)**, neither the execution nor delivery of this Agreement, nor the consummation of the Contemplated Transactions, will: (i) result in any payment (including any severance, bonus, unemployment compensation or "parachute payment" as defined

in Section 280G of the Code) becoming due or owing to any former or current director, employee, consultant or independent contractor of the Company or an Acquired Subsidiary; (ii) increase any benefit otherwise payable or create any Liabilities to Acquiror or to the Company, any Acquired Subsidiary or ERISA Affiliate thereof under any of the Company Employee Benefit Plans; (iii) result in the acceleration of the time of payment or vesting of any such benefit; or (iv) constitute or involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available.

(j) Except as set forth on **Schedule 4.13(j)**, all of the Company Employee Benefit Plans can be modified and terminated without either: (i) payment of any additional contributions or amounts by any person or entity pursuant to such plan or any Applicable Laws and Regulations; or (ii) the acceleration of any benefits.

(k) None of the Company or any Acquired Subsidiary has any obligation to provide health or other welfare benefits to retirees or other former employees, directors, consultants or their dependents (other than rights under Section 4980B of the Code or Section 601 of ERISA).

(l) To the Company's Knowledge, none of the Key Employees has been: (i) subject to voluntary or involuntary petition under the federal bankruptcy laws or any state insolvency law or the appointment of a receiver, fiscal agent or similar officer by a court for his or her business or property; (ii) convicted in a criminal Proceeding or named as a subject of a pending criminal Proceeding (excluding traffic violations and other minor offenses); (iii) subject to any Order, judgment or decree (not subsequently reversed, suspended or vacated) of any court of competent jurisdiction permanently or temporarily enjoining him or her from engaging, or otherwise imposing limits or conditions on his or her engagement, in any securities, investment advisory, banking, insurance or other type of business or acting as an officer or director of a public company; or (iv) found by a court of competent jurisdiction in a civil action or by any Regulatory Authority to have violated any federal or state securities, commodities or unfair trade practices law, which such judgment or finding has not been subsequently reversed, suspended or vacated.

(m) The aggregate cost of accrued vacation time for all employees of the Company and each Acquired Subsidiary will have been properly recorded as of the Calculation Date, in accordance with GAAP, on the respective books and records of the Company or Acquired Subsidiary.

Section 4.14. **Environmental Matters.** Except as set forth on **Schedule 4.14**, there are no actions, suits, investigations, Liabilities, inquiries, Proceedings or Orders involving any of the Company or Acquired Subsidiaries or any of their respective assets that are pending or, to the Knowledge of the Company, Threatened, nor to the Knowledge of the Company is there any factual basis for any of the foregoing, as a result of any asserted failure of the Company or any Acquired Subsidiary, or any predecessor thereof, to comply with any Environmental Law. No environmental clearances or other governmental approvals are required for the conduct of the

business of the Company or any Acquired Subsidiary or the consummation of the Contemplated Transactions. To the Company's Knowledge, none of the Company or any Acquired Subsidiary is the current or past owner of any interest in real estate on which any substances have been used, stored, deposited, treated, recycled or disposed of, which substances if known to be present on, at or under such property, would require clean-up, removal or some other remedial action under any Environmental Law.

Section 4.15. **Intellectual Property**. With respect to each item of Intellectual Property owned by the Company or any Acquired Subsidiary, the applicable entity possesses all right, title and interest in and to the item, free and clear of any lien, claim, royalty interest or encumbrance. With respect to each item of Intellectual Property that the Company or any Acquired Subsidiary is licensed or authorized to use, the license, sublicense, agreement or permission covering such item is legal, valid, binding, enforceable and in full force and effect and has not been breached by such entity or, to the Company's Knowledge, by any other party thereto. None of the Company or any Acquired Subsidiary has ever received any charge, complaint, claim, demand or notice alleging any interference, infringement, misappropriation or violation with or of any Intellectual Property rights of a third party, including any claims that the Company or any Acquired Subsidiary must license or refrain from using any Intellectual Property rights of a third party. To the Company's Knowledge, none of the Company or any Acquired Subsidiary has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of third parties and no third party has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of the Company or any Acquired Subsidiary.

Section 4.16. **Company Properties**.

(a) **Schedule 4.16(a)** contains a list and description of all the Company Properties (other than Mortgaged Premises) owned by the Company or an Acquired Subsidiary (**"Company Owned Properties**"). The Company or the applicable Acquired Subsidiary has good, sufficient and marketable title to each of the Company Owned Properties and to any interests owned by it in any Mortgaged Premises, except for: (i) Permitted Liens, none of which individually or in the aggregate are material to the assets of the Company or the applicable Acquired Subsidiary; and (ii) as set forth on **Schedule 4.16(a)**. All buildings, structures, fixtures and appurtenances comprising any of the Company Owned Properties are in good operating condition and have been well-maintained, reasonable wear and tear excepted. The Company and Acquired Subsidiaries have title or other rights to their respective assets sufficient in all material respects for the conduct of their respective business as presently conducted, and such assets are free, clear and discharged of, and from any and all liens, charges, encumbrances, security interests and/or equities. Title to all of the Company Owned Properties listed on **Schedule 4.16(a)** is held in fee simple. Except where any failure would not reasonably be expected to have a Material Adverse Effect on the Company or the applicable Acquired Subsidiary, all buildings and structures owned by such entity lie wholly within the boundaries of the real property owned by it and do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person.

(b) **Schedule 4.16(b)** contains a list of all leases of real property, and all leases of personal property requiring payments in excess of One Hundred Thousand

Dollars ($100,000) per year, or Five Hundred Thousand Dollars ($500,000) during the term of such lease, to which the Company or any Acquired Subsidiary is a party as lessee. All such leases are valid, effective and enforceable against the lessor in accordance with their respective terms. There is not under any of such leases any existing default, or any event that, with notice or lapse of time or both, would constitute a default, with respect to the Company or any Acquired Subsidiary, or to the Company's Knowledge, the other party. Except as set forth on **Schedule 4.16(b)**: (i) none of such leases contains a prohibition against assignment by the Company or the applicable Acquired Subsidiary, by operation of law or otherwise, or any other provision that would preclude

Acquiror or any of its Subsidiaries from possessing and using the leased premises or property for the same purposes and upon the same rental and other terms upon the consummation of the Contemplated Transactions as are applicable to the possession and use of such premises or property by the Company or the applicable Acquired Subsidiary as of the date of this Agreement; and (ii) none of the Company or any Acquired Subsidiary has made any prior assignment for collateral purposes of any such lease.

Section 4.17. **Fiduciary Accounts**. **Schedule 4.17** contains a list and a brief description of all accounts for which the Company or any Acquired Subsidiary acts as a fiduciary, including accounts for which it serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor, other than IRA and mortgage servicing accounts. **Schedule 4.17** also contains the aggregate total by number of accounts and dollar values of all IRA accounts and mortgage servicing accounts, and in the case of the mortgage servicing accounts, the total number of accounts and dollar values for commercial loans and for residential loans, and the entities or individuals for whom such mortgage servicing rights are being provided. The Company and each Acquired Subsidiary have administered all accounts listed on **Schedule 4.17**, including the IRA and mortgage servicing accounts, in material compliance with the terms of the governing documents, Applicable Laws and Regulations and the common law. To the Company's Knowledge, none of the Company or any Acquired Subsidiary, nor any director, officer or employee of the Company or an Acquired Subsidiary has committed any breach of trust with respect to any such fiduciary account. The accountings for each such fiduciary account are true and correct in all material respects and accurately reflect the assets of such fiduciary account in all material respects.

Section 4.18. **Indemnification Claims**. To the Company's Knowledge, no action or failure to take action by any director, officer, employee or agent of the Company or any Acquired Subsidiary has occurred that may give rise to a claim or a potential claim by any such Person for indemnification against the Company or any Acquired Subsidiary under any agreement with, or the corporate indemnification provisions of, the Company or any Acquired Subsidiary, or under any Applicable Laws and Regulations.

Section 4.19. **Insider Interests**. Except as set forth on **Schedule 4.19**, no officer or director of the Company or any Acquired Subsidiary, and to the Company's Knowledge, any member of the Immediate Family of any such Person and no entity that any such Person "controls" within the meaning of Regulation O, has any Loan, deposit account or any other agreement with the Company or any Acquired Subsidiary, any interest in any material property, real, personal or mixed, tangible or intangible, used in or pertaining to the business of the Company or any Acquired Subsidiary.

Section 4.20. **Contracts and Company Employee Benefit Plans**. Except for Contracts evidencing Loans made by the Company or an Acquired Subsidiary, **Schedule 4.20** lists or describes the following with respect to the Company and each Acquired Subsidiary and (except for items (j) and (l)) which remains to be performed in whole or in part after the date of this Agreement:

(a) each loan and credit agreement, conditional sales Contract or other title retention agreement or security agreement relating to money borrowed by it, exclusive of deposit agreements with its customers entered into in the Ordinary Course of Business, agreements for the purchase of federal funds and repurchase agreements;

(b) each Contract that involves performance of services or delivery of goods or materials, or that was not entered into in the Ordinary Course of Business, and in each case, involves expenditures or receipts by it of an amount or value in excess of One Hundred Thousand Dollars ($100,000);

(c) each Contract not referred to elsewhere in this **Section 4.20** that: (i) relates to the future purchase of goods or services that materially exceeds the requirements of its business at current levels or for normal operating purposes; or (ii) has a Material Adverse Effect on it;

(d) each lease, rental, license, installment and conditional sale agreement and other Contract affecting the ownership of, leasing of, title to or use of, any personal property (except personal property leases and installment and conditional sales agreements having aggregate payments of less than Fifty Thousand Dollars ($50,000), or where the Company or an Acquired Subsidiary is the lessor under a financing lease);

(e) each licensing agreement or other Contract with respect to patents, trademarks, copyrights, or other Intellectual Property (collectively, "**Intellectual Property Assets**"), including agreements with current or former employees, consultants or contractors regarding the appropriation or the nondisclosure of any of its Intellectual Property Assets;

(f) each collective bargaining agreement and other Contract to or with any labor union or other employee representative of a group of employees;

(g) each joint venture, partnership and other Contract (however named) involving a sharing of profits, losses, costs or Liabilities by it with any other Person;

(h) each Contract containing covenants that in any way purport to restrict, in any material respect, its business activity or limit, in any material respect, its ability to engage in any line of business or to compete with any Person;

(i) each Contract providing for payments to or by any Person based on sales, purchases or profits, other than direct payment for goods;

(j) the name and annual salary of each of its directors and executive officers, and the profit sharing, bonus or other form of compensation (other than salary) paid or payable by it to or for the benefit of each such Person in question for the year ended December 31, 2013,

and for the current year, and any employment agreement, consulting agreement, noncompetition, severance or change in control agreement or similar arrangement or plan with respect to each such Person;

(k) each Company Employee Benefit Plan;

(l) the name of each Person who is or would be entitled pursuant to any Contract or Company Employee Benefit Plan to receive any payment from it as a result of the consummation of the Contemplated Transactions (including any payment that is or would be due as a result of any actual or constructive termination of a Person's employment or position following such consummation) and the maximum amount of such payment;

(m) each Contract entered into other than in the Ordinary Course of Business that contains or provides for an express undertaking by it to be responsible for consequential damages;

(n) each Contract for capital expenditures in excess of One Hundred Thousand Dollars ($100,000);

(o) each warranty, guaranty or other similar undertaking with respect to contractual performance extended by it other than in the Ordinary Course of Business; and

(p) each amendment, supplement and modification in respect of any of the foregoing. Copies of each document, plan or Contract listed and described on **Schedule 4.20** are attached to such Schedule.

Section 4.21. **Defaults**. Except as set forth on **Schedule 4.21**, each Contract identified or required to be identified on **Schedule 4.20** is in full force and effect and is valid and enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally and subject to general principles of equity. The Company and each Acquired Subsidiary is, and at all times since December 31, 2010, has been, in full compliance with all applicable terms and requirements of each Contract under which it has or had any obligation or Liability or by which it or any asset owned or used by it is or was bound, except where the failure to be in full compliance would not reasonably be expected to have a Material Adverse Effect on the Company or any Acquired Subsidiary. To the Company's Knowledge, each other Person that has or had any obligation or Liability under any such Contract under which the Company or an Acquired Subsidiary has or had any rights is, and at all times since December 31, 2010, has been, in full compliance with all applicable terms and requirements of such Contract, except where the failure to be in full compliance would not reasonably be expected to have a Material Adverse Effect on the Company or any Acquired Subsidiary. To the Company's Knowledge, no event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with or result in a material violation or breach of, or give the Company, the applicable Acquired Subsidiary or other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify, any material Contract to which the Company or any Acquired Subsidiary is a party. Except in the Ordinary Course of Business with respect to any Loan, none of the Company or any

Acquired Subsidiary has given to or received from any other Person, at any time since December 31, 2010, any notice or other communication (whether oral or written) regarding any actual, alleged, possible or potential violation or breach of, or default under, any Contract, that has not been terminated or satisfied prior to the date of this Agreement. Other than in the Ordinary Course of Business, there are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate, any material amounts paid or payable to the Company or an Acquired Subsidiary under current or completed Contracts with any Person and no such Person has made written demand for such renegotiation.

Section 4.22. **Absence of Certain Changes and Events**. Except as otherwise set forth in this Agreement or on **Schedule 4.22**, since December 31, 2012, the Company and each Acquired Subsidiary has conducted its business only in the Ordinary Course of Business, and without limiting the foregoing with respect to each, since December 31, 2012, there has not been any:

(a) change in its authorized or issued equity securities; grant of any option or right to purchase shares of its equity securities; issuance of any security convertible into such equity securities or evidences of indebtedness (except in connection with customer deposits); grant of any registration rights; purchase, redemption, retirement or other acquisition by it of any shares of any such equity securities; or declaration or payment of any dividend or other distribution or payment in respect of its equity securities, except as reflected on the Company Financial Statements;

(b) amendment to its Organizational Documents or adoption of any resolutions by its board of directors or shareholders with respect to the same;

(c) payment or increase of any bonus, salary or other compensation to any of its shareholders, directors, officers or employees, except for payments or increases in the Ordinary Course of Business or in accordance with any then-existing Company Employee Benefit Plan disclosed in the Schedules, or entry into any employment, consulting, noncompetition, change in control, severance or similar Contract with any shareholder, director, officer or employee, except for the Contemplated Transactions and except for any employment, consulting or similar agreement or arrangement that is not terminable at will or upon thirty (30) days' notice or less, without penalty or premium;

(d) adoption, amendment (except for any amendment necessary to comply with any Applicable Laws and Regulations) or termination of, or increase in the payments to or benefits under, any Company Employee Benefit Plan;

(e) damage to or destruction or loss of any of its assets or property, whether or not covered by insurance and where the resulting diminution in value individually or in the aggregate is greater than Fifty Thousand Dollars ($50,000);

(f) entry into, termination or extension of, or receipt of notice of termination of any joint venture or similar agreement pursuant to any Contract or any similar transaction;

(g) entry into any new, or modification, amendment, renewal or extension (through action or inaction) of the terms of any existing, lease, Contract or license that has a term

of more than one year or that involves the future payment by it of more than Fifty Thousand Dollars ($50,000) in the aggregate;

(h) Loan or commitment to make any Loan other than in the Ordinary Course of Business;

(i) Loan or commitment to make, renew, extend the term or increase the amount of any Loan to any Person if such Loan or any other Loans to such Person or an Affiliate of such Person is on the "watch list" or similar internal report of the Bank, or has been classified by the Company, the applicable Acquired Subsidiary or any Regulatory Authority as "substandard," "doubtful," "loss," or "other loans specially mentioned" or listed as a "potential problem loan";

(j) incurrence by it of any obligation or Liability (fixed or contingent) other than in the Ordinary Course of Business;

(k) sale, lease or other disposition of any of its assets or properties other than in the Ordinary Course of Business, or mortgage, pledge or imposition of any lien or other encumbrance upon any of its material assets or properties, except: (i) for Permitted Exceptions; (ii) as otherwise incurred in the Ordinary Course of Business; (iii) the sale of stock of Visa, Inc.; or (iv) the sale of mortgage servicing rights;

(l) except in connection with collection efforts conducted in the Ordinary Course of Business, cancellation or waiver by it of any claims or rights with a value in excess of Twenty-Five Thousand Dollars ($25,000);

(m) any single investment by it of a capital nature exceeding Fifty Thousand Dollars ($50,000), or aggregate investments of a capital nature exceeding One Hundred Thousand Dollars ($100,000);

(n) merger or consolidation with or into any other Person, or acquisition of any stock, equity interest or business of any other Person;

(o) transaction for the borrowing or loaning of monies, or any increase in any outstanding indebtedness, other than in the Ordinary Course of Business;

(p) material change in any policies and practices with respect to liquidity management and cash flow planning, marketing, deposit origination, lending, budgeting, profit and Tax planning, accounting or any other material aspect of its business or operations, except for such changes as may be required in the opinion of its management to respond to then-current market or economic conditions or as may be required by any Regulatory Authorities or, in the case of accounting changes, as required by reason of changes in GAAP;

(q) filing of any applications for additional offices or branches, opening of any new office or branch, closing of any current office or branch, or relocation of operations from existing locations;

(r) discharge or satisfaction of any material lien or encumbrance on its assets or repayment of any material indebtedness for borrowed money, except for obligations incurred and repaid in the Ordinary Course of Business;

(s) entry into any Contract or agreement to buy, sell, exchange or otherwise deal in any assets or series of assets, including any investment securities, but excluding OREO, in a single transaction in excess of Twenty-Five Thousand Dollars ($25,000) in aggregate value, and also excluding, when conducted in the Ordinary Course of Business: (i) the pledging of investment securities to secure public funds; (ii) entry into any repurchase agreements; (iii) the sale of mortgage loans in the secondary market; (iv) purchases and sales of mortgage securities; (v) sales of mortgage servicing rights; and further excluding: (vi) the sale of the real estate owned by the Company or an Acquired Subsidiary and located at the corner of Lindell Boulevard and Euclid Avenue, in St. Louis, Missouri; and (vii) the sale of stock of Visa, Inc.;

(t) purchase or other acquisition of any investments, direct or indirect, in any derivative securities, financial futures or commodities or entry into any interest rate swap, floors and option agreements, or other similar interest rate management agreements, other than forward sales of loans or securities into the secondary market made in the Ordinary Course of Business;

(u) hiring of any employee with an annual salary in excess of One Hundred Thousand Dollars ($100,000), except for employees at will who are hired to replace employees who have resigned or whose employment has otherwise been terminated; or

(v) agreement, whether oral or written, by it to do any of the foregoing.

Section 4.23. **Corporate Records**. The books of account, minute books, stock record books and other records of the Company and each Acquired Subsidiary are complete and correct in all material respects, have been maintained in accordance with sound business practices and all Applicable Laws and Regulations, including the maintenance of any adequate system of internal controls and are in the possession or the Company or the applicable Acquired Subsidiary. The minute books of the Company and each Acquired Subsidiary contain accurate and complete records in all material respects of all meetings held of, and corporate action taken by, their respective shareholders, board of directors and committees of the board of directors.

Section 4.24. **Undisclosed Liabilities; Adverse Changes**. Except as set forth on **Schedule 4.24**, none of the Company or any Acquired Subsidiary has any material Liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise), except for Liabilities or obligations reflected or reserved against in the Company Financial Statements and current Liabilities incurred in the Ordinary Course of Business since the respective dates thereof. Except as set forth on **Schedule 4.24**, since the date of the latest Company Financial Statement, none of the Company or any Acquired Subsidiary has undergone, suffered or experienced any Material Adverse Effect. Except as otherwise stated herein or in the Schedules hereto, since the date of the latest Company Financial Statement, the Company and the Acquired Subsidiaries have conducted their respective operations only in the Ordinary Course of Business. To the Company's Knowledge, there are no facts or circumstances from which it reasonably appears

that the Company or any Acquired Subsidiary will undergo, suffer or experience a Material Adverse Effect.

Section 4.25. **Approval Delays; CRA Rating**. To the Company's Knowledge, there is no reason why the granting of any of the regulatory approvals referred to in **Section 7.9** would be denied or unduly delayed. The most recent CRA rating of the Bank was "satisfactory" or better.

Section 4.26. **Brokerage Commissions**. Except as set forth on **Schedule 4.26**, no agent, broker, investment banker or other firm or Person or officer or director of any of the foregoing is or will be entitled to any broker's or finder's fee or any other commission, bonus or similar fee, contingent or otherwise, in connection with any aspect of this Agreement or the Contemplated Transactions for which the Company or any Acquired Subsidiary will be liable.

Section 4.27. **Trust Preferred Securities**. The Company has performed, or has caused the Trust to perform, all of the obligations required to be performed by it and is not in default under the terms of the Trust Debentures or the Trust Preferred Securities or any agreements related thereto (it being understood, however, that the Company has deferred the payment of interest under the Trust Debentures and that the Accrued TRUPS Interest will be paid by Acquiror, on behalf of the Company, at the Closing).

Section 4.28. **Accuracy of Information Furnished**. Neither any representation nor warranty of the Company in, nor any Company Disclosure Schedule to, this Agreement contains any untrue statement of a material fact, or omits to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading. No notice given pursuant to **Section 6.8** will contain any untrue statement or omit to state a material fact necessary to make the statements therein or in this Agreement, in light of the circumstances under which they were made, not misleading.

Article 5

Representations and Warranties of Acquiror and Merger Sub

Acquiror and Merger Sub each represent and warrant to the Company that each of the following statements is true and correct on the date hereof:

Section 5.1. **Organization and Authorization of Acquiror and Merger Sub**.

(a) Acquiror: (i) is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois and is also in good standing in each other jurisdiction in which the nature of the business conducted or the properties or assets owned or leased by it makes such qualification necessary; and (ii) is registered with the Federal Reserve as a financial holding company under the Bank Holding Company Act of 1956, as amended. Merger Sub is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Illinois. Each of Acquiror and Merger Sub has full power and authority, corporate and otherwise, to own, operate and lease its properties as presently owned, operated and leased, and to carry on its business as it is now being conducted, and Acquiror has full power and authority to operate as a financial holding company. Full and correct copies of the Organizational Documents of Acquiror and Merger Sub and all

amendments thereto have been provided to the Company. Acquiror has no Subsidiaries other than Merger Sub and as set forth on **Schedule 5.1**; Merger Sub does not have any Subsidiaries.

(b) Each of Acquiror and Merger Sub has all necessary power and authority to execute and deliver all Transaction Documents to which it is a party, and to perform all of its obligations contained therein, including, without limitation, issuance of the shares of Acquiror Common Stock to be issued to the shareholders of the Company. The execution and delivery of the Transaction Documents and performance of all obligations of each of Acquiror and Merger Sub contained therein have been duly approved and authorized by all necessary corporate or other action on the part of Acquiror or Merger Sub, respectively. This Agreement is, and all other Transaction Documents to which Acquiror or Merger Sub is a party when executed and delivered by Acquiror or Merger Sub, as applicable, will be, assuming due execution and delivery thereof by the other parties thereto, valid and binding obligations of Acquiror or Merger Sub (as the case may be), enforceable against such party in accordance with their terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles or doctrines.

Section 5.2. **Acquiror Bank Organization**. Acquiror Bank is a state-chartered, member bank duly organized, validly existing and in good standing under the laws of the State of Illinois and its deposits are insured by the FDIC under the Deposit Insurance Fund to the fullest extent permitted under the Federal Deposit Insurance Act. Acquiror Bank has full power and authority, corporate and otherwise, to own, operate and lease its properties as presently owned, operated and leased, and to carry on its business as it is now being conducted, and is duly qualified to do business and is in good standing in each jurisdiction in which the nature of the business conducted or the properties or assets owned or leased by it makes such qualification necessary. Full and correct copies of the Organizational Documents of Acquiror Bank and all amendments thereto have been provided to the Company. Acquiror Bank does not own voting stock or equity securities of any corporation, association, partnership or other entity except as set forth on **Schedule 5.2.**

Section 5.3. **No Conflict**. Except as set forth on **Schedule 5.3**, neither the execution nor delivery of this Agreement, nor, assuming the receipt of the Regulatory Approvals and the approval of Acquiror's board of directors, the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):

(a) contravene, conflict with or result in a violation of any provision of the Organizational Documents of Acquiror or Acquiror Bank as in effect on the date of this Agreement, or any currently effective resolution adopted by the board of directors or shareholders of Acquiror or Acquiror Bank;

(b) contravene, conflict with or result in a violation of, or give any Regulatory Authority or other Person the valid and enforceable right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Applicable Law or Regulation or any Order to which Acquiror or Acquiror Bank, or any of their respective assets that are owned or used by them, are subject;

(c) contravene, conflict with or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify any material Contract to which Acquiror or Acquiror Bank is a party or by which any of their respective assets is bound; or

(d) result in the creation of any lien, charge or encumbrance upon or with respect to any of the assets owned or used by Acquiror or Acquiror Bank.

Except for the items set forth on **Schedule 5.3**, neither Acquiror nor Acquiror Bank is or will be required to give any notice to or obtain any consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

Section 5.4. **Acquiror, Merger Sub and Acquiror Bank Capitalization**.

(a) The authorized equity interests of Acquiror consist exclusively of those equity interests set forth on **Schedule 5.4**. All of the issued and outstanding equity interests of Acquiror have been duly and validly authorized and issued, and are fully paid and non-assessable. None of the outstanding equity interests of Acquiror are subject to any preemptive rights. Except as set forth on **Schedule 5.4**, there are no equity interests of Acquiror outstanding, and no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, shares of the equity interests of Acquiror, and no Contracts by which Acquiror is or may be bound to issue additional equity interests or options, warrants, or rights to purchase or acquire any additional equity interests or any of its indebtedness. Except as set forth on **Schedule 5.4**, Acquiror does not own or have any Contract to acquire, any equity interests or other securities of any Person or any direct or indirect equity or ownership interest in any other business. Acquiror does not have outstanding any indebtedness which entitles the holder or holders thereof to exercise voting rights in connection with the election of its directors, nor are there outstanding any options, warrants, calls, rights, commitments or agreements of any kind obligating Acquiror to issue or sell any such indebtedness. There are no outstanding contractual obligations of Acquiror to repurchase, redeem or otherwise acquire any of its equity interests or any of its indebtedness.

(b) The authorized equity interests of Acquiror Bank consist exclusively of those equity interests set forth on **Schedule 5.4**. All of the issued and outstanding equity interests of Acquiror Bank have been duly and validly authorized and issued, and are fully paid and non-assessable, and owned of record by Acquiror (the "**Acquiror Bank Equity**"). None of the outstanding Acquiror Bank Equity is subject to any preemptive rights. Except for the Acquiror Bank Equity owned by Acquiror, there are no equity interests of Acquiror Bank outstanding, and no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, any shares of Acquiror Bank Equity, and no Contracts by which Acquiror Bank is or may be bound to issue additional Acquiror Bank Equity or options, warrants, or rights to purchase or acquire any additional shares of Acquiror Bank Equity or any indebtedness. Except as set forth on **Schedule 5.4**, Acquiror Bank does not own nor does it have any Contract to acquire, any equity interests or other securities of any Person or any direct or indirect equity or

ownership interest in any other business. Acquiror Bank does not have any outstanding indebtedness that entitles the holder or holders thereof to exercise voting rights in connection with the election of its directors, nor are there outstanding any options, warrants, calls, rights, commitments or agreements of any kind obligating Acquiror Bank to issue or sell any such indebtedness. There are no outstanding contractual obligations of Acquiror Bank to repurchase, redeem or otherwise acquire any of its equity interests or any of its indebtedness.

(c) All of the issued and outstanding membership interests of Merger Sub are owned by Acquiror. Merger Sub has not conducted any business prior to the date of this Agreement and has no assets, liabilities or obligations of any nature other than those incident to its formation and pursuant to this Agreement and the Merger.

Section 5.5. **Regulatory Reports**. Prior to the execution of this Agreement, Acquiror has delivered or made available to the Company complete and accurate copies of all reports that Acquiror or Acquiror Bank has filed with the Federal Reserve or any other Regulatory Authority since January 1, 2012 (the "**Acquiror Regulatory Reports**"). Each of Acquiror and Acquiror Bank has filed in a timely manner all the Acquiror Regulatory Reports that it was required to file with the Regulatory Authorities. As of their respective dates or as subsequently amended prior to the date hereof, each of the Acquiror Regulatory Reports:

(a) is true and correct in all material respects and does not make any untrue statement of material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(b) complies in all material respects with Applicable Laws and Regulations; and

(c) fairly presents the financial and operating condition of Acquiror and Acquiror Bank, as the case may be, as of the dates thereof.

Section 5.6. **Acquiror Financial Statements and Reports**.

(a) Acquiror has delivered to the Company true, correct and complete copies of the audited consolidated balance sheet and related statements of income for Acquiror as of and for the years ended December 31, 2012, 2011 and 2010, and an unaudited consolidated balance sheet as of September 30, 2013, and related statement of income for the nine (9) months then ended (collectively, and including the notes thereto, the "**Acquiror Financial Statements**").

(b) The Acquiror Financial Statements have been prepared in accordance with GAAP applied on a consistent basis during the period involved, except that the unaudited statements are subject to normal year-end adjustments, the absence of footnotes and exceptions stated therein. Taken together, the Acquiror Financial Statements are complete and correct in all material respects and fairly and accurately present the financial position, assets, Liabilities and results of operations of Acquiror as of the respective dates thereof, and for the periods referred to therein. The Acquiror Financial Statements do not include any material assets or omit to state any material Liabilities, absolute or contingent, or other facts, which inclusion or omission would render the Acquiror Financial Statements misleading in any material respect as of the respective dates thereof and for the periods referred to therein.

Section 5.7. **Legal Proceedings; Orders**.

(a) Except as set forth on **Schedule 5.7(a)** there is no Proceeding pending or, to the Acquiror's Knowledge, Threatened which, if adversely determined, would have a Material Adverse Effect on Acquiror, Merger Sub or Acquiror Bank or prevent the consummation of the Contemplated Transactions. Except as set forth on **Schedule 5.7(a)**, there is no existing Order applicable to or affecting Acquiror, Merger Sub or Acquiror Bank or any of their assets or businesses which would have a Material Adverse Effect on Acquiror, Merger Sub or Acquiror Bank or prevent the consummation of the Contemplated Transactions. No executive officer, director, agent or employee of Acquiror, Merger Sub or Acquiror Bank is subject to any Order that prohibits such officer, director, agent or employee from engaging in or continuing any conduct, activity or practice relating to the business of Acquiror, Merger Sub or Acquiror Bank as currently conducted.

(b) Except as set forth on **Schedule 5.7(b)**, neither Acquiror, Merger Sub nor Acquiror Bank: (i) is subject to any cease and desist or other Order or enforcement action issued by; (ii) is a party to any written agreement, consent agreement or memorandum of understanding with; (iii) is a party to any commitment letter or similar undertaking to; (iv) is subject to any Order or directive by; (v) is subject to any supervisory letter from; (vi) has been ordered to pay any civil money penalty, which has not been paid to; and (vii) has adopted any policies, procedures or board resolutions at the request of, any Regulatory Authority that currently restricts in any respect the conduct of its business, relates in any manner to its capital adequacy, restricts its ability to pay dividends, or limits in any manner its credit or risk management policies or its management.

Section 5.8. **Compliance with Applicable Laws and Regulations**. Each of Acquiror, Merger Sub and Acquiror Bank holds all licenses, certificates, permits, franchises and rights from all appropriate Regulatory Authorities necessary for the conduct of its business. Except as set forth on **Schedule 5.8**, each of Acquiror, Merger Sub and Acquiror Bank is, and at all times since December 31, 2010, has been, in compliance with all Applicable Laws and Regulations that are or were applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets, except where the failure to comply would not reasonably be expected to have a Material Adverse Effect on it. No event has occurred or circumstance exists that (with or without notice or lapse of time): (a) may constitute or result in a violation by Acquiror, Merger Sub or Acquiror Bank of, or a failure on the part of Acquiror, Merger Sub or Acquiror Bank to comply with, any Applicable Laws and Regulations; or (b) may give rise to any obligation on the part of Acquiror, Merger Sub or Acquiror Bank to undertake, or to bear all or any portion of the cost of, any remedial action of any nature in connection with a failure to comply with any Applicable Laws and Regulations; except, in either case, where the failure to comply or the violation would not have a Material Adverse Effect on Acquiror, Merger Sub or Acquiror Bank. Except as set forth on **Schedule 5.8**, neither Acquiror, Merger Sub nor Acquiror Bank has received, at any time since December 31, 2010, any notice or other communication (whether oral or written) from any Regulatory Authority or any other Person, nor does Acquiror have any Knowledge regarding: (x) any actual, alleged, possible or potential violation of, or failure to comply with, any Applicable Laws and Regulations; or (y) any actual, alleged, possible or potential obligation on the part of Acquiror, Merger Sub or Acquiror Bank to undertake, or to bear all or any portion of the cost of, any remedial action of any nature in connection with a

failure to comply with any Applicable Laws and Regulations, except where any such violation, failure or obligation would not have a Material Adverse Effect on Acquiror, Merger Sub or Acquiror Bank.

Section 5.9. **Taxes**. Except as set forth on **Schedule 5.9**,

(a) Acquiror and all members of any consolidated, affiliated, combined or unitary group of which Acquiror, Merger Sub or Acquiror Bank is a member (a "**Acquiror Tax Affiliate**") has duly and timely filed all Tax Returns required to be filed by it, and each such Tax Return is true, correct and complete in all material respects. Acquiror and each Acquiror Tax Affiliate has paid, or made adequate provision for the payment of, all Taxes (whether or not reflected in Tax Returns as filed or to be filed) due and payable by it, or claimed to be due and payable by any Regulatory Authority, and is not delinquent in the payment of any Tax, except such Taxes as are being contested in good faith and as to which adequate reserves have been provided.

(b) There is no claim or assessment pending or, to the Acquiror's Knowledge, Threatened against Acquiror or any Acquiror Tax Affiliate for any Taxes owed. No audit, examination or investigation related to Taxes paid or payable by Acquiror or Acquiror Tax Affiliate is presently being conducted or, to the Acquiror's Knowledge, Threatened by any Regulatory Authority. Neither Acquiror nor any Acquiror Tax Affiliate is the beneficiary of any extension of time within which to file any Tax Return, and there are no liens for Taxes (other than Taxes not yet due and payable) upon any of Acquiror's assets. Neither Acquiror nor any Acquiror Tax Affiliate has executed an extension or waiver of any statute of limitations on the assessment or collection of any Tax that is currently in effect.

Section 5.10. **Insurance**. Each of Acquiror, Merger Sub and Acquiror Bank has such insurance in place as it deems reasonable with respect to its business (including bankers' blanket bond and insurance providing benefits for employees) and is adequate to provide reasonable coverage for its operations. Each policy is in full force and effect (except for any expiring policy which is replaced by coverage at least as extensive). All premiums due on such policies have been paid in full.

Section 5.11. **Loans; Loan Loss Reserves**.

(a) Except as set forth on **Schedule 5.11**, each Loan reflected as an asset on any of the Acquiror Financial Statements or Acquiror Regulatory Reports is evidenced by documentation that is customary and legally sufficient in all material respects and constitutes, to the Acquiror's Knowledge, the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally or equitable principles or doctrines. To Acquiror's Knowledge, no obligor named therein is seeking to avoid the enforceability of any term of any Loan under any such laws or equitable principles or doctrines, and no Loan is subject to any defense, offset or counterclaim.

(b) All Loans originated or purchased by Acquiror Bank were made or purchased in accordance with the policies of Acquiror Bank's board of directors and in the Ordinary Course of Business of Acquiror Bank. Except as set forth on **Schedule 5.11**, all Loans are free and clear of any security interest, lien, encumbrance or other charge, except where such security interest, lien, encumbrance or other charge was incurred in the Ordinary Course of Business and would not have a Material Adverse Effect on Acquiror Bank, and Acquiror Bank has complied in all material respects with all Applicable Laws and Regulations relating to the Loans.

(c) Except as disclosed on **Schedule 5.11**, to the Acquiror's Knowledge, Acquiror Bank is not party to any Loan: (i) under the terms of which the obligor is more than ninety (90) days delinquent in payment of principal or interest or in default of any other material provision as of the dates shown thereon or for which Acquiror Bank has discontinued the accrual of interest; (ii) that has been classified as "substandard," "doubtful," "loss," "other loans especially mentioned," a "troubled debt restructuring" or any comparable classifications by Acquiror, Acquiror Bank or by any Applicable Governmental Authority; (iii) that has been listed on any "watch list" or similar internal report of Acquiror or Acquiror Bank; (iv) to an Affiliate of an obligor under any Loan described in clauses (i), (ii) or (iii) hereof; (v) that has been the subject of any notice from any obligor of adverse environmental conditions potentially affecting the value of any collateral for such Loan; or (vi) with respect to which Acquiror or Acquiror Bank is aware of potential violations of any Environmental Laws that may have occurred on the property serving as collateral for such Loan or by any obligor of such Loan.

(d) Each Loan Loss Reserve reflected in the Acquiror Financial Statements (including footnotes thereto) was determined on the basis of the Acquiror Bank's continuing review and evaluation of its Loan portfolio under the requirements of GAAP and all Applicable Laws and Regulations, was established in a manner consistent with Acquiror Bank's internal policies and, in the reasonable judgment of Acquiror Bank, was adequate in all material respects under the requirements of GAAP and all Applicable Laws and Regulations to provide for possible or specific losses, net of recoveries relating to Loans previously charged-off, on Loans outstanding, and, in the reasonable judgment of Acquiror Bank, contained an additional amount of unallocated reserves for unanticipated future losses at a level that was adequate under the requirements of GAAP and all Applicable Laws and Regulations. Acquiror has no Knowledge that the aggregate principal amount of the Loans in excess of any Loan Loss Reserve is not fully collectible.

(e) There are no interest rate swaps, caps, floors, option agreements or other interest rate risk management arrangements with respect to the Loans to which Acquiror Bank is a party or by which any of its assets or properties may be bound other than as contained in the respective loan documents and forward sale commitments.

Section 5.12. Investments.

(a) Each of the investment and debt securities, mortgage-backed and related securities, marketable equity securities and securities purchased under agreements to resell that are owned by Acquiror or Acquiror Bank (the "**Acquiror Investment Securities**") are held in accordance with its respective investment policy.

(b) None of the Acquiror Investment Securities is subject to any restriction, whether contractual or statutory, that materially impairs the ability of Acquiror or Acquiror Bank freely to dispose of such investment at any time. With respect to all material repurchase agreements to which Acquiror or Acquiror Bank is a party, to Acquiror's Knowledge, Acquiror or Acquiror Bank has a valid, perfected first lien or security interest in the securities or other collateral securing each such repurchase agreement, and Acquiror or Acquiror Bank, as the case may be, reasonably believes the value of the collateral securing each such repurchase agreement equals or exceeds the amount of the debt secured by such collateral under such agreement.

(c) Neither Acquiror nor Acquiror Bank has sold or otherwise disposed of any assets in a transaction (including the sale of any participation in any Loan) in which the acquirer of such assets or other Person has the right, either conditionally or absolutely, to require Acquiror or Acquiror Bank to repurchase or otherwise reacquire any such assets.

(d) To Acquiror's Knowledge, all Acquiror Investment Securities that are classified as "held to maturity," "available for sale" and "trading" held by Acquiror or Acquiror Bank have been classified and accounted for in accordance with Accounting Standards Codification 320.

(e) There are no interest rate swaps, caps, floors, option agreements or other interest rate risk management arrangements with respect to the Acquiror Investment Securities to which Acquiror or Acquiror Bank is a party or by which any of its assets or properties may be bound.

Section 5.13. Acquiror Employee Matters.

(a) To Acquiror's Knowledge, no Acquiror Key Employee intends to terminate employment with Acquiror or Acquiror Bank or is otherwise likely to become unavailable to continue as an Acquiror Key Employee, nor does Acquiror or Acquiror Bank have a present intention to terminate the employment of any of the foregoing.

(b) No employee of Acquiror or Acquiror Bank is represented in his or her capacity as an employee by any labor organization and neither Acquiror nor Acquiror Bank has recognized any labor organization, nor has any labor organization been elected as the collective bargaining agent of any such employee. Neither Acquiror nor Acquiror Bank has experienced or been Threatened with any strike, slow down, work stoppage, material grievance, claim of unfair labor practices or other collective bargaining dispute within the past three (3) years. Neither Acquiror nor Acquiror Bank has committed any material unfair labor practice. To Acquiror's Knowledge, no organizational effort is presently being made or Threatened by or on behalf of any labor union with respect to employees of Acquiror or Acquiror Bank.

(c) Acquiror and Acquiror Bank have complied in all material respects with all Applicable Laws and Regulations relating to employment and the environment of labor, including those related to wages, hours, collective bargaining, withholding, collection and payment of social security, termination of employment, unemployment compensation and similar payroll taxes, equal pay, workers' compensation, occupational health and safety, immigration, payment of overtime and the classification of employees as overtime eligible and

overtime exempt, fair labor standards, discrimination on the basis of race, age, sex, religion, color, national origin, disability and other protected classifications, except where the failure to comply would not have a Material Adverse Effect on Acquiror or Acquiror Bank.

(d) All of the Acquiror Employee Benefit Plans have been maintained and operated in material compliance with both their terms and with all Applicable Laws and Regulations. No non-exempt prohibited transaction for purposes of ERISA or the Code has occurred with respect to any of the Acquiror Employee Benefit Plans. To the Acquiror's Knowledge, there are no Proceedings pending (other than routine claims for benefits) or Threatened

against Acquiror, Acquiror Bank, any of the Acquiror Employee Benefit Plans, any fiduciary of any of the Acquiror Employee Benefit Plans or the assets of any of the Acquiror Employee Benefit Plans as to which Acquiror or Acquiror Bank could have Liabilities.

(e) Each Acquiror Qualified Plan and trust forming a part thereof has received a current, favorable determination or opinion letter from the IRS as to its qualification under the Code and to the effect that each such trust is exempt from federal income tax under the Code, and nothing has occurred since the date of the most recent favorable determination or opinion letter that could reasonably be expected to adversely affect such qualification or tax-exempt status.

(f) All contributions and fees with respect to all of the Acquiror Employee Benefit Plans that are due from Acquiror or Acquiror Bank have been paid; and all unpaid contributions and fees for prior plan years, and the portion of the current plan year ending on the Closing Date, that are owed by Acquiror or Acquiror Bank but not yet due have been accrued on the books of Acquiror or Acquiror Bank, as the case may be, and reflected in the applicable financial statements to the extent required by and in accordance with GAAP, except where any of the same would not have a Material Adverse Effect on Acquiror or Acquiror Bank. All contributions, fees and payments made or accrued with respect to the Acquiror Employee Benefit Plans are deductible under Section 162 or 404 of the Code.

(g) To Acquiror's Knowledge, no Acquiror Key Employee has been: (i) subject to voluntary or involuntary petition under the federal bankruptcy laws or any state insolvency law or the appointment of a receiver, fiscal agent or similar officer by a court for his or her business or property; (ii) convicted in a criminal Proceeding or named as a subject of a pending criminal Proceeding (excluding traffic violations and other minor offenses); (iii) subject to any Order, judgment or decree (not subsequently reversed, suspended or vacated) of any court of competent jurisdiction permanently or temporarily enjoining him or her from engaging, or otherwise imposing limits or conditions on his or her engagement, in any securities, investment advisory, banking, insurance or other type of business or acting as an officer or director of a public company; or (iv) found by a court of competent jurisdiction in a civil action or by any Regulatory Authority to have violated any federal or state securities, commodities or unfair trade practices law, which such judgment or finding has not been subsequently reversed, suspended or vacated.

Section 5.14. Environmental Matters. Except as set forth on **Schedule 5.14**, there are no actions, suits, investigations, Liabilities, inquiries, Proceedings or Orders involving Acquiror, Merger Sub or Acquiror Bank or any of their respective assets that are pending or, to Acquiror's

Knowledge, Threatened, nor to Acquiror's Knowledge is there any factual basis for any of the foregoing, as a result of any asserted failure of Acquiror, Merger Sub or Acquiror Bank, or any predecessor thereof, to comply with any Environmental Laws. No environmental clearances or other governmental approvals are required for the conduct of the business of Acquiror, Merger Sub or Acquiror Bank or the consummation of the Contemplated Transactions. To Acquiror's Knowledge, neither Acquiror, Merger Sub nor Acquiror Bank is the current or past owner of any interest in real estate on which any substances have been used, stored, deposited, treated, recycled or disposed of, which substances if known to be present on, at or under such property, would require clean-up, removal or some other remedial action under any Environmental Law.

Section 5.15. Intellectual Property. With respect to each item of Intellectual Property owned by Acquiror or Acquiror Bank, Acquiror or Acquiror Bank possesses all right, title and interest in and to the item, free and clear of any lien, claim, royalty interest or encumbrance. With respect to each item of Intellectual Property that Acquiror or Acquiror Bank is licensed or authorized to use, the license, sublicense, agreement or permission covering such item is legal, valid, binding, enforceable and in full force and effect and has not been breached by Acquiror or Acquiror Bank or, to Acquiror's Knowledge, by any other party thereto. Neither Acquiror nor Acquiror Bank has ever received any charge, complaint, claim, demand or notice alleging any interference, infringement, misappropriation or violation with or of any Intellectual Property rights of a third party, including any claims that Acquiror or Acquiror Bank must license or refrain from using any Intellectual Property rights of a third party. To Acquiror's Knowledge, neither Acquiror nor Acquiror Bank has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of third parties and no third party has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property rights of Acquiror or Acquiror Bank.

Section 5.16. Acquiror Properties.

(a) Acquiror and Acquiror Bank have good, sufficient and marketable title to each of the Acquiror Properties which they respectively own (the "**Acquiror Owned Properties**"), and to any interests owned by either of them in any Mortgaged Premises, except for Permitted Liens, none of which individually or in the aggregate are material to the assets of Acquiror or Acquiror Bank. All buildings, structures, fixtures and appurtenances comprising any of the Acquiror Owned Properties are in good operating condition and have been well-maintained, reasonable wear and tear excepted. Title to all of the Acquiror Owned Properties is held in fee simple. Except where any failure would not reasonably be expected to have a Material Adverse Effect on Acquiror or Acquiror Bank, all buildings and structures owned by Acquiror or Acquiror Bank lie wholly within the boundaries of the real property owned by it and do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person.

(b) Except where any failure would not reasonably be expected to have a Material Adverse Effect on Acquiror or Acquiror Bank, all leases of real or personal property to which Acquiror or Acquiror Bank is a party as lessee are valid, effective and enforceable against the lessor in accordance with their respective terms, and there is not under any of such leases any existing default, or any event that, with notice or lapse of time or both, would constitute a

default, with respect to either Acquiror or Acquiror Bank, or to Acquiror's Knowledge, the other party.

Section 5.17. Fiduciary Accounts. Acquiror Bank has administered all accounts for which Acquiror Bank acts as a fiduciary, including accounts for which it serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor in material compliance with the terms of the governing documents, Applicable Laws and Regulations and the common law. To Acquiror's Knowledge, neither Acquiror Bank, nor any director, officer or employee of Acquiror Bank has committed any breach of trust with respect to any such fiduciary account. The accountings for each such fiduciary account are true and correct in all material respects and accurately reflect the assets of such fiduciary account in all material respects.

Section 5.18. **Indemnification Claims**. To Acquiror's Knowledge, no action or failure to take action by any director, officer, employee or agent of Acquiror, Merger Sub or Acquiror Bank has occurred that may give rise to a claim or a potential claim by any such Person for indemnification against Acquiror, Merger Sub or Acquiror Bank under any agreement with, or the corporate indemnification provisions of, Acquiror, Merger Sub or Acquiror Bank or under any Applicable Laws and Regulations.

Section 5.19. **Insider Interests**. No officer or director of Acquiror, Merger Sub or Acquiror Bank, or to Acquiror's Knowledge, any member of the Immediate Family of any such Person and no entity that any such Person "controls" within the meaning of Regulation O, is in violation of Regulation O.

Section 5.20. **Contracts**. Neither Acquiror, Merger Sub nor Acquiror Bank is a party to any Contract containing covenants that in any way purport to restrict, in any material respect, its business activity or limit, in any material respect, its ability to engage in any line of business or to compete with any Person.

Section 5.21. **Defaults**. Each of Acquiror, Merger Sub and Acquiror Bank is, and at all times since December 31, 2010 has been, in full compliance with all applicable terms and requirements of each Contract under which it has or had any obligation or Liability or by which it or any asset owned or used by it is or was bound, except where the failure to be in full compliance would not reasonably be expected to have a Material Adverse Effect on Acquiror, Merger Sub or Acquiror Bank. To Acquiror's Knowledge, each other Person that has or had any obligation or Liability under any such Contract under which Acquiror, Merger Sub or Acquiror Bank has or had any rights is, and at all times since December 31, 2010, has been, in full compliance with all applicable terms and requirements of such Contract, except where the failure to be in full compliance would not reasonably be expected to have a Material Adverse Effect on Acquiror, Merger Sub or Acquiror Bank. To Acquiror's Knowledge, no event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with or result in a material violation or breach of, or give Acquiror, Merger Sub, Acquiror Bank or other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate or modify, any material Contract to which Acquiror, Merger Sub or Acquiror Bank is a party. Except in the Ordinary Course of Business with respect to any Loan, neither Acquiror, Merger Sub nor Acquiror Bank has given to or received from any other Person, at any time since December 31, 2010, any notice or other

communication (whether oral or written) regarding any actual, alleged, possible or potential violation or breach of, or default under, any Contract, that has not been terminated or satisfied prior to the date of this Agreement. Other than in the Ordinary Course of Business in connection with workouts and restructured loans, there are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate, any material amounts paid or payable to Acquiror, Merger Sub or Acquiror Bank under current or completed Contracts with any Person and no such Person has made written demand for such renegotiation.

Section 5.22. **Absence of Certain Changes and Events**. Except as otherwise set forth in this Agreement or on **Schedule 5.22**, since December 31, 2012, each of Acquiror and Acquiror Bank has conducted its business only in the Ordinary Course of Business, and without limiting the foregoing with respect to each, since December 31, 2012, there has not been any:

(a) change in its authorized or issued equity securities; grant of any option or right to purchase shares of its equity securities; issuance of any security convertible into such equity securities or evidences of indebtedness (except in connection with customer deposits); grant of any registration rights; purchase, redemption, retirement or other acquisition by it of any shares of any such equity securities; or declaration or payment of any dividend or other distribution or payment in respect of its equity securities, except as reflected on the Acquiror Financial Statements;

(b) amendment to its Organizational Documents or adoption of any resolutions by its board of directors or shareholders with respect to the same;

(c) damage to or destruction or loss of any of its assets or property, whether or not covered by insurance and where the resulting diminution in value individually or in the aggregate is greater than Five Hundred Thousand Dollars ($500,000);

(d) incurrence by it of any obligation or Liability (fixed or contingent) greater than One Million Dollars ($1,000,000) other than in the Ordinary Course of Business;

(e) sale (other than any sale in the Ordinary Course of Business), lease or other disposition of any of its assets or properties, or the mortgage, pledge or imposition of any lien or other encumbrance upon any of its material assets or properties, except: (i) for Permitted Exceptions; (ii) as otherwise incurred in the Ordinary Course of Business; or (iii) in an amount greater than One Million Dollars ($1,000,000);

(f) any single investment of a capital nature, or aggregate investments of a capital nature, exceeding One Million Dollars ($1,000,000);

(g) merger or consolidation with or into any other Person, or acquisition of any stock, equity interest or business of any other Person;

(h) transaction for the borrowing or loaning of monies, or any increase in any outstanding indebtedness, other than in the Ordinary Course of Business;

(i) material change in any policies and practices with respect to liquidity management and cash flow planning, marketing, deposit origination, lending, budgeting, profit

and Tax planning, accounting or any other material aspect of its business or operations, except for such changes as may be required in the opinion of its management to respond to then-current market or economic conditions or as may be required by any Regulatory Authorities, or, in the case of accounting changes, as required by reason of changes in GAAP; or

(j) agreement, whether oral or written, by it to do any of the foregoing.

Section 5.23. **Corporate Records**. The books of account, minute books, stock record books and other records of Acquiror, Merger Sub and Acquiror Bank are complete and correct in all material respects, have been maintained in accordance with sound business practices and all Applicable Laws and Regulations, including the maintenance of any adequate system of internal controls and are in the possession of Acquiror, Merger Sub or Acquiror Bank. The minute books of Acquiror, Merger Sub and Acquiror Bank contain accurate and complete records in all material respects of all meetings held of, and corporate action taken by, their respective shareholders, board of directors and committees of the board of directors.

Section 5.24. **Undisclosed Liabilities; Adverse Changes**. Except as set forth on **Schedule 5.24**, neither Acquiror, Merger Sub nor Acquiror Bank has any material Liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise), except for Liabilities or obligations reflected or reserved against in the Acquiror Financial Statements and current Liabilities incurred in the Ordinary Course of Business since the respective dates thereof. Since the date of the latest Acquiror Financial Statement, neither Acquiror, Merger Sub nor Acquiror Bank has undergone, suffered or experienced any Material Adverse Effect. Except as set forth on **Schedule 5.24**, since the date of the latest Acquiror Financial Statement, Acquiror, Merger Sub and Acquiror Bank have conducted their respective operations only in the Ordinary Course of Business. No facts or circumstances have been discovered from which it reasonably appears that Acquiror, Merger Sub or Acquiror Bank will undergo, suffer or experience a Material Adverse Effect.

Section 5.25. **Approval Delays; CRA Rating.** There is no reason why the granting of any of the regulatory approvals referred to in **Section 7.9** would be denied or unduly delayed. The most recent CRA rating of Acquiror Bank was "satisfactory" or better.

Section 5.26. **Acquiror Common Stock**. When issued to the Company's shareholders pursuant to this Agreement, the shares of Acquiror Common Stock to be issued hereunder will be duly and validly issued, fully paid and nonassessable. Acquiror has, or will have as of the Closing, a sufficient number of authorized but unissued shares of Acquiror Common Stock to be able to issue to the Company's shareholders all of the shares of Acquiror Common Stock which are to be issued hereunder.

Section 5.27. **Financial Capability**. Acquiror and Merger Sub currently have binding equity investment commitments sufficient to, and at the Closing will have available funds necessary to, consummate the Contemplated Transactions on the terms and conditions contemplated by this Agreement and which will, as of the Closing, result in the pro forma regulatory capital ratios of both Acquiror (on a consolidated basis) and Acquiror Bank satisfying the criteria for "well capitalized" as set forth in Regulation H adopted by the Federal Reserve (12 CFR § 208.43).

Section 5.28. **Brokerage Commissions**. No agent, broker, investment banker or other firm or Person or officer or director of any of the foregoing who has been retained by Acquiror or any Affiliate of Acquiror is or will be entitled to any broker's or finder's fee or any other commission, bonus or similar fee, contingent or otherwise, in connection with any aspect of Agreement or the Contemplated Transactions for which any shareholder or Affiliate of the Company will be liable.

Section 5.29. **Accuracy of Information Furnished**. Neither any representation nor warranty of Acquiror or Merger Sub in, nor any Acquiror Disclosure Schedule to, this Agreement contains any untrue statement of a material fact, or omits to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading. No notice given pursuant to **Section 7.3** will contain any untrue statement or omit to state a material fact necessary to make the statements therein or in this Agreement, in light of the circumstances under which they were made, not misleading.

Article 6

The Company's Covenants

From and after the date hereof, the Company covenants and agrees with Acquiror as follows, and where applicable as set forth below, that it will cause each Acquired Subsidiary to comply with the following covenants. Notwithstanding the foregoing, Acquiror and Merger Sub acknowledge and agree that the covenants made by the Company shall not apply to the Non-Banking Business that will be separated from the Company prior to the Closing pursuant to the Internal Restructuring and the Distribution.

Section 6.1. **Access to Information; Confidentiality**.

(a) Acquiror and its Representatives shall, at all times during normal business hours and with reasonable advance notice prior to the Closing, have full and continuing access to the employees, facilities, operations, records and properties of the Company and each Acquired Subsidiary. Acquiror and its Representatives may, prior to the Closing, make or cause to be made such reasonable investigation of the employees, operations, records and properties of the Company and each Acquired Subsidiary and of their financial and legal condition as Acquiror shall deem necessary or advisable to familiarize itself with such records, properties and other matters; *provided*, *however*, that such access or investigation shall not interfere unnecessarily with the normal operations of the Company or any Acquired Subsidiary. Upon request, the Company shall, or shall cause the applicable Acquired Subsidiary to, furnish Acquiror or its Representatives attorneys' responses to auditors' requests for information regarding the Company or the applicable Acquired Subsidiary, and such financial and operating data and other information reasonably requested by Acquiror (*provided*, with respect to attorneys, such disclosure would not result in the waiver by the Company or the applicable Acquired Subsidiary of any claim of attorney-client privilege), and will permit Acquiror and its Representatives to discuss such information directly with any individual or firm performing auditing or accounting functions for the Company or the applicable Acquired Subsidiary (*provided* that an officer of the Company be afforded a reasonable opportunity to be present during such discussion), and such auditors and accountants shall be directed to furnish copies of any reports or financial

information as developed to Acquiror or its Representatives. This **Section 6.1** shall not require the disclosure of any information the disclosure of which to Acquiror would be prohibited by any Applicable Laws and Regulations. Furthermore, this **Section 6.1** shall not give Acquiror and its Representatives access to, or require the disclosure of any information regarding, the Non-Banking Business that will be separated from the Company prior to the Closing pursuant to the Internal Restructuring and the Distribution, except to the extent, if any, that such information is reasonably required by Acquiror for the purpose of assessing any post-Closing liabilities or obligations of the Company with respect to the Non-Banking Business.

(b) The Company shall cause each of the Bank and LFC to allow a Representative of Acquiror to attend, as an observer only, all meetings of the board of directors of each, and of the loan committee of the Bank. The Company shall cause each of Acquired Bank and LFC to give reasonable notice to Acquiror of any such meeting and, if known, the agenda for or business to be discussed at such meeting. The Company shall cause each of the Bank and LFC to provide to Acquiror all information provided to the directors on all such boards or members of such committees in connection with all such meetings or otherwise provided to the directors or members and, upon specific request, to provide any other financial reports or other analysis prepared for senior management of the Bank and LFC. It is understood by the parties that Acquiror's Representative will not have any voting rights with respect to matters discussed at these meetings and that Acquiror is not managing the business or affairs of the Bank or LFC. All information obtained by Acquiror at these meetings shall be treated in confidence. Notwithstanding the foregoing, the Company shall not be required to cause the Bank or LFC to provide Acquiror with any materials: (i) concerning or discussing the Contemplated Transactions; (ii) in violation of any Applicable Laws and Regulations; or (iii) in any case where the Company has been advised by counsel that Acquiror's receipt of such materials would result in a waiver of the attorney-client privilege of the Bank or LFC.

Section 6.2. **Negative Covenant**. Except as otherwise expressly permitted by this Agreement, between the date of this Agreement and the Closing, the Company shall, and shall cause each Acquired Subsidiary to, refrain, without the prior written consent of Acquiror, from taking any affirmative action, or fail to take any reasonable action within its control, as a result of which any of the changes or events listed in **Section 4.22** is likely to occur. In addition, the Company shall, and shall cause the Bank to, refrain from taking any actions outside its Ordinary Course of Business to increase the Adjusted Book Value except through normal operations, consistent with past practice.

Section 6.3. **Operation of the Company and Acquired Subsidiaries**. Except with the prior written consent of Acquiror or as otherwise reasonably contemplated by this Agreement, between the date of this Agreement and the Closing, the Company will, and will cause each Acquired Subsidiary to:

(a) conduct its business only in the Ordinary Course of Business and in material compliance with all Applicable Laws and Regulations, and continue to make all normal expenditures and incur all regular expenses necessary to continue its business consistent with past practice;

(b) make no material changes to its respective current operations, including with respect to compensation of directors, officers and employees;

(c) use its Best Efforts to preserve intact its current business organization, keep available the services of its current officers, employees and agents, and maintain the goodwill of its suppliers, customers, landlords, creditors, employees, agents and others who have business relationships with it, and, in connection therewith, permit Representatives of Acquiror to hold meetings or discussions with its officers and employees in connection with employment opportunities after the Effective Time;

(d) confer with Acquiror concerning changes in operations outside the Ordinary Course of Business;

(e) enter into loan transactions only in accordance with sound credit practices and only on terms and conditions that are not materially more favorable than those available to the borrower from competitive sources in arm's-length transactions, and in connection therewith, from the date of this Agreement to the Closing, shall not:

(i) enter into any new credit or new lending relationships in excess of One Million Dollars ($1,000,000) with any Person and such Person's Borrowing Affiliate, but such prohibition shall not include any credit or lending relationships entered into by LFC;

(ii) other than incident to a reasonable loan restructuring, extend additional credit to any Person and any director or officer of, or any owner of a material interest in, such Person (any of the foregoing with respect to a Person being referred to as a "**Borrowing Affiliate**") if such Person or such Borrowing Affiliate is the obligor under any indebtedness to the Company or any Acquired Subsidiary which constitutes a nonperforming loan or against any part of such indebtedness the Company or an Acquired Subsidiary has established loss reserves or any part of which has been charged-off by the Company or an Acquired Subsidiary;

(f) consistent with past practice, maintain a Loan Loss Reserve which is adequate in all material respects under the requirements of GAAP to provide for possible losses, net of recoveries relating to Loans previously charged off, on Loans and leases outstanding (including accrued interest receivable), and charge-off any Loans or leases that would be deemed uncollectible in accordance with GAAP or any Applicable Laws and Regulations;

(g) maintain all of its assets necessary for the conduct of its business in good working condition and repair, normal wear and tear excepted, and maintain policies of insurance upon its assets and with respect to the conduct of its business in amounts and kinds comparable to that in effect on the date of this Agreement and pay all premiums on such policies when due;

(h) not declare or pay any dividends or make any other similar distributions of cash or property to any of its directors, officers, employees or shareholders, or redeem, retire or acquire any of its equity securities, other than:

(i) regular salaries and other earned compensation;

(ii) cash distributions by joint ventures or other subsidiaries to non-controlling shareholders or to the Bank; and

(iii) prior to the Calculation Date, cash dividends or distributions by the Bank, *provided*, *however*, that with respect to all distributions or dividends made pursuant to this **Section 6.3(h)(iii)**, (x) each dividend or distribution has been approved by the Bank's board of directors; (y) each dividend or distribution is consistent with all Applicable Laws and Regulations, including the Bank's Individual Minimum Capital Requirements; and (z) the aggregate sum of all such dividends and distributions is less than fifty percent (50%) of the Bank's consolidated net income earned from January 1, 2013, through the end of the month preceding such distribution or dividend;

(i) not issue, sell or grant any shares of its equity securities, or any securities convertible into such equity securities, or grant any option or right to purchase shares of its equity securities;

(j) not incur any indebtedness, except for: (i) indebtedness solely between or among any of the Company and any of the Acquired Subsidiaries; (ii) indebtedness incurred solely to enable the Company to pay the Accrued TRUPS Interest on the last day of the deferral period (if the Closing has not occurred as of such time); and (iii) trade credit or trade payables in the Ordinary Course of Business;

(k) not buy any security unless it will be held as available for sale;

(l) not sell, dispose of or otherwise transfer any material property or asset, other than: (i) mortgage servicing rights; (ii) sales, dispositions or transfers in the Ordinary Course of Business, and (iii) sales of Fannie Mae and Freddie Mac equity securities;

(m) file in a timely manner all required filings with all Regulatory Authorities and cause such filings to be true and correct in all material respects;

(n) record and carry on its books and records the net realizable value of OREO, with such value to be supported by reasonable documentation of the same;

(o) maintain its books, accounts and records in the Ordinary Course of Business, on a basis consistent with prior years;

(p) comply with all Applicable Laws and Regulations and Contracts; and

(q) report periodically to Acquiror concerning the status of its business operations.

Notwithstanding anything contained herein to the contrary, for purposes of **Section 6.3(e)**, Acquiror's consent shall be deemed to have been given if the Company has made a written request for permission to take any action otherwise prohibited by **Section 6.3(e)** and has provided Acquiror with information sufficient for Acquiror to make an informed decision with respect to such request, and Acquiror has failed to respond to such request within two (2) business days after Acquiror's receipt of such request.

Section 6.4. **Company Subsequent Reports**. Between the date of this Agreement and the Closing, as soon as reasonably available, the Company will deliver to Acquiror, or cause the applicable Acquired Subsidiary to deliver, as the case may be, copies of: (a) monthly unaudited financial statements of each Acquired Subsidiary that are provided to the management and directors of such entity, together with any additional financial information of the Company that does not relate solely to the Non-Banking Business; (b) all Company Regulatory Reports submitted after the date of this Agreement, to the extent permitted by Applicable Laws and Regulations; and (c) the Company's audited consolidated financial statements as of and for the year ended December 31, 2013 (collectively, the "**Company Subsequent Reports**"). Except as may be required by changes in any Applicable Laws and Regulations effective after the date of this Agreement, any Company Subsequent Reports containing financial data shall be prepared on a basis consistent with past accounting practices and shall fairly present in all material respects the financial condition and results of operations for the dates and periods presented. The Company Subsequent Reports will not include any material assets or omit to state any material Liabilities, absolute or contingent, or other facts, which inclusion or omission would render such Company Subsequent Reports misleading in any material respect.

Section 6.5. **Title to Real Estate**. As soon as practical after the date hereof, but in any event no later than thirty (30) days after the date hereof, the Company shall obtain and deliver to Acquiror, with respect to all Company Real Estate, including any OREO, an owner's preliminary report of title covering a date subsequent to the date hereof, issued by a title insurance company that is reasonably acceptable to Acquiror, showing fee simple title in the Company or applicable Acquired Subsidiary in such Company Real Estate with coverage over all standard exceptions (except with respect to any OREO) and subject to no liens, mortgages, security interests, encumbrances or charges of any kind except for any Permitted Exceptions. Notwithstanding the foregoing, the Company shall not be required to deliver an updated owner's preliminary report of title with respect to any Company Real Estate for which the Company delivered to Acquiror an owner's preliminary report of title prior to the date of this Agreement; *provided* that, to the Company's Knowledge, no material adverse changes to such report of title would be shown if an updated report of title were obtained after the date of this Agreement. The cost of obtaining any preliminary report of title discussed in this **Section 6.5** shall be borne Acquiror.

Section 6.6. **Surveys**. Acquiror may, in its discretion, within forty-five (45) days after the date hereof, require the Company to provide at Acquiror's expense and as soon as practicable prior to the Closing, a current ALTA survey of any or all parcels of Company Real Estate, other than property carried as OREO, disclosing no survey defects that would materially impair the use thereof for the purposes for which it is held or materially impair the value of such property.

Section 6.7. **Environmental Investigation.**

(a) Acquiror may, in its discretion, within thirty (30) Business Days of the date of this Agreement, require the Company to order, at Acquiror's expense, a Phase I environmental site assessment to be delivered only to Acquiror for each parcel of real property in which the Company or an Acquired Subsidiary holds an interest or formerly held an interest (each a "**Phase I Report**"), conducted by an independent professional consultant reasonably acceptable to Acquiror to determine if any real property in which the Company or any Acquired Subsidiary holds any interest or formerly held an interest contains or gives evidence of any

adverse environmental condition or any violations of Environmental Laws on any such property. If a Phase I Report discloses any violations or adverse environmental conditions, or reports a reasonable suspicion thereof, then Acquiror may promptly obtain, at the expense of the Company and Acquiror, shared equally, a Phase II environmental report with respect to any affected property which report shall contain an estimate of the cost of any remediation or other follow-up work that may be necessary to address those violations or conditions in accordance with applicable laws and regulations (each a "**Phase II**

Report," and collectively referred to with the associated Phase I Report, an "**Environmental Report**"). Acquiror shall have no duty to act upon any information produced by an Environmental Report for the benefit of the Company, any Acquired Subsidiary or any other Person, but shall provide such information to the Company upon the Company's request.

(b) Upon receipt of the estimate of the costs of all follow-up work to an Environmental Report, Acquiror and the Company shall attempt to agree upon a course of action for remediation of any adverse environmental condition or violation suspected, found to exist, or that would tend to be indicated by an Environmental Report. The estimated total cost for completing all necessary work plans or removal or remediation actions, plus one-half of the total cost of the Phase II Report(s), is collectively referred to as the "**Remediation Cost**." Subject to the last sentence of this **Section 6.7(b)**, the Remediation Cost shall be taken into account in calculating the Adjusted Book Value. Notwithstanding anything contained herein to the contrary, if the aggregate Remediation Cost exceeds One Million Dollars ($1,000,000), Acquiror may, at its sole option: (i) terminate this Agreement; or (ii) confirm in writing to the Company that no more than One Million Dollars ($1,000,000) of the Remediation Cost shall be taken into account in calculating the Adjusted Book Value, and any amount in excess shall be ignored in making that calculation.

Section 6.8. **Advice of Changes.** Between the date of this Agreement and Closing, the Company shall promptly notify Acquiror in writing if the Company becomes aware of any fact or condition that causes or constitutes a Breach of any of the representations and warranties of the Company as of the date of this Agreement, or if the Company becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a Breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. If any such fact or condition would require any change in the Company Disclosure Schedules if the Company Disclosure Schedules were dated the date of the occurrence or discovery of any such fact or condition, the Company will deliver to Acquiror by no later than five (5) Business Days before the Closing, a supplement to the Company Disclosure Schedules specifying such change. During the same period, the Company will promptly notify Acquiror of the occurrence of any Breach of any covenant of the Company in this Agreement or of the occurrence of any event that might reasonably be expected to make the satisfaction of the conditions in **Article 9** impossible or unlikely. Notwithstanding anything contained herein to the contrary, any notice or updated Company Disclosure Schedule provided by the Company to Acquiror pursuant to this **Section 6.8** shall not cure, or otherwise reduce any amount that may be owed by the Company to Acquiror pursuant to **Article 10** resulting from, any Breach by the Company of any of its representations, warranties or covenants contained in this Agreement.

Section 6.9. **Data and Item Processing Agreements**. **Schedule 6.9** sets forth each data or item processing contract of the Company or any Acquired Subsidiary that will be in force on the Closing Date. The Company agrees to consult with Acquiror prior to the entry by it or an Acquired Subsidiary (by either action or inaction) into any new, or any extension of any existing, data or item processing agreements. The Company agrees to coordinate with Acquiror in connection with the negotiation of any new or extension of any existing data or item processing agreement of either the Company or an Acquired Subsidiary with the purpose of achieving the best possible economic and business result in light of the Contemplated Transactions, and the Company further agrees to use its Best Efforts to reduce, to the extent possible, the aggregate amount of any cancellation fees resulting from the termination or failure to renew by the Company or an Acquired Subsidiary of any data or item processing agreements. Notwithstanding anything contained herein to the contrary, the Company shall have no liability for, nor shall there be taken into account for the purposes of calculating the Adjusted Book Value, any termination fees payable as a result of the termination of any of the data processing agreements listed on **Schedule 6.9**.

Section 6.10. **Consents; Third Party Approvals.** As soon as practicable after the date of this Agreement, the Company shall use its Best Efforts to obtain any consents or approvals required by the terms of this Agreement or otherwise that are necessary in order for the Company to consummate the Contemplated Transactions.

Section 6.11. **Information Provided to Acquiror**. The Company agrees that none of the information concerning the Company or any Acquired Subsidiary that is provided or to be provided by the Company to Acquiror for inclusion in any documents to be filed with any Regulatory Authority in connection with the Contemplated Transactions or provided to any prospective purchaser of Acquiror securities will, at the respective times such documents are filed or otherwise provided, be false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not misleading. Notwithstanding the foregoing, the Company shall have no responsibility for the truth or accuracy of any information with respect to Acquiror or any of its respective Affiliates contained in any document provided to, or other communication with, any Regulatory Authority or prospective purchaser of Acquiror securities.

Section 6.12. **Tax Returns and Tax Filings.** Between the date of this Agreement and the Closing, the Company shall, and shall cause each Acquired Subsidiary to: (a) refrain from making any election inconsistent with prior Tax Returns or elections or settling or compromising any Liability with respect to Taxes without prior written notice to Acquiror; and (b) file all Tax Returns required to be filed (subject to extensions of time for filing) prior to the Closing, *provided*, *however*, that the Company is expressly permitted to change its past practice and file consolidated state Tax Returns.

Section 6.13. **Other Offers**. During the period from the date of this Agreement to the earlier of the Closing Date or the termination of this Agreement in accordance with its terms, the Company will not, and will cause each of its Subsidiaries and their respective Representatives not to, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, provide any nonpublic information to, or consider the merits of any unsolicited inquiries or proposals from, any Person (other than Acquiror) relating to any potential Acquisition

Transaction involving the Company or any Acquired Subsidiary. Notwithstanding the foregoing, in the event that the board of directors of the Company determines in good faith and after consultation with outside legal counsel, that an Unsolicited Proposal, which does not result from a Breach of this **Section 6.13**, constitutes or is reasonably likely to result in a Superior Proposal and that failure to pursue such Unsolicited Proposal is reasonably likely to result in a Breach of its fiduciary duties under any Applicable Laws and Regulations, the board of directors of the Company may, so long as the Company complies at all times with its obligations under **Section 6.13**: (a) furnish information with respect to the Company and its Subsidiaries to such Person making such Unsolicited Proposal pursuant to a customary confidentiality agreement; (b) participate in discussions or negotiations regarding such Unsolicited Proposal; and (c) terminate this Agreement in order to concurrently enter into an agreement with respect to such Unsolicited Proposal; *provided*, *however*, that the board of directors of the Company may not terminate this Agreement pursuant to this **Section 6.13** unless and until: (x) five (5) Business Days have elapsed following the delivery to Acquiror of a written notice of such determination by the board of directors of the Company and during such five (5) Business-Day period, the Company otherwise cooperates with Acquiror with the intent of enabling the parties to engage in good faith negotiations so

that the Contemplated Transactions may be effected; and (y) at the end of such five (5) Business Day period the board of directors of the Company continues, in good faith and after consultation with outside legal counsel, to believe the Unsolicited Proposal at issue constitutes a Superior Proposal. In addition to the foregoing obligations of the Company, the Company shall immediately advise Acquiror orally and in writing of any request for information or of any Unsolicited Proposal, the material terms and conditions of such request or Unsolicited Proposal and the identity of the Person making such request or Unsolicited Proposal. The Company shall keep Acquiror reasonably informed of the status and details (including amendments or proposed amendments) of any such request or Unsolicited Proposal, including the status of any discussions or negotiations with respect to any Superior Proposal.

Section 6.14. **The Company's Closing Obligations**. The Company agrees to take such actions as may be necessary to ensure that prior to, or concurrently with, the Closing, except for Liabilities and expenses that have reduced the Adjusted Book Value, none of the Company or any Acquired Subsidiary shall have any outstanding unpaid, unaccrued or unrecorded Liabilities. Without limiting the foregoing, except for Liabilities and expenses that have reduced the Adjusted Book Value, all Company Transaction Expenses incurred or reasonably expected to be incurred by the Company or an Acquired Subsidiary shall have been paid or accrued in full by the Company or the applicable Acquired Subsidiary prior to the Calculation Date.

Section 6.15. **Voting Agreement.** Concurrently with the execution and delivery of this Agreement, the Company shall deliver to Acquiror a voting agreement, in the form of **Exhibit H-1**, signed by each member of the Love Family and Laurence A. Schiffer, and a voting agreement in the form of **Exhibit H-2**, signed by each member of the McDonnell Family (collectively, the "**Voting Agreement**").

Section 6.16. **Registration Rights Agreement**. Concurrently with the execution and delivery of this Agreement, the Company shall deliver to Acquiror a registration rights agreement, in the form of **Exhibit I** (the "**Registration Rights Agreement**"), granting the Persons listed on **Schedule 1.1** certain rights with respect to the shares of Acquiror Common

Stock received in connection with the Merger, signed by each such Person. The Registration Rights Agreement shall become effective at the Effective Time.

Section 6.17. **Shareholders' Agreement**. Concurrently with the execution and delivery of this Agreement, the Company shall deliver to Acquiror a shareholders' agreement in the form of **Exhibit J-1**, signed by each member of the Love Family, and a shareholders' agreement in the form of **Exhibit J-2**, signed by each member of the McDonnell Family (collectively, the "**Shareholders' Agreement**"), containing certain restrictions with respect to each such Person's ownership of Acquiror Common Stock. The Shareholders' Agreement shall become effective at the Effective Time.

Section 6.18. **Indemnification Agreement**. Concurrently with the execution and delivery of this Agreement, the Company shall deliver to Acquiror an indemnification agreement in the form of **Exhibit K**, signed by the Hallmark Group, each member of the Love Family, Laurence A. Schiffer and each member of the McDonnell Family (the "**Indemnification Agreement**").

Section 6.19. **Employment Agreements; Noncompetition Agreements**. Concurrently with the execution and delivery of this Agreement, the Company shall deliver to Acquiror an amendment of equity appreciation award agreement in the form of **Exhibit L-1**, signed by Mark R. Dellonte; an employment agreement in the form of **Exhibit L-2**, signed by Larry K. White; and noncompetition agreements in the form of **Exhibit M**, signed by each of Andrew S. Love and Laurence A. Schiffer. The parties agree that all agreements required pursuant to this **Section 6.19**, by their terms, shall be contingent upon the occurrence of the Closing and shall become effective at the Effective Time.

Section 6.20. **Termination of Certain Agreements** .

(a) The Company agrees to cause the Bank to terminate any and all sponsor bank or other similar agreements between HPS and the Bank, effective on or prior to Closing or as soon thereafter as practicable.

(b) Prior to the Distribution and the Closing, the Company shall be entitled to cause the Bank to transfer to the Hallmark Group cash in an amount equal to the reserve which is currently One Million Six Hundred Forty-One Thousand Five Hundred Fifty Two Dollars ($1,641,552), established by the Bank with respect to any Liability of the Bank to HPS, including in connection with residual or other lease payments paid or payable to the Bank or any of its Subsidiaries in connection with merchants' leases of point-of-sale terminals. For the avoidance of doubt, the Adjusted Book Value shall be reduced by the amount of any such transfer and increased by the amount of such reserve for such liability now assumed by the Hallmark Group and thereby removed from the consolidated balance sheet of the Company prior to the Closing.

Section 6.21. **Regulatory Approvals**. The Company shall, and shall cause the Acquired Subsidiaries to, use Best Efforts to take such steps as may be necessary or required as a condition to obtaining all necessary Regulatory Approvals for the Contemplated Transactions.

Section 6.22. **Right of MSR First Offer**. If at any time prior to the Closing, the Company offers to sell or otherwise transfer any mortgage servicing rights owned by the Company or any of the Company's Subsidiaries (a "**Proposed MSR Sale**"), the Company agrees that it will not consummate the Proposed MSR Sale without first making a written offer to sell or transfer such mortgage servicing rights to Acquiror on the same terms and conditions as the Proposed MSR Sale or on such terms as modified to take account of the fact that Acquiror is not an approved Ginnie Mae servicer (the "**MSR Offer**"). Acquiror shall have twenty (20) days to respond to any MSR Offer received from the Company.

Section 6.23. **Shareholders' Meeting.**

(a) The Company shall cause a meeting of its shareholders to be held for the purpose of acting upon the Merger and this Agreement. Such meeting shall be held within a reasonable period after the Agreement Date on such date as determined by the Company. The Company shall send to its shareholders, at least twenty (20) days prior to such meeting, notice of such meeting together with a proxy statement, which shall include a copy of this Agreement and a copy of Section 351.455 of the GBCM governing the rights of Dissenting Shareholders. The proxy statement shall include information regarding Acquiror and the Acquiror Common Stock to be issued in the Merger, which information shall be provided by Acquiror as soon as practicable prior to the mailing date of the proxy statement. The Company and its board of directors shall recommend to its shareholders the approval of the Merger and this Agreement and shall solicit proxies voting only in favor thereof from the shareholders, and the Company and its board of directors shall not withdraw, modify

or change, in any manner adverse to Acquiror, or publicly announce its intent to withdraw, modify or change, in any manner adverse to Acquiror, such recommendation of this Agreement and the Merger; *provided*, *however*, that the Company shall not be required to make the recommendation required by this **Section 6.23(a)**, and shall be permitted to withdraw, modify or change such recommendation, if the board of directors of Company determines, in good faith, that the exercise of its fiduciary duties to its shareholders under applicable law, as advised by its counsel, so requires.

(b) For the avoidance of doubt, the parties acknowledge that the failure of the Company to comply with the provisions of this **Section 6.23** shall be deemed to have a Material Adverse Effect on Acquiror's rights under this Agreement.

(c) At the meeting of shareholders called to consider and vote upon approval of this Agreement, the holders of a majority of the outstanding shares of Company Common Stock and Company Series A Preferred Stock (voting together as a single class) shall elect a shareholder representative, who shall have approval authority as set forth in **Section 2.11**, **Section 12.8** and **Section 12.9** (the "**Shareholder Representative**") and who may also, as part of such vote, be released from any liability by the shareholders when he or she acts in reliance upon the advice of attorneys or accountants selected by him or her.

Section 6.24. [RESERVED].

Section 6.25. Internal Restructuring and Distribution. The Company shall use its Best Efforts to consummate the Internal Restructuring and the Distribution immediately prior to the Effective Time. Following the consummation of the Internal Restructuring and the

Distribution, neither the Company nor any Acquired Subsidiary shall own any assets or conduct any activities related to the Non-Banking Business and or have any receivables or other assets owing from, or any payables or other liabilities owing to, the Hallmark Group.

Article 7

Acquiror's Covenants

Section 7.1. Access to Information. Acquiror will give the Representatives of the Company the opportunity to ask questions of, and receive answers from, Acquiror's officers and Representatives concerning the terms and conditions of the issuance of Acquiror Common Stock to the shareholders of the Company and to obtain additional information reasonably available to Acquiror and any persons acting on Acquiror's behalf necessary to verify the accuracy of the information given to the Company.

Section 7.2. Operation of Acquiror, Merger Sub and Acquiror Bank. Except with the prior written consent of the Company or as otherwise reasonably contemplated by this Agreement, between the date of this Agreement and the Closing, Acquiror will, and will cause Merger Sub and Acquiror Bank to:

(a) maintain its corporate existence and not merge or consolidate with any other entity;

(b) conduct its business only in the Ordinary Course of Business and in material compliance with all Applicable Laws and Regulations, and continue to make all normal expenditures and incur all regular expenses necessary to continue its business, consistent with past practice;

(c) use its Best Efforts to preserve intact its current business organization, keep available the services of its current officers, employees and agents, and maintain the goodwill of its suppliers, customers, landlords, creditors, employees, agents and others who have business relationships with it;

(d) maintain all of its assets necessary for the conduct of its business in good working condition and repair, normal wear and tear excepted, and maintain policies of insurance upon its assets and with respect to the conduct of its business in amounts and kinds comparable to that in effect on the date of this Agreement and pay all premiums on such policies when due;

(e) not declare or pay any dividends or make any other similar distributions of cash or property to any of its directors, officers, employees or shareholders, other than cash dividends approved by the managing member of Merger Sub or the board of directors of Acquiror Bank, cash dividends declared and paid in the Ordinary Course of Business by Acquiror to its shareholders, and regular salaries or other earned compensation;

(f) not sell, dispose or otherwise transfer any material property or asset; and

(g) file in a timely manner all required filings with all Regulatory Authorities and cause such filings to be true and correct in all material respects.

Section 7.3. Advice of Changes. Between the date of this Agreement and Closing, Acquiror and Merger Sub shall promptly notify the Company in writing if Acquiror or Merger Sub becomes aware of any fact or condition that causes or constitutes a Breach of any of the representations and warranties of Acquiror or Merger Sub as of the date of this Agreement, or if Acquiror or Merger Sub becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a Breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. If any such fact or condition would require any change in the Acquiror Disclosure Schedules if the Acquiror Disclosure Schedules were dated the date of the occurrence or discovery of any such fact or condition, Acquiror and Merger Sub will promptly deliver to the Company a supplement to the Acquiror Disclosure Schedules specifying such change. During the same period, Acquiror and Merger Sub will promptly notify the Company of the occurrence of any Breach of any covenant of Acquiror or Merger Sub in this Agreement or of the occurrence of any event that might reasonably be expected to make the satisfaction of the conditions in **Article 9** impossible or unlikely.

Section 7.4. **Consents; Third Party Approvals.** As soon as practicable after the date of this Agreement, Acquiror and Merger Sub shall use their Best Efforts to obtain any consents or approvals required by the terms of this Agreement or otherwise that are necessary in order for Acquiror and Merger Sub to consummate the Contemplated Transactions.

Section 7.5. **Information Provided to the Company**. Acquiror and Merger Sub agree that none of the information concerning Acquiror, Merger Sub or Acquiror Bank that is provided or to be provided by Acquiror or Merger Sub to the Company for inclusion in any documents to be filed with any Regulatory Authority in connection with the Contemplated Transactions will, at the respective times such documents are filed, be false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not misleading. Notwithstanding the foregoing, Acquiror and Merger Sub shall have no responsibility for the truth or accuracy of any information with respect to the Company or any of its respective Affiliates contained in any document submitted to, or other communication with, any Regulatory Authority.

Section 7.6. **Ancillary Agreements**. Concurrently with the execution and delivery of this Agreement, Acquiror shall deliver to the Company countersigned copies of the Voting Agreement referred to in **Section 6.15**, the Registration Rights Agreement referred to in **Section 6.16**, the Shareholders' Agreement referred to in **Section 6.17**, the Indemnification Agreement referred to in **Section 6.18** and the employment-related and non-competition agreements referred to in **Section 6.19**.

Section 7.7. **Authorization and Reservation of Acquiror Common Stock**. The board of directors of Acquiror shall, as of the date hereof, authorize and reserve the maximum number of shares of Acquiror Common Stock to be issued pursuant to this Agreement and take all other necessary corporate action to consummate the Contemplated Transactions.

Section 7.8. **Acquiror Board**.

(a) From and after the Effective Time, so long as the Love Family owns at least One Million (1,000,000) shares of Acquiror Common Stock, the Love Family, acting through a single representative identified to Acquiror, shall have the right to: (i) designate one (1) candidate for appointment to the board of directors of Acquiror (the "**Love Family Board Representative**"); and (ii) have one (1) representative attend all meetings of the board of directors of Acquiror in a non-voting observer capacity (the "**Love Family Non-Voting Observer**") and, in such capacity, be entitled to receive copies of all notices, minutes, consents and other board of directors materials that it provides to all of its directors. If at any time the Love Family owns less than One Million (1,000,000) shares, but at least Seven Hundred Thousand (700,000) shares, of Acquiror Common Stock, the Love Family shall have only the right to designate a director for appointment to the board of directors but not the right to appoint a non-voting board observer. If at any time either (i) the Love Family owns less than Seven Hundred Thousand (700,000) shares of Acquiror Common Stock or (ii) the shares of Acquiror Common Stock held by the Love Family represent less than four percent (4%) of the total voting power of the outstanding stock of Acquiror entitled to vote generally in the election of directors, the Love Family shall cease to have any right to designate a director for appointment to the board of directors or appoint a non-voting board observer.

(b) From and after the Effective Time, so long as the McDonnell Family owns at least Seven Hundred Thousand (700,000) shares of Acquiror Common Stock, the McDonnell Family, acting through a single representative identified to Acquiror, shall have the right to designate one (1) candidate for appointment to the board of directors of Acquiror (the "**McDonnell Family Board Representative**"). If at any time the McDonnell Family owns less than Seven Hundred Thousand (700,000) shares of Acquiror Common Stock, the McDonnell Family shall cease to have any right to designate a director for appointment to the board of directors of Acquiror.

(c) Acquiror shall take all appropriate action to effect the rights of the Love Family and the McDonnell Family pursuant to this **Section 7.8**, and as of the Effective Time and subject to and in accordance with the Acquiror's Organizational Documents, the number of directors constituting the board of directors of Acquiror shall be increased by two (2) members and the Love Family Board Representative and the McDonnell Family Board Representative shall be appointed as directors of Acquiror to fill the vacancies created by such increase and the board of directors of Acquiror shall adopt a resolution granting non-voting board observer rights to the Love Family Non-Voting Observer. The Love Family and the McDonnell Family shall notify Acquiror of their initial representatives at least thirty (30) days prior to the expected Closing Date; provided, however, unless the McDonnell Family notifies Acquiror otherwise in writing, the initial McDonnell Family Board Representative shall be Jeffrey McDonnell. Notwithstanding anything to the contrary contained in this **Section 7.8**, no person who has reached the age of Seventy-Eight (78) shall be appointed as a director of Acquiror and any director in office appointed pursuant to this **Section 7.8** who reaches the age of Seventy-Eight (78) shall thereupon retire as a member of Acquiror's board, to be replaced by another director nominated in accordance with this **Section 7.8**.

(d) For purposes of this **Section 7.8** and for all calculations of the number of shares of Acquiror Common Stock owned by the Love Family and McDonnell Family, such numbers shall be adjusted for stock splits and similar transactions. Notwithstanding anything contained herein to the contrary, if any Person other than Laurence A. Schiffer or Jeffrey McDonnell has been designated by the Love Family or the McDonnell Family, respectively, to serve as a director of Acquiror, and either Mr. Schiffer or Mr. McDonnell or any other designee is unwilling or unable to serve, then the Love Family or the McDonnell Family, as the case may be, shall have the right to identify and designate a substitute to serve as a director of Acquiror, *subject, however*, to the approval of Acquiror, which approval shall not unreasonably be withheld.

Section 7.9. **Regulatory Applications**. By no later than forty-five (45) days after the date of this Agreement, Acquiror shall file applications or notices with the Federal Reserve, the IDFPR and any other Applicable Governmental Authorities seeking all necessary Regulatory Approvals, and shall use its Best Efforts to obtain such Regulatory Approvals, including responding as promptly as practicable to all inquiries received concerning said applications.

Section 7.10. **Employee Matters**.

(a) Acquiror shall, or shall cause Acquiror Bank to, extend offers of employment, effective as of the Effective Time, to such employees of the Company or Acquired Subsidiaries, and upon such terms, as Acquiror shall determine in its discretion.

(b) Following the Closing, Acquiror shall, or shall cause the appropriate Acquiror Subsidiary to, maintain employee benefit plans and compensation opportunities for the benefit of all individuals employed by the Company or an Acquired Subsidiary immediately prior to the Closing who become employees of Acquiror or Acquiror Subsidiary following the Closing ("**Covered Employees**") that provide employee benefits and compensation opportunities that, in the aggregate, are substantially similar to the employee benefits and compensation opportunities that are generally made available to similarly-situated employees of Acquiror or the applicable Acquiror Subsidiary; *provided, however*, that: (i) no Covered Employee who receives a payment or payments of compensation contingent upon the Contemplated Transactions shall be eligible to receive severance payments or benefits under the Acquiror Employee Benefit Plans in connection with any separation from service within one (1) year following the Closing Date; (ii) in no event shall any Covered Employee be eligible to participate in any closed or frozen Acquiror Employee Benefit Plan; and (iii) until such time as Acquiror shall cause Covered Employees to participate in the Acquiror Employee Benefit Plans, a Covered Employee's continued participation in the Company Employee Benefit Plans shall be deemed to satisfy the foregoing provisions of this sentence (it being understood that participation in the Acquiror Employee Benefit Plans may commence at different times with respect to each Acquiror Employee Benefit Plan). Notwithstanding anything contained in this **Section 7.10(b)** to the contrary, Acquiror shall make severance payments to any Covered Employee whose employment with Acquiror or an Acquiror Subsidiary is terminated after the Closing, in accordance with the terms of Acquiror's then-existing severance policy, with all periods of service to the Company or an Acquired Subsidiary to be treated as service to Acquiror.

(c) For all purposes (other than purposes of benefit accruals) under the Acquiror Employee Benefit Plans providing benefits to the Covered Employees (the "**New Plans**"), each Covered Employee shall be credited with his or her years of service with the Company and/or an Acquired Subsidiary and their respective predecessors to the same extent as such Covered Employee was entitled to credit for such service under any applicable Company Employee Benefit Plan in which such Covered Employee participated or was eligible to participate immediately prior to the Transition Date; *provided, however,* that the foregoing shall not apply to the extent that its application would result in a duplication of benefits with respect to the same period of service. "**Transition Date**" means, with respect to any Covered Employee, the date Acquiror or the applicable Acquiror Subsidiary commences providing benefits to such employee with respect to each New Plan.

(d) In addition, and without limiting the generality of the foregoing, as of the Transition Date, Acquiror shall, or shall cause the applicable Acquiror Subsidiary to, use commercially reasonable efforts to provide that: (i) each Covered Employee shall be immediately eligible to participate, without any waiting time, in any and all New Plans to the extent coverage under such New Plan is similar in type to an applicable Company Employee Benefit Plan in which such Covered Employee was participating immediately prior to the Transition Date (such Company Employee Benefit Plans prior to the Transition Date collectively, the "**Old Plans**"); (ii) for purposes of each New Plan providing medical, dental, pharmaceutical, vision or similar benefits to any Covered Employee, all pre-existing condition exclusions and actively-at-work requirements of such New Plan shall be waived for such Covered Employee and his or her covered dependents, unless such conditions would not have been waived under the Old Plan in which such Covered Employee, as applicable, participated or was eligible to participate immediately prior to the Transition Date; and (iii) any eligible expenses incurred by such Covered Employee and his or her covered dependents during the portion of the plan year of the Old Plan ending on the Transition Date shall be taken into account under such New Plan for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to such Covered Employee and his or her covered dependents for the applicable plan year as if such amounts had been paid in accordance with such New Plan.

(e) Acquiror and the Company shall jointly prepare a list of the employees to whom Acquiror shall, or shall cause the applicable Acquiror Subsidiary to, provide stay bonuses to employees of the Company and Acquired Subsidiaries who remain employed with the Company or an Acquired Subsidiary through the Closing, or with Acquiror or the applicable Acquiror Subsidiary for an interim period following the Closing, with Acquiror to determine in its sole discretion (but after consultation with the Company) each Company or Acquired Subsidiary employee eligible to receive a stay bonus and the amount and payment terms of each such stay bonus.

(f) Acquiror shall pay to the indicated individuals, as and when due, the amounts required pursuant to the agreements described on **Exhibit B**.

Section 7.11. HPS Residual Payments. As of the Closing, all residual or other lease payments paid or payable to the Bank or any of its Subsidiaries in connection with merchants' leases of point of sale terminals, and any proceeds, past or future, associated therewith, shall be transferred by the Bank to the Hallmark Group, including cash equal to the amount of the

Liability reflected on the books of the Bank as of the Closing. After the Closing, Acquiror shall promptly upon receipt remit to the Hallmark Group any and all amounts received by the Bank, Acquiror or Acquiror Bank with respect to such residuals, lease payments and proceeds. For the avoidance of doubt, any amounts transferred from the Bank to the Hallmark Group pursuant to this **Section 7.11** prior to the Closing shall be accounted for in the calculation of Adjusted Book Value.

Section 7.12. Indemnification; Directors' and Officers' Insurance.

(a) From and after the Effective Time, Acquiror shall indemnify and hold harmless each present and former director, officer or employee of the Company and Acquired Subsidiaries (in each case, when acting in such capacity) (the "**D&O Indemnified Parties**") against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, damages or liabilities incurred in connection with any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, whether arising before or within six (6) years after the Effective Time, arising out of the fact that such person is or was a director, officer or employee of the Company or any of the Acquired Subsidiaries and pertaining to matters existing or occurring at or prior to the Effective Time, including the transactions contemplated by this Agreement to the same extent as such persons are indemnified as of the date of this Agreement by any of the organizational or governing documents of the Company or any Acquired Subsidiary in effect on the date of this Agreement, *provided, however*, that Acquiror will not be liable under the foregoing indemnification provision to the extent that any such costs or expenses, judgments, fines, losses, damages or liabilities is found in a final judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful malfeasance of any such director, officer or employee of the Company or Acquired Subsidiaries.

(b) To the extent it is available, Acquiror shall obtain at or prior to the Effective Time a six-year "tail" prepaid policy under the existing directors and officers insurance policy of the Company or an Acquired Subsidiary covering the claims described in **Section 7.12(a)**; *provided,*

however, that Acquiror shall not be obligated to pay an aggregate amount for such prepaid policy in excess of One Hundred Fifty Thousand Dollars ($150,000), but *provided further,* that Acquiror shall be required to obtain such "tail" prepaid policy for as long a term as possible while not expending greater than One Hundred Fifty Thousand Dollars ($150,000).

Article 8

Additional Agreements

Section 8.1. **Cooperation**. Acquiror and the Company covenant that, unless this Agreement is terminated as provided herein, they will use their respective Best Efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under Applicable Laws and Regulations to consummate and make effective the Contemplated Transactions, and that they will not willfully or intentionally Breach this Agreement. In case at any time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of Acquiror and the Company shall, as the case may be, take all such necessary action or cause the appropriate Persons to take such action. Without limiting the generality of the foregoing, Acquiror and the Company shall, and

shall cause their respective Subsidiaries to: (a) cooperate in the preparation of such applications, statements and materials as may be required to be filed or submitted to Applicable Governmental Authorities in order to obtain the Regulatory Approvals; and (b) cooperate in obtaining any other consent, authorization, approval or exemption of an Applicable Governmental Authority or other third party necessary for the consummation of the Contemplated Transactions, including the approvals, consents or statements of non-objection of, and confirmation of receipt of notices to, the Mortgage Loan Investors to the extent the same are required or advisable for the continuation of the mortgage loan origination and loan servicing operations and activities of the Bank (and, following the Bank Merger, of Acquiror Bank) and the other Acquired Subsidiaries, as applicable.

Section 8.2. **Press Releases.** On or prior to the Closing Date, Acquiror and the Company shall, and the Company shall cause each Acquired Subsidiary to, coordinate all publicity relating to any aspect of the Contemplated Transactions and, except as otherwise required by Applicable Laws and Regulations, neither party shall issue any press release, publicity statement or other public notice relating to any Transaction Document or any aspect of the Contemplated Transactions without obtaining the prior written consent of the other.

Section 8.3. **Bank Merger**. The parties understand that it is the present intention of Acquiror, at or immediately after the Effective Time, to effect the Bank Merger. Acquiror and the Company agree to cooperate and to take such steps as may be necessary to obtain all Regulatory Approvals necessary to effect the Bank Merger, subject and subsequent to the consummation of the Merger, all as determined by Acquiror in its sole discretion. The resulting bank shall be Acquiror Bank, and it shall operate under the name determined by Acquiror. In furtherance of such agreement, each of Acquiror and the Company agrees:

(a) respectively, to cause the board of directors of each of Acquiror Bank and the Bank to approve the Bank Merger and to submit the same to its respective sole shareholder for approval;

(b) respectively, to vote the shares of stock of Acquiror Bank and the Bank owned by them in favor of the Bank Merger; and

(c) to take, or cause to be taken, all steps necessary to consummate the Bank Merger at or as soon after the Effective Time as Acquiror shall determine in its sole discretion.

The Bank Merger shall be accomplished pursuant to the Amended and Restated Bank Merger Agreement. Notwithstanding anything contained herein to the contrary: (x) the Bank Merger will be effective no earlier than the Effective Time; and (y) none of Acquiror's actions in connection with the Bank Merger will unreasonably interfere with any of the operations of the Company or the Bank prior to the Effective Time.

Section 8.4. **Tax-Free Reorganization**.

(a) The parties intend that the Merger qualify as a reorganization within the meaning of Section 368(a) and related sections of the Code and that this Agreement constitute a "plan of reorganization" within the meaning of Section 1.368-2(g) of the income tax regulations promulgated under the Code. From and after the date of this Agreement and until the Effective

Time, each of the Company and Acquiror shall use its commercially reasonable efforts to cause the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code, and will not knowingly take any action, cause any action to be taken, fail to take any action or cause any action to fail to be taken which action or failure to act could prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code. Following the Effective Time, neither Acquiror nor any Affiliate of Acquiror knowingly shall take any action, cause any action to be taken, fail to take any action, or cause any action to fail to be taken, which action or failure to act could prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(b) As of the date hereof, the Company: (i) does not know of any reason why it would not be able to deliver to the Company's tax advisor, at the date of the tax opinion referred to in **Section 9.2(f)**, a certificate substantially in compliance with IRS published advance ruling guidelines, with reasonable or customary exceptions and modifications thereto, to enable the Company's tax advisor to deliver the opinion contemplated by **Section 9.2(f)**; (ii) agrees to deliver such certificate effective as of the date of such opinion to the Company's tax advisor; and (iii) does not know of any reason why the Company's tax advisor would not be able to deliver the opinion required by **Section 9.2(f)**.

(c) The parties acknowledge and agree that the Merger will result in a greater than 50% acquisition of the Company, resulting in the application of Section 355(e) of the Code and the recognition of a taxable gain by the Company on the Distribution. The parties further acknowledge and agree that: (i) such gain will be reported in the final separate consolidated Tax Return of the Company; and (ii) the liability for Taxes associated with such gain shall be included in the calculation of Adjusted Book Value pursuant to **Section 2.11**.

(d) The parties agree that the Company's final separate consolidated Tax Return covering its final pre-Closing taxable year shall: (i) be prepared by the Hallmark Group and its tax advisors; (ii) treat the Merger as a reorganization within the meaning of Section 368(a) and related sections of the Code; (iii) recognize a taxable gain by the Company on the Distribution as a result of the application of Section 355(e) of the Code, with the amount of such gain based on the Company's election to apply Section 336(e) of the Code to the Distribution, using the Company's reasonable determination of the fair market value of the assets held by the controlled entity that are subject to the Distribution; (iv) be delivered to Acquiror and its tax advisers for review and consent no later than thirty (30) days prior to the applicable due date, with such consent not to be unreasonably withheld; and (v) be filed by Acquiror on or before the applicable due date.

Article 9

Conditions Precedent

Section 9.1. **Conditions to the Obligations of Acquiror and Merger Sub**. The obligations of Acquiror and Merger Sub to consummate the Contemplated Transactions and to take the other actions required to be taken by Acquiror and Merger Sub at the Closing are subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Acquiror, in whole or in part):

(a) all of the representations and warranties of the Company set forth in this Agreement shall be true and correct with the same force and effect as if all of such representations and warranties were made at the Closing (*provided*, *however*, that to the extent such representations and warranties expressly relate to an earlier date, such representations shall be true and correct on and as of such earlier date), except for any untrue or incorrect representations or warranties that individually or in the aggregate do not have a Material Adverse Effect on the Company or any Acquired Subsidiary or on Acquiror's rights under this Agreement;

(b) the Company shall have performed or complied with all of the covenants and obligations to be performed or complied with by it under the terms of this Agreement on or prior to the Closing, except where any nonperformance or noncompliance would not have a Material Adverse Effect on the Company or any Acquired Subsidiary or on Acquiror's rights under this Agreement;

(c) the Company shall have tendered for delivery all of the certificates, documents and other items listed in **Section 2.6** of this Agreement, in form and substance reasonably satisfactory to Acquiror;

(d) all proceedings, corporate or otherwise, to be taken by the Company in connection with the Contemplated Transactions, and all documents incident thereto, shall be reasonably satisfactory in form and substance to Acquiror and its counsel;

(e) from the date of this Agreement to the Closing, there shall be and have been no change in the financial condition, assets or business of the Company or any Acquired Subsidiary that has had or would reasonably be expected to have a Material Adverse Effect on the Company or such Acquired Subsidiary or on Acquiror's rights under this Agreement;

(f) the portion of the Aggregate Merger Consideration that otherwise would have been payable with respect to the Dissenting Shares pursuant to **Section 3.1(b)** if the Dissenting Shareholders had not perfected their dissenters' rights (the "**Dissenting Shares Amount**") shall be no greater than two percent (2.0%) of the Aggregate Merger Consideration; *provided*, *however*, that the Company may elect, by giving written notice to Acquiror at least three Business Days prior to the Closing Date, to replace the foregoing reference to "two percent (2.0%)" with "five percent (5.0%)" (the "**5% Dissenting Shares Election**") in exchange for the indemnification obligations of the Company-related parties set forth in **Section 10.2(b)** and in the Indemnification Agreement delivered pursuant to **Section 6.18** being expanded to include any Losses (as defined therein) incurred by the Acquiror as a result of the Dissenting Shares;

(g) Acquiror shall have received evidence from the Company, in a form reasonably satisfactory to Acquiror, that no director, officer or employee of an Acquired Subsidiary remains subject to any employment contract, change of control agreement or other agreement other than as set forth on **Schedule 4.20**;

(h) as of the Closing Date, no Proceeding shall be pending, and none shall have been Threatened, that, if adversely decided, would have a Material Adverse Effect on the Company or any Acquired Subsidiary or on Acquiror's rights under this Agreement;

(i) Acquiror shall have received a copy of the written opinion of Ernst & Young LLP referred to in **Section 9.2(f)**;

(j) the Company shall not have any outstanding indebtedness (including any guarantees of indebtedness) other than: (i) the $40.0 million outstanding principal amount under the Trust Debentures; and (ii) any indebtedness it is permitted to incur between the date of this Agreement and the Closing pursuant to **Section 6.3(j)**; and

(k) Acquiror shall have received evidence from the Trustee, in a form reasonably satisfactory to Acquiror, that, following payment of the Accrued TRUPS Interest at the Closing pursuant to **Section 2.8**, all interest due on the Trust Debentures through the Closing Date has been paid in full, and no payments of such interest remain deferred, pursuant to the terms of the Trust Debentures.

Section 9.2. **Conditions to the Obligations of the Company**. The obligations of the Company to consummate the Contemplated Transactions and to take the other actions required to be taken by the Company at the Closing are subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by the Company, in whole or in part):

(a) all of the representations and warranties of Acquiror set forth in this Agreement shall be true and correct with the same force and effect as if all of such representations and warranties were made at the Closing (*provided*, *however*, that to the extent such representations and warranties

expressly relate to an earlier date, such representations shall be true and correct on and as of such earlier date), except for any untrue or incorrect representations or warranties that individually or in the aggregate do not have a Material Adverse Effect on Acquiror or Acquiror Bank or on the Company's rights under this Agreement;

(b) Acquiror shall have performed or complied with all of the covenants and obligations to be performed or complied with by it under the terms of this Agreement on or prior to the Closing, except where any nonperformance or noncompliance would not have a Material Adverse Effect on Acquiror or Acquiror Bank or on the Company's rights under this Agreement;

(c) Acquiror shall have tendered for delivery all of the certificates, documents and other items listed in **Section 2.7** of this Agreement, in form and substance reasonably satisfactory to the Company;

(d) all proceedings, corporate or other, to be taken by Acquiror and Merger Sub in connection with the Contemplated Transactions, and all documents incident thereto, shall be reasonably satisfactory in form and substance to the Company and its counsel;

(e) from the date of this Agreement to the Closing, there shall be and have been no change in the financial condition, assets or business of Acquiror or Acquiror Bank that has had or would reasonably be expected to have a Material Adverse Effect on Acquiror or Acquiror Bank or on the Company's rights under this Agreement;

(f) the Company shall have received a written opinion of Ernst & Young LLP, in form and substance reasonably satisfactory to the Company and Acquiror and upon

which the McDonnell Family is expressly entitled to rely, dated as of the Closing Date, to the effect that: (i) the Merger will constitute a reorganization within the meaning of Section 368(a) of the Code; (ii) each of the Company and Acquiror will be a party to such reorganization within the meaning of Section 368(b) of the Code; (iii) no gain or loss will be recognized by the Company in the Merger; and (iv) no gain or loss will be recognized by the holders of Company Preferred Stock or Company Common Stock upon the receipt of shares of Acquiror Common Stock in exchange for their shares of Company Preferred Stock or Company Common Stock in the Merger, except to the extent of any cash received in the Merger and any cash received in lieu of fractional shares of Acquiror Common Stock; and

(g) there shall have been received the approval of (or non-objection from), and confirmation of receipt of any notifications to, each of the Mortgage Loan Investors if and as required in order to consummate the Contemplated Transactions, which approvals and/or non-objections shall not contain terms or conditions that would materially adversely affect the ability of the Bank (or the Acquiror Bank, following the Bank Merger) or any other Acquired Subsidiary, as applicable, to continue its mortgage loan origination and loan servicing operations and activities as presently conducted.

Section 9.3. **Conditions to Each Party's Obligations**. The respective obligations of Acquiror and the Company to consummate the Contemplated Transactions and to take the other actions required to be taken by it at the Closing are subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived, in whole or in part, by the mutual consent of the parties to this Agreement):

(a) all corporate action, including any required shareholder approval, necessary to authorize the consummation of the Contemplated Transactions shall have been duly and validly taken;

(b) as of the Closing Date, there shall not be in effect any Order enjoining or otherwise prohibiting the consummation of any of the Contemplated Transactions;

(c) all consents, authorizations and approvals of Applicable Governmental Authorities and all other consents or approvals from third parties (including the Trustee with respect to the TRUPS Assumption) necessary to consummate the Contemplated Transactions shall have been obtained; and

(d) the Company shall: (i) have completed the Internal Restructuring and the Distribution; and (ii) not own, either directly or indirectly, any assets related to the Non-Banking Business or owe any obligations to the Hallmark Group or related to the Non-Banking Business.

Article 10

Indemnification

Section 10.1. **Survival.**

(a) Except as otherwise set forth in this **Section 10.1**, all representations, warranties and covenants made by the parties in this Agreement shall survive the Closing for a

period of eighteen (18) months following the Closing Date and any claims to be made by the Acquiror Indemnified Parties against the Company-related parties to the Indemnification Agreement, or by the Company Indemnified Parties against Acquiror, alleging a Breach of any such warranty, representation or covenant may be made only if on or before the date that is eighteen (18) months after the Closing Date, the claiming party has given notice to the other party of the claim. Notwithstanding the foregoing: (i) all representations, warranties and covenants made by the Company with respect to: (A) the Bank's ownership of stock in Visa, Inc. (the "**Visa Ownership**"); (B) all sponsor bank or other similar agreements between HPS and the Company or any Acquired Subsidiary, including in connection with residual or other lease payments paid or payable to the Bank or any of its Subsidiaries in connection with merchants' leases of point of sale terminals (the "**HPS Relationship**"); (C) all of the matters described in **Schedule Section 4.7(a)**; and (D) the tax effects of the Internal Restructuring and the Distribution to the Company and the Acquired Subsidiaries, as set forth in **Section 4.9(e)**; and (ii) all other covenants made by the Company or Acquiror that, by their terms, are to be performed after the consummation of the Contemplated Transactions, shall survive the Closing.

(b) Notwithstanding **Section 10.1(a)**, any claims arising out of or in connection with the matters that are referenced in clauses (i) and (ii) of **Section 10.1(a)** or clauses (iii) and (iv) of **Section 10.2(a)**, or pursuant to **Section 10.2(b)**, may be made at any time following the Closing through the end of all applicable statutes of limitations.

Section 10.2. **Indemnification by Company-Related Parties**.

(a) Pursuant to the Indemnification Agreement to be delivered pursuant to **Section 6.18**, the Hallmark Group, the Love Family and Laurence A. Schiffer, jointly and severally, shall indemnify, defend and hold harmless Acquiror, its Affiliates and each of their respective Representatives (collectively, the **"Acquiror Indemnified Parties"**) from and against any and all claims, liabilities, losses, expenses, penalties, fines and damages (including amounts paid in settlement, costs of investigation and attorneys' fees and expenses) (collectively, **"Losses"**) arising out of or resulting from: (i) any Breach or incorrectness of any representation or warranty made by the Company in this Agreement or in any certificate, document or other writing delivered to Acquiror by the Company pursuant hereto; (ii) any Breach of any covenant or agreement made by the Company in this Agreement; (iii) the Bank's Visa Ownership or the HPS Relationship; and (iv) any claim arising out of any matter described in **Schedule 4.7(a)**, including as a result of any claim by any former employee or other entity referenced therein (the "**LFC Dispute**").

(b) Pursuant to the Indemnification Agreement to be delivered pursuant to **Section 6.18**, the Hallmark Group, the Love Family and Laurence A. Schiffer, jointly and severally, shall indemnify, defend and hold harmless the Acquiror Indemnified Parties from and against any and all Losses incurred by Acquiror or its Subsidiaries arising out of or resulting from: (i) any Tax or Tax Return matters related to the Company from a pre-Closing period (including, for the avoidance of doubt, if the liability for Taxes resulting from the consummation of the Internal Restructuring and/or the Distribution is determined to be greater than the Taxes that are taken into account in the calculation of Adjusted Book Value); (ii) any employee-related matters against the Company related to an employee of the Non-Banking

Business; (iii) the Company's operation of the Non-Banking Business; (iv) only if the Company makes the 5% Dissenting Shares Election pursuant to **Section 9.1(f)**, the actions taken by the Dissenting Shareholders against Acquiror as the successor to the Company (*provided* that, for the avoidance of doubt, "Losses" for this purpose shall mean only (1) the sum of the consideration paid to Dissenting Shareholders in excess of the portion of Aggregate Merger Consideration that otherwise would have been paid to such shareholders pursuant to **Section 3.1(b)** plus all reasonable expenses, costs of investigation and attorneys' fees and expenses incurred by Acquiror in connection with the actions brought by the Dissenting Shareholders, *multiplied by* (2) a fraction, the numerator of which is the excess of the Dissenting Shares Amount over two percent (2.0%) and the denominator of which is the Dissenting Shares Amount); (v) any guarantees provided by the Company or an Acquired Subsidiary with respect to the indebtedness of the Hallmark Group or any other Affiliate of the Company or the Love Family (other than the guaranty of the Company referenced on **Schedule 4.24**); or (vi) any other Loss incurred by Acquiror or its Subsidiaries as a result of its acquisition of the Company that relate to the operation of its business prior to the Closing and would not have been incurred had the transaction structure contemplated by the Stock Purchase Agreement been effected instead of the Merger.

Section 10.3. **Indemnification by Acquiror**. Pursuant to the Indemnification Agreement to be delivered pursuant to **Section 6.18**, Acquiror shall indemnify, defend and hold harmless the Hallmark Group, the Love Family, Laurence A. Schiffer and the McDonnell Family, their Affiliates and each of their respective Representatives (collectively, the **"Company Indemnified Parties"**) from and against any and all Losses arising out of or resulting from: (a) any Breach or incorrectness of any representation or warranty made by Acquiror in this Agreement or in any certificate, document or other writing delivered to the Company by Acquiror pursuant hereto; or (b) any Breach of any covenant or agreement made by Acquiror in this Agreement.

Section 10.4. **Indemnification Procedure**. The procedure for indemnification claims shall be governed by the Indemnification Agreement.

Section 10.5. **Indemnification Limits**. The limitations on indemnification obligations shall be governed by the Indemnification Agreement.

Section 10.6. **Bank Indemnification Matters.** Acquiror and the Company agree that the Company's obligations under the indemnification agreement between the Company and the Bank with respect to the contribution of LFC to the Bank will: (i) prior to the Distribution and Closing Date, be assigned by the Company to, and assumed by, the Hallmark Group; and (ii) remain in full force and effect as an obligation of the Hallmark Group to the Bank (and, following the Bank Merger, to the Acquiror Bank as successor in interest to the Bank) in accordance with its terms following the completion of the Contemplated Transactions.

Article 11

Termination

Section 11.1. **Termination of Agreement**. This Agreement may be terminated only as set forth below:

(a) by mutual consent of Acquiror and the Company;

(b) by Acquiror if the Company shall have breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement (except for Breaches of **Section 6.13**, which are separately addressed in **Section 11.1(g)**), which Breach, either individually or together with other such Breaches, in the aggregate, if occurring or continuing on the date on which the Closing would otherwise occur would result in the failure of any of the conditions set forth in **Article 9**; *provided*, that such Breach is not a result of the failure by Acquiror to perform and comply in all material respects with any of its material obligations under this Agreement that are to be performed or complied with by it prior to or on the date required hereunder;

(c) by the Company if Acquiror or Merger Sub shall have breached or failed to perform any of its respective representations, warranties, covenants or agreements set forth in this Agreement which Breach, either individually or together with other such Breaches, in the aggregate, if occurring or continuing on the date on which the Closing would otherwise occur would result in the failure of any of the conditions set forth in **Article 9**;

provided, that such Breach is not a result of the failure by the Company to perform and comply in all material respects with any of its material obligations under this Agreement that are to be performed or complied with by it prior to or on the date required hereunder;

(d) by Acquiror or the Company if: (i) any Regulatory Authority that must grant an approval necessary to effectuate the Contemplated Transactions has denied such approval and such denial has become final and nonappealable; or (ii) any application, filing or notice for any such approval has been withdrawn at the request or recommendation of the applicable Regulatory Authority and a petition for rehearing shall not have been granted or an amended application shall not have been accepted for filing by the applicable Regulatory Authority within the sixty (60) day period following such withdrawal;

(e) by Acquiror or the Company if the Effective Time shall not have occurred at or before the Termination Date; *provided*, *however*, that the right to terminate this Agreement under this **Section 11.1(e)** shall not be available to any party to this Agreement whose failure to fulfill any of its obligations (excluding warranties and representations) under this Agreement has been the cause of or resulted in the failure of the Effective Time to occur on or before such date;

(f) by Acquiror or the Company if any court of competent jurisdiction or other Regulatory Authority shall have issued a judgment, Order, injunction, rule or decree, or taken any other action restraining, enjoining or otherwise prohibiting any of the Contemplated

Transactions and such judgment, Order, injunction, rule, decree or other action shall have become final and nonappealable;

(g) by Acquiror if the Company breaches any of its obligations under **Section 6.13**;

(h) by Acquiror pursuant to **Section 6.7(b)**; or

(i) by the Company pursuant to **Section 6.13.**

The party desiring to terminate this Agreement pursuant to clauses (b) through (i) of this **Section 11.1** shall give written notice of such termination to the other party in accordance with **Section 12.1**, specifying the provision or provisions hereof pursuant to which such termination is effected.

Section 11.2. **Effect of Termination**. If this Agreement is terminated pursuant to **Section 11.1**, this Agreement will be of no further force or effect, and all obligations of the parties hereunder shall terminate, without liability, except that: (a) the Confidentiality Agreement, **Articles 10** and **12**, and **Sections 11.2** and **11.3** hereof shall survive the termination of this Agreement; and (b) the termination of this Agreement will not relieve any party from any liability for any Breach of this Agreement occurring prior to termination.

Section 11.3. **Fees and Expenses**.

(a) Except as otherwise provided in this Agreement, all fees and expenses incurred in connection with this Agreement, the Merger and the other Contemplated Transactions shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated. Further, except as explicitly provided for in this **Section 11.3**, no payment made pursuant to this **Section 11.3** shall preclude the party receiving such payment from asserting or enforcing any claim against the party making such payment, or any other Person, arising out of or relating in any way to this Agreement or the transactions contemplated herein.

(b) Subject to **Section 11.3(e)**, if this Agreement is terminated by Acquiror pursuant to **Section 11.1(b)**, then the Company shall pay to Acquiror, within ten (10) Business Days after such termination, the amount of Two Million Five Hundred Thousand Dollars ($2,500,000) by wire transfer of immediately available funds to such account as Acquiror shall designate.

(c) If this Agreement is terminated by the Company pursuant to **Section 11.1(c)**, then Acquiror shall pay to the Company, within ten (10) Business Days after such termination, the amount of Two Million Five Hundred Thousand Dollars ($2,500,000) by wire transfer of immediately available funds to such account as the Company shall designate.

(d) If this Agreement is terminated by Acquiror pursuant to **Section 11.1(g)** or by the Company pursuant to **Section 11.1(i)**, then the Company shall pay to Acquiror, within ten (10) Business Days after such termination, the amount of Four Million Five Hundred

Thousand Dollars ($4,500,000) by wire transfer of immediately available funds to such account as Acquiror shall designate.

(e) If: (i) this Agreement is terminated by Acquiror pursuant to **Section 11.1(b)**; and (ii) within six (6) months after such termination the Company shall enter into a definitive written agreement with any Person (other than Acquiror and its Affiliates) with respect to an Acquisition Transaction, the Company shall pay to Acquiror, within ten (10) Business Days after the execution of such definitive agreement, the amount of Four Million Five Hundred Thousand Dollars ($4,500,000) by wire transfer of immediately available funds to such account as Acquiror shall designate; *provided*, *however*, that for purposes of this paragraph, "Acquisition Transaction" has the meaning ascribed thereto in **Section 1.1**, except that references in that Section to "20%" shall be replaced by "50%"; *provided*, *further*, that the amount due to Acquiror from the Company pursuant to this **Section 11.3(e)** shall be reduced by any amount previously paid by the Company to Acquiror pursuant to **Section 11.3(b)**.

(f) Except as otherwise provided in this **Section 11.3**, all payments made pursuant to **Sections 11.3(b)**, **(c)**, **(d)** and **(e)** shall constitute liquidated damages and the receipt thereof shall be the sole and exclusive remedy of the receiving party against the party making such payment, its Affiliates and their respective directors, officers and shareholders for any claims arising out of or relating in any way to this Agreement or the transactions contemplated herein; *provided*, *however*, that nothing herein shall preclude or bar the party receiving such payment from asserting or enforcing any such claim against any Person other than the party making such payment, such party's Affiliates and their respective officers, directors, employees and shareholders.

Article 12

General Provisions

Section 12.1. **Notices**. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the fifth (5^{th}) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the addresses indicated below (or at such other address for a party as shall be specified in a notice given in accordance with this **Section 12.1**):

If to Acquiror, to:

Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401
Telephone: (217) 342-7331
Electronic Mail: jludwig@midlandstatesbank.com
Facsimile: (217) 342-9462
Attention: Jeffrey G. Ludwig
Executive Vice President and Chief Financial Officer

with copies to:

Barack Ferrazzano Kirschbaum & Nagelberg LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Telephone: (312) 984-3100
Electronic Mail: dennis.wendte@bfkn.com
Facsimile: (312) 984-3150
Attention: Dennis R. Wendte, Esq.

If to the Company, to:

Love Savings Holding Company
212 South Central Avenue
St. Louis, Missouri 63105-3570
Telephone: (314) 512-8606
Electronic Mail: aslove@heartland-bank.com
Facsimile: (314) 512-8687
Attention: Andrew S. Love
Chairman

with copies to:

Alan A. Sachs, LLC
231 South Bemiston Avenue, Suite 800
St. Louis, Missouri 63105
Telephone: (314) 854-9194
Electronic Mail: asachs@alansachs.com
Facsimile: (314) 854-9118
Attention: Alan A. Sachs, Esq.

and

Carmody MacDonald, P.C.
120 South Central Avenue, Suite 1800
St. Louis, Missouri 63105
Telephone: (314) 854-8600
Electronic Mail: mbh@carmodymacdonald.com
Facsimile: (314) 854-8660
Attention: Mark B. Hillis, Esq.

Section 12.2. **Governing Law; Submission to Jurisdiction**. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Missouri without giving effect to any choice or conflict of law provision that would cause the application of laws of any jurisdiction other than those of the State of Missouri, except to the extent that the federal laws of the United States apply. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in the courts of the State of Missouri located in the County of St. Louis, or, if it has or can acquire jurisdiction, in the United States District Court for the Eastern District of Missouri, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by mail to

such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 12.3. **WAIVER OF JURY TRIAL**. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT: (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 12.4. **Severability**. If any term or provision of this Agreement is held by a final and nonappealable Order of a court of competent jurisdiction to be invalid, void, or unenforceable, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect, and shall not be impaired or invalidated thereby, unless the economic or legal

substance of the Contemplated Transactions would be affected in a manner materially adverse to any party.

Section 12.5. **Entire Agreement; Binding Effect; Nonassignment; Counterparts**. This Agreement, the documents delivered pursuant to this Agreement and the Confidentiality Agreement (including the documents and instruments referred to herein and therein) constitute the entire agreement between the parties hereto and supersede all other prior agreements and undertakings, both written and oral, between the parties, with respect to the subject matter hereof (including, without limitation, the Stock Purchase Agreement). This Agreement shall be binding upon and inure to the benefit of the parties named herein and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned or delegated by either party hereto without the prior written consent of the other party hereto and any purported assignment or delegation in violation of this **Section 12.5** shall be void. This Agreement may be executed in two or more counterparts that together shall constitute a single agreement.

Section 12.6. **Facsimile or Electronic Signatures**. This Agreement may be executed and accepted by facsimile or electronic signature and any such signature shall be of the same force and effect as an original signature.

Section 12.7. **No Third-Party Beneficiaries**. Nothing in this Agreement, expressed or implied, is intended to confer upon any Person not a party hereto any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement. Notwithstanding the foregoing: (a) the provisions of **Section 7.8** and **Article 10**, insofar as they affect the interests of the Hallmark Group, the Love Family, the McDonnell Family or Laurence A. Schiffer, are intended for their benefit and shall be directly enforceable by them; and (b) the provisions of **Section 7.12** are intended for the benefit of, and shall be directly enforceable by, the D&O Indemnified Parties.

Section 12.8. **Amendment**. This Agreement may be amended by a written instrument executed by the parties hereto, whether before or after any required approval of the Contemplated Transactions by holders of voting stock of the Company; *provided*, *however*, that after any such approval, no amendment shall be made that by law requires further approval by such shareholders without the further approval of such shareholders, and *provided further*, that no amendment shall be valid or effective against the Company unless approved by: (i) the Company's board of directors; and (ii) the Shareholder Representative, and no amendment of **Section 7.8** and **Article 10**, insofar as it materially affects the interests of the Hallmark Group, the Love Family, the McDonnell Family or Laurence A. Schiffer, shall be valid or effective against the such party unless also approved by the affected party.

Section 12.9. **Waiver**. Any term, provision or condition of this Agreement (other than requirements for approval by holders of the Company's voting stock and required approvals of the Applicable Governmental Authorities) may be waived at any time by the party which is entitled to the benefits thereof; *provided*, *however*, that any such waiver shall be valid only if set forth in a written instrument signed by such party. Each and every right granted to any party hereunder, or under any other document delivered in connection herewith, and each and every right allowed it by law or equity, shall be cumulative and may be exercised from time to time.

The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect such party's right at a later time to enforce the same. Neither any failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or any of the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. No waiver by any party of a condition or of the Breach of any term, covenant, representation or warranty contained in this Agreement, in any one or more instances shall be deemed to be or construed as a further or continuing waiver of any such condition or Breach or a waiver of any other condition or of the Breach of any other term, covenant, representation or warranty of this Agreement. No representation or warranty contained herein shall be deemed to have been waived, affected or impaired by any investigation made by any party to this Agreement. Notwithstanding anything to the contrary contained herein, no waiver by the Company shall be valid or effective unless approved by: (a) the Company's board of directors; and (b) the Shareholder Representative.

Section 12.10. **Further Assurances**. The parties agree to: (a) furnish upon request to each other such further information; (b) execute and deliver to each other such other documents; and (c) do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement, the Contemplated Transactions, and the documents to be delivered pursuant to this Agreement. Furthermore, the parties agree to cooperate following the Closing, as reasonably necessary, to support the transfer of the Non-Banking Business to the Hallmark Group pursuant to the Internal Restructuring, including by transferring possession of any records or property of one party that may be, or come into, the possession of the other party following the Closing and by providing to the other party reasonable access to information in the possession of the first party to the extent necessary in connection with any audit, investigation, regulatory proceeding or litigation, subject to applicable privileges or confidentiality obligations; *provided*, that any such requested actions do not impose an undue cost or burden on the cooperating party.

[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers on the day and year first written above.

ACQUIROR:

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach

Name: Leon J. Holschbach

Title: President & CEO

COMPANY:

LOVE SAVINGS HOLDING COMPANY

By: /s/ Andrew S. Love

Name: Andrew S. Love

Title: Chairman

MERGER SUB:

HB ACQUISITION LLC

By: **Midland States Bancorp, Inc.**, its sole member and manager

By: /s/ Leon J. Holschbach

Name: Leon J. Holschbach

Title: President & CEO

[SIGNATURE PAGE TO AGREEMENT AND PLAN OF MERGER]

AMENDMENT TO AGREEMENT AND PLAN OF MERGER

THIS AMENDMENT TO AGREEMENT AND PLAN OF MERGER (this "**Amendment**") is entered into as of November 6, 2014, by and among **MIDLAND STATES BANCORP, INC.**, an Illinois corporation ("**Acquiror**"), **HB ACQUISITION LLC**, an Illinois limited liability company and wholly-owned subsidiary of Acquiror ("**Merger Sub**"), and **LOVE SAVINGS HOLDING COMPANY**, a Missouri corporation (the "**Company**").

RECITALS

A. The parties have entered into that certain Agreement and Plan of Merger, dated as of April 7, 2014 (the "**Agreement**").

B. Pursuant to Section 12.8 of the Agreement, the Agreement may be amended by a written instrument executed by Acquiror, Merger Sub and the Company upon: (i) action taken or authorized by their respective Boards of Directors (or, in the case of Merger Sub, by Acquiror as its sole member); (ii) approval by the Shareholder Representative; and (iii) in certain circumstances, approval by the holders of voting stock of the Company, the Hallmark Group, the Love Family, the McDonnell Family and/or Laurence A. Schiffer.

C. The parties desire to enter into this Amendment for the purpose of amending the Agreement as provided herein.

D. The respective boards of directors of Acquiror and the Company, Acquiror as the sole member of Merger Sub, and the Shareholder Representative each have approved and declared the advisability of this Amendment.

E. Following the date hereof, this Amendment shall, in accordance with Section 12.8 of the Agreement, require the additional approval of the holders of voting stock of the Company in accordance with the GBCM.

AGREEMENTS

In consideration of the foregoing premises, which are incorporated herein by this reference, and the following mutual promises, covenants and agreements, the parties hereby agree as follows:

Section 1. **Definitions.** All defined or capitalized terms used in this Amendment shall have the meanings given such terms in the Agreement, unless said terms are amended pursuant to this Amendment, otherwise defined herein or unless the context clearly indicates to the contrary.

Section 2. **Amendment to Section 1.1 (Defined Terms).**

(a) The following defined term in Section 1.1 of the Agreement is hereby amended and restated in its entirety as follows:

"**Termination Date**" means March 31, 2015, or such other date as shall have been agreed to in writing by Acquiror and the Company.

(b) The defined term "**ABV Calculation**" in Section 1.1 of the Agreement is hereby deleted in its entirety.

(c) The following defined terms are added to Section 1.1 of the Agreement:

"**Acceleration Payment**" has the meaning set forth in **Section 3.5(d)**.

"**Adjusted LFC Net Income**" means the aggregate net income of LFC over the Earn-Out Period, as derived from the LFC Audited Financial Statements prepared in accordance with GAAP applied and calculated in a manner consistent with Acquiror's preparation of its consolidated financial statements during such period and adjusted to: (a) exclude (i) any extraordinary, unusual, infrequent or nonrecurring items of gain or loss, (ii) any gains or losses resulting from the sale of assets by LFC other than in the ordinary course of business consistent with past practice, (iii) any transaction-related expenses that are directly attributable to the Contemplated Transactions and (iv) any incremental amortization or depreciation expense attributable to the application of purchase accounting recognized by LFC resulting from Acquiror's acquisition of LFC; and (b) include (i) a reasonable allocation of intra-company overhead expenses of LFC based upon administrative, compliance, regulatory, accounting or other services provided to LFC during the Earn-Out Period by Acquiror or an Acquiror Subsidiary (*provided*, *however*, that LFC shall not be allocated any such overhead expenses that are directly attributable solely to Acquiror's regulatory or compliance requirements and would not otherwise have been incurred by the Company and/or LFC if the Contemplated Transactions had not been consummated), offset by any services provided by LFC to Acquiror or an Acquiror Subsidiary and (ii) a credit to LFC based on Acquiror Bank's commercial account analysis earnings credit board rate (subject to a minimum rate of 60 basis points per annum) applied to LFC's servicing deposits associated with its mortgage servicing rights that are maintained at Acquiror Bank.

"**Earn-Out Calculation**" has the meaning set forth in **Section 3.5(b)(i)**.

"**Earn-Out Calculation Delivery Date**" has the meaning set forth in **Section 3.5(b)(i)**.

"**Earn-Out Calculation Objection Notice**" has the meaning set forth in **Section 3.5(b)(ii)**.

"**Earn-Out Calculation Statement**" has the meaning set forth in **Section 3.5(b)(i)**.

"**Earn-Out Multiple**" means five (5).

"**Earn-Out Payment**" has the meaning set forth in **Section 3.5(a)**.

"**Earn-Out Participants**" has the meaning set forth in **Section 3.5(a)**.

"**Earn-Out Period**" means the period beginning on January 1, 2015, and ending on December 31, 2016.

"**Earn-Out Threshold**" means Nine Million One Hundred Thousand Dollars ($9,100,000).

"**LFC Audited Financial Statements**" means, collectively, the separate audited balance sheet and related statement of income of LFC for each calendar year during the Earn-Out Period, in each case prepared in accordance with GAAP and calculated in a manner consistent with Acquiror's preparation of its consolidated financial statements.

"**LFC Designated Executive**" means each of the following executives of LFC: Mark Dellonte; Karen Ford; Courtney Mauldin; and Jonathan Camps.

"**Final ABV Calculation**" has the meaning set forth in **Section 2.11(c)**.

"**Preliminary ABV Calculation**" has the meaning set forth in **Section 2.11(b)**.

"**Review Period**" has the meaning set forth in **Section 3.5(b)(ii)**.

Section 3. **Amendment to Section 2.2 (Effective Time; Closing)**. The first sentence of Section 2.2 of the Agreement is hereby amended and restated in its entirety as follows: "Provided that this Agreement shall not prior thereto have been terminated in accordance with its express terms, the closing of the Merger (the "**Closing**") shall occur on the date (the "**Closing Date**") that is the first Business Day of the calendar month following the calendar month during which all of the conditions set forth in **Article 9** have been satisfied or waived (other than those conditions that by their nature are to be satisfied or waived at the Closing, such as the required delivery of the certificates, documents and other closing items listed in **Section 2.6** and **Section 2.7**) and, in the case of any required consents, authorizations or approvals of Applicable Governmental Authorities, the expiration of any required waiting periods shall have occurred; *provided*, *however*, that Acquiror and the Company, by agreement,

may elect to set the Closing Date as soon as practicable following the satisfaction or waiver of the closing conditions and the expiration of any required waiting period. For the avoidance of doubt, the Calculation Date will in all cases be the last day of the calendar month prior to the month in which Closing Date occurs."

Section 4. **Amendment to Section 2.11 (Calculation of Adjusted Book Value)**. Section 2.11 of the Agreement is hereby amended and restated in its entirety as follows:

Section 2.11 **Calculation of Adjusted Book Value and Related Matters**.

(a) Adjusted Book Value shall be calculated by the Company using reasonable estimates of revenues and expenses where actual amounts are not available.

(b) To facilitate the Closing on the Closing Date, the parties agree that the Aggregate Merger Consideration used for purposes of determining the number of shares of Acquiror Common Stock to be delivered to the Exchange Agent pursuant to **Section 2.7(a)** shall be based on Adjusted Book Value reasonably estimated as of the Calculation Date. The Company shall deliver the preliminary calculation of Adjusted Book Value (the "**Preliminary ABV Calculation**") to Acquiror, accompanied by appropriate supporting detail, on or prior to the Closing Date. Acquiror shall notify the Company as soon as practicable of any objections Acquiror has to the Preliminary ABV Calculation. The Company and Acquiror shall agree on the Preliminary ABV Calculation on or prior to the Closing Date.

(c) The parties agree that the final calculation of Aggregate Merger Consideration used for purposes of determining the number of shares of Acquiror Common Stock to be issued to holders of Company Preferred Stock, Company Series A Preferred Stock and Company Common Stock in connection with the Closing pursuant to **Article 3** shall be based on Adjusted Book Value calculated as of the Calculation Date as finally determined following the Closing Date. The Shareholder Representative (with the assistance of the former CFO and accounting personnel of the Company as he may deem necessary) shall deliver the final calculation of Adjusted Book Value (the "**Final ABV Calculation**") to Acquiror, accompanied by appropriate supporting detail, within fifteen (15) days after the Closing Date. If prior to the close of business on the fifth (5th) day following delivery of the Final ABV Calculation to Acquiror, Acquiror has not given the Shareholder Representative notice of an objection to the Final ABV Calculation (which notice shall state in reasonable detail the basis of Acquiror's objection and Acquiror's proposed adjustments (the **"Objection Notice"**)), the Final ABV Calculation as prepared by the Shareholder Representative will be final, binding, and conclusive on all the parties to this Agreement. If the

Acquiror timely gives the Shareholder Representative an Objection Notice and if the Shareholder Representative and Acquiror fail to resolve the issues raised in the Objection Notice prior to the close of business on the fifth (5th) day following delivery of the Objection Notice by Acquiror, the determination of the Adjusted Book Value shall be submitted to the Chicago, Illinois, office of Deloitte & Touche LLP (or, if the Chicago, Illinois, office of Deloitte & Touche LLP is unable or unwilling to serve in such capacity, a recognized national or regional independent accounting firm mutually acceptable to the Shareholder Representative and Acquiror) (the "**Independent Accountants**") for a binding determination of the Adjusted Book Value. The Independent Accountants' determination of the Adjusted

Book Value shall be no less than the amount proposed by Acquiror, and no more than the amount proposed by the Shareholder Representative. The Independent Accountants shall be directed by the Shareholder Representative and Acquiror to use their Best Efforts to make a determination as soon as practicable within ten (10) days after the date of its engagement (the "**Engagement Date**"), but in no event later than thirty (30) days after the Engagement Date, and the Independent Accountants' resolution of the Adjusted Book Value shall be conclusive and binding upon Acquiror and the Shareholder Representative. Acquiror and the Shareholder Representative shall execute any agreement required by the Independent Accountants to accept their engagement. Acquiror shall bear one-half of the fees and costs of the Independent Accountants, with the other one-half taken into account in the calculation of Adjusted Book Value. Notwithstanding anything contained herein to the contrary, if there is a determination of any issues raised in an Objection Notice (other than a determination duly rendered by the Independent Accountants) that would have the effect of reducing the Adjusted Book Value by One Million Dollars ($1,000,000) or more, such determination shall not be valid or effective against the Company's shareholders unless approved by the Shareholder Representative, *provided, however*, that if the Shareholder Representative fails to agree with such determination, then the issues raised in the Objection Notice shall be submitted to the Independent Accountants for a binding determination as provided above in this **Section 2.11(c)**.

Section 5. **Amendment and Restatement of Section 3.1 (Merger Consideration; Conversion of Stock)**. Section 3.1 of the Agreement is hereby amended and restated in its entirety as set forth in ANNEX A hereto.

Section 6. **Amendment to Section 3.3 (Exchange Procedures)**.

(a) Section 3.3(c) of the Agreement is hereby amended and restated in its entirety as follows:

(c)(1) If the Exchange Agent receives a properly completed Letter of Transmittal and related Certificate from a holder of Company Senior Preferred Stock;

(i) prior to the Closing Date, the Surviving Entity shall cause the Exchange Agent to mail or deliver to such shareholder at the Effective Time: (1) a check representing the portion of the Aggregate Cash Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**; and (2) a New Instrument representing the portion of the Aggregate Stock Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**; and

(ii) on or after the Closing Date, the Surviving Entity shall cause the Exchange Agent to mail or deliver to such shareholder no later than ten (10) Business Days after the Exchange Agent's receipt of such Person's properly completed Letter of Transmittal and Certificate: (1) a check representing the portion of the Aggregate Cash Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**; and (2) a New Instrument representing the portion of the Aggregate Stock Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**.

(c)(2) If the Exchange Agent receives a properly completed Letter of Transmittal and related Certificate from a holder of Company Series A Preferred Stock and/or Company Common Stock:

(i) prior to the Closing Date, the Surviving Entity shall cause the Exchange Agent to mail or deliver to such shareholder: (1) at the Effective Time, a check representing the portion of the Aggregate Cash Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**; and (2) as soon as practicable following the determination of the Final ABV Calculation pursuant to **Section 2.11(c)**, a New Instrument representing the portion of the Aggregate Stock Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**; and

(ii) on or after the Closing Date, the Surviving Entity shall cause the Exchange Agent to mail or deliver to such shareholder: (1) no later than ten (10) Business Days after the Exchange Agent's receipt of such Person's properly completed Letter of Transmittal and Certificate, a check representing the portion of the Aggregate Cash Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**; and (2) no later than ten (10) Business Days after the later of the Exchange Agent's receipt of such Person's properly completed Letter of Transmittal and Certificate and the determination of the Final ABV Calculation pursuant to **Section 2.11(c)**, a New Instrument representing the portion of the Aggregate Stock Consideration, if any, to which such shareholder is entitled to receive in connection with the Closing pursuant to this **Article 3**.

The parties agree that, notwithstanding the timing of the Exchange Agent's delivery of New Instruments representing a shareholder's portion of the Aggregate Stock Consideration pursuant to this **Section 3.3(c)**, a Company shareholder receiving shares of Acquiror Common Stock pursuant to this **Article 3** shall be deemed to become a record holder of such shares of Acquiror Common Stock at the Effective Time and, accordingly, shall be entitled to receive any dividends on Acquiror Common Stock with a record date on or following the Closing Date. Any such dividends shall be paid by Acquiror simultaneously with the delivery of the New Instruments representing the shares of Acquiror Common Stock or, if later, on the date that such dividends are payable to the other holders of Acquiror Common Stock.

(b) Section 3.3(d) of the Agreement is hereby amended and restated in its entirety by deleting the text of such provision and inserting "[INTENTIONALLY OMITTED]."

Section 7. **Addition of Section 3.5 (Earn-Out) and Section 3.6 (Post-Closing Operation of LFC)**. Article 3 of the Agreement is hereby amended by adding at the end thereof the new Section 3.5 and Section 3.6 set forth in ANNEX B hereto.

Section 8. **Amendment to Section 6.23 (Shareholders' Meeting)**. Section 6.23 of the Agreement is hereby amended by adding at the end thereof the following new subsections (d) and (e):

(d) If the Shareholder Representative appointed pursuant to **Section 6.23(c)** dies or becomes legally incapacitated, or is otherwise similarly unable to carry out his duties hereunder, or resigns, then Laurence A. Schiffer shall be appointed as the successor Shareholder Representative. If Laurence A. Schiffer is appointed as the successor Shareholder Representative and thereafter dies or becomes legally incapacitated, or is otherwise similarly unable to carry out his duties

hereunder, or resigns, the holders, as of the Effective Time, of Company Series A Preferred Stock and Company Common Stock, voting together as a single class, shall, by majority vote, as soon as practicable, designate a replacement Shareholder Representative as a successor Shareholder Representative hereunder; *provided*, that if such holders do not designate a replacement Shareholder Representative within 30 days, a representative designated by the McDonnell Family shall be deemed to be the Shareholder Representative, and shall have all rights and obligations of a Shareholder Representative hereunder.

(e) The Shareholder Representative shall not be liable to the Company's shareholders for any action taken or omitted by the Shareholder Representative in good faith except to the extent that a court of competent jurisdiction determines that the Shareholder Representative's gross negligence or willful misconduct was the substantial cause of any loss.

Section 9. **Amendment to Section 7.7 (Authorization and Reservation of Acquiror Common Stock)**. Section 7.7 of the Agreement is hereby amended by adding at the end thereof the following: "In addition, the board of directors of Acquiror shall, prior to the Closing Date, authorize and reserve the maximum number of shares of Acquiror Common Stock that may be issued in payment of the Earn-Out Payment pursuant to **Section 3.5** and maintain such shares as authorized and unissued until the expiration of the Earn-Out Period and satisfaction in full of Acquiror's obligations under **Section 3.5** or, if earlier, payment of the Acceleration Payment."

Section 10. **Amendment to Section 9.2 (Conditions to the Obligations of the Company)**. Section 9.2(f) of the Agreement is hereby amended to change the word "will" to "should" wherever it appears.

Section 11. **Amendment to Section 12.1 (Notices)**. Section 12.1 of the Agreement is hereby amended to change the email address of Andrew S. Love from "aslove@heartland-bank.com" to "aslove@lovesavings.net" with a copy to "lovesave@midcoast.com."

Section 12. **Regulatory Update**. During the period beginning as of the date of this Amendment and ending on the Closing Date, Acquiror shall provide to the Company every fifteen (15) days, (a) a written summary as to the status of the applications filed by Acquiror pursuant to Section 7.9 of the Agreement, including any objections thereto by third parties, and (b) copies of the public portion of all correspondence and emails sent by Acquiror or its counsel to representatives of the Federal Reserve and/or any other Regulatory Authority with respect to such applications and any correspondence and emails received from the Federal Reserve or other Regulatory Authority or any third parties that relate to the applications and do not constitute confidential supervisory information.

Section 13. **Company Shareholders' Meeting**. The Company shall cause a meeting of its shareholders to be held for the purpose of acting upon this Amendment. Such meeting

shall be held as soon as practicable, but in no event later than thirty (30) days, after the date of this Amendment.

Section 14. **Updates to Disclosure Schedules**. The Company hereby represents and warrants to Acquiror and Merger Sub that, except as set forth in a supplement to the Company Disclosure Schedules delivered to Acquiror and Merger Sub in connection with the execution and delivery of this Amendment, since the date of the Agreement, the Company has not become aware of any fact, condition or occurrence that would require any change in the Company Disclosure Schedules previously delivered to Acquiror and Merger Sub as of the date of the Agreement for the Company to be in compliance with Section 6.8 of the Agreement (*provided* that the reference to "Breach" therein shall be qualified with "material" for this purpose), or otherwise to prevent such Company Disclosure Schedules from being materially misleading to Acquiror and Merger Sub, in each case as of the date hereof. Acquiror and Merger Sub hereby represent and warrant to the Company that, except as set forth in a supplement to the Acquiror Disclosure Schedules delivered to the Company in connection with the execution and delivery of this Amendment, since the date of the Agreement, Acquiror and Merger Sub have not become aware of any fact, condition or occurrence that would require any change in the Acquiror Disclosure Schedules previously delivered to the Company as of the date of the Agreement for Acquiror to be in compliance with Section 7.3 of the Agreement (*provided* that the reference to "Breach" therein shall be qualified with "material" for this purpose), or otherwise to prevent such Acquiror Disclosure Schedules from being materially misleading to the Company, in each case as of the date hereof.

Section 15. **Authorization and Enforceability**. The execution and delivery of this Amendment has been duly and validly authorized and approved by each of the parties. This Amendment has been duly and validly executed and delivered by each of the parties and constitutes a valid and binding agreement of such parties, enforceable against each of them in accordance with its terms (subject, in the case of the Company, to the approval of this Amendment by the Company's shareholders).

Section 16. **No Further Amendments; Agreement Affirmed**. Except as expressly amended, modified or superseded by this Amendment, all terms and provisions of the Agreement shall remain unchanged and in full force and effect without modification, and nothing herein shall operate as a waiver of any party's rights, powers or privileges under the Agreement. Notwithstanding anything to the contrary herein, this Amendment does not waive any breaches of the representations, warranties and covenants contained in the Agreement or in any document delivered pursuant hereto.

Section 17. **Effect of Amendment**. This Amendment shall form a part of the Agreement for all purposes, and each party thereto and hereto shall be bound hereby. From and after the execution of this Amendment by the parties hereto, any reference to the Agreement shall be deemed a reference to the Agreement as amended hereby.

Section 18. **Severability**. If any term or provision of this Amendment is held by a final and nonappealable Order of a court of competent jurisdiction to be invalid, void, or unenforceable, all other terms and provisions of this Amendment shall nevertheless remain in full force and effect, and shall not be impaired or invalidated thereby, unless the economic or

legal substance of the Contemplated Transactions would be affected in a manner materially adverse to any party.

Section 19. **Counterparts**. This Amendment may be executed in two or more counterparts that together shall constitute a single agreement.

Section 20. **Facsimile or Electronic Signatures**. This Amendment may be executed and accepted by facsimile or electronic signature and any such signature shall be of the same force and effect as an original signature.

Section 21. **Headings**. The captions and headings used in this Amendment have been inserted solely for convenience of reference and shall not be considered a part of this Amendment nor shall any of them affect the meaning or interpretation of this Amendment or any of its provisions.

[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers as of the day and year first written above.

ACQUIROR:

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach

Name: Leon J. Holschbach

Title: President/CEO

COMPANY:

LOVE SAVINGS HOLDING COMPANY

By: /s/ Andrew S. Love

Name: Andrew S. Love

Title: Chairman

MERGER SUB:

HB ACQUISITION LLC

By: **Midland States Bancorp, Inc.**, its sole member and manager

By: /s/ Leon J. Holschbach

Name: Leon J. Holschbach

Title: President/CEO

Accepted and Agreed to Pursuant to Section 12.8 of the Agreement this 6th day of November, 2014:

SHAREHOLDER REPRESENTATIVE

/s/ Andrew S. Love, Jr.
Andrew S. Love, Jr.

[SIGNATURE PAGE TO AMENDMENT TO AGREEMENT AND PLAN OF MERGER]

ANNEX A

AMENDED AND RESTATED SECTION 3.1

Section 3.1 **Merger Consideration; Conversion of Stock**.

(a) The following terms first used in this Article 3 shall have the following meanings:

(i) "**Aggregate Merger Consideration**" means an amount in cash and shares of Acquiror Common Stock equal to Sixty-Four Million Two-Hundred Thousand Dollars ($64,200,000) (as adjusted, if applicable, pursuant to **Section 3.1(b)(v)**). The Aggregate Merger Consideration shall consist of: (1) cash in the amount of Sixteen Million Seven Hundred Thousand Dollars ($16,700,000) (as adjusted, if applicable, pursuant to **Section 3.1(b)(v)**) (the "**Aggregate Cash Consideration**"), and (2) shares of Acquiror Common Stock with a value (based on the Per Share Acquiror Stock Valuation) equal to Forty-Seven Million Five Hundred Thousand Dollars ($47,500,000) (as adjusted, if applicable, pursuant to **Section 3.1(b)(v)**) (the "**Aggregate Stock Consideration**").

(ii) "**Cash Consideration to Common Shareholders**" means an amount in cash equal to: (1) the Aggregate Cash Consideration, *less* (2) the aggregate amount of cash payable to holders of the Company Senior Preferred Stock and the Company Series A Preferred Stock pursuant to **Section 3.1(b)**.

(iii) "**Per Share Acquiror Stock Valuation**" means $21.00.

(iv) "**Per Share Senior Preferred Liquidation Preference**" means an amount equal to the per share Liquidation Preference, as such term is defined in subparagraph 4 of Article Three of the Company's Articles of Incorporation, as amended, as of the Closing Date.

(v) "**Per Share Series A Preferred Liquidation Preference**" means an amount equal to the per share Series A Liquidation Preference, as such term is defined in paragraph B of the Company's Certificate of Designation of Class A New Preferred Stock filed with the Missouri Secretary of State on September 25, 2006, as of the Closing Date.

(vi) "**Senior Preferred Per Share Consideration**" means an amount equal to: (A) the Per Share Senior Preferred Liquidation Preference, *multiplied by* (B) Fifteen Thousand Eighty-Eight (15,088), *less* (C) Four Million Dollars ($4,000,000), *divided by* (D) Fifteen Thousand Eighty-Eight (15,088), *multiplied by* (X) Twenty-Four Thousand (24,000) *less* (Y) Four Million Two Hundred Thousand Dollars ($4,200,000), *divided by* (Z) Twenty-Four Thousand (24,000).(1)

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(1) By way of example, assuming the Per Share Senior Preferred Liquidation Preference is $2,500, the calculation of Senior Preferred Per Share Consideration would be:

- $2,500 *multiplied by* 15,088 (= $37,720,000)
- *less* $4,000,000 (= $33,720,000)

(vii) "**Series A Preferred Aggregate Consideration to Eligible Shareholders**" means an amount equal to: (A) the Per Share Series A Preferred Liquidation Preference, *multiplied by* (B) 0.80, *multiplied by* (C) the number of shares of Company Series A Preferred Stock held by Eligible Shareholders, *less* (D) (i) One Million Eight Hundred Thousand Dollars ($1,800,000), *multiplied by* (ii) the number of shares of Company Series A Preferred Stock held by Eligible Shareholders, *divided by* (iii) Five Thousand Three Hundred Sixty-Two (5,362), *less* (E) the Adjustment Amount, if any (as such term is defined in **Section 3.1(a)(xi)**).

(viii) "**Series A Preferred Aggregate Consideration to Non-Eligible Shareholders**" means an amount equal to: (A) the Per Share Series A Preferred Liquidation Preference, *multiplied by* (B) 0.80, *multiplied by* (C) the number of shares of Company Series A Preferred Stock held by shareholders who are not Eligible Shareholders, *less* (D) (i) One Million Eight Hundred Thousand Dollars ($1,800,000), *multiplied by* (ii) the number of shares of Company Series A Preferred Stock held by shareholders who are not Eligible Shareholders, *divided by* (iii) Five Thousand Three Hundred Sixty-Two (5,362).

(ix) "**Series A Preferred Per Share Consideration to Eligible Shareholders**" means an amount equal to: (A) the Series A Preferred Aggregate Consideration to Eligible Shareholders, *divided by* (B) the number of shares of Company Series A Preferred Stock held by Eligible Shareholders.

(x) "**Series A Preferred Per Share Consideration to Non-Eligible Shareholders**" means an amount equal to: (A) the Series A Preferred Aggregate Consideration to Non-Eligible Shareholders, *divided by* (B) number of shares of Company Series A Preferred Stock held by shareholders who are not Eligible Shareholders.

(xi) "**Stock Consideration to Common Shareholders**" means an amount in shares of Acquiror Common Stock equal to: (1) the Aggregate Stock Consideration, *less* (2) the aggregate value of shares of Acquiror Common Stock (based on the Per Share Acquiror Stock Valuation) payable to holders of the Company Senior Preferred Stock and the Company Series A Preferred Stock pursuant to **Section 3.1(b)**; *provided*, *however*, that if the dollar amount of the Stock Consideration to Common Shareholders is a negative number (the "Adjustment Amount"), then the Series A Preferred Aggregate Consideration to Eligible Shareholders shall be reduced accordingly, as provided in **Section 3.1(a)(vii)**, and holders of shares of Company Common Stock will not receive any shares of Acquiror Common Stock.

(b) At the Effective Time, by virtue of the Merger and without any action on the part of Acquiror, Merger Sub, the Company or the holder of any of the following securities:

(i) Each membership interest of Merger Sub issued and outstanding immediately prior to the Effective Time shall be unaffected by the Merger and shall thereafter represent one membership interest of the Surviving Entity.

- *divided by* 15,088 (= $2,234.88865)
- *multiplied by* 24,000 (= $53,637,327.6775)
- *less* $4,200,000 (= $49,437,327.6775)

· *divided by* 24,000 (= $2,059.88865)

(ii) Each share of Company Senior Preferred Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Senior Preferred Stock to be cancelled and retired pursuant to Section 3.1(d) and Dissenting Shares) shall be converted into the right to receive a combination of cash and shares of Acquiror Common Stock in an aggregate amount equal to the Senior Preferred Per Share Consideration. Each holder of Company Senior Preferred Stock shall have the right to elect to receive a portion of the Senior Preferred Per Share Consideration in cash, up to a maximum of $927.889714 per share, with the remaining amount of such holder's Senior Preferred Per Share Consideration to be received in shares of Acquiror Common Stock based on the Per Share Acquiror Stock Valuation. Notwithstanding the foregoing, each share of Company Senior Preferred Stock held by a shareholder that is not an Eligible Shareholder shall instead be converted only into the right to receive cash (and not any shares of Acquiror Common Stock) in an amount equal to the Senior Preferred Per Share Consideration.

(iii) Each share of Company Series A Preferred Stock issued and outstanding immediately prior to the Effective Time and held by an Eligible Shareholder (other than shares of Company Series A Preferred Stock to be cancelled and retired pursuant to Section 3.1(d) and Dissenting Shares) shall be converted into the right to receive that number of shares of Acquiror Common Stock equal to the Series A Preferred Per Share Consideration to Eligible Shareholders divided by the Per Share Acquiror Stock Valuation. Each share of Company Series A Preferred Stock held by a shareholder that is not an Eligible Shareholder shall be converted only into the right to receive cash (and not any shares of Acquiror Common Stock) in an amount equal to the Series A Preferred Per Share Consideration to Non-Eligible Shareholders.

(iv) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Common Stock to be cancelled and retired pursuant to Section 3.1(d) and Dissenting Shares) shall be converted into the right to receive: (1) an amount of cash equal to the Cash Consideration to Common Shareholders divided by the total number of issued and outstanding shares of Company Common Stock (including Dissenting Shares) (the "**Per Common Share Cash Consideration**"); and (2) that number of shares of Acquiror Common Stock equal to (A) the Stock Consideration to Common Shareholders, *divided by* (B) the total number of issued and outstanding shares of Company Common Stock (including Dissenting Shares), *divided by* (C) the Per Share Acquiror Stock Valuation. Notwithstanding the foregoing, each share of Company Common Stock held by a shareholder that is not an Eligible Shareholder shall instead be converted only into the right to receive cash (and not any shares of Acquiror Common Stock) in an amount equal to: (x) the Per Common Share Cash Consideration; *plus* (y) the quotient obtained by dividing the Stock Consideration to Common Shareholders by the total number of issued and outstanding shares of Company Common Stock (including Dissenting Shares).

(v) If the aggregate amount of cash to be paid to holders of Company Senior Preferred Stock and Company Series A Preferred Stock pursuant to this Section 3.1(b) exceeds Fourteen Million Dollars ($14,000,000) (such difference being hereinafter referred to as the "Cash Deficiency"): (1) the amount of the Aggregate Cash Consideration shall be increased up to a maximum of Twenty Million Seven Hundred Thousand Dollars ($20,700,000), but only to the extent of the Cash Deficiency; and (2) the amount of the Aggregate Stock Consideration

shall be decreased on a corresponding dollar-for-dollar basis; *provided, however*, that if the aggregate amount of cash to be paid to holders of Company Senior Preferred Stock and Company Series A Preferred Stock pursuant to this Section 3.1(b) would exceed Eighteen Million Dollars ($18,000,000), then the amount of cash which each holder of Company Senior Preferred Stock owning less than 5,000 shares of Company Senior Preferred Stock as of the date of this Agreement may elect to receive pursuant to Section 3.1(b)(ii) shall be reduced proportionately per share so that the total amount of cash necessary to satisfy the amounts payable in cash to holders of Company Senior Preferred Stock and Company Series A Preferred Stock shall not exceed Eighteen Million Dollars ($18,000,000). Additionally, the Aggregate Stock Consideration shall be increased or decreased, as the case may be, on a dollar-for-dollar basis by the amount by which the Adjusted Book Value exceeds or is less than Twenty-Six Million Eight Hundred Thousand Dollars ($26,800,000).

(c) From and after the Effective Time, shares of Company Preferred Stock and Company Common Stock shall be no longer outstanding and shall automatically be canceled and shall cease to exist, and holders of Certificates formerly representing shares of Company Preferred Stock or Company Common Stock issued and outstanding immediately prior to the Effective Time will cease to be, and will have no rights as, shareholders of the Company, other than rights to receive the consideration to which such holders are entitled in accordance with this Article 3 (or as to Dissenting Shares, such rights as provided by the GBCM). After the Effective Time, there will be no transfers of shares of Company Preferred Stock or Company Common Stock on the stock transfer books of the Company or the Surviving Entity, and shares of Company Preferred Stock or Company Common Stock presented to Acquiror or the Surviving Entity for any reason will be canceled and exchanged in accordance with this Article 3.

(d) Each share of Company Preferred Stock or Company Common Stock held as treasury stock or otherwise held by the Company or an Acquired Subsidiary (other than in a fiduciary capacity), if any, immediately prior to the Effective Time shall automatically be canceled and retired and cease to exist, and no cash, Acquiror Common Stock or any other consideration will be issued or paid in exchange therefor..

ANNEX B

NEW SECTIONS 3.5 AND 3.6

Section 3.5 Earn-Out.

(a) *Earn-Out Payment*. As additional merger consideration to be paid to the former holders of Company Senior Preferred Stock, Company Series A Preferred Stock and Company Common Stock as of the Effective Time (such former holders, the "**Earn-Out Participants**"), at such time as provided in **Section 3.5(c)**, Acquiror shall issue to the Earn-Out Participants shares of Acquiror Common Stock (the "**Earn-Out Payment**") in an aggregate amount equal to: (i) the amount, if any, by which 50.0% of the Adjusted LFC Net Income exceeds the Earn-Out Threshold; *multiplied by* (ii) the

Earn-Out Multiple; *provided*, that in no event shall Acquiror be obligated to pay an Earn-Out Payment greater than Twelve Million Dollars ($12,000,000). The number of shares of Acquiror Common Stock to be issued as the Earn-Out Payment and the allocation of such shares among the Earn-Out Participants shall be determined as provided in **Section 3.5(c)** and based on the Per Share Acquiror Stock Valuation.

(b) *Procedures Applicable to Determination of the Earn-Out Payment*.

(i) Within fifteen (15) days of the completion of the LFC Audited Financial Statements for the last year of the Earn-Out Period (the "**Earn-Out Calculation Delivery Date**"), Acquiror shall prepare and deliver to the Shareholder Representative a written statement (the "**Earn-Out Calculation Statement**") setting forth in reasonable detail its determination of Adjusted LFC Net Income and its calculation of the resulting Earn-Out Payment (the "**Earn-Out Calculation**") together with copies of the LFC Audited Financial Statements.

(ii) The Shareholder Representative shall have ten (10) days after receipt of the Earn-Out Calculation Statement (the "**Review Period**") to review the Earn-Out Calculation Statement and the Earn-Out Calculation set forth therein. During the Review Period, the Shareholder Representative and its authorized representatives shall have the right to inspect LFC's books and records during normal business hours at Acquiror's or LFC's offices (as appropriate), upon reasonable prior notice and solely for purposes reasonably related to the determinations of Adjusted LFC Net Income and the resulting Earn-Out Payment. Prior to the expiration of the Review Period, the Shareholder Representative may object to the Earn-Out Calculation set forth in the Earn-Out Calculation Statement by delivering a written notice of objection (an "**Earn-Out Calculation Objection Notice**") to Acquiror. The Earn-Out Calculation Objection Notice shall specify the items in the Earn-Out Calculation disputed by the Shareholder Representative and shall describe in reasonable detail the basis for such objection, as well as the amount in dispute. If the Shareholder Representative fails to deliver an Earn-Out Calculation Objection Notice to Acquiror prior to the expiration of the Review Period, then the Earn-Out Calculation set forth in the Earn-Out Calculation Statement shall be final and binding on the parties hereto. If the Shareholder Representative timely delivers an Earn-Out Calculation Objection Notice, Acquiror and the Shareholder Representative shall negotiate in good faith to resolve the disputed items and agree upon the resulting amount of the Earn-Out Payment. If Acquiror and the Shareholder Representative are unable to reach agreement within ten (10) days

after such an Earn-Out Calculation Objection Notice has been given, all unresolved disputed items shall be promptly referred to the Independent Accountants. The Independent Accountants shall be directed by Acquiror and the Shareholder Representative to use their Best Efforts to make a binding determination with respect to the unresolved disputed items set forth in the Earn-Out Calculation Objection Notice as soon as practicable within ten (10) days after the date of their engagement, but in no event later than thirty (30) days after such date. The Independent Accountants shall resolve the disputed items based solely on the applicable definitions and other terms in this Agreement and the presentations by Acquiror and the Shareholder Representative, and not by independent review. The Independent Accountants' determination of the unresolved disputed items set forth in the Earn-Out Calculation Objection Notice shall be conclusive and binding upon Acquiror, the Shareholder Representative and each former holder of Company Senior Preferred Stock, Company Series A Preferred Stock and Company Common Stock entitled to receive a portion of any Earn-Out Payment. Acquiror and the Shareholder Representative (in his representative capacity on behalf of the Earn-Out Participants) shall execute any agreement required by the Independent Accountants to accept their engagement. The fees and costs of the Independent Accountants shall be paid one-half by Acquiror with the other one-half deducted from the amount of the Earn-Out Payment.

(c) *Timing and Procedure for Payment of Earn-Out Payment*. Subject to **Section 3.5(e)**, any Earn-Out Payment that Acquiror is required to pay pursuant to **Section 3.5(a)** shall be paid in full no later than five (5) Business Days following the date upon which the determination of the Earn-Out Calculation becomes final and binding upon the parties as provided in **Section 3.5(b)(ii)** (including any final resolution of any dispute raised by the Shareholder Representative in an Earn-Out Calculation Objection Notice). Any Earn-Out Payment shall be allocated among the Earn-Out Participants as follows:

(i) Each Earn-Out Participant that owned shares of Company Senior Preferred Stock as of the Effective Time shall be entitled to receive from Acquiror that number of shares of Acquiror Common Stock equal to: (1) (A) 35% of the Earn-Out Payment, *divided by* (B) the total number of issued and outstanding shares of Company Senior Preferred Stock (including Dissenting Shares) that were outstanding as of the Effective Time; *multiplied by* (2) the number of shares of Company Senior Preferred Stock owned by such shareholder as of the Effective Time; *divided by* (3) the Per Share Acquiror Stock Valuation.

(ii) Each Earn-Out Participant that owned shares of Company Series A Preferred Stock as of the Effective Time shall be entitled to receive from Acquiror that number of shares of Acquiror Common Stock equal to: (1) (A) 15% of the Earn-Out Payment, *divided by* (B) the total number of issued and outstanding shares of Company Series A Preferred Stock (including Dissenting Shares) that were outstanding as of the Effective Time; *multiplied by* (2) the number of shares of Company Series A Preferred Stock owned by such shareholder as of the Effective Time; *divided by* (3) the Per Share Acquiror Stock Valuation.

(iii) Each Earn-Out Participant that owned shares of Company Common Stock as of the Effective Time shall be entitled to receive from Acquiror that number of shares of Acquiror Common Stock equal to: (1) (A) 50% of the Earn-Out Payment, *divided by* (B) the total number of issued and outstanding shares of Company Common Stock (including Dissenting Shares) that were outstanding as of the Effective Time; *multiplied by* (2) the number

of shares of Company Common Stock owned by such shareholder as of the Effective Time; *divided by* (3) the Per Share Acquiror Stock Valuation.

Notwithstanding the foregoing, the portion of any Earn-Out Payment payable to an Earn-Out Participant that was not an Eligible Shareholder as of the Effective Time shall be paid in cash and not in shares of Acquiror Common Stock. For the avoidance of doubt, the provisions of **Section 3.2** regarding no fractional shares shall apply to payment of the Earn-Out Payment.

(d) *Acceleration upon Acquiror's Election*. At any time after the Closing Date, Acquiror may, in its sole discretion, elect to issue the maximum number of shares of Acquiror Common Stock that may be issued in payment of the Earn-Out Payment (the "**Acceleration Payment**") to the Earn-Out Participants. The Acceleration Payment shall be paid through the issuance of shares of Acquiror Common Stock in the same manner as specified in **Section 3.5(c)**, with the term "Acceleration Payment" being substituted for the term "Earn-Out Payment." Notwithstanding the foregoing, the portion of any

Acceleration Payment payable to an Earn-Out Participant that was not an Eligible Shareholder as of the Effective Time shall be paid in cash and not in shares of Acquiror Common Stock. For the avoidance of doubt, the provisions of **Section 3.2** regarding no fractional shares shall apply to payment of the Acceleration Payment. Upon payment of the Acceleration Payment, Acquiror, its Affiliates and their successors and assigns shall be fully released and discharged from any further liability or obligation pursuant to this **Section 3.5**.

(e) *Right of Set-off*. Acquiror shall have the right to withhold and set off against any portion of the Earn-Out Payment due to be paid to an Earn-Out Participant pursuant to this **Section 3.5** the amount of any Losses to which any Acquiror Indemnified Party may be entitled from such Earn-Out Participant under **Article 10** of this Agreement, the Indemnification Agreement or any other Transaction Document. Acquiror agrees that if it exercises its right of set-off pursuant to this **Section 3.5(e)** and it is subsequently determined that Acquiror was not entitled to the full amount of such set-off, Acquiror shall pay to the Earn-Out Participant against which set-off was made the number of shares of Acquiror Common Stock that were incorrectly withheld together with all dividends payable on such shares that had a record date between the Effective Time and the date of payment of such shares to the Earn-Out Participant.

(f) *Earn-Out Right Not a Security*. The parties hereto understand and agree that: (i) the contingent right to receive any Earn-Out Payment shall not be represented by any form of certificate or other instrument, is not transferable, except by operation of law relating to descent and distribution, divorce and community property, and does not constitute an equity or ownership interest in Acquiror; (ii) the Earn-Out Participants shall not have any rights as a securityholder of Acquiror as a result of their contingent right to receive any Earn-Out Payment hereunder; (iii) no interest is payable with respect to any Earn-Out Payment; and (iv) except as set forth in **Section 3.5(e)**, no dividends will accrue on or be payable with respect to shares of Acquiror Common Stock that may become issuable as the Earn-Out Payment prior to their issuance.

(g) *Adjustments for Stock Splits, Etc*. For purposes of applying this **Section 3.5**, the Per Share Acquiror Stock Valuation shall be proportionately adjusted for any

stock splits, stock dividends or similar transactions effected by Acquiror following the Effective Time and prior to payment of the Earn-Out Payment, if any.

Section 3.6 **Post-Closing Operation of LFC**.

(a) *General*. Subject to the terms of this Agreement and the other Transaction Documents, subsequent to the Effective Time, Acquiror shall have sole discretion with regard to all matters relating to the operation of LFC and no obligation to operate LFC in a manner designed to achieve any Earn-Out Payment or to maximize the amount of any Earn-Out Payment.

(b) *Specific Covenants*. Except with the prior written consent of the Shareholder Representative, between the Effective Time and the end of the Earn-Out Period, Acquiror will, and will cause Acquiror Bank to:

(i) maintain the separate corporate existence of LFC and maintain separate books and records for LFC to enable the preparation of the LFC Audited Financial Statements;

(ii) not sell or liquidate LFC, or dispose of substantially all of its assets;

(iii) operate LFC in a manner substantially consistent with the operation of LFC immediately prior to the Effective Time;

(iv) provide adequate funding to LFC substantially consistent with the Bank's funding of LFC immediately prior to the Effective Time;

(v) not cause or permit LFC to incur any material amount of indebtedness other than in the Ordinary Course of Business consistent with past practice; and

(vi) not terminate without cause any LFC Designated Executive (with "cause" being defined for each LFC Designated Executive in the same manner as "Cause" is set forth in the Equity Appreciation Award Agreement, dated January 1, 2011, of Mark R. Dellonte, as amended by the Amendment of Equity Appreciation Award Agreement, dated April 7, 2014 and to be effective at the Effective Time).

Notwithstanding the foregoing, Acquiror shall be permitted to take any of the foregoing actions without the prior written consent of the Shareholder Representative upon the payment of the Acceleration Payment pursuant to **Section 3.5(d)**.

Exhibit 3.1

FORM **BCA 2.10** (rev. Dec. 2003)
ARTICLES OF INCORPORATION
Business Corporation Act

Jesse White, Secretary of State
Department of Business Services
Springfield, IL 62756
Telephone (217) 782-9522
(217)782-6961
http://www.cyberdriveillinois.com

Remit payment in the form of a cashier's check, certified check, money order or an Illinois attorney's or CPA's check payable to the Secretary of State. SEE NOTE 1 TO DETERMINE FEES

Filing Fee: $150.00 Franchise Tax $25.00 Total $175.00 File # 6725-4171 Approved: /s/ kk

Submit in duplicate | Type or Print clearly in black ink | Do not write above this line

1. CORPORATE NAME: New Midland States, Inc.

(The corporate name must contain the word "corporation", "company," "Incorporated," "limited" or an abbreviation thereof.)

2. Initial Registered Agent: Douglas (*First Name*) J. (*Middle Initial*) Tucker (*Last name*)

Initial Registered Office: 133 W. Jefferson Avenue (*Number Street*) (*Suite #*) (*A* P.O. BOX *ALONE IS NOT ACCEPTABLE)*

Effingham (*City*) 62401 (*ZIP Code*) Effingham (*County*)

3. Purpose or purposes for which the corporation is organized:
(If not sufficient space to cover this point, add one or more sheets of this size.)

The transaction of any or all lawful businesses for which corporations may be incorporated under the Illinois Business Corporation Act.

4. Paragraph 1: Authorized Shares, Issued Shares and Consideration Received:

Class	Par Value	Number of Shares Authorized	Number of Shares Proposed to be Issued	Consideration to be Received Therefor
See attached Exhibit A.				$
			TOTAL=	$

Paragraph 2: The preferences, qualifications, limitations, restrictions and special or relative rights in respect of the shares of each class are:
(If not sufficient space to cover this point, add one or more sheets of this size.)

5. *OPTIONAL:* (a) Number of directors constituting the initial board of directors of the corporation:
(b) Names and addresses of the persons who are to serve as directors until the first annual meeting of shareholders or until their successors are elected and qualify:

Name	Address	City, State, ZIP

6. OPTIONAL

(a) It is estimated that the value of all property to be owned by the corporation for the following year wherever located will be:	$	151,500,363.00
(b) It is estimated that the value of the property to be located within the state of Illinois during the following year will be:	$	3,616,274.00
(c) It is estimated that the gross amount of business that will be transacted by the corporation during the following year will be:	$	61,242.00
(d) It is estimated that the gross amount of business that will be transacted from places of business in the State of Illinois during the following year will be:	$	58,287.00

7. OPTIONAL: OTHER PROVISIONS See attached

Attach a separate sheet of this size for any other provision to be included in the Articles of Incorporation, e.g., authorizing preemptive rights, denying cumulative voting, regulating internal affairs, voting majority requirements, fixing a duration other than perpetual, etc.

8. **NAME(S) & ADDRESS(ES) OF INCORPORATOR(S)**

The undersigned incorporator(s) hereby declare(s), under penalties of perjury, that the statements made in the foregoing Articles of Incorporation are true.

Dated October 21, 2010
(Month & Day) *Year*

Signature and Name	Address
1. /s/ Douglas J. Tucker *Signature* Douglas J. Tucker *(Type or Print Name)*	1. 133 W. Jefferson Avenue *Street* Effingham Illinois 62401 *City/Town* *State* *ZIP Code*
2. *Signature* *(Type or Print Name)*	2. *Street* *City/Town* *State* *ZIP Code*
3. *Signature* *(Type or Print Name)*	3. *Street* *City/Town* *State* *ZIP Code*

(Signatures must be in **BLACK INK** on original document. Carbon copy, photocopy or rubber stamp signatures may only be used on conformed copies.)

NOTE: If a corporation acts as incorporator, the name of the corporation and the state of incorporation shall be shown and the execution shall be by a duly authorized corporate officer. Type or print officer's name and title beneath signature.

Note 1: Fee Schedule

The initial franchise tax is assessed at the rate of 15/100 of 1 percent ($1.50 per $1,000) on the paid-in capital represented in this State. (Minimum initial franchise tax is $25)

The filing fee is $150

The minimum total due (franchise tax + filing fee) is $175.

Note 2: Return to:

(Firm name)

(Attention)

(Mailing Address)

(City, State, ZIP Code)

EXHIBIT A

TO THE
ARTICLES OF INCORPORATION
OF
NEW MIDLAND STATES, INC.

Article 4
AUTHORIZED STOCK

Section 4.1 **Authorized Shares.** The aggregate number of shares of stock which the corporation shall have authority to issue is Forty Four Million (44,000,000) shares of stock, consisting of Forty Million (40,000,000) shares of Common Stock, par value of $0.01 per share, and Four Million (4,000,000) shares of Preferred Stock, par value of $2.00. The proposed number of shares to be issued is 100 shares of Common Stock and the consideration to be received therefore is $100. No shares of Preferred Stock are proposed to be issued.

Section 4.2 **Common Stock.** Except as otherwise provided in any resolution or resolutions adopted by the board of directors providing for the issuance of a class of Common Stock, the Common Stock shall: (a) have the exclusive voting power of the corporation, (b) entitle the holders thereof to one vote per share at all meetings of the shareholders of the corporation, (c) entitle the holders to share ratably, without preference over any other shares of the corporation, in all assets of the corporation in the event of any dissolution, liquidation or winding up of the corporation, and (d) entitle the record holders

thereof on such record dates as are determined, from time to time by the board of directors, to receive such dividends, if any, if, as and when declared by the board of directors.

Section 4.3 **Preferred Stock.** The shares of Preferred Stock may be issued from time to time in one or more series. The board of directors of this corporation shall have authority to fix by resolution or resolutions the designations and the powers, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including, without limitation, the voting rights, the dividend rate, conversion rights, redemption price and liquidation preference, of any series of shares of Preferred Stock, to fix the number of shares constituting any such series and to increase or decrease the number of shares of any such series (but not below the number of shares thereof then outstanding). In case the number of shares of any such series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution or resolutions originally fixing the number of shares of such series.

Section 4.4 **No Pre-emptive Rights.** No holder of any class of shares of the corporation shall, as such holder, have any preemptive or preferential right to (a) purchase or subscribe to any shares of any class of stock of the corporation, whether now or hereafter authorized, whether unissued or in treasury, or (b) purchase any obligations convertible into shares of any class of stock of the corporation, in either case which at any time may be proposed to be issued by the corporation or subjected to rights or options to purchase granted by the corporation.

Section 4.5 **Unclaimed Dividends.** Any and all right, title, interest and claim in or to any dividends declared by the Corporation, whether in cash, stock, or otherwise, which are unclaimed by the shareholder entitled thereto for a period of five (5) years after the close of business on the payment date, shall be and be deemed to be extinguished and abandoned; and such unclaimed dividends in the possession of the Corporation, its transfer agents or other agents or depositaries shall at such time become the absolute property of the Corporation, free and clear of any and all claims of any persons whatsoever.

Article 5
BOARD OF DIRECTORS

Section 5.1 **Size; Qualifications.** The business and affairs of the corporation shall be managed by or under the direction of the board of directors, which shall consist of no fewer than six (6) and no greater than eleven (11) persons, as fixed from time to time by resolution of not less than two-thirds of the number of directors which immediately prior to such proposed change had been fixed, in the manner prescribed herein, by the board of directors of the corporation, *provided, however*, that the number of directors shall not be reduced as to shorten the term of any director at the time in office, and provided further, that the number of directors constituting the entire board of directors shall be seven (7) until otherwise fixed as described immediately above. Directors need not be residents of the State of Illinois and need not be shareholders of the corporation.

Section 5.2 **Powers.** In addition to the powers and authority expressly conferred upon them by statute or by these Articles of Incorporation or the Bylaws of the corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation.

Section 5.3 **Classification of Board of Directors.** The directors of the corporation shall be divided into three classes, Class I, Class II and Class III, as nearly equal in number as the then total number of directors constituting the entire board of directors permits with the term of office of one class expiring each year. Directors of Class I shall hold office for an initial term expiring at the 2011 annual meeting, directors of Class II shall hold office for an initial term expiring at the 2012 annual meeting and directors of Class III shall hold office for an initial term expiring at the 2013 annual meeting. At each annual meeting of shareholders, the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting. Any vacancies in the board of directors for any reason, and any directorships resulting from any increase in the number of directors, may be filled by the board of directors, acting by not less than two-thirds of the directors then in office, although less than a quorum, and any directors so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified. If the number of directors is changed, any increase or decrease in the number of directors shall be apportioned among the classes so as to maintain all classes as equal in number as possible.

Section 5.4 **Quorum.** The greater of: (a) a majority of the directors at any time in office; and (b) one-third of the number of directors fixed pursuant to paragraph **Section 5.1** of this Article shall constitute a quorum of the board of directors. If at any meeting of the board of directors there shall be less than such a quorum, a majority of the directors present may adjourn

the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

Section 5.5 **Action at Meeting.** Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors unless a greater number is required by law or by these articles of incorporation.

Section 5.6 **Resignation and Removal of Directors.** A director may resign at any time upon written notice to the board of directors. Notwithstanding any other provisions of these articles of incorporation or the bylaws of the corporation (and notwithstanding the fact that some lesser percentage may be specified by law, these articles of incorporation or the bylaws of the corporation), any director or the entire board of directors of the corporation may be removed at any time, but only for “cause” as defined below, and only by the affirmative vote of the holders of not less than 70% of the outstanding shares of stock of the corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at an annual meeting of shareholders or at a meeting of the shareholders for which the notice of the meeting names the director or directors to be removed at said meeting. For the purposes of removal of a director, “cause” shall be deemed to exist only if the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for gross negligence or willful misconduct in the performance of such director’s duty to the Corporation and such adjudication is no longer subject to direct appeal.

Section 5.7 **No Cumulative Voting.** There shall be no cumulative voting for directors of the corporation.

Section 5.8 **No Written Ballots.** Elections of directors need not be by written ballot unless the bylaws of the corporation shall so provide.

Article 6
BYLAWS

The bylaws may be amended, altered or repealed by resolution adopted by not less than two-thirds of the number of directors as may be fixed from time to time, in the manner prescribed herein, or in a manner otherwise provided in the bylaws. The bylaws of the corporation may also be amended, altered or repealed by the shareholders of the corporation, *provided*, *however*, that such amendment, alteration or repeal is approved by the affirmative vote of the holders of not less than 70% of the outstanding shares of stock of the corporation then entitled to vote generally in the election of directors.

Article 7
AMENDMENTS

The corporation reserves the right to amend, alter, change or repeal any provision contained in these articles of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon shareholders herein are granted subject to this reservation.

Article 8
INDEMNIFICATION

Subject to the limits of applicable federal and state banking law and regulation, the corporation shall indemnify each person who is or was a director or officer of the corporation and each person who serves or served at the request of the corporation as a director, officer or partner of another enterprise in accordance with, and to the fullest extent authorized by, the Illinois Business Corporation Act, as the same now exists or may be hereafter amended. No amendment to or repeal of this Article shall apply to or have any effect on the rights of any individual referred to in this Article for or with respect to acts or omissions of such individual occurring prior to such amendment or repeal.

Article 9
PERSONAL LIABILITY OF DIRECTORS

To the fullest extent permitted by the Illinois Business Corporation Act, as the same now exists or may be hereafter amended, a director of the corporation shall not be liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director. No amendment to or repeal of this Article shall apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to the effective date of such amendment or repeal. If the Illinois Business Corporation Act is amended or interpreted to permit further elimination or limitation of the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Illinois Business Corporation Act as so amended or interpreted.

Article 10
ADDITIONAL VOTING REQUIREMENTS

Section 10.1 **Voting Requirements.** Except as otherwise expressly provided in **Section 10.3** of this Article, and notwithstanding any other provision of these articles of incorporation:

(a) any merger or consolidation of the corporation or of any Subsidiary with or into any other corporation;

(b) any sale, lease, exchange or other disposition by the corporation or any Subsidiary of assets constituting all or substantially all of the assets of the corporation and its Subsidiaries taken as a whole to or with any other corporation, person or other entity in a single transaction or a series of related transactions;

(c) the amendment, alteration, change or repeal of these articles of incorporation; and

(d) the voluntary dissolution of the corporation;

shall require the affirmative vote of the holders of shares having at least 70% of the voting power of all outstanding stock of the corporation entitled to vote thereon. Such affirmative vote shall be required notwithstanding the fact that no vote or a lesser vote may be required, or that some

lesser percentage may be specified, by law or otherwise in these articles of incorporation or by the bylaws of the corporation.

Section 10.2 **Subsidiary.** For purposes of this Article, the term "Subsidiary" means any entity in which the corporation beneficially owns, directly or indirectly, more than 75% of the outstanding voting stock. The phrase "voting security" as used in **Section 10.1** of this Article shall mean any security which is (or upon the happening of any event, would be) entitled to vote for the election of directors, and any security convertible, with or without consideration into such security or carrying any warrant or right to subscribe to or purchase such a security.

Section 10.3 **Exceptions.** Notwithstanding anything contained in this Article or applicable law to the contrary, any action or transaction described in **Section 10.1** of this Article that is:

(a) approved at any time prior to its consummation by resolution adopted by not less than two-thirds of the number of directors as may be fixed from time to time, in the manner prescribed herein, by the board of directors of the corporation; or

(b) with any entity of which a majority of all of the classes of equity is owned of record or beneficially by the corporation; or

(c) a merger with another entity which may be authorized without action by the shareholders of the corporation to the extent and in the manner permitted from time to time by the law of the State of Illinois;

shall only require the affirmative vote of the holders of at least a majority of the voting power of all outstanding stock of the corporation entitled to vote thereon.

Section 10.4 **Construction.** The interpretation, construction and application of any provision or provisions of this Article and the determination of any facts in connection with the application of this Article, shall be made by not less than two-thirds of the number of directors as may be fixed from time to time, in the manner prescribed herein, by the board of directors of the corporation. Any such interpretation, construction, application or determination, when made in good faith, shall be conclusive and binding for all purposes of this Article.

Article 11
BUSINESS COMBINATIONS WITH INTERESTED SHAREHOLDERS

To the extent not already applicable to the corporation, the provisions of Section 7.85 of the Illinois Business Corporation act, as the same now exists or may hereafter be amended or as such Section 7.85 may hereafter be renumbered or recodified, will be deemed to apply to the corporation, and the corporation shall be subject to all of the restrictions set forth in such Section 7.85.

Article 12
SHAREHOLDERS' ACTION

Any action required or permitted to be taken by the holders of capital stock of the corporation must be effected at a duly called annual or special meeting of the holders of capital stock of the corporation and may not be effected by any consent in writing by such holders.

Article 13
NON-SHAREHOLDER INTERESTS

In connection with the exercise of its judgment in determining what is in the best interests of this Corporation and its shareholders when evaluating a proposal by another person or persons to make a tender or exchange offer for any equity security of this Corporation or any subsidiary, to merge or consolidate with this corporation or any subsidiary or to purchase or otherwise acquire all or substantially all of the assets of this Corporation or any subsidiary, the board of directors of this Corporation may consider all of the following factors and any other factors which it deems relevant: (i) the adequacy of the amount to be paid in connection with any such transaction; (ii) the social and economic effects of the transaction on the Corporation and its subsidiaries and the other elements of the communities in which the Corporation or its subsidiaries operate or are located; (iii) the business and financial condition and earnings prospects of the acquiring person or persons, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring person or persons, and the possible effect of such conditions upon the Corporation and its subsidiaries and the other elements of the communities in which the Corporation and its subsidiaries operate or are located; (iv) the competence, experience, and integrity of the acquiring person or persons and its or their management; and (v) any antitrust or other legal or regulatory issues which may be raised by any such transaction.

(g) Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, then and in each such event provision shall be made so that the holders of Series C Preferred Stock shall receive upon conversion thereof in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Corporation that they would have received had their Series C Preferred Stock been converted into Common Stock on the date of such event and had thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period giving application to all adjustments called for during such period under this paragraph 3 with respect to the rights of the holders of the Series C Preferred Stock. Notwithstanding the foregoing, to the extent the Corporation has a rights plan in effect with respect to the Common Stock on any date upon which Series C Preferred Stock is converted, upon conversion, the holder will receive, in addition to the shares of Common Stock, the rights under the rights plan, unless, prior to such date, the rights have separated from the shares of Common Stock in accordance with the provisions of such rights plan.

(h) Adjustment for Reclassification, Exchange or Substitution. If the Common Stock issuable upon the conversion of the Series C Preferred Stock shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares of stock dividend provided for above, or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this paragraph 3), then and in each such event the holder of each share of Series C Preferred Stock shall have the right thereafter to convert such share into the kind and amounts of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, by holders of the number of shares of Common Stock into which such shares of Series C Preferred Stock might have been converted immediately prior to such reorganization, reclassification or change, all subject to further adjustment as provided herein.

(i) Reorganization, Mergers, Consolidations or Sales of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this paragraph 3) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all the Corporation's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the holders of the Series C Preferred Stock shall thereafter be entitled to receive upon conversion of the Series C Preferred Stock, the number of shares of stock or other securities or property of the Corporation, or of the successor Corporation resulting from such merger or consolidation or sale, to which a holder of that number of shares of Common Stock deliverable upon conversion of the Series C Preferred Stock would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this paragraph 3 with respect to the rights of the holders of the Series C Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this paragraph 3 (including adjustment of the Conversion Prices and the number of shares purchasable upon conversion of the Series C Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(j) Sale of Shares Below Conversion Price.

(i) If at any time or from time to time after the Original Issue Date, the Corporation shall issue or sell Additional Shares of Common Stock (as hereinafter defined), other than as a dividend as provided in paragraph 3(f) above, and other than upon a subdivision or combination of shares of Common Stock as provided in paragraph 3(e) above, for a consideration per share less than the Conversion Price for the Series C Preferred Stock (or, if an adjusted Conversion Price shall be in effect by reason of a previous adjustment, then less than such adjusted Conversion Price), then and in each case the applicable Conversion Price for the Series C Preferred Stock shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Conversion Price by a fraction, the numerator of which shall be the sum of (A) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (B) the number of shares of Common Stock that the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price, and the denominator of which shall be the sum of (X) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (Y) the number of such Additional Shares of Common Stock so issued.

(ii) For the purpose of making any adjustment in the Conversion Price or number of shares of Common Stock purchasable on the conversion of Series C Preferred Stock as provided above, the consideration received by the Corporation for any issue or sale of securities shall,

(A) to the extent it consists of cash, be computed at the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, concessions or compensation paid or allowed by the Corporation in connection with such issue or sale,

(B) to the extent it consists of services or property other than cash, be computed at the fair value of such services or property as determined in good faith by the Board of Directors; and

(C) if Additional Shares of Common Stock, Convertible Securities (as hereinafter defined), or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration that covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(iii) For the purpose of the adjustment provided in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of, or stock or other securities convertible into, Additional Shares of Common Stock (such convertible stock or securities being hereinafter referred to as "Convertible Securities"), then, in each case, if the Effective Price (as hereinafter defined) of such rights, options or Convertible Securities shall be less than the then existing Conversion Price for the Series C Preferred Stock, the Corporation shall be deemed to have

issued at the time of the issuance of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such shares, or an amount equal to the total amount of the consideration, if any, received by the Corporation for the rights or options or Convertible Securities, plus, in the case of such options or rights, the minimum amounts of consideration, if any, payable to the Corporation upon exercise or conversion of such options or rights. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total of all such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities shall be made as a result of the actual issuance of Additional Shares of Common Stock on the exercise of any such rights or options or the conversion of any such Convertible Securities.

If any such rights or options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities shall be readjusted to the Conversion Price that would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such rights or options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Corporation upon such exercise, plus the consideration, if any, actually received by the Corporation for the granting of all such rights or options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted plus the consideration, if any, actually received by the Corporation on the conversion of such Convertible Securities.

(iv) For the purpose of the adjustment provided for in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of Convertible Securities, then, in each such case, if the Effective Price thereof is less than the current Conversion Price, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options the maximum number of Additional Shares of Common Stock issuable upon conversion of the total amount of Convertible Securities covered by such rights or options and to have received as consideration for the issuance of such Additional Shares of Common Stock an amount equal to the amount of consideration, if any, received by the Corporation for the issuance of such rights or options, plus the minimum amounts of consideration, if any, payable to the Corporation upon the conversion of such Convertible Securities. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total amount of such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of such Conversion Price adjusted upon the issuance of such rights or options shall be made as a result of the actual issuance of the Convertible Securities upon the exercise of such rights or options or upon the actual issuance of Additional Shares of Common Stock upon the conversion of such Convertible Securities.

The provisions of subparagraph (iii) above for the readjustment of such Conversion Price upon the expiration of rights or options or the rights of conversion of Convertible Securities,

shall apply *mutatis mutandis* to the rights, options and Convertible Securities referred to in this subparagraph (iv).

(k) Definition. The term "Additional Shares of Common Stock" as used herein shall mean all shares of Common Stock issued or deemed issued by the Corporation after the Original Issue Date, whether or not subsequently reacquired or retired by the Corporation, other than (i) shares of Common Stock issued upon conversion of the Series C Preferred Stock and (ii) any shares of Common Stock (as adjusted for all stock dividends, stock splits, subdivisions and combinations) issued to employees, officers, directors, consultants or other persons performing services for the Corporation (if so issued solely because of any such person's status as an officer, director, employee, consultant or other person performing services for the Corporation and not as part of any offering of the Corporation's securities) pursuant to any stock option plan, stock purchase plan or management incentive plan, agreement or arrangement approved by the Board.

(l) Accountants' Certificate of Adjustment. In each case of an adjustment or readjustment of the Conversion Price for the number of shares of Common Stock or other securities issuable upon conversion of the Series C Preferred Stock, the Corporation, at its expense, shall cause independent certified public accountants of recognized standing selected by the Corporation (who may be the independent certified public accountants then auditing the books of the Corporation) to compute such adjustment or readjustment in accordance herewith and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Series C Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based including a statement of (i) the consideration received or to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the Conversion Price at the time in effect for each series of the Series C Preferred Stock and (iii) the number of Additional Shares of Common Stock and the type and amount, if any, of other property which at the time would be received upon conversion of the Series C Preferred Stock.

(m) Notices of Record Date. In the event of any reclassification or recapitalization of the capital stock of the Corporation, any merger or consolidation of the Corporation, or any transfer of all or substantially all the assets of the Corporation to any other corporation, entity or person, or any voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation, the Corporation shall mail to each holder of Series C Preferred Stock (other than any such holder who is also a holder of record, or the affiliate of a holder of record, of the Corporation's Common Stock, or is a director or executive officer, or an affiliate of a director or executive officer, of the Corporation) at least 20 days prior to the record date specified therein, a notice specifying (A) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective and (B) the time, if any is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

(n) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of shares of Series C Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to the product of such fraction multiplied by the fair market value of one share of the Corporation's Common Stock on the date of conversion, as determined in good faith by the Corporation's Board of Directors. Whether or not the fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series C Preferred Stock the holder holds at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(o) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series C Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series C Preferred Stock. As a condition precedent to the taking of any action which would cause an adjustment to the Conversion Price, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient in order that it may validly and legally issue the shares of its Common Stock issuable based upon such adjusted Conversion Price.

(p) Notices. Any notice required by the provisions of this paragraph 3 to be given to the holder of shares of the Series C Preferred Stock shall be deemed given (i) when delivered by hand, (ii) when delivered by Federal Express or a similar overnight courier to each holder of record at his or her address appearing on the books of the Corporation or (iii) five days after being deposited in any United States Post Office enclosed in a postage prepaid, registered or certified envelope addressed to each holder of record at his or her address appearing on the books of the Corporation.

(q) Payment of Taxes. The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series C Preferred Stock or shares of Common Stock or other securities issued on account of Series C Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of shares of Series C Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series C Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(r) No Dilution or Impairment. The Corporation shall not amend its articles of incorporation, as amended, or participate in any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of

the material terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series C Preferred Stock against dilution or other

impairment.

4. Voting Rights.

(a) The Series C Preferred Stock shall have no voting rights except as provided herein or as otherwise from time to time required by law.

(b) Whenever dividends payable on the Series C Preferred Stock have not been paid for three or more Dividend Periods, whether or not consecutive, the holders shall have the right, with holders of any other series of securities of the Corporation ranking equally with the Series C Preferred Stock as to dividends that have similar voting rights and on which dividends likewise have not been paid (the "Voting Parity Securities"), voting together as a class, at a special meeting called at the request of holders of at least 20% of the shares of Series C Preferred Stock outstanding or of holders of at least 20% of the shares of any Voting Parity Securities (unless such request for a special meeting is received less than 90 calendar days before the date fixed for the next annual or special meeting of the Corporation's shareholders, in which event such election shall be held only at such next annual or special meeting of the Corporation's shareholders) or at the Corporation's next annual or special meeting of the Corporation's shareholders, to elect two additional directors to the Board of Directors; provided that the election of any such director does not cause the Corporation to violate the applicable corporate governance requirements or any applicable exchange or trading market where the Common Stock is then listed or quoted, as the case may be; and provided, further, that at no time will the Corporation's Board of Directors include more than two directors elected pursuant to this paragraph 4(b). At any meeting held for the purpose of electing such a director, the presence in person or by proxy of the holders of shares representing at least a majority of the voting power of the Series C Preferred Stock and any Voting Parity Securities, voting together as a class, shall be required to constitute a quorum of such shares. The affirmative vote of the holders of Series C Preferred Stock and holders of any Voting Parity Securities, voting together as a class, representing a majority of the voting power of such shares present at such meeting, in person or by proxy, shall be sufficient to elect any such director.

(c) Upon the election of any such directors, the number of directors that comprise the board of directors shall be increased by such number of directors. Such directors shall be elected to terms that are the shorter of the next annual meeting of the Corporation and such time as full dividends have been paid on the Series C Preferred Stock for at least three consecutive Dividend Periods. In the event such term expires prior to the time full dividends have been paid on the Series C Preferred Stock for at least three consecutive Dividend Periods, any such directors may be elected to successive terms of similar duration until full dividends have been paid on the Series C Preferred Stock for at least three consecutive Dividend Periods. Holders of Series C Preferred Stock, together with holders of any Voting Parity Securities, voting together as a class, may remove any director they elected. Any vacancy created by the removal of any such director shall be filled only by the vote of the holders of the Series C Preferred Stock and holders of any Voting Parity Securities, voting together as a class. If the office of either such director becomes

vacant for any reason other than removal, the remaining director may choose a successor who will hold office for the unexpired term of the vacant office.

(d) So long as any shares of Series C Preferred Stock remain outstanding, the Corporation shall not, without the vote, in person or by proxy, or written consent of the holders of at least 75% of the shares of the Series C Preferred Stock, voting as a separate class:

(i) amend the articles of incorporation, as amended, to authorize, or increase the authorized amount of, any shares of any class or series of stock ranking senior to the Series C Preferred Stock with respect to payment of dividends or distribution of assets on liquidation of the Corporation; as well as any amendment of the articles of incorporation, as amended, or amended and restated bylaws that would alter or change the voting powers, preferences or special rights of the Series C Preferred Stock so as to materially and adversely affect them; provided that the amendment of the articles of incorporation, as amended, so as to authorize or create, or to increase the authorized amount of any shares of any class or series or any securities convertible into shares of any class or series of stock of the Corporation ranking on a parity with or junior to the Series C Preferred Stock with respect to dividends and in the distribution of assets on liquidation, dissolution or winding-up of the Corporation shall not be deemed to materially and adversely affect the voting powers, preferences or special rights of the Series C Preferred Stock; or

(ii) consummate a binding share exchange, a reclassification involving the Series C Preferred Stock or a merger or consolidation of the Corporation with another entity; provided, however, that the holders of Series C Preferred Stock shall have no right to vote under this provision or otherwise under Illinois law if in each case (A) both (1) the Series C Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, is converted into or exchanged for preferred securities of the surviving or resulting entity (or its ultimate parent) that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and (2) the Series C Preferred Stock remaining outstanding or the new preferred securities, as the case may be, have such powers, preferences and special rights, taken as a whole, as are not materially less favorable to the holders thereof than the powers, preferences and special rights of the Series C Preferred Stock, or (B) the Corporation has exercised its mandatory conversion rights pursuant to paragraph 3(c) hereof in connection with such consummation.

(e) The number of votes of each share of Series C Preferred Stock and any Voting Parity Securities participating in the votes described above shall be calculated on an as converted basis or, if not all of such stock is convertible or exchangeable for Common Stock, shall be in proportion to the liquidation preference of such share.

5. Redemption Rights.

(a) The Corporation shall have the right at any time after the fifth anniversary of the Original Issue Date (the "Redemption Date") to call and redeem all (but not less than all) of the outstanding shares of Series C Preferred Stock at a price of $10,000 per share, plus any authorized, declared and unpaid dividends thereon, without accumulation of any undeclared

dividends, through the Redemption Date (the "Redemption Price"). Redemption of the Series C Preferred Stock is subject to receipt by the Corporation of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority.

(b) Not less than 30 days nor more than 60 days prior to the Redemption Date, written notice (the "Redemption Notice") shall be mailed, first class postage prepaid, to the holders of the shares of the Series C Preferred Stock at their address last shown on the records of the Corporation. The Redemption Notice shall state: (i) the number of shares being redeemed; (ii) what the Redemption Date and Redemption Price are; (iii) that the holders' voluntary Conversion Rights (as defined in paragraph 3) shall terminate; and (iv) that each holder is to surrender to the Corporation, in the manner and at the place designated, the certificates representing the shares of Series C Preferred Stock to be redeemed.

(c) On or before the Redemption Date, the holders of shares of Series C Preferred Stock being redeemed, unless a holder has exercised his or her right to convert the shares as provided in paragraph 3 hereof, shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof.

(d) If the Redemption Notice shall have been duly given, and if on or before the Redemption Date the Redemption Price has been set aside by the Corporation, then all shares of Series C Preferred Stock shall no longer be outstanding, shall be cancelled and retired and shall cease to exist. Each certificate formerly representing any shares of the Series C Preferred Stock shall thereafter represent only the right to receive the Redemption Price.

6. Liquidation. Upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series C Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, the amount of $10,000 per share, plus any authorized, declared and unpaid dividends through the date of such distribution, without accumulation of any undeclared dividends, before any payment or distribution shall be made on the Common Stock but pro rata with and in proportion to the liquidation rights of the holders of any other series of preferred stock with parity rights upon liquidation that are then outstanding. In the event the assets of the Corporation available for distribution to the holders of shares of the Series C Preferred Stock upon any dissolution, liquidation or winding up of the Corporation shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to this paragraph 6, then all of the assets of the Corporation to be distributed to such holders of Series C Preferred Stock shall be distributed ratably to the holders of Series C Preferred Stock. After the payment to the holders of the shares of the Series C Preferred Stock of the full amounts provided for in this paragraph 6, the holders of the Series C Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

7. Information Rights. The holders of shares of Series C Preferred Stock shall be entitled to receive audited annual financial statements of the Corporation, as soon as such statements become available.

FURTHER RESOLVED, that the statements contained in the foregoing resolutions creating and designating the said issue of Series C Preferred Stock and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the articles of incorporation, as amended, of the Corporation pursuant to the provisions of the Illinois Business Corporation Act.

IN WITNESS WHEREOF, New Midland States, Inc. has caused this Statement of Resolution Establishing Series to be signed this 25th day of October, 2010, by a duly authorized officer, who affirms, under penalties of perjury, that the facts stated herein are true.

NEW MIDLAND STATES, INC.

By: /s/ Douglas J. Tucker
Name: Douglas J. Tucker
Title: Senior Vice President & Corporate Counsel

STATEMENT OF RESOLUTION ESTABLISHING SERIES
OF
SERIES D 9% NON-CUMULATIVE PERPETUAL CONVERTIBLE
PREFERRED STOCK
OF
NEW MIDLAND STATES, INC.

Pursuant to and in accordance with Section 6.10 of the Illinois Business Corporation Act of 1983 (the "**IBCA**"), the undersigned corporation made the following statement:

ARTICLE 1

The name of the corporation is New Midland States, Inc. (the "**Corporation**").

ARTICLE 2

That pursuant to the authority vested in the board of directors of the Corporation (the "**Board of Directors**") in accordance with the provisions of the Articles of Incorporation of the Corporation (the "**Articles**"), the Board of Directors on October 25, 2010, adopted the following resolution creating a series of 4,400 shares of Preferred Stock designated as "Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock":

RESOLVED, that pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Articles, a series of Preferred Stock, par value $2.00 per share, of the Corporation is hereby created, such series to be known as Series D 9% Non-Cumulative Perpetual Convertible

Preferred Stock, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series, and the qualifications, limitations and restrictions thereof are as follows:

1. **Issuance**. The Board of Directors (the "Board") of the Corporation has determined that 4,400 shares of the authorized and unissued preferred stock be identified as "Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock" and has authorized such shares for issuance at a price of $10,000 per share (hereinafter referred to as the "Series D Preferred Stock"). The date on which the Series D Preferred Stock is originally issued shall hereinafter be referred to as the "Original Issue Date."

2. **Dividends**.

(a) Dividends on the Series D Preferred Stock will be payable semi-annually in arrears, when, as and if authorized by the Board of Directors and declared by the Corporation out of legally available funds, on a non-cumulative basis on the $10,000 per share liquidation preference, at an annual rate equal to 9%. Subject to the foregoing, dividends will be payable in arrears on December 1 and June 1 of each year (each, a "Dividend Payment Date") commencing on June 1, 2011, or, if any such day is not a business day, the next business day. Each dividend will be payable to holders of record as they appear on the Corporation's stock register on the

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fifteenth day of the month prior to the month in which the relevant Dividend Payment Date occurs. Each period from and including a Dividend Payment Date (or the date of the issuance of the Series D Preferred Stock) to but excluding the following Dividend Payment Date is herein referred to as a "Dividend Period". Dividends payable for each Dividend Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. If a scheduled Dividend Payment Date falls on a day that is not a business day, the dividend will be paid on the next business day as if it were paid on the scheduled Dividend Payment Date, and no interest or other amount will accrue on the dividend so payable for the period from and after that Dividend Payment Date to the date the dividend is paid.

(b) Dividends on the Series D Preferred Stock will be non-cumulative. If for any reason the Board of Directors does not authorize and the Corporation does not declare full cash dividends on the Series D Preferred Stock for a Dividend Period, the Corporation will have no obligation to pay any dividends for that period, whether or not the Board of Directors authorizes and the Corporation declares dividends on the Series D Preferred Stock for any subsequent Dividend Period. The Corporation is not obligated to and will not pay holders of the Series D Preferred Stock any dividend in excess of the dividends on the Series D Preferred Stock that are payable as described above. There is no sinking fund with respect to dividends.

(c) The Series D Preferred Stock created hereby shall rank equally, as to dividends, with the Corporation's Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"). The Corporation may not declare or pay or set apart for payment full dividends on any series of preferred stock ranking, as to dividends, equally with or junior to the Series D Preferred Stock unless the Corporation has previously declared and paid or set apart for payment, or the Corporation contemporaneously declares and pays or sets apart for payment, full dividends on the Series D Preferred Stock for the most recently completed Dividend Period. When dividends are not paid in full on the Series D Preferred Stock and any series of preferred stock ranking equally as to dividends, all dividends upon the Series D Preferred Stock and such equally ranking series will be declared and paid pro rata. For purposes of calculating the pro rata allocation of partial dividend payments, the Corporation will allocate dividend payments based on the ratio between the then-current dividend payments due on shares of Series D Preferred Stock and the aggregate of the current and accrued dividends due on any equally ranking series. The Corporation will not pay interest or any sum of money instead of interest on any dividend payment that may be in arrears on the Series D Preferred Stock. Unless the Corporation has paid or declared and set aside for payment full dividends on the Series D Preferred Stock for the most recently completed Dividend Period, the Corporation will not:

- declare or make any dividend payment or distribution on any junior ranking stock, other than a dividend paid in junior ranking stock, or
- redeem, purchase, otherwise acquire or set apart money for a sinking fund for the redemption of any junior or equally ranking stock, except by conversion into or exchange for junior ranking stock.

As used herein, "junior to the Series D Preferred Stock," "junior ranking stock" and like terms refer to the Corporation's Common Stock and any other class or series of the Corporation's capital stock over which the Series D Preferred Stock has preference or priority in

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the payment of dividends or in the distribution of assets on the Corporation's liquidation, dissolution or winding up, and "equally ranking" and like terms refer to the Series C Preferred Stock, and any other class or series of the Corporation's capital stock that ranks on a parity with the Series D Preferred Stock in the payment of dividends or in the distribution of assets on the Corporation's liquidation, dissolution or winding up. Subject to the conditions described above, and not otherwise, dividends (payable in cash, stock, or otherwise), as may be determined by the Board of Directors or a duly authorized committee of the board, may be declared and paid on the Corporation's Common Stock and any other stock ranking equally with or junior to the Series D Preferred Stock from time to time out of any assets legally available for such payment, and the holders of the Series D Preferred Stock will not be entitled to participate in those dividends.

3. **Conversion**. The holders of the Series D Preferred Stock shall have the following conversion rights (the "Conversion Rights") and be subject to the following provisions with respect to the conversion of Series D Preferred Stock:

(a) Right to Convert. Each share of Series D Preferred Stock may be converted at any time at the option of the holder into fully paid and nonassessable shares of Common Stock, at the Conversion Price (as hereafter defined) as provided herein, at the option of the holder thereof, at any time after the date of issuance of such shares, at the office of the Corporation or any transfer agent for the Series D Preferred Stock or Common Stock.

(b) Conversion Price. Each share of Series D Preferred Stock shall be convertible into the number of shares of Common Stock that results from dividing $10,000 by the Conversion Price per share. The Conversion Price per share shall be equal to $23.00 (the "Conversion Price"). (The Conversion Price of $23.00 has been proportionately adjusted to reflect the prior conversion of each one (1) share of the common stock of Midland States Bancorp, Inc., a Delaware corporation and the predecessor company to the Corporation, into ten (10) shares of the Corporation's Common Stock, and is equal

to one-tenth of 143% of the book value per share of $160.76 at December 31, 2009, of the common stock of Midland States Bancorp, Inc., the predecessor company).

(c) Mandatory Conversion; Unpaid Dividends.

(i) Except as limited or restricted by the terms of any outstanding Series C Preferred Stock, The Corporation shall have the right at any time (the "Mandatory Conversion Date") after the fifth anniversary of the Original Issue Date to call and convert all (but not less than all) of the outstanding shares of Series D Preferred Stock into shares of Common Stock if, on the date the Corporation gives the Conversion Notice (as hereinafter defined), the Book Value Per Share of the Corporation's Common Stock equals or exceeds $18.487. (This targeted Book Value Per Share of the Corporation's Common Stock of $18.487 has been proportionately adjusted to reflect the prior conversion of each one (1) share of the common stock of Midland States Bancorp, Inc., a Delaware corporation and the predecessor company to the Corporation, into ten (10) shares of the Corporation's Common Stock, and is equal to one-tenth of 115% of the book value per share of $160.76 at December 31, 2009, of the common stock of Midland States Bancorp, Inc., the predecessor company). "Book Value Per Share of the Corporation's Common Stock" at any date means the result obtained by dividing (i) the Corporation's total common

shareholders' equity at that date, by (ii) the number of shares of Common Stock then outstanding, net of any shares held in the treasury.

(ii) Not less than 30 days nor more than 60 days prior to the Mandatory Conversion Date, written notice (the "Conversion Notice") shall be mailed, first class postage prepaid, to the holders of the shares of the Series D Preferred Stock at their address last shown on the records of the Corporation. The Conversion Notice shall state: (A) the number of shares being converted; (B) the Mandatory Conversion Date; (C) that the holders' voluntary Conversion Rights (as herein defined) shall terminate; and (D) that each holder is to surrender to the Corporation, in the manner and at the place designated, the certificates representing the shares of Series D Preferred Stock to be converted.

(iii) On or before the Mandatory Conversion Date, the holders of shares of Series D Preferred Stock being converted shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Conversion Notice, and thereupon a certificate or certificates for the number of shares of Common Stock into which such shares of Series D Preferred Stock have been converted shall be issued to the person whose name appears on such surrendered certificate or certificates as the owner thereof, and each surrendered certificate shall be cancelled and retired.

(iv) If the Conversion Notice shall have been duly given, and if on the Mandatory Conversion Date the required number of shares of Common Stock are issuable, all shares of Series D Preferred Stock shall no longer be outstanding, shall be cancelled and retired and shall cease to exist. Each certificate formerly representing any shares of the Series D Preferred Stock shall thereafter represent only the right to receive (A) the corresponding shares of Common Stock, plus cash in lieu of any fractional shares of Common Stock due upon conversion of shares of Series D Preferred Stock, (B) the amount of dividends or other distributions with a record date after the Mandatory Conversion Date but prior to the surrender date, and with a payment date at, prior or subsequent to surrender date, not paid with respect to the Common Stock issuable upon conversion, less the amount of any withholding taxes which may be required thereon and (C) the amount equal to any authorized, declared and unpaid dividends, without accumulation of any undeclared dividends, on such Series D Preferred Stock (the "Net Accrued Dividends") through such Mandatory Conversion Date.

(d) Mechanics of Voluntary Conversion; Unpaid Dividends.

(i) Before any holder of Series D Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent of the Series D Preferred Stock or Common Stock, and shall give written notice by mail, postage prepaid, to the Corporation at such office that he elects to convert the same and shall state therein the number of shares of Series D Preferred Stock being converted and the name or names in which the certificate or certificates for shares of Common Stock are to be issued. Thereupon the Corporation shall promptly issue and deliver at such office to such holder of Series D Preferred Stock or to the nominee or nominees of such holder a certificate or certificates for the number of shares of Common Stock to which he shall be entitled.

(ii) Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series D Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date. A holder of Series D Preferred Stock who surrenders shares of Series D Preferred Stock for conversion shall be entitled to receive from the Corporation on the date of such surrender an amount in cash equal to the Net Accrued Dividends on such surrendered shares of Series D Preferred Stock, but any future dividends with respect to the surrendered shares of Series D Preferred Stock shall cease to accrue after such surrender and all rights with respect to such shares shall forthwith after such surrender terminate.

(e) Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Original Issue Date effect a subdivision of the outstanding Common Stock, the Conversion Price shall be proportionately decreased; conversely, if the Corporation shall at any time or from time to time after the Original Issue Date reduce the outstanding shares of Common Stock by a stock combination, the Conversion Price shall be proportionately increased. Any adjustment under this paragraph 3(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price for the Series D Preferred Stock shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price for the Series D Preferred Stock by a fraction:

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price for the Series D Preferred Stock shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price for the Series D Preferred Stock shall be adjusted pursuant to this paragraph 3(f) as of the time of actual payment of such dividends or distributions.

(g) Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, then and in each such event provision shall be made so that the holders of Series D Preferred Stock

shall receive upon conversion thereof in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Corporation that they would have received had their Series D Preferred Stock been converted into Common Stock on the date of such event and had thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period giving application to all adjustments called for during such period under this paragraph 3 with respect to the rights of the holders of the Series D Preferred Stock. Notwithstanding the foregoing, to the extent the Corporation has a rights plan in effect with respect to the Common Stock on any date upon which Series D Preferred Stock is converted, upon conversion, the holder will receive, in addition to the shares of Common Stock, the rights under the rights plan, unless, prior to such date, the rights have separated from the shares of Common Stock in accordance with the provisions of such rights plan.

(h) Adjustment for Reclassification, Exchange or Substitution. If the Common Stock issuable upon the conversion of the Series D Preferred Stock shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares of stock dividend provided for above, or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this paragraph 3), then and in each such event the holder of each share of Series D Preferred Stock shall have the right thereafter to convert such share into the kind and amounts of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, by holders of the number of shares of Common Stock into which such shares of Series D Preferred Stock might have been converted immediately prior to such reorganization, reclassification or change, all subject to further adjustment as provided herein.

(i) Reorganization, Mergers, Consolidations or Sales of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this paragraph 3) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all the Corporation's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the holders of the Series D Preferred Stock shall thereafter be entitled to receive upon conversion of the Series D Preferred Stock, the number of shares of stock or other securities or property of the Corporation, or of the successor Corporation resulting from such merger or consolidation or sale, to which a holder of that number of shares of Common Stock deliverable upon conversion of the Series D Preferred Stock would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this paragraph 3 with respect to the rights of the holders of the Series D Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this paragraph 3 (including adjustment of the Conversion Prices and the number of shares purchasable upon conversion of the Series D Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(j) Sale of Shares Below Conversion Price.

(i) If at any time or from time to time after the Original Issue Date, the Corporation shall issue or sell Additional Shares of Common Stock (as hereinafter defined),

other than as a dividend as provided in paragraph 3(f) above, and other than upon a subdivision or combination of shares of Common Stock as provided in paragraph 3(e) above, for a consideration per share less than the Conversion Price for the Series D Preferred Stock (or, if an adjusted Conversion Price shall be in effect by reason of a previous adjustment, then less than such adjusted Conversion Price), then and in each case the applicable Conversion Price for the Series D Preferred Stock shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Conversion Price by a fraction, the numerator of which shall be the sum of (A) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (B) the number of shares of Common Stock that the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price, and the denominator of which shall be the sum of (X) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (Y) the number of such Additional Shares of Common Stock so issued.

(ii) For the purpose of making any adjustment in the Conversion Price or number of shares of Common Stock purchasable on the conversion of Series D Preferred Stock as provided above, the consideration received by the Corporation for any issue or sale of securities shall,

(A) to the extent it consists of cash, be computed at the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, concessions or compensation paid or allowed by the Corporation in connection with such issue or sale,

(B) to the extent it consists of services or property other than cash, be computed at the fair value of such services or property as determined in good faith by the Board of Directors; and

(C) if Additional Shares of Common Stock, Convertible Securities (as hereinafter defined), or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration that covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(iii) For the purpose of the adjustment provided in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of, or stock or other securities convertible into, Additional Shares of Common Stock (such convertible stock or securities being hereinafter referred to as "Convertible Securities"), then, in each case, if the Effective Price (as hereinafter defined) of such rights, options or Convertible Securities shall be less than the then existing Conversion Price for the Series D Preferred Stock, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such

shares, or an amount equal to the total amount of the consideration, if any, received by the Corporation for the rights or options or Convertible Securities, plus, in the case of such options or rights, the minimum amounts of consideration, if any, payable to the Corporation upon exercise or conversion of such options or rights. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total of all such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities shall be made as a result of the actual issuance of Additional Shares of Common Stock on the exercise of any such rights or options or the conversion of any such Convertible Securities.

If any such rights or options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities shall be readjusted to the Conversion Price that would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such rights or options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Corporation upon such exercise, plus the consideration, if any, actually received by the Corporation for the granting of all such rights or options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted plus the consideration, if any, actually received by the Corporation on the conversion of such Convertible Securities.

(iv) For the purpose of the adjustment provided for in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of Convertible Securities, then, in each such case, if the Effective Price thereof is less than the Conversion Price, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options the maximum number of Additional Shares of Common Stock issuable upon conversion of the total amount of Convertible Securities covered by such rights or options and to have received as consideration for the issuance of such Additional Shares of Common Stock an amount equal to the amount of consideration, if any, received by the Corporation for the issuance of such rights or options, plus the minimum amounts of consideration, if any, payable to the Corporation upon the conversion of such Convertible Securities. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total amount of such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of such Conversion Price adjusted upon the issuance of such rights or options shall be made as a result of the actual issuance of the Convertible Securities upon the exercise of such rights or options or upon the actual issuance of Additional Shares of Common Stock upon the conversion of such Convertible Securities.

The provisions of subparagraph (iii) above for the readjustment of such Conversion Price upon the expiration of rights or options or the rights of conversion of Convertible Securities, shall apply *mutatis mutandis* to the rights, options and Convertible Securities referred to in this subparagraph (iv).

(k) Definition. The term "Additional Shares of Common Stock" as used herein shall mean all shares of Common Stock issued or deemed issued by the Corporation after the Original Issue Date, whether or not subsequently reacquired or retired by the Corporation, other than (i) shares of Common Stock issued upon conversion of the Series D Preferred Stock and (ii) any shares of Common Stock (as adjusted for all stock dividends, stock splits, subdivisions and combinations) issued to employees, officers, directors, consultants or other persons performing services for the Corporation (if so issued solely because of any such person's status as an officer, director, employee, consultant or other person performing services for the Corporation and not as part of any offering of the Corporation's securities) pursuant to any stock option plan, stock purchase plan or management incentive plan, agreement or arrangement approved by the Board.

(l) Accountants' Certificate of Adjustment. In each case of an adjustment or readjustment of the Conversion Price for the number of shares of Common Stock or other securities issuable upon conversion of the Series D Preferred Stock, the Corporation, at its expense, shall cause independent certified public accountants of recognized standing selected by the Corporation (who may be the independent certified public accountants then auditing the books of the Corporation) to compute such adjustment or readjustment in accordance herewith and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Series D Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based including a statement of (i) the consideration received or to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the Conversion Price at the time in effect for each series of the Series D Preferred Stock and (iii) the number of Additional Shares of Common Stock and the type and amount, if any, of other property which at the time would be received upon conversion of the Series D Preferred Stock.

(m) Notices of Record Date. In the event of any reclassification or recapitalization of the capital stock of the Corporation, any merger or consolidation of the Corporation, or any transfer of all or substantially all the assets of the Corporation to any other corporation, entity or person, or any voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation, the Corporation shall mail to each holder of Series D Preferred Stock (other than any such holder who is also a holder of record, or the affiliate of a holder of record, of the Corporation's Common Stock, or is a director or executive officer, or an affiliate of a director or executive officer, of the Corporation) at least 20 days prior to the record date specified therein, a notice specifying (A) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective and (B) the time, if any is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to

exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

(n) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of shares of Series D Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to the product of such fraction multiplied by the fair market value of one share of the Corporation's Common Stock on

the date of conversion, as determined in good faith by the Corporation's Board of Directors. Whether or not the fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series D Preferred Stock the holder holds at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(o) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series D Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series D Preferred Stock. As a condition precedent to the taking of any action which would cause an adjustment to the Conversion Price, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient in order that it may validly and legally issue the shares of its Common Stock issuable based upon such adjusted Conversion Price.

(p) Notices. Any notice required by the provisions of this paragraph 3 to be given to the holder of shares of the Series D Preferred Stock shall be deemed given (i) when delivered by hand, (ii) when delivered by Federal Express or a similar overnight courier to each holder of record at his or her address appearing on the books of the Corporation or (iii) five days after being deposited in any United States Post Office enclosed in a postage prepaid, registered or certified envelope addressed to each holder of record at his or her address appearing on the books of the Corporation.

(q) Payment of Taxes. The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series D Preferred Stock or shares of Common Stock or other securities issued on account of Series D Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of shares of Series D Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series D Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(r) No Dilution or Impairment. The Corporation shall not amend its articles of incorporation, as amended, or participate in any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the material terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series D Preferred Stock against dilution or other impairment.

4. Voting Rights.

(a) The Series D Preferred Stock shall have no voting rights except as provided herein or as otherwise from time to time required by law.

(b) Whenever dividends payable on the Series D Preferred Stock have not been paid for three or more Dividend Periods, whether or not consecutive, the holders shall have the right, with holders of any outstanding Series C Preferred Stock and any other series of securities of the Corporation ranking equally with the Series D Preferred Stock as to dividends that have similar voting rights and on which dividends likewise have not been paid (the "Voting Parity Securities"), voting together as a class, at a special meeting called at the request of holders of at least 20% of the shares of Series D Preferred Stock outstanding or of holders of at least 20% of the shares of any Voting Parity Securities (unless such request for a special meeting is received less than 90 calendar days before the date fixed for the next annual or special meeting of the Corporation's shareholders, in which event such election shall be held only at such next annual or special meeting of the Corporation's shareholders) or at the Corporation's next annual or special meeting of the Corporation's shareholders, to elect two additional directors to the Board of Directors; provided that the election of any such director does not cause the Corporation to violate the applicable corporate governance requirements or any applicable exchange or trading market where the Common Stock is then listed or quoted, as the case may be; and provided, further, that at no time will the Corporation's Board of Directors include more than two directors elected pursuant to this paragraph 4(b). At any meeting held for the purpose of electing such a director, the presence in person or by proxy of the holders of shares representing at least a majority of the voting power of the Series D Preferred Stock and any Voting Parity Securities, voting together as a class, shall be required to constitute a quorum of such shares. The affirmative vote of the holders of Series D Preferred Stock and holders of any Voting Parity Securities, voting together as a class, representing a majority of the voting power of such shares present at such meeting, in person or by proxy, shall be sufficient to elect any such director.

(c) Upon the election of any such directors, the number of directors that comprise the board of directors shall be increased by such number of directors. Such directors shall be elected to terms that are the shorter of the next annual meeting of the Corporation and such time as full dividends have been paid on the Series D Preferred Stock for at least three consecutive Dividend Periods. In the event such term expires prior to the time full dividends have been paid on the Series D Preferred Stock for at least three consecutive Dividend Periods, any such directors may be elected to successive terms of similar duration until full dividends have been paid on the Series D Preferred Stock for at least three consecutive Dividend Periods. Holders of Series D Preferred Stock, together with holders of any Voting Parity Securities, voting together as a class, may remove any director they elected. Any vacancy created by the removal of any such director shall be filled only by the vote of the holders of the Series D Preferred Stock and holders of any Voting Parity Securities, voting together as a class. If the office of either such director becomes vacant for any reason other than removal, the remaining director may choose a successor who will hold office for the unexpired term of the vacant office.

(d) So long as any shares of Series D Preferred Stock remain outstanding, the Corporation shall not, without the vote, in person or by proxy, or written consent of the holders of at least 75% of the shares of the Series D Preferred Stock, voting as a separate class:

(i) amend the articles of incorporation, as amended, to authorize, or increase the authorized amount of, any shares of any class or series of stock ranking senior to the Series D Preferred Stock with respect to payment of dividends or distribution of assets on liquidation of the Corporation; as well as any amendment of the articles of incorporation, as amended, or amended and restated bylaws that would alter or change the voting powers, preferences or special rights of the Series D Preferred Stock so as to materially and adversely affect them; provided that the amendment of the articles of incorporation, as amended, so as to authorize or create, or to increase the authorized amount of any shares of any class or series or any securities convertible into shares of any class or series of stock of the Corporation ranking on a parity with or junior to the Series D Preferred Stock with respect to dividends and in the distribution of assets on liquidation, dissolution or winding-up of the Corporation shall not be deemed to materially and adversely affect the voting powers, preferences or special rights of the Series D Preferred Stock; or

(ii) consummate a binding share exchange, a reclassification involving the Series D Preferred Stock or a merger or consolidation of the Corporation with another entity; provided, however, that the holders of Series D Preferred Stock shall have no right to vote under this provision or otherwise under Illinois law if in each case (A) both (1) the Series D Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, is converted into or exchanged for preferred securities of the surviving or resulting entity (or its ultimate parent) that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and (2) the Series D Preferred Stock remaining outstanding or the new preferred securities, as the case may be, have such powers, preferences and special rights, taken as a whole, as are not materially less favorable to the holders thereof than the powers, preferences and special rights of the Series D Preferred Stock, or (B) the Corporation has exercised its mandatory conversion rights pursuant to paragraph 3(c) hereof in connection with such consummation.

(e) The number of votes of each share of Series D Preferred Stock and any Voting Parity Securities participating in the votes described above shall be calculated on an as converted basis or, if not all of such stock is convertible or exchangeable for Common Stock, shall be in proportion to the liquidation preference of such share.

5. Redemption Rights.

(a) Subject to any restrictions under the terms of any outstanding Series C Stock, the Corporation shall have the right at any time after the fifth anniversary of the Original Issue Date (the "Redemption Date") to call and redeem all (but not less than all) of the outstanding shares of Series D Preferred Stock at a price of $10,000 per share, plus any authorized, declared and unpaid dividends thereon, without accumulation of any undeclared dividends, through the Redemption Date (the "Redemption Price"). Redemption of the Series D Preferred Stock is subject to receipt by the Corporation of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority.

(b) Not less than 30 days nor more than 60 days prior to the Redemption Date, written notice (the "Redemption Notice") shall be mailed, first class postage prepaid, to the

holders of the shares of the Series D Preferred Stock at their address last shown on the records of the Corporation. The Redemption Notice shall state: (i) the number of shares being redeemed; (ii) what the Redemption Date and Redemption Price are; (iii) that the holders' voluntary Conversion Rights (as defined in paragraph 3) shall terminate; and (iv) that each holder is to surrender to the Corporation, in the manner and at the place designated, the certificates representing the shares of Series D Preferred Stock to be redeemed.

(c) On or before the Redemption Date, the holders of shares of Series D Preferred Stock being redeemed, unless a holder has exercised his or her right to convert the shares as provided in paragraph 3 hereof, shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof.

(d) If the Redemption Notice shall have been duly given, and if on or before the Redemption Date the Redemption Price has been set aside by the Corporation, then all shares of Series D Preferred Stock shall no longer be outstanding, shall be cancelled and retired and shall cease to exist. Each certificate formerly representing any shares of the Series D Preferred Stock shall thereafter represent only the right to receive the Redemption Price.

6. Liquidation. Upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series D Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, the amount of $10,000 per share, plus any authorized, declared and unpaid dividends through the date of such distribution, without accumulation of any undeclared dividends, before any payment or distribution shall be made on the Common Stock but pro rata with and in proportion to the liquidation rights of the holders of any other series of preferred stock with parity rights upon liquidation that are then outstanding. In the event the assets of the Corporation available for distribution to the holders of shares of the Series D Preferred Stock upon any dissolution, liquidation or winding up of the Corporation shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to this paragraph 6, then all of the assets of the Corporation to be distributed to such holders of Series D Preferred Stock shall be distributed ratably to the holders of Series D Preferred Stock. After the payment to the holders of the shares of the Series D Preferred Stock of the full amounts provided for in this paragraph 6, the holders of the Series D Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

7. Information Rights. The holders of shares of Series D Preferred Stock shall be entitled to receive audited annual financial statements of the Corporation, as soon as such statements become available.

FURTHER RESOLVED, that the statements contained in the foregoing resolutions creating and designating the said issue of Series D Preferred Stock and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions,

and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the articles of incorporation, as amended, of the Corporation pursuant to the provisions of the Illinois Business Corporation Act.

IN WITNESS WHEREOF, New Midland States, Inc. has caused this Statement of Resolution Establishing Series to be signed this 25th day of October, 2010, by a duly authorized officer, who affirms, under penalties of perjury, that the facts stated herein are true.

NEW MIDLAND STATES, INC.

By: /s/ Douglas J. Tucker
Name: Douglas J. Tucker
Title: Senior Vice President & Corporate Counsel

FORM **BCA 11.25** (rev. Dec. 2003)
ARTICLES OF MERGER,
CONSOLIDATION OR EXCHANGE
Business Corporation Act

Secretary of State
Department of Business Services
501 S. Second St., Rm. 350
Springfield, IL 62756
217-782-6961
www.cyberdriveillinois.com

Remit payment in the form of a check or money order payable to Secretary of State.

Filing fee is $100, but if merger or consolidation involves more than two corporations, submit $50 for each additional corporation.

EFF 12/31/10 File # 6725-417-1 Filing Fee: $100.00 Approved: /s/ DS

Submit in duplicate **Type or Print clearly in black ink** **Do not write above this line**

NOTE: Strike inapplicable words in Items 1, 3, 4 and 5.

1. Names of Corporations proposing to ~~consolidate~~ merge and State or Country of incorporation.
~~exchange shares~~

Name of Corporation	State or Country of Incorporation	Corporation File Number
Midland States Bancorp, Inc.	Delaware	5520-656-2
New Midland States, Inc.	Illinois	6725-417-1

2. The laws of the state or country under which each Corporation is incorporated permits such merger, consolidation or exchange.

3. a. Name of the ~~new~~ surviving corporation: New Midland States, Inc.
~~acquiring~~

b. Corporation shall be governed by the laws of: Illinois

For more space, attach additional sheets of this size.

4. Plan of ~~consolidation~~ merger is as follow:
~~exchange~~

Please see attached Exhibit A.

5. The ~~consolidation~~ merger was approved, as to each Corporation not organized in Illinois, in compliance with the laws of the

~~exchange~~ state under which it is organized, and (b) as to each Illinois Corporation, as follows:

The following items are not applicable to mergers under §11.30 — 90 percent-owned subsidiary provisions. (See Article 7 on page 3.)

Mark an "X" in one box only for each Illinois Corporation.

Name of Corporation:	By the shareholders, a resolution of the board of directors having been duly adopted and submitted to a vote at a meeting of shareholders. Not less than the minimum number of votes required by statute and by the Articles of Incorporation voted in favor of the action taken. **(§11.20)**	By written consent of the shareholders having not less than the minimum number of votes required by statute and by the Articles of Incorporation. Shareholders who have not consented in writing have been given notice in accordance with §7.10 and §11.20.	By written consent of ALL shareholders entitled to vote on the action, in accordance with §7.10 and §11.20.
New Midland States, Inc.	o	o	x
	o	o	o
	o	o	o
	o	o	o
	o	o	o

6. **Not applicable if surviving, new or acquiring Corporation is an Illinois Corporation.**

It is agreed that, upon and after the filing of the Articles of Merger, Consolidation or Exchange by the Secretary of State of the State of Illinois:

a. The surviving, new or acquiring Corporation may be served with process in the State of Illinois in any proceeding for the enforcement of any obligation of any Corporation organized under the laws of the State of Illinois which is a party to the merger, consolidation or exchange and in any proceeding for the enforcement of the rights of a dissenting shareholder of any such Corporation organized under the laws of the State of Illinois against the surviving, new or acquiring Corporation.

b. The Secretary of State of the State of Illinois shall be and hereby is irrevocably appointed as the agent of the surviving, new or acquiring Corporation to accept service of process in any such proceedings, and

c. The surviving, new or acquiring Corporation will promptly pay to the dissenting shareholders of any Corporation organized under the laws of the State of Illinois which is a party to the merger, consolidation or exchange the amount, if any, to which they shall be entitled under the provisions of The Business Corporation Act of 1983 of the State of Illinois with respect to the rights of dissenting shareholders.

7. **Complete if reporting a merger under §11.30 — 90 percent-owned subsidiary provisions.**

a. The number of outstanding shares of each class of each merging subsidiary Corporation and the number of such shares of each class owned immediately prior to the adoption of the plan of merger by the parent Corporation:

Name of Corporation	Total Number of Shares Outstanding of Each Class	Number of Shares of Each Class Owned Immediately Prior to Merger by the Parent Corporation

b. **Not applicable to 100 percent-owned subsidiaries.**

The date of mailing a copy of the plan of merger and notice of the right to dissent to the shareholders of each merging subsidiary Corporation was _____, _____.
Month & Day Year

Was written consent for the merger or written waiver of the 30-day period by the holders of all the outstanding shares of all subsidiary Corporations received? o Yes o No

(If "No," duplicate copies of the Articles of Merger may not be delivered to the Secretary of State until after 30 days following the mailing of a copy of the plan of merger and the notice of the right to dissent to the shareholders of each merging subsidiary Corporation.)

8. The undersigned Corporation has caused this statement to be signed by a duly authorized officer who affirms, under penalties of perjury, that the facts stated herein are true and correct. **All signatures must be in BLACK INK**.

Dated December 30 , 2010 New Midland States, Inc.
Month & Day Year Exact Name of Corporation

/s/ JEFF LUDWIG
Any Authorized Officer's Signature

JEFF LUDWIG EVP, CFO
Name and Title (type or print)

Dated December 30 , 2010 Midland States Bancorp, Inc.
Month & Day Year Exact Name of Corporation

/s/ JEFF LUDWIG
Any Authorized Officer's Signature

JEFF LUDWIG EVP, CFO
Name and Title (type or print)

Dated ,
Month & Day Year Exact Name of Corporation

Any Authorized Officer's Signature

Name and Title (type or print)

Exhibit A
to the
Articles of Merger
of
Midland States Bancorp, Inc.
and
New Midland States, Inc.

PLAN OF MERGER

A copy of the Agreement and Plan of Merger (the "*Agreement*") as entered into as of the 22nd day of October, 2010, between New Midland States, Inc., an Illinois corporation ("*Newco*"), and Midland States Bancorp, Inc., a Delaware corporation ("*Midland*"), is on file at the principal office of Newco.

1. **The Merger.** In accordance with the terms and subject to the conditions of the Agreement, Midland will merge with and into Newco (the "*Merger*"), and the separate corporate existence of Midland will terminate. Newco will be the surviving corporation and will continue its corporate existence under the laws of the State of Illinois.

2. **Effective Time.** The Merger shall become effective at 11:59 p.m. central time on December 31, 2010, following the filing of these Articles of Merger with the Illinois Secretary of State (the "*Effective Time*").

3. **Effects of Merger on Capital Stock.** At the Effective Time, each of the 100 shares of the issued and outstanding common stock of Newco owned by the sole shareholder of Newco immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of Newco, Midland or the holders of the capital stock of Newco or Midland, shall be cancelled.

At the Effective Time:

(a) each of the shares of the issued and outstanding common stock of Midland owned by the stockholders of Midland immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of Midland, Newco or the holders of the common stock of Midland, shall be converted into ten (10) fully paid and non-assessable shares of the common stock of Newco;

(b) each of the shares of the issued and outstanding common stock of Midland owned by the stockholders of Midland immediately prior to the Effective Time that is restricted or not fully vested shall upon conversion have the same restrictions or vesting arrangements applicable to such shares as prior to the conversion;

(c) each of the shares of the issued and outstanding Series C 9% Non- Cumulative Perpetual Convertible Preferred Stock of Midland owned by the stockholders of Midland immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of Midland, Newco or the holders of the preferred stock of Midland, shall be converted into one share of the Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock of Newco; and

(d) each of the shares of the issued and outstanding Series D 9% Non- Cumulative Perpetual Convertible Preferred Stock of Midland owned by the stockholders of Midland immediately prior to the Effective Time, by virtue of the Merger and without any action on

the part of Midland, Newco or the holders of the preferred stock of Midland, shall be converted into one share of the Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock of Newco.

4. **Amendment to the Articles of Incorporation.** At the Effective Time, Article 1 of the Articles of Incorporation of Newco shall be amended to read in its entirety as follows.

ARTICLE 1

Name of the Corporation: Midland States Bancorp, Inc.

FORM **BCA 10.30** (rev. Dec. 2003)
ARTICLES OF AMENDMENT
Business Corporation Act

Secretary of State
Department of Business Services
Springfield, IL 62756
217-782-1832
www.cyberdriveillinois.com

Remit payment in the form of a check or money order payable to Secretary of State.

FILED
AUG 26 2013
JESSE WHITE
SECRETARY OF STATE

PAID
AUG 28 2013
EXPEDITED
SECRETARY OF STATE

CP0143186

File # 67254171 Filing Fee: $50 Approved:

– – – – Submit in duplicate – – – – Type or Print clearly in black ink – – – – Do not write above this line – – – –

1. Corporate Name **(See Note** 1 **on page 4.):** Midland States Bancorp, Inc.

2. Manner of ‘Adoption of Amendment:
The following amendment to the Articles of incorporation was adopted on May 6 (Month & Day), 2013 (Year)
in the manner indicated below:

Mark an “X” In one box only.

o By a majority of the incorporators, provided no directors were named in the Articles of Incorporation and no directors have been elected. **(See Note 2 on page 4.)**

o By a majority of the board of directors, in accordance with Section 10.10, the Corporation having issued no shares as of the time of adoption of this amendment. **(See Note 2 on page 4.)**

o By a majority of the board of directors, in accordance with Section 10.15, shares having been issued but shareholder action not being required for the adoption of the amendment. **(See Note 3 on page 4.)**

x By the shareholders, in accordance with Section 10.20, a resolution of the board of directors having been duly adopted and submitted to the shareholders. At a meeting of shareholders, not less than the minimum number of votes required by statute and by the Articles of Incorporation were voted in favor of the amendment. **(See Note 4 on page 4.)**

o By the shareholders, in accordance with Sections 10.20 and 7.10, a resolution of the board of directors having been duly adopted and submitted to the shareholders. A consent in writing has been signed by shareholders having not less than the minimum number of votes required by statute and by the Articles of Incorporation. Shareholders who have not consented in writing have been given notice in accordance with Section 7.10. **(See Notes 4 and** 5 **on page 4.)**

o By the shareholders, in accordance with Section 10.20, a resolution of the board of directors having been duly adopted and submitted to the shareholders. A consent in writing has been signed by all the shareholders entitled to vote on this amendment. **(See Note 5 on page 4.)**

3. Text of Amendment:

a. When amendment effects a name change, insert the New Corporate Name below. Use page 2 for all other amendments.

Article 1: Name of the Corporation: _____
New Name

(All changes other than name include on page 2.)

Printed by authority of the State of Illinois. February 2008 - 5M - C 173.14

Text of Amendment

b. If amendment affects the corporate purpose, the amended purpose is required to be set forth in its entirety.

For more space, attach additional sheets of this size.

Please refer to Exhbit A attached hereto.

EXHIBIT A

AMENDMENT TO THE ARTICLES OF INCORPORATION OF MIDLAND STATES BANCORP, INC.

RESOLVED, that Article Four of the Articles of Incorporation be amended by replacing the same with the following:

"ARTICLE 4

AUTHORIZED STOCK

Section 4.1 Authorized Shares. The aggregate number of shares of stock which the corporation shall have authority to issue is Forty-Four Million (44,000,000) shares of stock, consisting of Thirty-Five Million (35,000,000) shares of Common Stock, par value of $0.01 per share, Five Million (5,000,000) shares of Non-Voting Common Stock, par value of $0.01 per share, and Four Million (4,000,000) shares of Preferred Stock, par value of $2.00.

Section 4.2 Common Stock. Except as otherwise provided in any resolution or resolutions adopted by the board of directors providing for the issuance of a class of Common Stock, the Common Stock shall: (a) have the exclusive voting power of the corporation, (b) entitle the holders thereof to one vote per share at all meetings of the shareholders of the corporation, (c) entitle the holders to share ratably, without preference over any other shares of the corporation, in all assets of the corporation in the event of any dissolution, liquidation or winding up of the corporation, and (d) entitle the record holders thereof on such record dates as are determined, from time to time by the board of directors, to receive such dividends, if any, if, as and when declared by the board of directors.

Section 4.3 Non-Voting Common Stock. Except as otherwise provided in any resolution or resolutions adopted by the board of directors providing for the issuance of an additional class of Non-Voting Common Stock, shares of the Non-Voting Common Stock shall for all purposes be treated as shares of Common Stock and entitle the holders thereof to any and all rights and privileges afforded to holders of Common Stock; *provided*, *however*, that holders of Non-Voting Common Stock shall not be entitled to vote on any matter presented to the shareholders of the corporation for their action or consideration.

Section 4.4 Preferred Stock. The shares of Preferred Stock may be issued from time to time in one or more series. The board of directors of this corporation shall have authority to fix by resolution or resolutions the designations and the powers, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including, without limitation, the voting rights, the dividend rate, conversion rights, redemption price and liquidation preference, of any series of shares of Preferred Stock, to fix the number of shares constituting any such series and to increase or decrease the number of shares of any such series (but not below the number of shares thereof then outstanding). In case the number of shares of any such series shall be so decreased, the shares constituting such decrease

shall resume the status which they had prior to the adoption of the resolution or resolutions originally fixing the number of shares of such series.

Section 4.5 No Pre-emptive Rights. No holder of any class of shares of the corporation shall, as such holder, have any preemptive or preferential right to: (a) purchase or subscribe to any shares of any class of stock of the corporation, whether now or hereafter authorized, whether unissued or in treasury; or (b) purchase any obligations convertible into shares of any class of stock of the corporation, in either case which at any time may be proposed to be issued by the corporation or subjected to rights or options to purchase granted by the corporation.

Section 4.6 Unclaimed Dividends. Any and all right, title, interest and claim in or to any dividends declared by the corporation, whether in cash, stock, or otherwise, which are unclaimed by the shareholder entitled thereto for a period of five (5) years after the close of business on the payment date, shall be and be deemed to be extinguished and abandoned; and such unclaimed dividends in the possession of the corporation, its transfer agents or other agents or depositaries shall at such time become the absolute property of the corporation, free and clear of any and all claims of any persons whatsoever."

4. The manner, if not set forth in Article 3b, in which any exchange, reclassification or cancellation of issued shares, or a reduction of the number of authorized shares of any class below the number of issued shares of that class, provided for or effected by this amendment, is as follows (if not applicable, insert "No change"):

   No Change.

5. a. The manner, if not set forth in Article 3b, in which said amendment effects a change in the amount of paid-in capital is as follows (if not applicable, insert "No change"):
   (Paid-in capital replaces the terms Stated Capital and Paid-in Surplus and is equal to the total of these accounts.)

No Change.

b. The amount of paid-in capital as changed by this amendment is as follows (if not applicable, insert "No change"): (Paid-in Capital replaces the terms Stated Capital and Paid-in Surplus and is equal to the total of these accounts.) **(See Note 6 on page 4.)**

	Before Amendment	After Amendment
Paid-in Capital:	$	$ No Change

Complete either Item 6 or Item 7 below. All signatures must be in BLACK INK.

6. The undersigned Corporation has caused this statement to be signed by a duly authorized officer who affirms, under penalties of perjury, that the facts stated herein are true and correct.

Dated August 26 (Month & Day), 2013 (Year) — Midland States Bancorp, Inc. (Exact Name of Corporation)

/s/ Douglas J. Tucker
Any Authorized Officer's Signature

Douglas J. Tucker, Senior Vice President
Name and Title (type of print)

7. If amendment is authorized pursuant to Section 10.10 by the incorporators, the incorporators must sign below, and type or print name and title.

OR

If amendment is authorized by the directors pursuant to Section 10.10 and there are no officers, a majority of the directors, or such directors as may be designated by the board, must sign below, and type or print name and title.

The undersigned affirms, under penalties of perjury, that the facts stated herein are true and correct.

Dated _____ (Month & Day), _____ (Year)

BY-LAWS
OF
MIDLAND STATES BANCORP, INC.

ARTICLE I

OFFICES

SECTION 1. REGISTERED OFFICE. The registered office of the corporation in the State of Illinois shall be 133 West Jefferson Avenue, Effingham, 62401, County of Effingham. The name of the corporation's registered agent at such address is Douglas J. Tucker.

SECTION 2. OTHER OFFICES. The corporation may also have offices at such other places both within and without the State of Illinois as the Board of Directors may from time to time determine or the business of the corporation may require.

SECTION 3. MAIN BANKING PREMISES. The Main Banking Premises shall be located at 133 West Jefferson Avenue, Effingham, Illinois 62401.

ARTICLE II

SHAREHOLDERS

SECTION 1. ANNUAL MEETING. An annual meeting of the shareholders shall be held at the Main Banking Premises on the first Monday of May of each year at 7:00 p.m. or at such other time or place as the board of directors may designate for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day.

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called by the president, by the board of directors or by the holders of not less than twenty percent (20%) of all the outstanding shares of the corporation entitled to vote for the purpose or purposes stated in the call of the meeting.

SECTION 3. PLACE OF MEETING. The board of directors may designate any place as the place of meeting for any annual meetings or for any special meeting called by the board of directors. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be at the Main Banking Premises.

SECTION 4. ACTION BY SHAREHOLDERS.

(a) At any annual or special meeting of shareholders, only such new business shall be conducted, and only such proposals shall be acted upon, as shall have been brought before the meeting by, or at the direction of, the board of directors, or by any shareholder entitled to vote at such meeting, provided, however, that such shareholder has complied with the procedures set forth in this Article II, Section 4. The provisions of this Article II, Section 4 shall be the exclusive means for a shareholder to submit business (other than matters properly brought

under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and included in the corporation's notice of meeting) before an annual or special meeting of shareholders.

(b) For a proposal to be properly brought before a special or annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the corporation as set forth in this Article II, Section 4. To be timely, a shareholder's notice must be delivered, mailed or telegraphed to the principal executive offices of the corporation not less than 90 days nor more than 120 days prior to the date of the originally scheduled meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that, if less than 100 days' notice of the date of the scheduled meeting is given or made by the corporation, notice by the shareholder, to be timely, must be so delivered, mailed or telegraphed to the corporation not later than the close of business on the 10th day following the day on which notice of the date of the scheduled meeting was first mailed to shareholders. Such shareholder's notice shall set forth as to each matter the shareholder proposes to bring before the meeting: (i) a brief description of the proposal desired to be brought before the meeting and the reasons for conducting such business at the meeting; (ii) the name and address, as they appear on the corporation's books, of the shareholder proposing such business; (iii) the number of shares of the corporation's common stock beneficially owned by such shareholder on the date of such shareholder's notice; and (iv) any financial or other interest of such shareholder in the proposal.

(c) The board of directors may reject any shareholder proposal not timely made in accordance with this Article II, Section 4. If the board of directors determines that the information provided in a shareholder's notice does not satisfy the informational requirements hereof, the secretary of the corporation shall promptly notify such shareholder of the deficiency in the notice. The shareholder shall then have an opportunity to cure the deficiency by providing additional information to the secretary within such period of time, not to exceed 10 days from the date such deficiency notice is given to the shareholder, as the board of directors shall determine. If the deficiency is not cured within such period, or if the board of directors determines that the additional information provided by the shareholder, together with the information previously provided, does not satisfy the requirements of this Article II, Section 4, then the board of directors may reject such shareholder's proposal. The secretary of the corporation shall notify a shareholder in writing whether his or her proposal has been made in accordance with the time and information requirements hereof.

(d) This Article II, Section 4 shall not prevent the consideration and approval or disapproval at a special or annual meeting of reports of officers, directors and committees of the board of directors, but in connection therewith no new business shall be acted upon at any such meeting unless stated, filed and received as herein provided.

SECTION 5. NOTICE OF MEETINGS. Written notice stating the place, date, and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than 10 nor more than 60 days before the date of the meeting, or in the case of a merger, consolidation, dissolution or sale, lease or exchange of assets not less than 20 nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the president, or the secretary, or the officer or persons calling the

meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at the shareholder's address as it appears on the records of the corporation, with postage thereon prepaid.

SECTION 6. NOMINATIONS OF DIRECTORS.

(a) Only persons who are nominated in accordance with the procedures set forth in this Article II, Section 6 or who are required to be included in the corporation's proxy materials pursuant to Rule 14a-11 under the Exchange Act shall be eligible for election as directors of the corporation. The nomination procedures contained in this Article II, Section 6 shall not apply to nominees who are required to be included in the corporation's proxy materials pursuant to Rule 14a-11 under the Exchange Act.

(b) Nominations, other than those made by, or at the direction of, a majority of the board of directors or a committee thereof shall be made only if timely written notice of such nomination or nominations has been given to the secretary of the corporation. To be timely, such notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 90 days nor more than 120 days prior to the meeting irrespective of any deferrals, postponements or adjournments thereof to a later date; provided, however, that in the event that less than 100 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of meeting was mailed or such public disclosure was made, whichever first occurs. Each such notice to the secretary shall set forth: (i) the name and address of record of the shareholder who intends to make the nomination; (ii) a representation that the shareholder is a holder of record of shares of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) the name, age, business and residence addresses, and principal occupation or employment of each nominee; (iv) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or person) pursuant to which the nomination or nominations are to be made by the shareholder; (v) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, as then in effect; and (vi) the consent of each nominee to serve as a director of the corporation if so elected. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation.

(c) The board of directors or a committee thereof may reject any nomination by a shareholder not timely made or otherwise not in accordance with the terms of this Article II, Section 6. If the board of directors or a committee thereof reasonably determines that the information provided in a shareholder's notice does not satisfy the informational requirements of this Article II, Section 6 in any material respect, the secretary of the corporation shall promptly notify such shareholder of the deficiency in writing. The shareholder shall have an opportunity to cure the deficiency by providing additional information to the secretary within such period of time, not to exceed 10 days from the date such deficiency notice is given to the shareholder, as

the board of directors or a committee thereof shall reasonably determine. If the deficiency is not cured within such period, or if the board of directors or a committee thereof reasonably determines that the additional information provided by the shareholder, together with the information previously provided, does not satisfy the requirements of this Article II, Section 6 in any material respect, then the board of directors or a committee thereof may reject such shareholder's nomination. The secretary of the corporation shall notify a shareholder in writing whether his or her nomination has been made in accordance with the time and information requirements of this Article II, Section 6.

SECTION 7. FIXING OF RECORD DATE. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors of the corporation may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days and for a meeting of shareholders, not less than 10 days, or in the case of a merger, consolidation, dissolution or sale, lease or exchange of assets not less than 20 days before the date of such meeting. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the close of business on the day next preceding the date on which notice of the meeting is mailed or the date on which the resolution of the board of directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. A determination of shareholders shall apply to any adjournment of the meeting.

SECTION 8. VOTING LISTS. The officer or agent having charge of the transfer books for shares of the corporation shall make at least 10 days before every meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of 10 days prior to such meeting, shall be kept on file either within the city where the meeting is to be held, which place shall be specified in the notice of meeting, or, if not so specified, at the place where the meeting is to be held, and shall be subject to inspection by any shareholder, and to copying at the shareholder's expense, at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof kept in any state in which the corporation is authorized to do business shall be the only evidence as to who are the shareholders entitled to examine such list or share ledger or transfer book or to vote at any meeting of shareholders.

SECTION 9. QUORUM. The holders of a majority of the outstanding shares of the corporation entitled to vote on a matter represented in person or by proxy, shall constitute a quorum for consideration of such matter at any meeting of shareholders; provided that if less than a majority of the outstanding shares are represented at said meeting, a majority of the shares so represented may adjourn the meeting at any time without further notice. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by the Illinois Business Corporation Act, the articles of incorporation or these by-laws. Withdrawal of shareholders from any meeting shall not cause failure of a duly constituted quorum at that meeting.

SECTION 10. ADJOURNMENT. Any meeting of shareholders may be adjourned from time to time to any other time and to any other place at which a meeting of shareholders may be held under these bylaws by the chairman of the meeting or by the shareholders present or represented at the meeting and entitled to vote, although less than a quorum. It shall not be necessary to notify any shareholder of any adjournment of less than 30 days if the time and place of the adjourned meeting, and the means of remote communication, if any, by which shareholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the corporation may transact any business that might have been transacted at the original meeting.

SECTION 11. PROXIES. Each shareholder may appoint a proxy to vote or otherwise act for him or her by signing an appointment form and delivering it to the person so appointed, but no such proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

SECTION 12. VOTING OF SHARES. Each outstanding share of common stock shall be entitled to one vote in each matter submitted to vote at a meeting of shareholders. Each shareholder may vote either in person or by proxy as provided above.

SECTION 13. VOTING OF SHARES BY CERTAIN HOLDERS. Shares held by the corporation in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares entitled to vote at any given time.

Shares registered in the name of another corporation, domestic or foreign, may be voted by any officer, agent, proxy or other legal representative authorized to vote such shares under the law of incorporation of such corporation.

Shares registered in the name of a deceased person, a minor ward or a person under legal disability may be voted by his or her administrator, executor or court appointed guardian, either in person or by proxy without a transfer of such shares into the name of such administrator, executor or court appointed guardian. Shares registered in the name of a trustee may be voted by him or her, either in person or by proxy.

Shares registered in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his or her name if authority to do so is contained in an appropriate order of the court by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares unless the shares have been transferred into the name of the pledgee, and thereafter the pledge shall be entitled to vote the shares so transferred.

Any number of shareholders may create a voting trust for the purpose of conferring upon a trustee or trustees the right to vote or otherwise represent their shares, for a period not to exceed 10 years, by entering into a written voting trust agreement specifying the terms and conditions of the voting trust, and by transferring their shares to such trustee or trustees for the purpose of the agreement. Any such trust agreement shall not become effective until a

counterpart of the agreement is deposited with the corporation at its registered office. The counterpart of the voting trust agreement so deposited with the corporation shall be subject to the same right of examination by a shareholder of the corporation, in person or by agent or attorney, as are the books and records of the corporation, and shall be subject to examination by any holder of a beneficial interest in the voting trust, either in person or by agent or attorney, during business hours for any proper purpose.

Shares of its own stock belonging to this corporation shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time, but shares of its own stock held by it in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares at any given time.

SECTION 14. CONDUCT OF MEETINGS. Unless otherwise provided by the board of directors, meetings of shareholders shall be presided over by the chairman of the board, if any, or in the chairman's absence by the vice chairman of the board, if any, or in the vice chairman's absence by the president, or in the president's absence by a vice president, or in the absence of all of the foregoing persons by a chairman designated by the board of directors. The secretary shall act as secretary of the meeting, but in the secretary's absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

The board of directors may adopt by resolution such rules, regulations and procedures for the conduct of any meeting of shareholders of the corporation as it shall deem appropriate including, without limitation, such guidelines and procedures as it may deem appropriate regarding the participation by means of remote communication of shareholders and proxyholders not physically present at a meeting. Except to the extent inconsistent with such rules, regulations and procedures as adopted by the board of directors, the chairman of any meeting of shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the board of directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to shareholders of record of the corporation, their duly authorized and constituted proxies or such other persons as shall be determined; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the board of directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

The chairman of the meeting shall announce at the meeting when the polls for each matter to be voted upon at the meeting will be opened and closed. After the polls close, no ballots, proxies or votes or any revocations or changes thereto may be accepted.

In advance of any meeting of shareholders, the board of directors, the chairman of the board or the president shall appoint one or more inspectors of election to act at the meeting and make a written report thereof. One or more other persons may be designated as alternate

inspectors to replace any inspector who fails to act. If no inspector or alternate is present, ready and willing to act at a meeting of shareholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Unless otherwise required by law, inspectors may be officers, employees or agents of the corporation. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspector shall have the duties prescribed by law and shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by law. Every vote taken by ballots shall be counted by a duly appointed inspector or duly appointed inspectors.

SECTION 15. NO ACTION BY CONSENT IN LIEU OF A MEETING. Shareholders of the corporation may not take any action by written consent in lieu of a meeting.

SECTION 16. VOTING BY BALLOT. All elections of directors shall be by written ballot. Voting on any other question may be by voice unless the presiding officer shall order or any shareholder shall demand that voting be by ballot.

ARTICLE III

DIRECTORS

SECTION 1. GENERAL POWERS. The business of the corporation shall be managed by its board of directors. A majority of the board of directors may establish reasonable compensation for their services and the services of other officers, irrespective of any personal interest.

SECTION 2. CHAIRMAN OF THE BOARD. The board of directors shall appoint one of its members to be chairman of the board to serve at the pleasure of the board. The chairman shall: (i) preside at all meetings of the board of directors; (ii) supervise the carrying out of the policies adopted or approved by the board; (iii) have general executive powers, as well as the specific powers conferred by these by-laws; and (iv) have and may exercise such further powers and duties as from time to time may be conferred upon or assigned by the board of directors.

SECTION 3. VICE-CHAIRMAN OF THE BOARD. The board of directors may appoint one of its members to be vice-chairman of the board to serve at the pleasure of the board. If appointed, the vice-chairman shall assume the duties of the chairman in his or her absence and shall also have and may exercise such further powers and duties as from time to time may be conferred upon or assigned by the board of directors.

SECTION 4. REGULAR MEETINGS. A regular meeting of the board of directors shall be held without other notice than this by-law, immediately after the annual meeting of shareholders. The board of directors may provide by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 5. SPECIAL MEETINGS. Special meetings of the board of directors may be called by or at the request of the chairman of the board, vice-chairman of the board, president or any two directors. The person or persons authorized to call special meetings of the board of

directors may fix any place as the place for holding any special meeting of the board of directors called by them.

SECTION 6. NOTICE OF SPECIAL MEETINGS. Notice of the date, place and time of any special meeting shall be given to each director by the Secretary or by the officer or one of the directors calling the meeting, as applicable. Notice shall be duly given to each director (a) in person or by telephone at least 24 hours in advance of the meeting, (b) by sending written notice by reputable overnight courier, telecopy, facsimile or electronic transmission, or delivering written notice by hand, to such director's last known business, home or electronic transmission address at least 48 hours in advance of the meeting, or (c) by sending written notice by first-class mail to such director's last known business or home address at least 72 hours in advance of the meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

All other notices, consents, waivers and other communications required or permitted to be given to directors by these by-laws shall be subject to the same notice provisions and waiver provisions.

SECTION 7. INFORMAL ACTION BY DIRECTORS. The authority of the board of directors may be exercised without a meeting if a consent in writing, setting forth the action taken, is signed by all of the directors entitled to vote.

SECTION 8. COMPENSATION. The board of directors or a committee thereof, by the affirmative vote of a majority of directors then in office or by a majority of directors appointed to a committee designated to set board compensation, and irrespective of any personal interest of any of its members, shall have authority to establish reasonable compensation of all directors for services to the corporation as directors, officers, or otherwise notwithstanding any director conflict of interest. By resolution of the board of directors or a committee thereof, the directors may be paid their expenses, if any, of attendance at each meeting of the board. No such payment previously mentioned in this section shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

SECTION 9. PRESUMPTION OF ASSENT. A director of the corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be conclusively presumed to have assented to the action taken unless that director's dissent shall be entered in the minutes of the meeting or written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered or certified mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 10. TELEPHONE CONFERENCE MEETINGS. Unless otherwise restricted by the articles of incorporation or these by-laws, members of the board of directors, or of any committee designated by the board of directors, may participate in and act at any meeting of the

board of directors or any committee using a conference telephone or other communications equipment that allows all persons participating in the meeting to hear each other. Participation in such a manner constitutes attendance and presence in person at the meeting.

ARTICLE IV

COMMITTEES

SECTION 1. COMMITTEES. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. Any such committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, to the extent permitted under the Illinois Business Corporation Act. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the board of directors, or any member thereof, of any responsibility imposed by law.

SECTION 2. EXECUTIVE COMMITTEE. The board of directors by resolution adopted by a majority of the full board of directors, may designate three or more of its members to constitute an executive committee. The executive committee, when the board of directors is not in session, shall have and may exercise all of the authority of the board of directors except to the extent, if any, that such authority shall be limited by the resolution appointing the executive committee and except also that the executive committee shall not have the authority of the board of directors in reference to any action for which the certificate of incorporation or the bylaws would require approval by the vote of greater than a majority of the number of directors as may be fixed from time to time, in the manner prescribed in the certificate of incorporation, by the board of directors of the corporation.

SECTION 3. AUDIT COMMITTEE. The board of directors by a resolution adopted by a majority of the full board of directors, may designate three or more independent directors to constitute an audit committee. The audit committee shall have, to the extent provided in the committee's charter, as adopted and amended from time to time by the board, the authority to retain the independent auditor for the corporation, and to conduct discussions with such auditor concerning the financial statements, operations, internal controls and other related matters and such other authority as may be provided to the audit committee by the board of directors.

SECTION 4. CORPORATE GOVERNANCE AND NOMINATING COMMITTEE. The board of directors, by a resolution adopted by a majority of the full board of directors, may designate three or more independent directors to constitute a corporate governance and nominating committee. The corporate governance and nominating committee shall have, to the extent provided in the committee's charter, as adopted and amended from time to time by the board, the authority to assist the board of directors by identifying individuals qualified to become directors consistent with criteria approved by the board of directors, to recommend to the board of directors for its approval the slate of nominees to be proposed to the shareholders for election to the board of directors, to develop and recommend to the board of the directors the governance principles applicable to the corporation and such other authority as may be provided to the compensation committee by the board of directors.

SECTION 5. COMPENSATION COMMITTEE. The board of directors by a resolution adopted by a majority of the full board of directors, may designate three or more directors to constitute a compensation committee. The compensation committee shall have, to the extent provided in the committee's charter, as adopted and amended from time to time by the board, the authority to establish the compensation, benefits and perquisites for the executive officers, directors and other employees of the corporation and such other authority as may be provided to the compensation committee by the board of directors.

SECTION 6. TENURE AND QUALIFICATION. Each member of each committee shall hold office until the next regular annual meeting of the board of directors following his or her designation and until his or her successor is designated as a member of such committee and is elected and qualified.

SECTION 7. MEETINGS. Regular meetings of each committee may be held without notice at such times and places as such committee may fix from time to time by resolution. Special meetings of each committee may be called by any member thereof by notice of the date, place and time thereof which is duly given to each director by the Secretary or by the officer or one of the directors calling the meeting, as applicable. Notice shall be duly given to each committee member (a) in person or by telephone at least 24 hours in advance of the meeting, (b) by sending written notice by reputable overnight courier, telecopy, facsimile or electronic transmission, or delivering written notice by hand, to such committee member's last known business, home or electronic transmission address at least 48 hours in advance of the meeting, or (c) by sending written notice by first-class mail to such committee member's last known business or home address at least 72 hours in advance of the meeting. The attendance of a committee member at any committee meeting shall constitute a waiver of notice of such meeting, except where a committee member attends a committee meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of any committee need be specified in the notice or waiver of notice of such meeting.

SECTION 8. QUORUM. A majority of the members of a committee shall constitute a quorum for the transaction of business at any meeting thereof and action of such committee must be authorized by the affirmative vote of a majority of the members present at a meeting at which a quorum is present.

SECTION 9. ACTION WITHOUT A MEETING. The authority of any committee may be exercised without a meeting if a consent in writing, setting forth the action taken, is signed by all of the members of such committee entitled to vote.

SECTION 10. VACANCIES. Any vacancy on a committee may be filled by a resolution adopted by a majority of the full board of directors.

SECTION 11. RESIGNATIONS AND REMOVAL. Any member of any committee may be removed at any time with or without cause by resolution adopted by a majority of the full board of directors. Any member of a committee may resign from such committee at any time by giving written notice to the president or secretary, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 12. PROCEDURE. Each committee shall elect a presiding officer from its members and may fix its own rules or procedures which shall not be inconsistent with these bylaws.

ARTICLE V

OFFICERS

SECTION 1. NUMBER. The officers of the corporation shall be a president, one or more vice-presidents, a chief financial officer, a secretary, and such other officers as may be elected by the board of directors. Any two or more offices may be held by the same person.

SECTION 2. ELECTION AND TERM OF OFFICE. The officers of the corporation shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Vacancies may be filled or new offices created and filled at any meeting of the board of directors. Each officer shall hold office until a successor shall have been duly elected and shall have qualified or until such officer's death, resignation or removal in the manner hereinafter provided. Election of an officer shall not of itself create contract rights.

SECTION 3. REMOVAL. Any officer elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 4. VACANCIES. A vacancy in any office because of death, removal, disqualification or otherwise may be filled by the board of directors for the unexpired portion of the term of such office.

SECTION 5. PRESIDENT. The president shall be the principal executive officer of the corporation. Subject to the direction and control of the board of directors, the president shall: (i) be in charge of the business of the corporation; (ii) ensure that the resolutions and directions of the board of directors are carried into effect, except in those instances in which that responsibility is specifically assigned to some other person by the board of directors; and (iii) in general, discharge all duties incident to the office of president and such other duties as may be prescribed by the board of directors from time to time. The president shall preside at all meetings of the shareholders and of the board of directors unless a chairman of the board of directors has previously been appointed or elected, in which case the chairman shall preside at such meetings or, at the discretion of the chairman, the chairman may delegate all or a portion of such responsibility to the president. Except in those instances in which the authority to execute is expressly delegated to another officer or agent of the corporation or a different mode of execution is expressly prescribed on the board of directors or these by-laws, the president may execute for the corporation certificates for its shares, and any contracts, deeds, mortgages, bonds or other instruments which the board of directors has authorized to be executed, and may accomplish such execution either under or without the seal of the corporation and either individually or with the secretary, any assistant secretary, or any other officer thereunto

authorized by the board of directors, according to the requirements of the form of the instrument. The president may vote all securities which the corporation is entitled to vote except as and to the extent such authority shall be vested in a different officer or agent of the corporation by the board of directors.

SECTION 6. THE VICE-PRESIDENTS. The vice-president (or in the event there be more than one vice-president, each of the vice-presidents) shall assist the president in the discharge of his or her duties as the president may direct and shall perform such other duties as from time to time may be assigned by the president or by the board of directors. In the absence of the president or in the event of the president's inability or refusal to act, the vice-president (or in the event there be more than one vice-president, the vice-presidents in the order designated by the board of directors, or by the president if the board of directors has not made such a designation, or in the absence of any designation, then in the order of seniority of tenure as vice-president) shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. Except in those instances in which the authority to execute is expressly delegated to another officer or agent of the corporation or a different mode of execution is expressly prescribed by the board of directors or these by-laws, the vice-president (or each of them if there are more than one) may execute for the corporation certificates for its shares and any contracts, deeds, mortgages, bonds or other instruments which the board of directors has authorized to be executed, and may accomplish such execution either under or without the seal of the corporation and either individually or with the secretary, any assistant secretary, or any other officer thereunto authorized by the board of directors, according to the requirements of the form of the instrument.

SECTION 7. THE CHIEF FINANCIAL OFFICER. The chief financial officer shall be the principal financial officer of the corporation. The chief financial officer shall: (i) have charge of and be responsible for the maintenance of adequate books of account for the corporation; (ii) have charge and custody of all funds and securities of the corporation, and be responsible therefor and for the receipt and disbursement thereof; and (iii) perform all the duties incident to the office of chief financial officer and such other duties as from time to time may be assigned by the president or by the board of directors. If required by the board of directors, the chief financial officer shall give a bond for the faithful discharge of these duties in such sum and with such surety or sureties as the board of directors may determine.

SECTION 8. THE SECRETARY. The secretary shall: (i) record the minutes of the shareholders' and of the board of directors' meetings in one or more books provided for that purpose; (ii) see that all notices are duly given in accordance with the provisions of these by-laws or as required by law; (iii) be custodian of the corporate records and of the seal of the corporation; (iv) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (v) sign with the president, or a vice-president, or any other officer thereunto authorized by the board of directors, certificates for shares of the corporation, the issue of which shall have been authorized by the board of directors, and any contracts, deeds, mortgages, bonds, or other instruments which the board of directors has authorized to be executed, according to the requirements of the form of the instrument, except when a different mode of execution is expressly prescribed by the board of directors or these by-laws; (vi) have general charge of the stock transfer books of the corporation; (vii) have authority to certify the by-laws, resolutions of the shareholders and board of directors and committees

thereof, and other documents of the corporation as true and correct copies thereof, and (viii) perform all duties incident to the office of secretary and such other duties as from time to time may be assigned by the president or by the board of directors.

SECTION 9. SALARIES. The salaries of the offices shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director of the corporation.

ARTICLE VI

RECORDS AND REPORTS

SECTION 1. MAINTENANCE AND INSPECTION OF RECORDS. The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its shareholders listing their names and addresses and the number and class of shares held by each shareholder, a copy of these bylaws, as may be amended to date, minute books, accounting books and other records.

Any such records maintained by the corporation may be kept on, or by means of, or be in the form of, any information storage device or method, provided that the records so kept can be converted into clearly legible paper form within a reasonable time. When records are kept in such manner, a clearly legible paper form produced from or by means of the information storage device or method shall be admissible in evidence, and accepted for all other purposes, to the same extent as an original paper form accurately portrays the record.

Any shareholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its shareholders, and its other books and records, as permitted under Illinois law, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a shareholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the shareholder.

The demand under oath shall be directed to the corporation at its registered office in Illinois or at its principal executive office.

SECTION 2. INSPECTION BY DIRECTOR. Any director shall have the right to examine the corporation's stock ledger, a list of its shareholders, and its other books and records for a purpose reasonably related to his or her position as a director.

ARTICLE VII

CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The board of directors may authorize any officer or officers or agent or agents to enter into any contract or agreement, or execute and deliver any instrument, in the name of and on behalf of the corporation, and such authority may be general or

confined to specific instances. Subject to the specific directions of the board of directors, all written contracts, instruments and agreements to which the corporation shall be a party may be executed in its name by the president or any vice president or such other officer as may be designated by the board of directors.

SECTION 2. LOANS. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors.

SECTION 3. CHECKS, DRAFTS, ETC. All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the board of directors.

SECTION 4. DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositaries as the board of directors may select.

ARTICLE VIII

SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES OF CAPITAL STOCK. Certificates representing shares of stock of the corporation shall be in such form as may be determined by the board of directors. Such certificates shall be signed by the president or any executive vice president and the secretary or an assistant secretary. If any such certificate is manually countersigned by a transfer agent other than the corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue. All certificates for shares of stock shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the corporation. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificates shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new certificate may be issued therefor upon such terms and indemnity to the corporation as the board of directors may prescribe.

SECTION 2. UNCERTIFICATED STOCK. Unless prohibited by the articles of incorporation, the board of directors may provide by resolution that some or all of any class or series of shares shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until the certificate has been surrendered to the corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the corporation shall

send the registered owner thereof a written notice of all information that would appear on a certificate. Except as otherwise expressly provided by law, the rights and obligations of the holders of

uncertificated shares shall be identical to those of the holders of certificates representing shares of the same class and series.

SECTION 3. STOCK RECORDS OF THE CORPORATION. The name and address of each shareholder, the number and class of shares held and the date on which the shares were issued shall be entered on the books of the corporation. The person in whose name shares stand on the books of the corporation shall be deemed the owner thereof for all purposes as regards the corporation.

SECTION 4. TRANSFER OF SHARES OF STOCK. Transfers of shares of stock of the corporation represented by certificates, except in the case of a lost or destroyed certificate, shall be made on the books of the corporation by the holder of record thereof or by his or her legal representative, who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation, and on surrender for cancellation of the certificate for such shares. A certificate presented for transfer must be duly endorsed and accompanied by proper guaranty of signature and other appropriate assurances that the endorsement is effective. Transfer of an uncertificated share shall be made on receipt by the corporation of an instruction from the registered owner or other appropriate person. The instruction shall be in writing or a communication in such form as may be agreed upon in writing by the corporation.

SECTION 5. TRANSFER AGENTS AND REGISTRARS. The board of directors may appoint one or more transfer agents or assistant transfer agents and one or more registrars of transfers, and may require all certificates for shares of stock of the corporation to bear the signature of a transfer agent or assistant transfer agent and a registrar of transfers. The board of directors may at any time terminate the appointment of any transfer agent or any assistant transfer agent or any registrar of transfers.

ARTICLE IX

MISCELLANEOUS PROVISIONS

SECTION 1. FISCAL YEAR. The fiscal year of the corporation shall be January 1 through December 31, unless otherwise fixed by resolution of the board of directors.

SECTION 2. DIVIDENDS. The board of directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares of stock in the manner and upon the terms and conditions provided by the Illinois Business Corporation Act and its articles of incorporation.

SECTION 3. SEAL. The corporate seal shall have inscribed thereon the name of the corporation and the words “Corporate Seal, Illinois”. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced, provided that the affixing of the corporate seal to an instrument shall not give the instrument additional force or effect, or change the construction thereof, and the use of the corporate seal is not mandatory.

SECTION 4. WAIVER OF NOTICE. Whenever any notice is required to be given under the provisions of these by-laws or under the provisions of the articles of incorporation or

under the provisions of the Illinois Business Corporation Act, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance at any meeting shall constitute waiver of notice thereof unless the person at the meeting objects to the holding of the meeting because proper notice was not given.

SECTION 5. INDEMNIFICATION. The corporation shall indemnify, to the fullest extent allowable under Illinois law and as provided in the corporation’s Articles of Incorporation, those persons as to whom the corporation is obligated to provide indemnification as provided in the corporation’s Articles of Incorporation.

SECTION 6. VOTING OF SECURITIES. Except as the board of directors may otherwise designate, the president or the chief financial officer may waive notice of, vote, or appoint any person or persons to vote, on behalf of the corporation at, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for this corporation (with or without power of substitution) at, any meeting of shareholders or securityholders of any other entity, the securities of which may be held by this corporation.

SECTION 7. EVIDENCE OF AUTHORITY. A certificate by the secretary, or an assistant secretary, or a temporary secretary, as to any action taken by the shareholders, directors, a committee or any officer or representative of the corporation shall as to all persons who rely on the certificate in good faith be conclusive evidence of such action.

SECTION 8. ARTICLES OF INCORPORATION. All references in these bylaws to the articles of incorporation shall be deemed to refer to the articles of incorporation of the corporation, as amended and in effect from time to time.

SECTION 9. SEVERABILITY. Any determination that any provision of these bylaws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these bylaws.

SECTION 10. PRONOUNS. All pronouns used in these bylaws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

ARTICLE X

AMENDMENTS

The by-laws of the corporation may be amended, altered or repealed, in whole or in part, or new bylaws may be adopted by the board of directors or by the shareholders as provided in the articles of incorporation.

Exhibit 4.1

ZQ|CERT#|COY|CLS|RGSTRY|ACCT#|TRANSTYPE|RUN#|TRANS#

COMMON STOCK

PAR VALUE $0.01

COMMON STOCK

THIS CERTIFICATE IS TRANSFERABLE IN CANTON, MA; JERSEY CITY, NJ AND COLLEGE STATION, TX

Certificate Number

ZQ00000000

Shares

Midland States Bancorp, Inc.

MIDLAND STATES BANCORP, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF ILLINOIS

THIS CERTIFIES THAT

MR. SAMPLE & MRS. SAMPLE &
MR. SAMPLE & MRS. SAMPLE

CUSIP 597742 10 5

SEE REVERSE FOR CERTAIN DEFINITIONS

is the owner of

***ZERO HUNDRED THOUSAND
ZERO HUNDRED AND ZERO***

SHARES OF THE $0.01 PAR VALUE COMMON STOCK OF

MIDLAND STATES BANCORP, INC.

hereinafter called the "corporation," transferable only on the books of the corporation by the holder hereof in person, or by duly authorized attorney, upon the surrender of this certificate properly endorsed.

The amount of the Common Stock of the corporation is set forth on the books of the corporation, and the par value of the shares of Common Stock of the corporation is set forth in the Articles of Incorporation of the corporation, as amended or to be amended hereafter, which Articles of Incorporation and any and all amendments thereof are on file at the office of the corporation and are hereby expressly incorporated herein by reference and to all of which the holder hereby agrees and assents.

IN WITNESS WHEREOF, the corporation has caused this certificate to be signed by its duly authorized officers and its seal to be hereunder affixed.

President

Assistant Secretary

MIDLAND STATES BANCORP, INC. CORPORATE SEAL ILLINOIS

DATED DD-MMM-YYYY

COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR,

By _____
AUTHORIZED SIGNATURE

SECURITY INSTRUCTIONS ON REVERSE

A123456

Midland States Bancorp, Inc.

PO BOX 42064, Providence, RI 02940-3064

MR A SAMPLE
DESIGNATION (IF ANY)
ADD 1
ADD 2
ADD 3
ADD 4
ADD 5
ADD 6

CUSIP XXXXXX XX X
Holder ID XXXXXXXXXX
Insurance Value 1,000,000.00
Number of Shares 123456
DTC 12345678 12345678901234 5

Certificate Numbers	Num	No. Denom.	Total
12345678901234567890	1	1	1
12345678901234567890	2	2	2
12345678901234567890	3	3	3
12345678901234567890	4	4	4
12345678901234567890	5	5	5
12345678901234567890	6	6	6
Total Transaction			7

MIDLAND STATES BANCORP, INC.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT	- ..... (Cust) Custodian ..... (Minor)
TEN ENT	- as tenants by the entireties		under Uniform Gifts to Minors Act..... (State)
JT TEN	- as joint tenants with right of survivorship and not as tenants in common	UNIF TRF MIN ACT	- ..... (Cust) Custodian (until age .....)
			..... (Minor) under Uniform Transfers to Minors Act ..... (State)

Additional abbreviations may also be used though not in the above list.

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

For value received, _____ hereby sell, assign and transfer unto

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

_____

_____

_____ Shares

of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney

to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated: _____ 20_____

Signature: _____

Signature: _____

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement, or any change whatever.

Signature(s) Guaranteed: Medallion Guarantee Stamp

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15.

SECURITY INSTRUCTIONS

THIS IS WATERMARKED PAPER. DO NOT ACCEPT WITHOUT NOTING WATERMARK. HOLD TO LIGHT TO VERIFY WATERMARK.

The IRS requires that we report the cost basis of certain shares acquired after January 1, 2011. If your shares were covered by the legislation and you have sold or transferred the shares and requested a specific cost basis calculation method, we have processed as requested. If you did not specify a cost basis calculation method, we have defaulted to the first in, first out (FIFO) method. Please visit our website or consult your tax advisor if you need additional information about cost basis.

If you do not keep in contact with us or do not have any activity in your account for the time periods specified by state law, your property could become subject to state unclaimed property laws and transferred to the appropriate state.

1234567

Exhibit 4.2

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE OFFERED FOR SALE, SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT COVERING SUCH SHARES UNDER THE ACT AND ANY REQUIRED QUALIFICATION UNDER APPLICABLE STATE AND FOREIGN LAW OR AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT THE TRANSACTION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS UNDER THE ACT AND THE QUALIFICATION REQUIREMENTS UNDER APPLICABLE STATE AND FOREIGN LAW.

MIDLAND STATES BANCORP, INC.

STOCK PURCHASE WARRANT

Warrant No. CBC-001 **Original Issue Date: March 25, 2013**

FOR VALUE RECEIVED, **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the **"Company"**), hereby certifies that **COMMUNITY BANCAPITAL, L.P.**, a Delaware limited partnership (together with its registered assignees as hereinafter provided, the **"Holder"**) is entitled to purchase from the Company One Hundred Twenty-Five Thousand (125,000) duly authorized, validly issued, fully paid and nonassessable shares of Common Stock at a per share price equal to the Exercise Price, all subject to the terms, conditions and adjustments set forth below in this Warrant. Certain capitalized terms used herein are defined in **Section 1**.

This Warrant has been issued in exchange for the cash payment from the Holder to the Company of One Hundred Dollars ($100.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Company.

Section 1. Definitions. As used in this Warrant, the following terms have the respective meanings set forth below:

"**Aggregate Exercise Price**" means an amount equal to the product of: (a) the number of Warrant Shares in respect of which this Warrant is then being exercised pursuant to **Section 3**, multiplied by (b) the Exercise Price.

"**Bank**" means Midland States Bank, an Illinois-chartered commercial, member bank with its main office located in Effingham, Illinois.

"**Board**" means the board of directors of the Company.

"**Business Day**" means any day, except a Saturday, Sunday or legal holiday, on which banking institutions in the city of Effingham, Illinois, are authorized or obligated by law or executive order to close.

"**Common Stock**" means the common stock, $0.01 par value per share, of the Company, and any capital stock into which such Common Stock shall have been converted, exchanged or reclassified following the date hereof.

"**Common Stock Deemed Outstanding**" means, at any given time, the sum of: (a) the number of shares of Common Stock actually outstanding at such time; plus (b) the number of shares of Common Stock issuable upon exercise of Options actually outstanding at such time; plus (c) the number of shares of Common Stock issuable under existing unvested awards of restricted stock that are not treated as outstanding; plus (d) the number of shares of Common Stock issuable upon conversion or exchange of Convertible Securities actually outstanding at such time (treating as actually outstanding any Convertible Securities issuable upon exercise of Options actually outstanding at such time), in each case, regardless of whether the Options or Convertible Securities are actually exercisable at such

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time; *provided*, that Common Stock Deemed Outstanding at any given time shall not include shares owned or held by or for the account of the Company or any of its wholly owned subsidiaries.

"**Company**" has the meaning set forth in the preamble.

"**Convertible Securities**" means any securities (directly or indirectly) convertible into or exchangeable for Common Stock, but excluding Options.

"**Excluded Issuances**" means any issuance or sale by the Company after the Original Issue Date of: (a) shares of Common Stock issued upon the exercise of this Warrant; (b) shares of Common Stock issued directly or upon the exercise of Options to directors, officers, consultants or employees, in connection with their service as directors of the Company or their employment by or consulting services to the Company, in each case authorized by the Board and issued pursuant to any of the Company's equity incentive plans authorized and adopted by the Board (collectively, the "**Plans**"), including all such shares of Common Stock and Options outstanding prior to the Original Issue Date; (c) shares of Common Stock issued upon the vesting of restricted stock awards made under the Plans; or (d) shares of Common Stock issued upon the conversion or exercise of Options (other than Options covered by clause (b) above) or Convertible Securities issued prior to the Original Issue Date provided that such securities are not amended after the date hereof to increase the number of shares of Common Stock issuable thereunder or to lower the exercise or conversion price thereof.

"**Exercise Date**" means, for any given exercise of this Warrant, the date on which the conditions to such exercise as set forth in **Section 3** shall have been satisfied at or prior to 5:00 p.m., Chicago, Illinois, time, on a Business Day, including the receipt by the Company of the Exercise Agreement, the Warrant and the Aggregate Exercise Price.

"**Exercise Agreement**" has the meaning set forth in **Section 3(a)(i)**.

"**Exercise Period**" has the meaning set forth in **Section 2**.

"**Exercise Price**" shall be equal to Sixteen Dollars ($16.00), subject to adjustment as provided for in **Section 4**.

"**Expiration Date**" has the meaning set forth in **Section 2**.

"**Fair Market Value**" means, as of any particular date, the volume weighted average of the closing sales prices of the Common Stock for such day on all domestic securities exchanges on which the Common Stock may at the time be listed, averaged over thirty (30) consecutive Business Days ending on the Business Day immediately prior to the day as of which "Fair Market Value" is being determined; *provided*, that if the Common Stock is listed on any domestic securities exchange, the term "Business Day" as used in this sentence means Business Days on which such exchange is open for trading. If at any time the Common Stock is not listed on any domestic securities exchange, the "Fair Market Value" of the Common Stock shall be equal to the higher of: (i) 1.13 times the consolidated tangible book value per share of the Common Stock as of the end of the most recently ended calendar quarter; or (ii) the fair market value determined by an appraisal, if any, requested by the Holder and performed by a third-party mutually acceptable to the Holder and the Company.

"**Holder**" has the meaning set forth in the preamble.

"**Options**" means any warrants or other rights or options to subscribe for or purchase Common Stock or Convertible Securities.

"**Original Issue Date**" means March 25, 2013.

"**Person**" means any individual, sole proprietorship, partnership, limited liability company, corporation, joint venture, trust, incorporated organization or government or department or agency thereof.

"**Warrant**" means this Warrant and all warrants issued upon division or combination of, or in substitution for, this Warrant.

"**Warrant Shares**" means the shares of Common Stock or other capital stock of the Company then purchasable upon exercise of this Warrant in accordance with the terms of this Warrant.

Section 2. Term of Warrant. Subject to the terms and conditions hereof, including **Section 3(g)**, at any time or from time to time after the first (1st) anniversary of the Original Issue Date, and prior to 5:00 p.m., Chicago, Illinois, time, on the eighth (8th) anniversary of the Original Issue Date or, if such day is not a Business Day, on the next succeeding Business Day (the "**Expiration Date**"), the Holder of this Warrant may exercise this Warrant for all or any part of the Warrant Shares purchasable hereunder (subject to adjustment as provided herein), *provided, however*, that the Holder of this Warrant may exercise this Warrant at any time after: (a) an application has been filed with the Board of Governors of the Federal Reserve System requesting prior approval for the acquisition of control of greater than fifty percent (50%) of the voting stock of either the Company or the Bank; or (b) the Company has completed an initial public offering of its Common Stock. The period during which the Holder of this Warrant may exercise this Warrant as described in this **Section 2** is referred to herein as (the "**Exercise Period**").

Section 3. Exercise of Warrant.

(a) *Exercise Procedure.* This Warrant may be exercised from time to time on any Business Day during the Exercise Period, for all or any part of the unexercised Warrant Shares, upon:

(i) surrender of this Warrant to the Company at its then principal executive offices (or an indemnification undertaking in form and substance satisfactory to the Company with respect to this Warrant in the case of its loss, theft or destruction), together with an Exercise Agreement in the form attached hereto as **Exhibit A** (each, an "**Exercise Agreement**"), duly completed (including specifying the number of Warrant Shares to be purchased) and executed; and

(ii) payment to the Company of the Aggregate Exercise Price in accordance with **Section 3(b)**.

(b) *Payment of the Aggregate Exercise Price.* Payment of the Aggregate Exercise Price shall be made, at the option of the Holder as expressed in the Exercise Agreement, by the following methods:

(i) by delivery to the Company of a certified or official bank check payable to the order of the Company or by wire transfer of immediately available funds to an account designated in writing by the Company, in the amount of such Aggregate Exercise Price;

(ii) by instructing the Company to withhold a number of Warrant Shares then issuable upon exercise of this Warrant with an aggregate Fair Market Value as of the Exercise Date equal to such Aggregate Exercise Price;

(iii) by surrendering to the Company: (x) Warrant Shares (or other shares of Common Stock) previously acquired by the Holder with an aggregate Fair Market Value as of the Exercise Date equal to such Aggregate Exercise Price; and/or (y) any subordinated debenture of even date herewith issued by the Company to the Holder having a value as of the Exercise Date equal to the Aggregate Exercise Price (which value shall be the principal amount thereof plus accrued and unpaid interest); or

(iv) any combination of the foregoing.

In the event of any withholding of Warrant Shares or surrender of other equity securities pursuant to clause (ii), (iii) or (iv) above where the number of shares whose value is equal to the Aggregate Exercise Price is not a whole number, the number of shares withheld by or surrendered to the Company shall be rounded up to the nearest whole share and the Company shall make a cash payment to the Holder (by delivery of a certified or official bank check or by wire transfer of immediately available funds) based on the incremental fraction of a share being so withheld by or

surrendered to the Company in an amount equal to the product of: (x) such incremental fraction of a share being so withheld or surrendered; multiplied by (y) in the case of Common Stock, the Fair Market Value per Warrant Share as of the Exercise Date, and, in all other cases, the value thereof as of the Exercise Date determined in accordance with clause (iii)(y) above.

(c) *Delivery of Stock Certificates.* Upon receipt by the Company of the Exercise Agreement, surrender of this Warrant and payment of the Aggregate Exercise Price (in accordance with **Section 3(a)**), the Company shall, as promptly as practicable, and in any event within five (5) Business Days thereafter, execute (or cause to be executed) and deliver (or cause to be delivered) to the Holder a certificate or certificates representing the Warrant Shares issuable upon such exercise, together with cash in lieu of any fraction of a share, as provided in **Section 3(d)**. The stock certificate or certificates so delivered shall bear such legends as the Company may require under applicable securities laws and shall be, to the extent possible, in such denomination or denominations as the exercising the Holder shall reasonably request in the Exercise Agreement and shall be registered in the name of the Holder or, subject to compliance with **Section 6**, such other Person's name as shall be designated in the Exercise Agreement. This Warrant shall be deemed to have been exercised and such certificate or certificates of Warrant Shares shall be deemed to have been issued, and the Holder or any other Person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Shares for all purposes, as of the Exercise Date.

(d) *Fractional Shares.* The Company shall not be required to issue a fractional Warrant Share upon exercise of any Warrant. As to any fraction of a Warrant Share that the Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay to such Holder an amount in cash (by delivery of a certified or official bank check or by wire transfer of immediately available funds) equal to the product of: (i) such fraction; multiplied by (ii) the Fair Market Value of one Warrant Share on the Exercise Date.

(e) *Delivery of New Warrant.* Unless the purchase rights represented by this Warrant shall have expired or shall have been fully exercised, the Company shall, at the time of delivery of the certificate or certificates representing the Warrant Shares being issued in accordance with **Section 3(c)**, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unexpired and unexercised Warrant Shares called for by this Warrant. Such new Warrant shall in all other respects be identical to this Warrant.

(f) *Valid Issuance of Warrant and Warrant Shares; Payment of Taxes.* With respect to the exercise of this Warrant, the Company hereby represents, covenants and agrees:

(i) This Warrant is, and any Warrant issued in substitution for or replacement of this Warrant shall be, upon issuance, duly authorized and validly issued.

(ii) All Warrant Shares issuable upon the exercise of this Warrant pursuant to the terms hereof shall be, upon issuance against receipt of the Exercise Price, and the Company shall take all such actions as may be necessary or appropriate so that such Warrant Shares are, validly issued, fully paid and non-assessable, issued without violation of any pre-emptive or similar rights of any stockholder of the Company and free and clear of all taxes, liens and charges.

(iii) The Company shall take all such actions as may be necessary to ensure that all such Warrant Shares are issued without violation by the Company of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Common Stock or other securities constituting Warrant Shares may be listed at the time of such exercise (except for official notice of issuance which shall be immediately delivered by the Company upon each such issuance).

(iv) The Company shall use its best efforts to cause the Warrant Shares, immediately upon such exercise, to be listed on any domestic securities exchange upon which shares of Common Stock or other securities constituting Warrant Shares are listed at the time of such exercise.

(v) The Company shall pay all expenses in connection with, and all taxes and other governmental charges that may be imposed with respect to, the issuance or delivery of Warrant Shares upon exercise of this Warrant; *provided*, that the Company shall not be required to pay any tax or governmental charge that may be

imposed with respect to any applicable withholding or the issuance or delivery of the Warrant Shares to any Person other than the Holder, and no such issuance or delivery shall be made unless and until the Person requesting such issuance has paid to the Company the amount of any such tax, or has established to the satisfaction of the Company that such tax has been paid.

(g) *Conditional Exercise.* Notwithstanding any other provision hereof, if an exercise of any portion of this Warrant is to be made in connection with a public offering or a sale of the Company (pursuant to a merger, sale of stock, or otherwise), such exercise may at the election of the Holder be made at any time prior to the Expiration Date, including prior to the first (1st) anniversary of the Original Issue Date, and further, may be conditioned upon the consummation of such transaction, in which case such exercise shall not be deemed to be effective until immediately prior to the consummation of such transaction.

(h) Reservation of Shares. During the Exercise Period, the Company shall at all times reserve and keep available out of its authorized but unissued Common Stock or other securities constituting Warrant Shares, solely for the purpose of issuance upon the exercise of this Warrant, the maximum number of Warrant Shares issuable upon the exercise of this Warrant, and the par value per Warrant Share shall at all times be less than or equal to the applicable Exercise Price. Unless required by law or governmental authority, the Company shall not increase the par value of any Warrant Shares receivable upon the exercise of this Warrant above the Exercise Price then in effect, and shall take all such actions as may be necessary or appropriate so that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant.

Section 4. **Adjustment to Exercise Price and Number of Warrant Shares.** To prevent dilution of the purchase rights granted under this Warrant, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this **Section 4**.

(a) *Adjustment to Exercise Price and Warrant Shares Upon Dividend, Subdivision or Combination of Common Stock.* If the Company shall, at any time or from time to time after the Original Issue Date: (i) pay a dividend or make any other distribution upon the Common Stock or any other capital stock of the Company payable in shares of Common Stock or in Options or Convertible Securities; or (ii) subdivide (by any stock split, recapitalization or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to any

such dividend, distribution or subdivision shall be proportionately reduced and the number of Warrant Shares issuable upon exercise of this Warrant shall be proportionately increased. If the Company at any time combines (by combination, reverse stock split or otherwise) its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares issuable upon exercise of this Warrant shall be proportionately decreased. Any adjustment under this **Section 4(a)** shall become effective at the close of business on the date the dividend, subdivision or combination becomes effective.

(b) *Adjustment to Exercise Price and Warrant Shares Upon Reorganization, Reclassification, Consolidation or Merger.* In the event of any: (i) capital reorganization of the Company; (ii) reclassification of the stock of the Company (other than a change in par value or from par value to no par value or from no par value to par value or as a result of a stock dividend or subdivision, split-up or combination of shares); (iii) consolidation or merger of the Company with or into another Person; (iv) sale of all or substantially all of the Company's assets to another Person; or (v) other similar transaction (other than any such transaction covered by **Section 4(a)**), in each case which entitles the holders of Common Stock to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, each Warrant shall, immediately after such reorganization, reclassification, consolidation, merger, sale or similar transaction, remain outstanding and shall thereafter, in lieu of or in addition to (as the case may be) the number of Warrant Shares then exercisable under this Warrant, be exercisable for the kind and number of shares of stock or other securities or assets of the Company or of the successor Person resulting from such transaction to which the Holder would have been entitled upon such reorganization, reclassification, consolidation, merger, sale or similar transaction if the Holder had exercised this Warrant in full immediately prior to the time of such reorganization, reclassification, consolidation, merger, sale or similar transaction and acquired the applicable number of Warrant Shares then issuable hereunder as a result of such exercise (without taking into account any limitations or restrictions on the exercisability of this Warrant); and, in such case, appropriate adjustment shall be made with respect to the Holder's rights under this Warrant to insure that the provisions of this **Section 4** shall thereafter be

applicable, as nearly as possible, to this Warrant in relation to any shares of stock, securities or assets thereafter acquirable upon exercise of this Warrant (including, in the case of any consolidation, merger, sale or similar transaction in which the successor or purchasing Person is other than the Company, an immediate adjustment in the Exercise Price to the value per share for the Common Stock reflected by the terms of such consolidation, merger, sale or similar transaction, and a corresponding immediate adjustment to the number of Warrant Shares acquirable upon exercise of this Warrant without regard to any limitations or restrictions on exercise, if the value so reflected is less than the Exercise Price in effect immediately prior to such consolidation, merger, sale or similar transaction). The provisions of this **Section 4(b)** shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales or similar transactions. The Company shall not effect any such reorganization, reclassification, consolidation, merger, sale or similar transaction unless, prior to the consummation thereof, the successor Person (if other than the Company) resulting from such reorganization, reclassification, consolidation, merger, sale or similar transaction, shall assume, by written instrument substantially similar in form and substance to this Warrant, the obligation to deliver to the Holder such shares of stock, securities or assets which, in accordance with the foregoing provisions, such Holder shall be entitled to receive upon exercise of this Warrant. Notwithstanding anything to the contrary contained herein, with respect to any corporate event or other transaction contemplated by the provisions of this **Section 4(b)**, the Holder shall have the right to elect prior to the consummation of such event or transaction, to give effect to the exercise rights contained in **Section 2** instead of giving effect to the provisions contained in this **Section 4(b)** with respect to this Warrant.

(c) *Certain Events.* If any event of the type contemplated by the provisions of this **Section 4** but not expressly provided for by such provisions (including the granting of stock appreciation rights, phantom stock rights or other rights with equity features (other than pursuant to the Plans) occurs, then the Board shall make an appropriate adjustment in the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant so as to protect the rights of the Holder in a manner consistent with the provisions of this **Section 4**; *provided*, that no such adjustment pursuant to this **Section 4(c)** shall increase the Exercise Price or decrease the number of Warrant Shares issuable as otherwise determined pursuant to this **Section 4**.

(d) *Certificate as to Adjustment.*

(i) As promptly as reasonably practicable following any adjustment of the Exercise Price, but in any event not later than forty-five (45) Business Days thereafter, the Company shall furnish to the Holder a certificate of an executive officer setting forth in reasonable detail such adjustment and the facts upon which it is based and certifying the calculation thereof.

(ii) As promptly as reasonably practicable following the receipt by the Company of a written request by the Holder, but in any event not later than forty-five (45) Business Days thereafter, the Company shall furnish to the Holder a certificate of an executive officer certifying the Exercise Price then in effect and the number of Warrant Shares or the amount, if any, of other shares of stock, securities or assets then issuable upon exercise of the Warrant.

(e) *Notices.* In the event:

(i) that the Company shall take a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon exercise of the Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, to vote at a meeting (or by written consent), to receive any right to subscribe for or purchase any shares of capital stock of any class or any other securities, or to receive any other security; or

(ii) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another Person, or sale of all or substantially all of the Company's assets to another Person; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, and in each such case, the Company shall send or cause to be sent to the Holder at least sixty (60) days prior to the applicable record date or the applicable expected effective date, as the case may be, for the event, a written notice specifying, as the case may be: (A) the record date for such dividend, distribution, meeting or consent or other right or action, and a description of such dividend, distribution or other right or action to be taken at such meeting or by written consent; or (B) the effective date on which such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up is proposed to take place, and the date, if any is to be fixed, as of which the books of the Company shall close or a record shall be taken with respect to which

the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon exercise of the Warrant) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Warrant and the Warrant Shares.

(f) *Exceptions to Adjustment Upon Issuance of Common Stock.* Anything herein to the contrary notwithstanding, there shall be no adjustment to the Exercise Price upon exercise of this Warrant with respect to any Excluded Issuance.

Section 5. Purchase Rights. In addition to any adjustments pursuant to **Section 4**, if at any time the Company grants, issues or sells any shares of Common Stock, Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Stock (the "**Purchase Rights**"), then the Holder shall be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder would have acquired if the Holder had held the number of Warrant Shares acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights. Anything herein to the contrary notwithstanding, the Holder shall not be entitled to the Purchase Rights granted herein with respect to any Excluded Issuance.

Section 6. Transfer of Warrant. Subject to the transfer conditions referred to in the legend endorsed hereon, this Warrant and all rights hereunder are transferable, in whole or in part, by the Holder without charge to the Holder, upon surrender of this Warrant to the Company at its then principal executive offices (or, if the Company designates a transfer agent for this Warrant, at the offices of such transfer agent) with a properly completed and duly executed Assignment in the form attached hereto as **Exhibit B**, together with funds sufficient to pay any transfer taxes as described in **Section 3(f)(v)** in connection with the making of such transfer. Upon such compliance, surrender and delivery and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant, if any, not so assigned and this Warrant shall promptly be cancelled.

Section 7. Holder Not Deemed a Stockholder; Limitations on Liability. Prior to the issuance to the Holder of the Warrant Shares to which the Holder is then entitled to receive upon the due exercise of this Warrant, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of shares of capital stock of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise. In addition, nothing contained in this Warrant shall be construed as imposing any obligations on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such obligations are asserted by the Company or by creditors of the Company. Notwithstanding this **Section 7**, the Company shall provide the Holder with copies of the same notices and other information given to the stockholders of the Company generally, contemporaneously with the giving thereof to the stockholders.

Section 8. Replacement on Loss; Division and Combination.

(a) *Replacement of Warrant on Loss.* Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and upon delivery of an indemnity agreement

reasonably satisfactory to it accompanied by a bond in customary form and, in case of mutilation, upon surrender of such Warrant for cancellation to the Company, the Company at its own expense shall execute and deliver to the Holder, in lieu hereof, a new Warrant of like tenor and exercisable for an equivalent number of Warrant Shares as the Warrant so lost, stolen, mutilated or destroyed; *provided*, that, in the case of mutilation, no indemnity shall be required if this Warrant in identifiable form is surrendered to the Company for cancellation.

(b) *Division and Combination of Warrant.* Subject to compliance with the applicable provisions of this Warrant as to any transfer or other assignment which may be involved in such division or combination, this Warrant may be divided or, following any such division of this Warrant, subsequently combined with other Warrants, upon the surrender of this Warrant or Warrants to the Company at its then principal executive offices, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the respective Holders or their agents or attorneys. Subject to compliance with the applicable provisions of this Warrant as to any transfer or assignment which may be involved in such division or combination, the Company shall at its own expense execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants so surrendered in accordance with such notice. Such new Warrant or Warrants shall be of like tenor to the surrendered Warrant or Warrants and shall be exercisable in the aggregate for an equivalent number of Warrant Shares as the Warrant or Warrants so surrendered in accordance with such notice.

Section 9. No Impairment. The Company shall not, by amendment of its articles of incorporation or bylaws or other similar charter documents, or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder, but shall at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the Holder in order to protect the exercise rights of the Holder against dilution or other impairment, consistent with the tenor and purpose of this Warrant.

Section 10. Compliance with the Securities Act.

(a) *Agreement to Comply with the Securities Act; Legend.* By acceptance of this Warrant, the Holder, agrees to comply in all respects with the provisions of this **Section 10** and the restrictive legend requirements set forth on the face of this Warrant and further agrees that such Holder shall not offer, sell or otherwise dispose of this Warrant or any Warrant Shares to be issued upon exercise hereof except under circumstances that will not result in a violation of the Securities Act of 1933, as amended (the "**Securities Act**"). This Warrant and all Warrant Shares issued upon exercise of this Warrant (unless issued in a transaction registered under the Securities Act) shall be stamped or imprinted with a legend in substantially the following form:

"THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR QUALIFIED UNDER THE SECURITIES LAWS AND MAY NOT BE OFFERED FOR SALE, SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT COVERING SUCH SHARES UNDER THE ACT AND ANY REQUIRED QUALIFICATION UNDER APPLICABLE STATE AND FOREIGN LAW OR AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT THE TRANSACTION IS

EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS UNDER THE ACT AND THE QUALIFICATION REQUIREMENTS UNDER APPLICABLE STATE AND FOREIGN LAW."

(b) *Representations of the Holder.* In connection with the issuance of this Warrant, the Holder specifically represents, as of the date hereof, to the Company by acceptance of this Warrant as follows:

(i) The Holder is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Securities Act. The Holder is acquiring this Warrant and the Warrant Shares to be issued upon exercise hereof for investment for its own account and not with a view towards, or for resale in connection with, the public sale or distribution of this Warrant or the Warrant Shares, except pursuant to sales registered or exempted under the Securities Act.

(ii) The Holder understands and acknowledges that this Warrant and the Warrant Shares to be issued upon exercise hereof are "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that, under such laws and applicable regulations, such securities may be resold without registration under the Securities Act only in certain limited circumstances. In addition, the Holder represents that it is familiar with Rule 144 promulgated under the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

(iii) The Holder acknowledges that it can bear the economic and financial risk of its investment for an indefinite period, and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Warrant and the Warrant Shares. The Holder has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Warrant and the business, properties, prospects and financial condition of the Company.

Section 11. Warrant Register. Unless it has designated a transfer agent to do so, the Company shall keep and properly maintain at its principal executive offices books for the registration of the Warrant and any transfers thereof. The Company (and any transfer agent) may deem and treat the Person in whose name the Warrant is registered on such register as the Holder thereof for all purposes, and the Company (and any transfer agent) shall not be affected by any notice to the contrary, except any assignment, division, combination or other transfer of the Warrant effected in accordance with the provisions of this Warrant.

Section 12. Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the fifth (5th) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the addresses indicated below (or at such other address for a party as shall be specified in a notice given in accordance with this **Section 12**).

if to the Company:

Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401
Telephone: (217) 342-2141
Facsimile: (217) 342-9462
Electronic Mail: dtucker@midlandstatesbank.com
Attention: Douglas J. Tucker, Esq.

and

if to the Holder:

CBC Management Partners, LLC
1000 SW Broadway, Suite 1010
Portland, Oregon 97205-3062
Attn: Frank Reppenhagen
Telephone No.: 503-227-1400
Fax No.: 503-228-7105
E-Mail Address: far@cbancap.com

Section 13. Cumulative Remedies. Except to the extent expressly provided in this Warrant to the contrary, the rights and remedies provided in this Warrant are cumulative and are not exclusive of, and are in addition to and not in substitution for, any other rights or remedies available at law, in equity or otherwise.

Section 14. Equitable Relief. Each of the Company and the Holder acknowledges that a breach or threatened breach by such party of any of its obligations under this Warrant would give rise to irreparable harm to the other party hereto for which monetary damages would not be an adequate remedy and hereby agrees that in the

event of a breach or a threatened breach by such party of any such obligations, the other party hereto shall, in addition to any and all other rights and remedies that may be available to it in respect of such breach, be entitled to equitable relief, including a restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction.

Section 15. Entire Agreement. This Warrant constitutes the sole and entire agreement of the parties to this Warrant with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter.

Section 16. Successor and Assigns. This Warrant and the rights evidenced hereby shall be binding upon and shall inure to the benefit of the parties hereto and the successors of the Company and the successors and permitted assigns of the Holder. Such successors and/or permitted assigns of the Holder shall be deemed to be a Holder for all purposes hereunder.

Section 17. No Third-Party Beneficiaries. This Warrant is for the sole benefit of the Company and the Holder and their respective successors and, in the case of the Holder, permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person any legal or equitable right, benefit or remedy of any nature whatsoever, under or by reason of this Warrant.

Section 18. Amendment and Modification; Waiver. Except as otherwise provided herein, this Warrant may only be amended, modified or supplemented by an agreement in writing signed by each party hereto. No waiver by the Company or the Holder of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any rights, remedy, power or privilege arising from this Warrant shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

Section 19. Severability. Any provision of this Warrant which is unenforceable or invalid or contrary to law, or the inclusion of which would adversely affect the validity, legality or enforcement of this Warrant, shall be of no effect and, in such case, all the remaining terms and provisions of this Warrant shall subsist and be fully effective according to the tenor of this Warrant the same as though any such invalid portion had never been included herein. Notwithstanding any of the foregoing to the contrary, if any provisions of this Warrant or the application thereof are held invalid or unenforceable only as to particular persons or situations, the remainder of this Warrant, and the application of such provision to persons or situations other than those to which it shall have been held invalid or unenforceable, shall not be affected thereby, but shall continue valid and enforceable to the fullest extent permitted by law.

Section 20. Governing Law. This Warrant shall be governed by and construed in accordance with the internal laws of the State of Illinois. Nothing herein shall be deemed to limit any rights, powers or privileges which the Holder may have pursuant to any law of the United States of America or any rule, regulation or order of any department or agency thereof and nothing herein shall be deemed to make unlawful any transaction or conduct by the Holder which is lawful pursuant to, or which is permitted by, any of the foregoing.

Section 21. Submission to Jurisdiction. Any legal suit, action or proceeding arising out of or based upon this Warrant or the transactions contemplated hereby may be instituted in the federal courts of the United States of America or the courts of the State of Illinois in each case located in the city of Chicago and County of Cook, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by certified or registered mail to such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 22. Waiver of Jury Trial. Each party acknowledges and agrees that any controversy which may arise under this Warrant is likely to involve complicated and difficult issues and, therefore, each such party irrevocably and unconditionally waives any right it may have to a trial by jury in respect of any legal action arising out of or relating to this Warrant or the transactions contemplated hereby.

Section 23. Construction. In this Warrant, unless otherwise stated or the context otherwise requires, the following uses apply: (a) actions permitted under this Warrant may be taken at any time and from time to time in the actor's reasonable discretion; (b) references to a statute shall refer to the statute and any successor statute, and to all regulations promulgated under or implementing the statute or its successor, as in effect at the relevant time; (c) in computing periods from a specified date to a later specified date, the words "from" and "commencing on" (and the like) mean "from and including," and the words "to," "until" and "ending on" (and the like) mean "to, but excluding"; (d) "including" means "including, but not limited to"; (e) all references to sections, paragraphs, clauses and exhibits are to sections, paragraphs, clauses and exhibits in, of or to this Warrant unless otherwise specified; (f) all words used in this Warrant will be construed to be of such gender or number as the circumstances and context require; (g) the captions and headings of articles, sections, schedules and exhibits appearing in or attached to this Warrant have been inserted solely for convenience of reference and shall not be considered a part of this Warrant nor shall any of them affect the meaning or interpretation of this Warrant or any of its provisions; and (h) any reference to a document or set of documents in this Warrant, and the rights and obligations of the parties under any such documents, shall mean such document or documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof. The Company and the Holder further agree that this Warrant shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

[THIS SPACE LEFT INTENTIONALLY BLANK]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has duly executed this Warrant on the Original Issue Date.

MIDLAND STATES BANCORP, INC.

By: /s/ Jeff Ludwig
Name: Jeff Ludwig
Title: EVP, CFO

ACCEPTED AND AGREED:

COMMUNITY BANCAPITAL, L.P.,

By: CBC Partners GP, LLC, its General Partner

By: /s/ Frank Reppenhagen
Name: Frank Reppenhagen
Title: Managing Partner

EXHIBIT A

EXERCISE AGREEMENT
[To be executed only upon exercise of Warrant]

The undersigned registered owner of the attached Warrant irrevocably exercises such Warrant for the purchase of shares of the common stock of **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the "**Common Stock**"), and herewith makes payment therefor, all at the price and on the terms and conditions specified in such Warrant, and requests that certificates for the shares of common stock hereby purchased (and any securities or other property issuable upon such exercise) be issued in the name of and delivered to , whose address is and, if such shares of common stock shall not include all of the shares of common stock issuable as provided in such Warrant, that a new Warrant of like tenor and date for the balance of the shares of common stock issuable hereunder be delivered to the undersigned.

The Warrant Price with respect to the shares of common stock is being paid by:

☐ Wire Transfer in the amount of $

☐ Bank certified, treasurer's or cashier's check in the amount of $

o Cashless exercise

(Name of Registered Owner)

(Signature of Registered Owner)

(Street Address)

(City) (State) (Zip Code)

NOTICE: ***The signature on this subscription must correspond with the name as written upon the face of the attached Warrant in every particular, without alteration or enlargement or any change whatsoever.***

EXHIBIT B

ASSIGNMENT
[To be executed only upon assignment of Warrant]

The undersigned registered owner of the attached Warrant ("**Assignor**") hereby sells, assigns, transfers and delivers to ("**Assignee**"), [all] [designated percentage or fraction] of Assignor's right, title and interest in and to such Warrant and hereby directs **MIDLAND STATES BANCORP, INC.**, an Illinois corporation, to honor and effect such assignment on its Warrant register.

IN WITNESS WHEREOF, Assignor and Assignee have caused this Assignment to be executed as of , 20 .

ASSIGNOR

By: _____
Signature of Assignor

_____
Printed name as it appears on Warrant

ASSIGNEE

By: _____
Signature of Assignee

_____
Printed name as it should appear on Warrant

Exhibit 5.1

BARACK FERRAZZANO

Barack Ferrazzano Kirschbaum & Nagelberg LLP

, 2016

Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401

Ladies and Gentlemen:

We have acted as special counsel to Midland States Bancorp, Inc., an Illinois corporation (the "Company"), in connection with the Registration Statement on Form S-1 (File No. 333-) (as amended through the date hereof, the "Registration Statement") filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"). The Registration Statement relates to the issuance and sale by the Company and the sale by the selling shareholders identified in the Registration Statement (the "Selling Shareholders") of up to an aggregate of shares of the Company's common stock, par value $0.01 per share (together with any additional shares of such common stock that may be issued and/or sold by the Company and the Selling Shareholders pursuant to Rule 462(b) under the Act in connection with the offering contemplated by the Registration Statement, the "Shares"), up to of which are being offered by the Company (including up to Shares issuable upon exercise of an over-allotment option granted by the Company), and of which are being offered by the Selling Shareholders. The Shares are to be sold pursuant to an underwriting agreement to be entered into by and among the Company, the Selling Shareholders and the underwriters named therein, the form of which has been filed as Exhibit 1.1 to the Registration Statement (the "Underwriting Agreement"). This opinion letter is being furnished in connection with the requirements of Item 601(b)(5) of Regulation S-K under the Act, and no opinion is expressed herein as to any matter pertaining to the contents of the Registration Statement or related prospectus, other than as expressly stated herein.

For the purposes of providing the opinions contained herein, we have examined and relied upon the originals, or copies certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments as we have deemed necessary. In our examination, we have assumed the genuineness of all signatures, the proper execution of all documents submitted to us as originals, the conformity with the originals of all documents submitted to us as copies, the authenticity of the originals of such documents and the legal competence of all signatories to such documents.

This opinion is limited to the laws of the State of Illinois.

Based upon the foregoing, and subject to the qualifications, assumptions and limitations set forth herein, it is our opinion that:

1. When the Pricing Committee of the Board of Directors of the Company has taken all necessary corporate action to approve the issuance of the Shares, and upon payment and delivery

in accordance with the Underwriting Agreement, the Shares to be issued and sold by the Company will be validly issued, fully paid and nonassessable; and

2. The Shares to be sold by the Selling Shareholders are validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion letter as Exhibit 5.1 to the Registration Statement and to the use of our name under the caption "Legal Matters" in the prospectus included in the Registration Statement. We further consent to the incorporation by reference of this opinion letter and consent into any registration statement filed pursuant to Rule 462(b) under the Act with respect to the Shares. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Act, and the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT, dated as of January 18, 2011, is entered into between MIDLAND STATES BANCORP, INC., an Illinois corporation (the "Company"), and the RICHARD E. WORKMAN 2001 TRUST, an Illinois trust dated July 4, 2001 (the "Initial Holder")**.**

1. DEFINITIONS. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

"Affiliate" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract or otherwise. The grantor of a revocable trust shall be deemed to control such revocable trust.

"Business Day" means any day other than a Saturday, Sunday, legal holiday or other day on which banks in the State of Illinois are closed.

"Common Stock" means the common stock of the Company, $2.00 par value per share, or the common equity securities of any successor company to the Company into which the Common Stock is converted or for which it is exchanged a result of a merger, reincorporation or other transaction in which the Company is not the surviving entity.

"Company" has the meaning set forth in the introductory paragraph of this Agreement and shall include any successor of the Company.

"Exchange Act" means the Securities Exchange Act of 1934 and the rules and regulations of the SEC thereunder, as amended and in effect from time to time.

"Holder" means (i) the Initial Holder and (ii) any other Person who subsequently becomes a holder of Registrable Securities and a party to this Agreement in accordance with Section 6.

"Initial Holders" has the meaning set forth in the introductory paragraph of this Agreement.

"Initial Public Offering" means the first firm commitment Underwritten Offering of Common Stock to the public pursuant to an effective registration statement under the Securities Act.

"Person" means a corporation, an association, a partnership, a business, an individual, a limited liability company, a governmental or political subdivision thereof or a governmental agency.

"Registrable Securities" means any shares of Common Stock (a) held by the Initial Holder at any time, including any shares of Common Stock issued or issuable upon the conversion of the Series C Preferred Stock currently held by the Initial Holder; (b) issued or issuable upon the conversion of any shares of Series C Preferred Stock or Series D Preferred Stock acquired or that may be acquired by any Holder upon the exercise of a Warrant, or (c) issued or issuable with respect to any shares of Common Stock referred to in the preceding clauses (a) and (b) by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to any particular Registrable Securities, once issued, such securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities have been sold pursuant to such registration statement, (ii) such securities shall have been sold to the public pursuant to Rule 144, (iii) such securities shall have ceased to be outstanding, or (iv) such securities have been transferred in a transaction in which the transferor's rights hereunder are not assigned to a transferee or transferees in accordance with Section 6 hereof. For purposes of this Agreement, a Person will be deemed to be a holder of Registrable Securities whenever such Person has the right to acquire such Registrable Securities (by conversion, exercise or otherwise, including successive exercises and conversions), whether or not such acquisition has actually been effected.

"Registration Expenses" means all expenses incident to the Company's performance of or compliance with its obligations under Section 2 hereof, including, without limitation, all SEC and any stock exchange registration, listing, filing or Financial Industry Regulatory Authority, Inc. fees; all fees and expenses of complying with securities or blue sky laws (including reasonable fees and disbursements of counsel for the underwriters in connection with blue sky qualifications); all messenger and delivery expenses; the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits or "comfort" letters required by or incident to such performance and compliance; any fees and disbursements of underwriters customarily paid by issuers or sellers of securities and the reasonable fees and expenses of any special experts retained in connection with the requested registration; and the fees and disbursements of one counsel for the Holders, chosen by the Holders of a majority of the Registrable Securities included in any registration under Section 2.1 or 2.2, but excluding underwriting discounts and commissions and fees and disbursements of any additional counsel employed by any such Holder.

"Requisite Holders" means the holder or holders of 51% or more of the Registrable Securities.

"Rule 144" means Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

"SEC" means the Securities and Exchange Commission or any other Federal agency that subsequently administers the Securities Act.

"Series C Preferred Stock" means the Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock of the Company.

"Series C Warrant" means the Preferred Stock Purchase Warrant, dated December 31, 2010, pursuant to which the Company has granted the Initial Holder the right to purchase Series C Preferred Stock on the terms and conditions specified therein.

"Series D Preferred Stock" means the Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock of the Company.

"Series D Warrant" means the Preferred Stock Purchase Warrant, dated December 31, 2010, pursuant to which the Company has granted the Initial Holder the right to purchase Series D Preferred Stock on the terms and conditions specified therein.

"Securities Act" means the Securities Act of 1933, and the rules and regulations of the SEC thereunder, as amended and in effect from time to time.

"Underwritten Offering" means an offering and sale of Common Stock pursuant to an effective registration statement under the Securities Act in which the Common Stock is sold to an underwriter for offering and sale to the public.

"Warrants" means the Series C Warrant and the Series D Warrant.

2. REGISTRATION UNDER SECURITIES ACT, ETC.

2.1. Demand Registration Rights.

(a) **Request**. Upon the receipt of the written request of the Holder or Holders**,** requesting that the Company effect the registration under the Securities Act of a number of Registrable Securities that have, in the good faith opinion of the Company, an aggregate fair market value of at least $5 million and specifying the intended method of disposition thereof and whether or not such requested registration is to be an Underwritten Offering, the Company will promptly give written notice of such requested registration to all other Holders and thereupon, subject to Section 2.1(g), the Company will use its best efforts to effect the registration under the Securities Act of:

(i) the Registrable Securities which the Company has been so requested to register by such Holders, and

(ii) all other Registrable Securities which the Company has been requested to register by the Holders thereof by written request given to the Company within 30 days after the giving of such written notice by the Company, all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered.

(b) **Registration Statement Form**. Registrations under this Section 2.1 shall be on such appropriate registration form of the Commission (i) as shall be selected by the Company and as shall be reasonably acceptable to the Holders of a majority of the Registrable

Securities requested to be so registered and (ii) as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified in their request for such registration.

(c) **Expenses**. The Company will pay all Registration Expenses in connection with any registration requested pursuant to this Section 2.1 (whether or not such registration shall be effected).

(d) **Effective Registration Statement**. A registration requested pursuant to this Section 2.1 shall not be deemed to have been effected (i) unless a registration statement with respect thereto has become effective, (ii) if after it has become effective, such registration is subject to any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason, (iii) if the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied or (iv) unless the holders of the Registrable Securities requested to be included in such registration are able to register and sell at least 90% of the Registrable Securities requested to be included in such registration at a price reasonably satisfactory to the Holders of a majority of the Registrable Securities requested to be included in such registration.

(e) **Selection of Underwriters**. If a requested registration pursuant to this Section 2.1 involves an underwritten offering, the underwriter or underwriters thereof shall be selected by the Holders of a majority of the Registrable Securities requested to be included in the registration, subject to the approval of the Company, which approval shall not be unreasonably withheld or delayed.

(f) **Priority in Demand Registrations**. No securities, other than Common Stock, shall be included in any offering of securities by the Company effected pursuant to Section 2.1 without the consent of the Holders of a majority of the Registrable Securities requested to be included in such registration. If Registrable Securities registered pursuant to this Section 2.1 are to be sold in a firm commitment Underwritten Offering and the managing underwriter or underwriters shall advise the Holders in writing that, in their opinion, the total number or dollar amount of Registrable Securities and other Common Stock requested to be included in such offering (including, without limitation, Common Stock proposed to be included by other holders of Common Stock entitled to include Common Stock in such registration pursuant to piggyback registration rights) exceeds the number which can be sold in such offering within a price range acceptable to the Holders of a majority or more of the Registrable Securities requested to be included in such registration, then there shall be included in such firm commitment Underwritten Offering, the number or dollar amount of Registrable Securities that in the opinion of such managing underwriter can be sold without adversely affecting such offering, and such number of Registrable Securities and other Common Stock shall be allocated as follows: (i) *first*, pro rata among the Holders on the basis of the percentage of Registrable Securities (on an as-converted basis, if applicable) requested to be included in such registration statement by such Holders; (ii) *second*, pro rata among any holders of piggyback registration rights (other than the Holders) on the basis of the percentage of the number of shares of Common Stock requested to be included in such Registration Statement by such holders; and (iii) third, shares of Common Stock to be sold for the Company's account for which inclusion in such registration statement was requested by the Company. For the avoidance of doubt, if the total

number or dollar amount of Registrable Securities requested to be included in the registration statement pursuant to this Section 2.1 exceeds the maximum number or amount that the managing underwriter or underwriters believe can be sold without adversely affecting the success of such offering, no securities, other than Registrable Securities, shall be included among the securities covered by such registration.

(g) **Limitations**. Anything in Section 2.1(a) to the contrary notwithstanding, the Company will not be required to effect a registration pursuant to this Section 2.1(a) (i) prior to 180 days following the effective date of the registration statement with respect to the Initial Public Offering, (ii) within 180 days after the effective date of the final prospectus for a previous registration pursuant to Section 2.1(a), or (iii) unless the Registrable Securities to be included in the registration have, in the good faith opinion of the Company, an aggregate fair market value of at least $5 million as of the time that a request for registration, pursuant to Section 2.1(a), is made. In addition, subject to Section 2.1 (i), the Company will not be required to effect more than one registration under Section 2.1(a).

(h) **Company's Right to Delay Registration.** Notwithstanding any other provision of this Agreement, if the Board of Directors of the Company determines in good faith that the filing or effectiveness of a registration statement in connection with any requested registration under Section 2.1(a) would be reasonably likely to materially and adversely affect any material contemplated acquisition, divestiture, registered primary offering or other action as to which the Company has then taken substantial steps, or would require disclosure of facts or circumstances, which disclosure would be reasonably likely to materially and adversely affect any material contemplated acquisition, divestiture, registered primary offering or other action as to which the Company has then taken substantial steps, then the Company may delay such registration for a period of up to 120 days so long as the Company is still pursuing the action that allowed such delay (it being agreed that the Company may not delay requested registrations pursuant to this Section 2.1(h) more than once during any period of 360 consecutive days). If the Company postpones the filing or effectiveness of a registration statement pursuant to this Section 2.1(h), it shall promptly notify the Holders of Registrable Securities in writing when the events or circumstances permitting such postponement have ended.

(i) **Clean-Up Demand Registration.** If, after a registration in compliance with Section 2.1(a) has become effective, the Holders shall not have sold all of their Registrable Securities due to proration pursuant to Section 2.1(f), then the Requisite Holders shall be entitled to one additional request under Section 2.1(a) in which the Holders then holding Registrable Securities shall not be subject to proration with any other holders of securities of the Company entitled to participate in such registration; provided that such registration request complies with the requirements of Section 2.1(g).

2.2 Piggyback Registration.

(a) **Right to Include Registrable Securities.** If the Company at any time proposes to register any of its securities under the Securities Act (other than by a registration on Form S-4 or Form S-8 or any successor or similar form and other than pursuant to Section 2.1), whether or not for sale for its own account, it will each such time give prompt written notice to all Holders of its intention to do so, specifying the intended method of disposition thereof, and of

such Holders' rights under this Section 2.2. Upon the written request of any such Holder made within 30 days after the receipt of any such notice (which request shall specify the Registrable Securities intended to be disposed of by such Holder and the intended method of disposition thereof), the Company will use its best efforts to effect the registration under the Securities Act of all Registrable Securities which the Company has been so requested to register by the Holders thereof, to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered, *provided* that if, at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to each Holder and, thereupon, (i) in the case of a determination not to register, shall be relieved of its obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses in connection therewith), without prejudice, however, to the rights of any Holder or Holders entitled to do so to request that such registration be effected as a registration under Section 2.1, and (ii) in the case of a determination to delay registering, shall be permitted to delay registering any Registrable Securities, for the same period as the delay in registering such other securities. No registration effected under this Section 2.2 shall be deemed to have been effected pursuant to Section 2.1 or shall relieve the Company of its obligation to effect any registration upon request under Section 2.1.

(b) **Priority in Piggyback Registrations.** If (i) a registration pursuant to this Section 2.2 involves an underwritten offering of the securities so being registered, whether or not for sale for the account of the Company, to be distributed (on a firm commitment basis) by or through one or more underwriters of recognized standing under underwriting terms appropriate for such a transaction, and (ii) the managing underwriter or underwriters of such underwritten offering shall inform the Company and the Holders requesting such registration in writing that, in their opinion, the number or dollar amount of securities requested to be included in such registration exceeds the number or dollar amount which can be sold in (or during the time of) such offering a price reasonably acceptable to the Company (or, if such registration involves an offering of securities pursuant to a demand by such holders under rights of such holders similar to the rights granted to the Holders under Section 2.1 hereof, reasonably acceptable to the holders of such rights, as the case may be), then the Company will include in such registration, to the extent of the number or dollar amount which the Company is so advised can be sold in (or during the time of) such offering, (i) *first*, all securities proposed by the Company to be sold for its own account (or, if such registration involves an offering of securities proposed to be sold by holders of securities pursuant to as demand by such holders of securities pursuant to a demand by such holders under rights of such holders similar to the rights granted to the Holders under Section 2.1 hereof, all securities proposed to be sold by such holder, as the case may be), (ii) *second*, such Registrable Securities requested to be included in such registration pro rata on the basis of the percentage of the Registrable Securities of the Company held by each Holder that has requested that Registrable Securities be included in such registration, and (iii) *third*, all other securities of the Company requested to be included in such registration pro rata on the basis of the numbers of such securities so requested to be included. In connection with any registration as to which the provisions of this Section 2.2(b) apply with the result that not all of the Registrable Securities requested to be included in such registration are included in such

registration, then no securities other than securities referred to in clause "first", above, or Registrable Securities shall be included in such registration.

(c) Expenses. The Company will pay all Registration Expenses in connection with any registration pursuant to this Section 2.2 (whether or not such registration shall be effected).

2.3. Registration Procedures.

(a) If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the Securities Act as provided in Sections 2.1 and 2.2, the Company will as expeditiously as practicable:

(i) (A) prepare and file with the SEC a registration statement on the appropriate form which includes such Registrable Securities, (B) promptly respond to all comments received with respect to such registration statement and make and file all amendments thereto deemed necessary by the Company's legal counsel, and (C) thereafter use its reasonable efforts to cause such registration statement to become effective at the earliest practicable date;

(ii) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement accurate and effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities and other securities covered by such registration statement until the earlier of such time as all of such Registrable Securities have been disposed of by the sellers thereof set forth in such registration statement or for the longer of (A) nine months or (B) if the Company is eligible to conduct a continuous secondary offering pursuant to Rule 415 under the Securities Act, two years;

(iii) furnish to each such seller of Registrable Securities at least two Business Days prior to the filing thereof a copy of any amendment or supplement to such registration statement or prospectus and not file any such amendment or supplement to which any such seller shall have reasonably objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or of the rules or regulations thereunder;

(iv) furnish to each seller of such Registrable Securities one copy of such registration statement and of each such amendment thereof and supplement thereto (in each case including all exhibits and documents filed therewith), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act, such documents, if any, incorporated by reference in such registration statement or prospectus, and such other documents as such seller may reasonably request;

(v) use its reasonable efforts to register or qualify all Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as each seller thereof shall reasonably request and to keep such registration or qualification in effect for so long as such registration statement remains in effect and do any and all other acts and things that may be necessary or advisable to enable such seller to consummate

the disposition in such jurisdictions of its Registrable Securities covered by such registration statement, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not, but for the requirements of this subdivision (v), be obligated to be so qualified, or to subject itself to taxation in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(vi) notify each seller of Registrable Securities of any stop order issued or threatened by the SEC and take all reasonable action required to prevent the entry of such stop order or to remove it if entered;

(vii) if such registration statement relates to an underwritten offering, (A) enter into an underwriting agreement with the underwriters for such offering, in form and substance satisfactory to each seller of Registrable Securities and the underwriters and containing such representations and warranties by the Company and such other terms as are generally prevailing in underwriting agreements of the same type, including, without limitation, indemnities to the effect and to the extent provided in Section 2.5, and (B) obtain and furnish to each seller of Registrable Securities a signed counterpart, addressed to such seller, of the legal opinions and accountants' comfort letters which are to be delivered to the underwriters;

(viii) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other agent retained by any such seller or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement;

(ix) promptly notify each seller whose Registrable Securities are covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and promptly prepare a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(x) otherwise use its reasonable efforts to comply with all applicable rules and regulations of the SEC, and make available to its securities holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month of the first fiscal quarter after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(xi) cause all such Registrable Securities to be listed on each securities exchange on which the Common Stock is then listed;

(xii) use commercially reasonable efforts to cause its management to participate fully in the sale process relating to such offering, including the preparation of the applicable registration statement and the preparation and presentation of any "road shows," whether domestic or international; and

(xiii) take all such other commercially reasonable actions as are necessary or advisable in order to expedite or facilitate the disposition of the Registrable Securities covered by such registration statement.

(b) **Required Information.** The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company such information regarding such seller and the intended distribution of its securities as the Company may from time to time reasonably request in writing and as shall be required by law or by the SEC in connection with such registration.

(c) **Discontinuance of Disposition of Registrable Securities.** Each Holder agrees that upon receipt of any notice from the Company of the happening of any event of the kind described in clause (ix) of Section 2.3(a), such Holder will forthwith discontinue such Holder's disposition of Registrable Securities pursuant to the registration statement relating to such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by clause (ix) of Section 2.3(a) and, if so directed by the Company, will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in such holder's possession of the prospectus relating to such Registrable Securities current at the time of receipt of such notice.

2.4 Withdrawal. If any Holder participating in a registration hereunder disapproves of the terms of any offering, such Holder shall have the right, in its sole discretion, to withdraw such Holder's Registrable Securities from such registration by giving written notice to the Company and the managing underwriter (if any). If such registration was commenced pursuant to a request under Section 2.1(a) and if the Holders participating in such registration withdraw such number of Registrable Securities from the offering so as to decrease the amount of Registrable Securities included in the registration below the minimum threshold set forth in Section 2.1(g), then the Company shall permit, to the extent reasonably possible, other Holders to increase the amount of Registrable Securities they requested be to included in such registration; provided, however, if the aggregate amount of Registrable Securities to be included in such registration following all such increases is less than $4 million, the Company may withdraw the registration, and such registration shall nevertheless be counted, for purposes of Section 2.1(g), as a registration effected hereunder; provided further, however, that such registration shall not be so counted if the managing underwriter or underwriters advise the participating Holders that there has been a material change in market conditions, or the Company makes a public announcement that there has been a material change in the condition, business or prospects of the Company, which in either such case could reasonably be expected to materially and adversely affect the ability of the underwriters to complete the offering or materially and adversely affect the price at which the Registrable Securities may be sold.

2.5. Indemnification.

(a) Indemnification by the Company. In the event of any registration of any securities of the Company under the Securities Act, the Company will, and hereby does, in the case of any registration statement filed pursuant to Section 2.1 or 2.2, indemnify and hold harmless the seller of any Registrable Securities covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such securities and each other Person, if any, who controls such seller or any such underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such seller or any such director, officer or underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such seller and each such director, officer, underwriter and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding; *provided* that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating that it is for use in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller or any such director, officer, underwriter or controlling person and shall survive the transfer of such securities by such seller.

(b) **Indemnification by the Sellers.** The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to Section 2.3, that the Company shall have received an undertaking satisfactory to it from the prospective seller of such Registrable Securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 2.5(a)) the Company, its directors and officers and each other Person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement. Such indemnity shall remain in full force and effect, regardless of any investigation

made by or on behalf of the Company or any such director, officer or controlling Person and shall survive the transfer of such securities by such seller.

(c) **Notices of Claims; Indemnification Procedures.** Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in Section 2.5(a) or 2.5(b), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action, *provided* that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under Section 2.5(a) or 2.5(b), as the case may be, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, the indemnifying party shall be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party

of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

(d) **Other Indemnification.** Indemnification similar to that specified in this Section 2.5 (with appropriate modifications) shall be given by the Company and each seller of Registrable Securities with respect to any required registration or other qualification of securities under any Federal or state law or regulation of any governmental authority other than the Securities Act.

(e) **Indemnification Payments.** The indemnification required by this Section 2.5 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

(f) **Contribution.** If the indemnification provided for in this Section 2.5 from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying and indemnified party in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties'

relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. In no event shall the liability of any seller of Registrable Securities hereunder be greater in amount than the net amount received by such seller from the sale of Registrable Securities pursuant to such registration statement. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 2.5(f) were determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in this Section 2.5(f). No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

2.6. Adjustments Affecting Registrable Securities. The Company will not effect or permit to occur any combination or subdivision of shares which would adversely affect the ability of the holders of Registrable Securities to include such Registrable Securities in any registration of its securities or the marketability of such Registrable Securities under any such registration.

2.7. Holdback Agreements.

(a) **Holders' Agreement.** If and to the extent requested by the managing underwriter in connection with any underwritten offering of Common Stock in which Holders of Registrable Securities have the right to participate under Section 2.1 or 2.2, each Holder participating in such underwritten offering shall agree in writing that such Holder will not, without the consent of the managing underwriter for such offering (except for shares included in such offering): (x) effect any public sale or distribution of any Common Stock, or any securities convertible into, or exercisable or exchangeable for, Common Stock for a period of 180 days after the effective date of the registration statement relating to the Initial Public Offering or 90 days after the date of the final prospectus included in the registration statement relating to, or the closing of, any other offering or (y) effect any other transfer of any of the foregoing during such 180- or 90-day period, as applicable, unless the transferee agrees in writing to be bound by the terms and conditions of this Section 2.7(a).

(b) **Company Agreement.** If and to the extent requested by the managing underwriter in connection with any underwritten offering at the request of the Holders pursuant to Section 2.1, the Company shall agree not to effect any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, for its own account, during the seven days prior to and for a period of 90 days following the date of the final prospectus included in the registration statement relating to, or the closing of, any offering (except as part of such underwritten registration or pursuant to a registration on Form S-4 or Form S-8).

2.8. Limitation on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the Registrable Securities, enter into any agreement with any holder or prospective holder of any Company security giving such holder or prospective holder any registration rights

the terms of which are more favorable than the registration rights granted to the Holders hereunder, or which would reduce the amount of Registrable Securities the holders can include in any registration statement filed pursuant to Section 2.1 hereof, unless such rights are subordinate to those of the Holders.

3. RULE 144. If the Company shall have filed a registration statement pursuant to the requirements of Section 12 of the Exchange Act or a registration statement pursuant to the requirements of the Securities Act, the Company will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder and will take such further action as any Holder may reasonably request, all to the extent required from time to time, including the timely preparation and delivery of certificates representing Registrable Securities to be sold, to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 . Upon the request of any Holder, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

4. AMENDMENTS AND WAIVERS. This Agreement may be amended and the Company may take any action herein prohibited or omit to perform any act herein required to be performed by it, only if the Company shall have obtained the written consent to such amendment, action or

omission to act, of the Holder or Holders of a majority of the Registrable Securities. Each Holder of any Registrable Securities at the time or thereafter outstanding shall be bound by any consent authorized by this Section 4, whether or not such Registrable Securities shall have been marked to indicate such consent.

5. NOTICES. Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered (i) three (3) Business Days after deposit in the United States mail, with proper postage prepaid, (ii) when sent after receipt of confirmation or answerback if sent by telecopy, other similar facsimile transmission or electronic mail, (iii) one (1) Business Day after deposited with a reputable overnight courier with all charges prepaid, or (iv) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

If to the Company, at:

Midland States Bancorp, Inc.
133 West Jefferson Avenue
Effingham, Illinois 62401
Attention: Jeffrey G. Ludwig
Executive Vice President and Chief Financial Officer
Electronic Mail: jludwig@midlandstatesbank.com
Telecopy: (217) 342-9462
Confirmation: (217) 342-7331

With a copy to:

Barack Ferrazzano Kirschbaum & Nagelberg, LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Attention: Dennis R. Wendte
Electronic Mail: Dennis.Wendte@bfkn.com
Telecopy: (312) 984-3150
Confirmation: (312) 984-3188

If to Holders, at:

Richard E. Workman 2001 Trust
5180 Vardon Drive
Windemere, Florida 34786
Attention: Dr. Richard Workman, Trustee
Electronic Mail: rworkman@heartlanddentalcare.com
Telecopy: 217-540-5629
Confirmation: 217-540-5100

With a copies to:

Travis Franklin
1200 Network Centre Drive
Suite 21
Effington, IL 62401
Electronic Mail: tfranklin@heartlanddentalcare.com
Telecopy: 217-540-5629
Confirmation: 217-540-5155

Schiff Hardin, LLP
6600 Sears Tower
Chicago, IL 60606
Attention: Robert R. Pluth
Electronic Mail: rpluth@schiffhardin.com
Telecopy: (312) 258-5600
Confirmation: (312) 258-5535

or to such other address or number as each party designates to the other in the manner herein prescribed.

6. ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns. The Initial Holder may assign, at any time, any or all of its rights hereunder with respect to any Registrable Securities held by the Initial Holder (but only with all related obligations) to an Affiliate, and any Holder (including the Initial Holder) may assign any or all of its rights hereunder (but only with all related obligations) to any Person or Persons to whom the Holder transfers or assigns (i) the Warrants, in whole or in part, in accordance with the terms and

conditions thereof, (ii) any shares of Series C Preferred Stock or Series D Preferred Stock issued upon the exercise of the Warrants, or (iii) any shares of Common Stock issued upon the conversion of such Series C Preferred Stock or Series D Preferred Stock, with respect to any Registrable Securities acquired by such Person or Persons as a result of such transfer or assignment; *provided that* (i) the Company is, within thirty (30) Business Days after such transfer or assignment, furnished with written notice of the name and address of such transferee(s) or assignee(s) and the securities with respect to which such registration rights are being assigned and (ii) each such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement through the execution and delivery of a joinder, substantially in the form of Exhibit A hereto.

7. TERM. This Agreement shall terminate on the earlier of: (i) April 1, 2016; and (ii) the date on which the no Holder owns any Registrable Securities; provided, that, the indemnification rights and obligations pursuant to Section 2.5, as well as the Company's obligations to pay Registration Expenses pursuant to this Agreement, shall survive with respect to any registration statement in which any Registrable Securities of the Holders were included; and provided further, that the Company shall be obligated to comply with any request for registration of Registrable Securities received under Section 2.1(a) or 2.2(a) prior to such termination date, whether or not such registration has been completed by the date on which this Agreement terminates.

8. DESCRIPTIVE HEADINGS; ADVICE OF COUNSEL; INTERPRETATION; TIME OF THE ESSENCE. The descriptive headings of the several sections and paragraphs of this Agreement are inserted for references only and shall not limit or otherwise affect the meaning hereof. Each party to this Agreement represents to the other parties to this Agreement that such party has been represented by counsel in connection with this Agreement, that such party has discussed this Agreement with its counsel and that any and all issues with respect to this Agreement have been resolved as set forth herein and therein. No provision of this Agreement shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured, drafted or dictated such provision. Time is of the essence in the performance of this Agreement.

9. SPECIFIC PERFORMANCE. The parties hereto recognize and agree that money damages may be insufficient to compensate the holders of any Registrable Securities for breaches by the Company of the terms hereof and, consequently, that the equitable remedy of specific performance of the terms hereof will be available in the event of any such breach.

10. GOVERNING LAW. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Illinois.

11. CONSENT TO JURISDICTION. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT MAY BE BROUGHT IN STATE OR FEDERAL COURTS LOCATED IN COOK COUNTY, ILLINOIS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, THE COMPANY HEREBY IRREVOCABLY ACCEPTS, UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING. THE COMPANY FURTHER

IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT ITS ADDRESS PROVIDED IN SECTION 5, SUCH SERVICE TO BECOME EFFECTIVE UPON RECEIPT. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY HOLDER OF REGISTRABLE SECURITIES TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT BROUGHT IN ANY OF THE AFORESAID COURTS AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

12. COUNTERPARTS; ELECTRONIC SIGNATURES. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all such counterparts shall together constitute one and the same instrument. Delivery or an executed counterpart of a signature page to this Agreement by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK. SIGNATURES ON THE FOLLOWING PAGE.]

IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be executed and delivered by their respective officers hereunto duly authorized as of the date first above written.

MIDLAND STATES BANCORP, INC.

By: /s/ Jeff Ludwig
Name: Jeff Ludwig
Title: EVP and CFO

RICHARD E. WORKMAN 2001 TRUST

By: /s/ Richard E. Workman
Name: Richard E. Workman
Title: Trustee

Exhibit A

**FORM OF JOINDER TO THE
REGISTRATION RIGHTS AGREEMENT**

THIS JOINDER (this "Joinder") is made and entered into as of [ ], by and between Midland States Bancorp, a Delaware corporation (the "Company"), and [ ] (the "Holder"). This Joinder joins the Holder to the Registration Rights Agreement (the "Agreement"), dated as of December 31, 2010, by and among the Company and the Initial Holder (as defined in the Agreement). Capitalized terms used in this Joinder but not otherwise defined will have the meanings set forth in the Agreement.

WHEREAS, (i) the Holder has acquired, directly or indirectly, shares of Common Stock through the acquisition of Warrants, shares of Series C Preferred Stock or Series D Preferred Stock issued upon the exercise of the Warrants, or shares of Common Stock issued upon the conversion of such Series C Preferred Stock or Series D Preferred Stock (the "Purchased Shares"), (ii) the Company desires to grant to the Holder certain registration rights in accordance with the terms of the Agreement, and (iii) it is a condition to the transfer or grant of such rights to the Holder that the Holder agrees to be bound by the terms of the Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Joinder and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Joinder hereby agree as follows:

1. Agreement to be Bound. The Holder and the Company agree that upon execution of this Joinder, the Holder will become a party to the Agreement and will be fully bound by, and subject to all of the covenants, terms and conditions of the Agreement as though an original party to the Agreement, and the Purchased Shares will be deemed Registrable Securities for all purposes of the Agreement, subject to the terms and conditions contained in the Agreement.

2. Successors and Assigns. Except as otherwise provided in this Joinder, this Joinder will bind and inure to the benefit of and be enforceable by the Company and its successors and assigns and the Holder and any subsequent Holders of the Purchased Shares and the respective successors and assigns of each of them, so long as they hold such shares.

3. Counterparts. This Joinder may be executed in multiple counterparts (including facsimile and electronic counterparts), each of which shall be deemed to be an original and shall be binding upon the party who executed the same, and all of which taken together shall constitute one and the same agreement.

4. Governing Law. All issues and questions concerning the application, construction, validity, interpretation and enforcement of this Joinder shall be governed by, and construed in accordance with the laws of the State of Illinois, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Illinois or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Illinois.

5. Descriptive Headings. The headings in this Joinder are inserted for convenience only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Joinder or any provision of this Joinder.

IN WITNESS WHEREOF, the parties to this Joinder have executed this Joinder as of the date first above written.

MIDLAND STATES BANCORP, INC.

By: _____
Its: _____

_____
[HOLDER]

AMENDMENT AGREEMENT

THIS AMENDMENT AGREEMENT (this "Agreement"), dated as of May 11, 2011, is by and between MIDLAND STATES BANCORP, INC., an Illinois corporation and successor by merger to Midland States Bancorp, Inc., a Delaware corporation ("Borrower"), and RICHARD E. WORKMAN 2001 TRUST, an Illinois trust dated July 4, 2001 ("Lender").

RECITALS:

A. Borrower and Lender are parties to:

(i) that certain Amended and Restated Credit Agreement, dated as of December 31, 2010 (as amended, modified or supplemented from time to time, the "Credit Agreement");

(ii) that certain Amended and Restated 2009 Exchange and Warrant Purchase Agreement, dated as of December 31, 2010 (the "2009 Warrant Purchase Agreement"), pursuant to which Borrower issued and granted to Lender that certain Preferred Stock Purchase Warrant, dated December 31, 2010 (the "Series C Warrant"), which grants Lender the right to purchase up to 630 shares of Borrower's Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock ("Series C Preferred Stock");

(iii) that certain Amended and Restated 2010 Exchange and Warrant Purchase Agreement, dated as of December 31, 2010 (the "2010 Warrant Purchase Agreement"), pursuant to which Borrower issued and granted to Lender that certain Preferred Stock Purchase Warrant, dated December 31, 2010 (the "Series D Warrant"), which grants Lender the right to purchase up to 500 shares of Borrower's Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock ("Series D Preferred Stock"); and

(iv) that certain Registration Rights Agreement, dated as of January 18, 2011 (the "Rights Agreement"), pursuant to which Borrower granted to Lender and its permitted assignees certain registration rights with respect to shares of Borrower's common stock, par value $0.01 per share ("Common Stock"), including any of such common stock issuable upon conversion of any shares of Series C Preferred Stock or Series D Preferred Stock acquired upon exercise of the Series C Warrant or Series D Warrant, respectively.

B. Borrower desires to amend the Credit Agreement, the 2009 Warrant Purchase Agreement, the 2010 Warrant Purchase Agreement and the Rights Agreement, and Lender is willing to do so on the terms and subject to the conditions set forth herein.

C. Concurrently herewith, in connection with the amendment of the 2009 Warrant Purchase Agreement and the 2010 Warrant Purchase Agreement: (i) Borrower is executing and delivering to Lender that certain Preferred Stock Purchase Warrant, dated May 11, 2011, pursuant to which Lender has the right to purchase up to 630 shares of Borrower's Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series E Preferred Stock" and such Warrant, the "Series E Warrant"), and Lender is surrendering to Borrower the Series C

Warrant in exchange for the Series E Warrant; and (ii) Borrower is executing and delivering to Lender that certain Preferred Stock Purchase Warrant, dated May 11, 2011, pursuant to which Lender has the right to purchase up to 500 shares of Borrower's Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series F Preferred Stock" and such Warrant, the "Series F Warrant"), and Lender is surrendering to Borrower the Series F Warrant in exchange for the Series D Warrant.

NOW, THEREFORE, in consideration of the premises, the terms and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms defined in the Credit Agreement which are used herein shall have the meanings as are set forth in the Credit Agreement on the date hereof for such terms unless otherwise defined herein, subject to the next sentence of this Section 1. References to the Credit Agreement and the other Financing Documents shall be deemed to refer to such Financing Documents as amended hereby except in Sections 3, 4, 5, 6 and 7 where such references shall be deemed to refer to such documents before giving effect to the amendments set forth in this Agreement.

2. Confirmation of Liabilities. Borrower agrees and acknowledges that the obligations and the unpaid balance of the Liabilities remain outstanding as of the date hereof and shall remain outstanding after the Effective Date (as defined below) and after giving effect to the transactions contemplated hereby, and the continuance thereof are hereby acknowledged, confirmed and ratified in all respects.

3. Amendments to Credit Agreement. Subject to the complete satisfaction of all of the conditions set forth in Section 9 of this Agreement, the Credit Agreement is amended as follows:

3.1 The following definitions set forth in Section 1.1 of the Credit Agreement are deleted in their entirety:

"Series C Warrant" means that certain Series C Preferred Stock Warrant dated as of December 31, 2010 between Borrower and Lender.

"Series D Warrant" means that certain Series D Preferred Stock Warrant dated as of December 31, 2010 between Borrower and Lender.

3.2 The following definitions are added to Section 1.1 of the Credit Agreement:

"Series E Warrant" means that certain Series E Preferred Stock Purchase Warrant dated as of May 11, 2011 between Borrower and Lender.

"Series F Warrant" means that certain Series F Preferred Stock Purchase Warrant dated as of May 11, 2011 between Borrower and Lender.

3.3 The following definitions in Section 1.1 of the Credit Agreement is amended and restated in its entirety as follows:

"Financing Documents" shall mean, collectively, this Agreement, the Notes, the Exchange Agreements, the Preferred Subscription Documents, the Registration Rights Agreement, the Warrants, and all other documents, instruments and agreements delivered to Lender in connection therewith (including without limitation the Governing Documents as amended in connection with the issuance of the Warrants).

"Warrants" shall mean, collectively, the Series E Warrant and the Series F Warrant.

3.4 Schedule 7.2 to the Credit Agreement is amended and restated as set forth in Schedule 7.2 attached hereto.

4. Amendments to 2009 Warrant Purchase Agreement. Subject to the complete satisfaction of all of the conditions set forth in Section 9 of this Agreement, the 2009 Warrant Purchase Agreement is amended as follows:

4.1 The following definitions are added to Section 1 of the 2009 Warrant Purchase Agreement:

"Series E Preferred Stock" shall mean Borrower's Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock.

"Series F Preferred Stock" shall mean Borrower's Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock.

4.2 Each occurrence of the term "Series C Preferred Stock" in the 2009 Warrant Purchase Agreement is deleted and replaced with the term "Series E Preferred Stock."

4.3 Each occurrence of the term "Series C Warrant" in the 2009 Warrant Purchase Agreement is deleted and replaced with the term "Series E Warrant."

4.4 Each occurrence of the term "Series D Warrant" in the 2009 Warrant Purchase Agreement is deleted and replaced with the term "Series F Warrant."

4.5 Each reference to "Warrants" in the 2009 Warrant Purchase Agreement shall be deemed to be a reference to, collectively, the Series E Warrant and the Series F Warrant.

5. Amendments to 2010 Warrant Purchase Agreement. Subject to the complete satisfaction of all of the conditions set forth in Section 9 of this Agreement, the 2010 Warrant Purchase Agreement is amended as follows:

5.1 The following definitions are added to Section 1 of the 2010 Warrant Purchase Agreement:

"Series E Preferred Stock" shall mean Borrower's Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock.

"Series F Preferred Stock" shall mean Borrower's Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock.

5.2 Each occurrence of the term "Series D Preferred Stock" in the 2010 Warrant Purchase Agreement is deleted and replaced with the term "Series F Preferred Stock."

5.3 Each occurrence of the term "Series C Warrant" in the 2010 Warrant Purchase Agreement is deleted and replaced with the term "Series E Warrant."

5.4 Each occurrence of the term "Series D Warrant" in the 2010 Warrant Purchase Agreement is deleted and replaced with the term "Series F Warrant."

5.5 Each reference to "Warrants" in the 2010 Warrant Purchase Agreement shall be deemed to be a reference to, collectively, the Series E Warrant and the Series F Warrant.

6. Amendments to Rights Agreement. Subject to the complete satisfaction of all of the conditions set forth in Section 9 of this Agreement, the Rights Agreement is amended as follows:

6.1 The following definitions set forth in Section 1.1 of the Rights Agreement are deleted in their entirety:

"Series C Warrant" means the Preferred Stock Purchase Warrant, dated December 31, 2010, pursuant to which the Company has granted the Initial Holder the right to purchase Series C Preferred Stock on the terms and conditions specified therein.

"Series D Preferred Stock" means the Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock of the Company.

"Series D Warrant" means the Preferred Stock Purchase Warrant, dated December 31, 2010, pursuant to which the Company has granted the Initial Holder the right to purchase Series D Preferred Stock on the terms and conditions specified therein.

6.2 The following definitions are added to Section 1.1 of the Rights Agreement:

"Series E Preferred Stock" means the Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock of the Company.

"Series E Warrant" means the Preferred Stock Purchase Warrant, dated May 11, 2011, pursuant to which the Company has granted the Initial Holder the right to purchase Series E Preferred Stock on the terms and conditions specified therein.

"Series F Preferred Stock" means the Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock of the Company.

"Series F Warrant" means the Preferred Stock Purchase Warrant, dated May 11, 2011, pursuant to which the Company has granted the Initial Holder the right to purchase Series F Preferred Stock on the terms and conditions specified therein.

6.3 The following definitions set forth in Section 1.1 of the Rights Agreement are amended and restated in their entirety as follows:

"Registrable Securities" means any shares of Common Stock: (a) held by the Initial Holder at any time, including any shares of Common Stock issued or issuable upon the conversion of the Series C Preferred Stock currently held by the Initial Holder; (b) issued or issuable upon the conversion of any shares of Series E Preferred Stock or Series F Preferred Stock acquired or that may be acquired by any Holder upon the exercise of a Warrant; or (c) issued or issuable with respect to any shares of Common Stock referred to in the preceding clauses (a) and (b) by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to any particular Registrable Securities, once issued, such securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities have been sold pursuant to such registration statement, (ii) such securities shall have been sold to the public pursuant to Rule 144, (iii) such securities shall have ceased to be outstanding, or (iv) such securities have been transferred in a transaction in which the transferor's rights hereunder are not assigned to a transferee or transferees in accordance with Section 6 hereof. For purposes of this Agreement, a Person will be deemed to be a holder of Registrable Securities whenever such Person has the right to acquire such Registrable Securities (by conversion, exercise or otherwise, including successive exercises and conversions), whether or not such acquisition has actually been effected.

"Warrants" means, collectively, the Series E Warrant and the Series F Warrant.

6.4 Section 6 of the Rights Agreement is amended and restated in its entirety as follows:

6. ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns. The Initial Holder may assign, at any time, any or all of its rights hereunder with respect to any Registrable Securities held by the Initial Holder (but only with all related obligations) to an Affiliate, and any Holder (including the Initial Holder) may assign any or all of its rights hereunder (but only with all related obligations) to any Person or Persons to whom the Holder transfers or assigns (i) the Warrants, in whole or in part, in accordance with the terms and conditions thereof, (ii) any shares of Series E Preferred Stock or Series F Preferred Stock issued upon the exercise of the Warrants, or (iii) any shares of Common Stock issued upon the conversion of such Series E Preferred Stock or Series F Preferred Stock, with respect to any Registrable Securities acquired by such Person or Persons as a result of such transfer or assignment; *provided that* (i) the Company is, within thirty (30) Business Days after such transfer or assignment, furnished with written notice of the name and address of such transferee(s) or assignee(s) and the securities with respect to which such registration rights are being assigned and (ii) each such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement through the execution and delivery of a joinder, substantially in the form of Exhibit A hereto.

6.5 Exhibit A to the Rights Agreement is amended and restated in its entirety in the form of Exhibit A attached hereto.

7. Amendments to Letter Agreement. Subject to the complete satisfaction of all of the conditions set forth in Section 9 of this Agreement, that certain letter agreement dated December 31, 2010 between Lender and Borrower is amended by deleting clauses (f) and (g) of the first grammatical sentence thereof and inserting in lieu thereof the following:

(f) that certain Preferred Stock Purchase Warrant issued by the Company in favor of Lender regarding the Series E Preferred Stock (as amended, modified, supplemented or restated from time to time, the "Series E Warrant"), and (g) that certain Preferred Stock Purchase Warrant issued by the Company in favor of Lender regarding the Company's Series F 9% Non-Cumulative Perpetual Convertible Stock (the "Series F Preferred Stock" and, together with the Series E Preferred Stock, collectively, the "Preferred Stock") (as amended, modified, supplemented or restated from time to time, the "Series F Warrant" and, together with the Series E Warrant, collectively, the "Warrants").

8. Issuance of Warrants.

8.1 Issuance of Series E Warrant. On the Effective Date: (a) Borrower shall issue and grant to Lender a Preferred Stock Purchase Warrant, in the form attached hereto as Exhibit B, pursuant to which Lender shall have the right to purchase up to 630 shares of Series E Preferred Stock, subject to adjustment as provided therein and on the terms and conditions specified therein (the "Series E Warrant"); and (b) Lender shall surrender to Borrower the Series C Warrant in exchange for the Series E Warrant.

8.2 Issuance of Series F Warrant. On the Effective Date: (a) Borrower shall issue and grant to Lender a Preferred Stock Purchase Warrant, in the form attached hereto as Exhibit C, pursuant to which Lender shall have the right to purchase up to 500 shares of Series F Preferred Stock, subject to adjustment as provided therein and on the terms and conditions specified therein (the "Series F Warrant"; the Series E Warrant and the Series F Warrant are referred to herein, collectively, as the "Warrants"); and (b) Lender shall surrender to Borrower the Series D Warrant in exchange for the Series F Warrant.

9. Conditions to Effective Date. Sections 3, 4, 5, 6, 7 and 8 of this Agreement will become effective only when each of the following conditions has been satisfied as determined by Lender in its reasonable discretion (the date of such satisfaction being hereafter referred to as the "Effective Date"):

9.1 Documents. Lender shall have received each of the following agreements, instruments and other documents, in each case in form and substance acceptable to Lender in its reasonable discretion:

(a) this Agreement duly executed and delivered by Borrower and Lender;

(b) the documents, instruments, agreements, opinions, certificates and other items listed on the Document Checklist attached hereto as Exhibit D; and

(c) such other documents, instruments, agreements, opinions, certificates and other items as Lender may request.

9.2 Charter Amendment. Borrower's Charter has been amended to adopt the "Statement of Resolutions Establishing Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock" in the form attached hereto as Exhibit E and to adopt the "Statement of Resolutions Establishing Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock" in the form attached hereto as Exhibit F.

9.3 Proceedings; Approvals. All corporate proceedings taken or to be taken in connection with the transactions contemplated hereby and all agreements, instruments, certificates and other documents relating thereto shall be in form and substance satisfactory to Lender as determined in its reasonable discretion. All regulatory and other legal approvals required in connection with the transactions contemplated by this Agreement, if any, shall have been duly obtained and be in full force and effect.

9.4 Representations and Warranties; No Default. As of the Effective Date, both immediately before and after giving effect to consummation of the transactions contemplated hereby: (a) the representations and warranties contained in this Agreement and in the Financing Agreements shall be true and correct; and (b) no Default or Event of Default shall exist.

9.5 Legal. All regulatory and other legal matters relating to the transactions contemplated hereby shall be satisfactory to Lender (and its legal counsel).

9.6 Fees. All fees and expenses required to be paid to Lender and Lender's counsel on or prior to the Effective Date shall have been paid in full.

10. Acknowledgment of Rights. Borrower hereby acknowledges that, as of the Effective Date: (a) it has no defenses, claims or set-offs to the enforcement by Lender of the Liabilities, and (b) Lender has fully performed all undertakings and obligations owed to Borrower under the Financing Documents.

11. Release. Borrower, for itself and its shareholders, directors, officers, successors, assigns, heirs and representatives, does hereby fully, finally and unconditionally release and forever discharge Lender and each of its shareholders, affiliates, agents, attorneys, employees, directors, and officers and the successors, assigns, heirs and representatives of each of the foregoing, from any and all debts, claims, obligations, damages, costs, attorneys' fees, suits, demands, liabilities, actions, proceedings and causes of action, in each case whether known or unknown, contingent or fixed, direct or indirect and of whatever nature or description and whether in law or in equity under contract, tort, statute or otherwise, which Borrower has heretofore had or now or hereafter can, shall or may have by reason of any act, omission or thing whatsoever done or omitted to be done on or prior to the Effective Date arising out of, connected with or related in any way to this Agreement, the Credit Agreement, the other Financing Documents, any proposal letter, commitment letter or term sheet, or any act, event or transaction related or attendant thereto, the agreements of Lender contained therein, the possession, use, operation or control of any of the assets of Borrower, the making of any loan or any other advances, the management of any loan or other advances or any collateral or any other matter whatsoever.

12. Representations, Warranties and Agreements. Borrower represents, warrants and agrees that:

12.1 Existence and Power. Borrower: (a) is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois; and (b) has the corporate power and authority and all governmental licenses, authorizations, consents and approvals to own its assets and carry on its business and to execute, deliver, and perform its obligations under this Agreement, the Credit Agreement, the Warrants and the other Financing Documents to which it is a party.

12.2 Authorization; No Contravention. The execution, delivery and performance by Borrower of this Agreement, the Credit Agreement, the Warrants and the other Financing Documents to which it is a party have been duly authorized by all necessary action,

and do not: (i) contravene the terms of any of Borrower's Governing Documents; (ii) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any Financing Document or other Contractual Obligation to which Borrower is a party or any order, injunction, writ or decree of any Governmental Authority to which Borrower or its Property is subject; or (iii) violate any Requirement of Law binding on Borrower.

12.3 Warrants, Etc. The Statement of Resolution Establishing Series of Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock of Borrower and the Statement of Resolution Establishing Series of Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock of Borrower have been filed with the Secretary of State of Illinois and are effective. The Series E Warrant is exercisable, upon the basis and upon the terms and conditions specified therein, for the same number of shares of Borrower Series E Preferred Stock as the number of shares of Series C Preferred Stock issuable upon the exercise of the Series C Warrant immediately prior to the effectiveness of this Agreement and the transactions contemplated hereby; and the Series F Warrant is exercisable, upon the basis and upon the terms and conditions specified therein, for the same number of shares of Borrower Series F Preferred Stock as the number of shares of Series D Preferred Stock issuable upon the exercise of the Series D Warrant immediately prior to the Reincorporation immediately prior to the effectiveness of this Agreement and the transactions contemplated hereby. The authorized, issued and outstanding Equity Interests of Borrower as of the Effective Date are as set forth on attached Schedule 7.2. The issuance of (i) the shares of Borrower Series E Preferred Stock and Borrower Series F Preferred Stock issuable upon exercise of the Warrants and (ii) the shares of common stock of Borrower into which such shares of Borrower Series E Preferred Stock and the Borrower Series F Preferred Stock are convertible, in accordance with the Series E Statement of Resolution and the Series F Statement of Resolution, respectively, has been duly authorized by all necessary corporate action on the part of Borrower. The Borrower has duly reserved for issuance, out of its authorized and unissued shares of capital stock, (i) such number of shares of Borrower Series E Preferred Stock and Borrower Series F Preferred Stock as are issuable upon the exercise of the Series E Warrant and Series F Warrant, respectively, and (ii) such number of shares of common stock of Borrower into which such shares of Borrower Series E Preferred Stock and Borrower Series F Preferred Stock are convertible, in accordance with the Series E Statement of Resolution and the Series F Statement of Resolution, respectively, as of the date hereof. All of the shares of Borrower Series E Preferred Stock and Borrower Series F Preferred Stock issuable upon the exercise of the Warrants will be, upon such exercise, and all of the shares of common stock of Borrower issuable upon the conversion of such shares of Borrower Series E Preferred Stock and Borrower Series F Preferred Stock will be, upon such conversion, validly issued, fully paid, and non-assessable and free of statutory and contractual preemptive rights. The issuance by Borrower of the Borrower Series E Preferred Stock and Borrower Series F Preferred Stock to Lender upon the exercise of the Warrants and the issuance of the common stock of Borrower to Lender upon the conversion of such Borrower Series E Preferred Stock and Borrower Series F Preferred Stock do not require registration under the Securities Act of 1933, as amended, or registration or qualification under the securities laws of the State of Illinois.

12.4 Governmental Authorization. No approval, consent, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, Borrower

of this Agreement, the Credit Agreement, the Warrants and the other Financing Documents to which it is a party, except those obtained or made on or prior to the date of this Agreement.

12.5 Binding Effect. This Agreement, the Credit Agreement, the Warrants and the other Financing Documents to which Borrower is a party constitute the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

12.6 Conditions. Each of the conditions to the occurrence of the Effective Date set forth in Section 9 of this Agreement has occurred and each of the representations and warranties set forth in this Agreement are true and correct in all material respects.

12.7 Survival. All indemnification obligations of Borrower contained in the Credit Agreement and the other Financing Documents shall survive and continue in favor of Lender and each other indemnified Person thereunder. In addition, the representations, warranties and agreements made in this Agreement, or in any document delivered pursuant hereto, shall survive the execution and delivery of this Agreement and the consummation of the transactions described herein or contemplated hereby or by the Financing Documents.

13. Effect.

13.1 Upon the Effective Date, each reference in any of the Agreements and all documents, instruments and agreements executed and/or delivered in connection with any of the Agreements to any agreement amended or amended and restated in connection with the conditions to the Effective Date shall mean and be a reference to the agreement, instrument or document as so amended or so amended and restated.

13.2 Except for the Series C Warrant (which is being exchanged for the Series E Warrant pursuant to Section 8.1 hereof) and the Series D Warrant (which is being exchanged for the Series F Warrant pursuant to Section 8.2 hereof), the Credit Agreement, the other Financing Documents and all documents, instruments and agreements executed and/or delivered in connection with any of the Financing Documents shall remain in full force and effect, and are hereby ratified and confirmed in all respects.

13.3 The execution, delivery and effectiveness of this Agreement shall not: (a) operate as a waiver of any Default or Event of Default; (b) operate as a waiver of any right, power or remedy of Lender; or (c) constitute a waiver of any other provision of the Credit Agreement or any other Financing Document.

13.4 Each of this Agreement and the Warrants shall be deemed to be Financing Documents under the Credit Agreement.

14. General.

14.1 Further Assurances. Promptly upon request by Lender, Borrower shall, and Borrower shall cause each of its Subsidiaries to, take such additional actions as Lender may

reasonably require from time to time in order to: (a) carry out more effectively the purposes of this Agreement; and (b) better assure, convey, grant, assign, transfer, preserve, protect and confirm to Lender the rights granted or now or hereafter intended to be granted to Lender under this Agreement or under any other document executed in connection therewith.

14.2 Costs and Attorneys' Fees. Borrower shall reimburse Lender on demand for all expenses and fees paid or incurred in connection with the analysis, documentation, negotiation and closing of this Agreement, including the reasonable fees and expenses of Lender's attorneys and paralegals and consultants (whether such attorneys and paralegals are employees of Lender or are separately engaged by Lender), whether such expenses and fees are incurred prior to or after the date hereof.

14.3 Parties. Whenever in this Agreement there is reference made to any of the parties hereto, such reference shall be deemed to include, wherever applicable, a reference to the successors and assigns of Borrower and the successors and assigns of Lender, and the provisions of this Agreement shall be binding upon and shall inure to the benefit of said successors and assigns.

14.4 Choice of Law. This Agreement shall be deemed to be executed and has been delivered and accepted in Chicago, Illinois by signing and delivering it there. This Agreement shall be governed and controlled by, and construed in accordance with the laws of the State of Illinois as to interpretation, enforcement, validity, construction, effect, choice of law, and in all other respects. Any dispute between the parties hereto arising out of, connected with, related to, or incidental to the relationship established between them in connection with this Agreement, and whether arising in contract, tort, equity, or otherwise, shall be resolved in accordance with the internal laws and not the conflicts of law provisions of the State of Illinois.

14.5 **Waiver of Jury Trial. Borrower and Lender waive any right to have a jury participate in resolving any dispute, whether sounding in contract, tort, or otherwise, between Lender and Borrower arising out of, connected with, related to or incidental to the relationship established between them in connection with this Agreement or any other instrument, document or agreement executed or delivered in connection therewith or the transactions related thereto. Borrower and Lender hereby agree and consent that any such claim, demand, action or cause of action shall be decided by court trial without a jury and that any party may file an original counterpart or a copy of this Agreement with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.**

14.6 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

14.7 Section Titles. Article, section and subsection titles contained in this Agreement shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties.

14.8 Counterparts. This Agreement may be executed and accepted in any number of counterparts, each of which shall be an original with the same effect as if the signatures were on the same instrument. The delivery of a copy of an executed counterpart of the signature page to this Agreement by telecopier or other electronic means (including by email) shall be effective as delivery of a manually executed counterpart of this Agreement.

[Signature Page Follows]

[Remainder of Page Left Blank Intentionally]

IN WITNESS WHEREOF, this Amendment Agreement has been duly executed as of the day and year first above written.

MIDLAND STATES BANCORP, INC.

By: /s/ Douglas J. Tucker

Name: Douglas J. Tucker

Title: Senior Vice President and Corporate Counsel

RICHARD E. WORKMAN 2001 TRUST

By: /s/ Richard E. Workman
Name: Richard E. Workman
Title: Trustee

(*Signature Page to Amendment Agreement*)

EXHIBIT A

* * *

FORM OF JOINDER TO THE
REGISTRATION RIGHTS AGREEMENT

THIS JOINDER (this "Joinder") is made and entered into as of [ ], by and between Midland States Bancorp, an Illinois corporation (the "Company"), and [ ] (the "Holder"). This Joinder joins the Holder to the Registration Rights Agreement, dated as of December 31, 2010 (as heretofore amended, modified or supplemented from time to time, the "Agreement"), by and among the Company and the Initial Holder (as defined in the Agreement). Capitalized terms used in this Joinder but not otherwise defined will have the meanings set forth in the Agreement.

WHEREAS, (i) the Holder has acquired, directly or indirectly, shares of Common Stock through the acquisition of Warrants, shares of Series E Preferred Stock or Series F Preferred Stock issued upon the exercise of the Warrants, or shares of Common Stock issued upon the conversion of such Series E Preferred Stock or Series F Preferred Stock (the "Purchased Shares"), (ii) the Company desires to grant to the Holder certain registration rights in accordance with the terms of the Agreement, and (iii) it is a condition to the transfer or grant of such rights to the Holder that the Holder agrees to be bound by the terms of the Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Joinder and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Joinder hereby agree as follows:

1. Agreement to be Bound. The Holder and the Company agree that upon execution of this Joinder, the Holder will become a party to the Agreement and will be fully bound by, and subject to all of the covenants, terms and conditions of the Agreement as though an original party to the Agreement, and the Purchased Shares will be deemed Registrable Securities for all purposes of the Agreement, subject to the terms and conditions contained in the Agreement.

2. Successors and Assigns. Except as otherwise provided in this Joinder, this Joinder will bind and inure to the benefit of and be enforceable by the Company and its successors and assigns and the Holder and any subsequent Holders of the Purchased Shares and the respective successors and assigns of each of them, so long as they hold such shares.

3. Counterparts. This Joinder may be executed in multiple counterparts (including facsimile and electronic counterparts), each of which shall be deemed to be an original and shall be binding upon the party who executed the same, and all of which taken together shall constitute one and the same agreement.

4. Governing Law. All issues and questions concerning the application, construction, validity, interpretation and enforcement of this Joinder shall be governed by, and construed in accordance with the laws of the State of Illinois, without giving effect to any choice

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of law or conflict of law rules or provisions (whether of the State of Illinois or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Illinois.

5. Descriptive Headings. The headings in this Joinder are inserted for convenience only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Joinder or any provision of this Joinder.

IN WITNESS WHEREOF, the parties to this Joinder have executed this Joinder as of the date first above written.

MIDLAND STATES BANCORP, INC.

By: _____
Its: _____

_____
[HOLDER]

EXHIBIT B

Form of Series E Warrant

Series E Preferred Stock
Warrant No. P-1

THIS WARRANT AND ANY SHARES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SUCH ACT.

MIDLAND STATES BANCORP, INC.

Preferred Stock Purchase Warrant
Expiring April 1, 2016

Effingham, Illinois
May 11, 2011

MIDLAND STATES BANCORP, INC., an Illinois corporation (the **"Company"**), for value received, hereby certifies that RICHARD E. WORKMAN 2001 TRUST (Richard E. Workman 2001 Trust and each Person to whom this Warrant has been assigned or transferred in accordance with the terms hereof is referred to herein as a **"holder"**) is entitled to purchase from the Company six hundred thirty (630) duly authorized, validly issued, fully paid and nonassessable shares of the Company's Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock, $2.00 par value per share (the **"Original Preferred Stock"**), at an initial exercise price per share of $10,000 per share, at any time or from time to time after the date of this Warrant and prior to 5:00 p.m., Chicago time, on April 1, 2016, subject to extension as provided in Section 1G (such time and date, as extended pursuant to Section 1G, if applicable, the **"Expiration Date"**), all subject to the terms, conditions and adjustments set forth below in this Warrant.

This Warrant (the **"Warrant"**, such term to include each Warrant issued in substitution herefor) is being issued in exchange for that certain Series C Preferred Stock Purchase Warrant, dated December 31, 2010, which was issued in connection with the issuance by the Company of the Company's Tranche A 2009 Note due April 1, 2020, in the aggregate principal amount of $6,300,000 (the **"Tranche A 2009 Note"**) pursuant to that certain Amended and Restated Credit Agreement, dated as of December 31, 2010, between the Company and Richard E. Workman 2001 Trust, as Lender (as amended from time to time, the **"Amended and Restated Credit Agreement"**). The Warrant originally issued hereby evidences rights to purchase six hundred thirty (630) shares of Original Preferred Stock, subject to adjustment as provided herein. The term **"Tranche A 2009 Note"** as used herein shall include any note delivered in substitution or exchange for the Tranche A 2009 Note pursuant to the Amended and Restated Credit Agreement. Certain capitalized terms used in this Warrant are defined in Section 15.

Section 1. Exercise of Warrant.

1A. Manner of Exercise. This Warrant may be exercised by the holder hereof, in whole or in part, during normal business hours on any Business Day on or after the date of this Warrant to and including the Expiration Date, by surrender of this Warrant, with the form of subscription at the end hereof (or a reasonable facsimile thereof) duly executed by such holder, to the Company at its principal office at 133 West Jefferson Avenue, Effingham, Illinois 62401, Attention: Douglas J. Tucker, Senior Vice President and Corporate Counsel, or such other office or agency of the Company as the Company

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may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of the Company (or, if such exercise shall be in connection with an underwritten public offering of shares of Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities) subject to this Warrant, at the location at which the underwriters shall have agreed to accept delivery thereof), accompanied by payment in the amount (the "Exercise Payment Amount") obtained by multiplying (a) the number of shares of Original Preferred Stock (without giving effect to any adjustment therein) designated in such form of subscription by (b) $10,000. If this Warrant is exercised before July 1, 2013, the Exercise Payment Amount may be paid solely by the exchange of an amount of the principal of the Tranche A 2009 Note then outstanding equal to the Exercise Payment Amount. If this Warrant is exercised on or after July 1, 2013, the Exercise Payment Amount may be paid, at the option of the holder, (i) in cash, by certified or official bank check payable to the order of the Company or by wire transfer of funds to the Company, (ii) by the exchange of an amount of the principal of the Tranche A 2009 Note then outstanding equal to the Exercise Payment Amount, or (iii) in accordance with Section 1F.

1B. Adjustment to Number of Shares of Preferred Stock. The number of duly authorized, validly issued, fully paid and nonassessable shares of Preferred Stock which the holder of this Warrant shall be entitled to receive upon each exercise hereof shall be determined by multiplying the number of shares of Preferred Stock which would otherwise (but for the provisions of Section 2) be issuable upon such exercise, as designated by the holder hereof pursuant to Section 1A, by a fraction of which (x) the numerator is $10,000 and (y) the denominator is the Exercise Price in effect on the date of such exercise. The **"Exercise Price"** shall initially be $10,000 per share, shall be adjusted and readjusted from time to time as provided in Section 2 and, as so adjusted and readjusted, shall remain in effect until a further adjustment or readjustment thereof is required by Section 2 (and the term **"Exercise Price"** at any time, as used herein, shall mean such price as last adjusted or readjusted).

1C. When Exercise Effective. Each exercise of this Warrant shall be deemed to have been effected and the Exercise Price shall be determined immediately prior to the close of business on the Business Day on which this Warrant shall have been surrendered to the Company as provided in Section 1A, and at such time the Person or Persons in whose name or names any certificate or certificates for shares of Original Preferred Stock (or Other Securities) shall be issuable upon such exercise as provided in Section 1D shall be deemed to have become the holder or holders of record thereof. Notwithstanding the foregoing, if an exercise of all or any portion of this Warrant is being made in connection with (i) a proposed public offering of Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities) subject to this Warrant, (ii) a proposed Transaction, or (iii) a proposed sale of outstanding shares of Preferred Stock (or Other Securities) or Common Stock issuable upon the conversion of Preferred Stock (or Other Securities) subject to this Warrant, then, at the election of the holder of this Warrant, such exercise may be conditioned upon the consummation of such public offering, Transaction or sale, in which case such exercise shall be effective concurrently with the consummation of such public offering, Transaction or sale.

1D. Delivery of Stock Certificates, etc. Promptly after the exercise of this Warrant, in whole or in part, and in any event within three Business Days thereafter (unless such exercise shall be in connection with a public offering of shares of Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities) or in connection with any Transaction or sale of outstanding shares of Preferred Stock (or Other Securities) or Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities), in which event, at the election of the holder of this Warrant, concurrently with the effectiveness of such exercise, as provided in Section 1C, the Company at its expense will cause to be issued in the name of and delivered to the holder hereof or, subject to Section 8, as such holder may direct,

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(1) a certificate or certificates for the number of duly authorized, validly issued, fully paid and nonassessable shares of Preferred Stock (or Other Securities) to which such holder shall be entitled upon such exercise, and

(2) in case such exercise is in part only, a new Warrant or Warrants of like tenor, specifying the aggregate on the face or faces thereof the number of shares of Preferred Stock equal to the number of such shares specified on the face of this Warrant minus the number of such shares designated by the holder upon such exercise as provided in Section 1A.

1E. Fractional Shares. No fractional shares shall be issued upon exercise of this Warrant and no payment or adjustment shall be made upon any exercise on account of any cash dividends on the Preferred Stock or Other Securities issued upon such exercise. If any fractional interest in a share of Preferred Stock would, except for the provisions of the first sentence of this Section 1E, be deliverable upon the exercise of this Warrant, the Company shall, in lieu of delivering the fractional share therefor, pay to the holder exercising this Warrant an amount in cash equal to the Market Price of such fractional interest.

1F. Cashless Exercise. The holder of this Warrant may exercise its right to purchase some or all of the shares of Preferred Stock pursuant to this Warrant on a net basis without the exchange of any funds (a **"Cashless Exercise"**), such that, upon the exercise hereof, the holder hereof receives that number of shares of Preferred Stock subscribed to pursuant to this Warrant less that number of shares of Preferred Stock, valued at Market Price at the time of exercise, equal to the aggregate Exercise Price that would otherwise have been paid by the holder of this Warrant for such shares of Preferred Stock subscribed to. *(For example: a holder exercises the right to purchase 100 shares. At that time the Market Price is $12,000 and the exercise price is $10,000. The aggregate Exercise Price for 100 shares would be $1,000,000. Therefore $1,000,000 ÷ $12,000 = 83.3. The holder would receive 16.7 shares [100-83.3] under a Cashless Exercise).*

1G. Notice of Expiration Date. The Company shall provide the holder of this Warrant with written notice of its expiration no more than 45 days before April 1, 2016, and this Warrant shall not expire until the later of (i) April 1, 2016 or (ii) the 30th day after the date such notice of expiration is given to the holder by the Company.

Section 2. Protection Against Impairment of Rights; Adjustment of Exercise Price.

2A. Adjustments for Combinations of Stock Dividends or Stock Splits. In case the outstanding shares of Preferred Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Preferred Stock, the Exercise Price in effect immediately prior to such combination or consolidation shall be proportionately increased. In case the Company shall, at any time or from time to time after the date hereof, pay a dividend or make a distribution in respect of its Preferred Stock, in each case in shares of its Preferred Stock, or subdivide its outstanding shares of Preferred Stock, by reclassification or otherwise, into a greater number of shares of Preferred Stock, the Exercise Price in effect immediately prior to such dividend, distribution, or subdivision shall be proportionately reduced. Such adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a combination, consolidation, or subdivision. Such adjustments shall be made successively whenever any such event shall occur.

2B. Minimum Adjustment of Exercise Price. If the amount of any adjustment of the Exercise Price required hereunder would be less than one percent of the Exercise Price in effect at the time such adjustment is otherwise so required to be made, such amount shall be carried forward and adjustment with respect thereto made at the time of and together with any subsequent adjustment which,

together with such amount and any other amount or amounts so carried forward, shall aggregate at least one percent of such Exercise Price; provided, that upon the exercise of this Warrant, all adjustments carried forward and not theretofore made up to and including the date of such exercise shall be made to the nearest .00001 of a cent.

2C. Changes in Preferred Stock. If any capital reorganization or reclassification of the capital stock of the Company, any consolidation or merger of the Company with another Person (regardless of which entity is the surviving entity), the sale of all or substantially all of the assets of the Company to another Person, any liquidation of the Company or any other transaction (each such transaction being herein called a **"Transaction"**) shall be effected in such a way that holders of Preferred Stock shall be entitled to receive stock, securities or assets (including cash) upon conversion of or in exchange for Preferred Stock, then, as a condition of the consummation of the Transaction, lawful and adequate provisions (in form satisfactory to the Required Holders) shall be made whereby the holder of this Warrant shall thereafter have the right to receive upon the exercise hereof, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of the Preferred Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, and this Warrant shall thereafter represent the right to receive, such shares of stock, securities or assets (including cash) as may be issued or payable upon conversion of or in exchange for a number of outstanding shares of Preferred Stock equal to the number of shares of Preferred Stock which immediately theretofore were purchasable and receivable upon the exercise of the rights represented hereby had such Transaction not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets (including cash) thereafter deliverable upon the exercise hereof. In the event of a merger or consolidation of the Company with or into another Person as a result of which a number of shares of Preferred stock or other equity interests of the surviving Person greater or less than the number of shares of Preferred Stock of the Company outstanding immediately prior to such merger or consolidation are issuable to holders of Preferred Stock of the Company, then the Exercise Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Preferred Stock of the Company. Notwithstanding anything contained herein to the contrary, the Company shall not effect any Transaction unless prior to the consummation thereof each corporation or entity (other than the Company) which may be required to deliver any securities or other property upon the exercise of Warrants shall assume, by written instrument delivered to each holder of Warrants, the obligation to deliver to such holder such securities or other property as to which, in accordance with the foregoing provisions, such holder may be entitled, and such corporation or entity shall have similarly delivered to each holder of Warrants an opinion of counsel for such corporation or entity, satisfactory to each holder of Warrants, which opinion shall state that all the outstanding Warrants shall thereafter continue in full force and effect and shall be enforceable against such corporation or entity of the Warrants in accordance with the terms hereof and thereof, together with such other matters as such holders may reasonably request. If a purchase, tender or exchange offer is made to and accepted by the holders of more than 50% of the outstanding shares of Preferred Stock of the Company, the Company shall not effect any consolidation, merger or sale with the Person having made such offer or with any Affiliate of such Person, unless prior to the consummation of such consolidation, merger or sale, the holder of this Warrant shall have been given a reasonable opportunity to then elect to receive upon the exercise of this Warrant either the stock, securities or assets then issuable with respect to the Preferred Stock of the Company or the stock, securities or assets (including cash), or the equivalent, issued to previous holders of the Preferred Stock in accordance with such offer as if the shares of Preferred Stock issued upon the exercise of this Warrant had been issued.

2D. Notice of Adjustment. Upon the occurrence of any event requiring an adjustment of the Exercise Price, then and in each such case the Company shall promptly deliver to the holder of this Warrant an Officer's Certificate stating the Exercise Price resulting from such adjustment and the increase or decrease, if any, in the number of shares of Preferred Stock issuable upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Within 90 days after each fiscal year in which any such adjustment shall have occurred, or within 30 days after any request therefor by the holder of this Warrant stating that such holder contemplates the exercise of such Warrant, the Company will obtain and deliver to the holder of this Warrant the opinion of its regular independent auditors or another firm of independent public accountants of recognized national or regional standing selected by the Company's Board of Directors, which opinion shall confirm the statements in the most recent Officer's Certificate delivered under this Section 2D.

2E. Other Notices. In case at any time:

(1) the Company shall declare or pay to the holders of Preferred Stock any dividend, other than a cash dividend in accordance with Section 2(a) of the Certificate of Designation;

(2) the Company shall offer for subscription pro rata to the holders of Preferred Stock any additional shares of stock of any class or other rights;

(3) any matter shall be submitted to the holders of the Preferred Stock for their vote or written consent;

(4) there shall be any capital reorganization, or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation or other entity;

(5) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

(6) the Company, subject to Section 2G(2), shall (i) exercise its right to call and convert all of the then outstanding shares of Preferred Stock into shares of Common Stock pursuant to Section 3(c) of the Certificate of Designation (the **"Mandatory Conversion Right"**), or (ii) exercise its right to call and redeem all of the then outstanding shares of Preferred Stock pursuant to Section 5 of the Certificate of Designation (the **"Mandatory Redemption Right"**);

(7) there shall be made any tender offer for any shares of capital stock of the Company; or

(8) there shall be any other Transaction;

then, in any one or more of such cases, the Company shall give to the holder of this Warrant, (i) at least 15 days prior to (A) the date on which the books of the Company shall close or a record shall be taken (each, a **"Record Date"**) with respect to any event referred to in subsections (1) through (6) above or, if no Record Date is fixed for an event referred to in subsection (6), (B) the date on which it gives notice of exercise of the Mandatory Conversion Right or notice of exercise of the Mandatory Redemption Right, and within five days after it has knowledge of any pending tender offer or other Transaction, written notice of the Record Date for such dividend, distribution or subscription rights, for the exercise of the Mandatory Conversion Right or Mandatory Redemption Right or for determining rights to vote in respect of any matter submitted to the holders of Preferred Stock for their vote or written consent or in respect of

such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up or Transaction or of the date by which shareholders must tender shares in any tender offer and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up or tender offer or Transaction known to the Company, at least 30 days prior written notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such notice in accordance with the foregoing clause (i) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Preferred Stock shall be entitled thereto, or in the case of the exercise of the Mandatory Conversion Right or Mandatory Redemption Right, the conversion date or redemption date, as applicable, and such notice in accordance with the foregoing clause (ii) shall also specify the date on which the holders of Preferred Stock shall be entitled to exchange their Preferred Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, tender offer or Transaction, as the case may be. Such notice shall also state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act or to a favorable vote of security holders, if either is required.

2F. Certain Events. If any event occurs as to which, in the good faith judgment of the Board of Directors of the Company, the other provisions of this Warrant are not strictly applicable or if strictly applicable would not fairly protect the exercise rights of the holders of the Warrants in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall appoint its regular independent auditors or another firm of independent public accountants of recognized national or regional standing which shall give their opinion upon the adjustment, if any, on a basis consistent with such essential intent and principles, necessary to preserve, without dilution, the rights of the holders of the Warrants. Upon receipt of such opinion, the Board of Directors of the Company shall forthwith make the adjustments described therein; provided, that no such adjustment shall have the effect of increasing the Exercise Price as otherwise determined pursuant to this Warrant. The Company may make such reductions in the Exercise Price as it deems advisable, including any reductions necessary to ensure that any event treated for Federal income tax purposes as a distribution of stock or stock rights not be taxable to recipients.

2G. Prohibition of Certain Actions.

(1) The Company shall not, without the prior written consent of the Required Holders:

(a) amend the Certificate of Designation;

(b) declare or pay any dividend or distribution on the Preferred Stock in excess of the dividends payable thereon under Section 2(a) of the Certificate of Designation; or

(c) take any action that requires, under the Certificate of Designation, the vote or written consent of the holders of at least 75% of the shares of Preferred Stock if, as of the record date for such vote or the date of such written consent, the shares of Preferred Stock issuable upon exercise of the Warrants would constitute, after giving effect to such exercise, more than 25% of the then outstanding Preferred Stock.

(2) The Company shall not exercise (a) the Mandatory Conversion Right, or (b) the Mandatory Redemption Right prior to the fifth anniversary of the date on which the Company first issues one or more shares of Preferred Stock upon the exercise of the Warrant.

(3) For so long as any Warrant is outstanding, the Company shall not, by amendment of its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company

(a) shall take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Preferred Stock upon the exercise of all Warrants from time to time outstanding; and

(b) shall not take any action which results in any adjustment of the Exercise Price if the total number of shares of Preferred Stock or Other Securities issuable after the action upon the exercise of all of the Warrants would exceed the total number of shares of Preferred Stock or Other Securities then authorized by the Company's certificate of incorporation and available for the purpose of issue upon such conversion.

Section 3. Stock to be Reserved. The Company will at all times reserve and keep available out of the authorized Preferred Stock, solely for the purpose of issue upon the exercise of the Warrants as herein provided, such number of shares of Preferred Stock as shall then be issuable upon the exercise of all outstanding Warrants, and the Company will maintain at all times all other rights and privileges sufficient to enable it to fulfill all its obligations hereunder. The Company covenants that all shares of Preferred Stock which shall be so issuable shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and that the issuance of such shares of Preferred Stock shall be free from preemptive or similar rights on the part of the holders of any shares of capital stock or securities of the Company or any other Person, and free from all taxes, liens and charges with respect to the issue thereof (not including any income taxes payable by the holders of Warrants being exercised in respect of gains thereon), and the Exercise Price will be credited to the capital and surplus of the Company. The Company will take all such action as may be necessary to assure that such shares of Preferred Stock may be so issued without violation of any applicable law or regulation, or of any applicable requirements of the National Association of Securities Dealers, Inc. and of any domestic securities exchange upon which the Preferred Stock may be listed.

Section 4. Federal Reserve Board and Other Approvals.

(a) Notwithstanding any other provision of this Warrant, the holder shall not have the right to exercise this Warrant, and the Company shall have no obligation to deliver shares of Preferred Stock upon the exercise hereof, if the issuance of such shares to the holder requires the approval of the Board of Governors of the Federal Reserve System (including, without limitation, any approval pursuant to the Bank Holding Company Act of 1956, as amended, or the Change in Bank Control Act of 1978, as amended, of the holder's ownership of 10% or more of the outstanding shares of any class of voting securities or control of the Company) (**"Federal Reserve Board Approval"**) and such approval is not obtained on or before the date of exercise of the Warrant. The Company will, at its expense and as expeditiously as possible, cooperate with the holder to obtain any required Federal Reserve Board Approval.

(b) At any such time as the Preferred Stock is listed on any national securities exchange, the Company will, at its expense, obtain promptly and maintain the approval for listing on each such exchange, upon official notice of issuance, the shares of Preferred Stock issuable upon exercise of

the then outstanding Warrants and maintain the listing of such shares after their issuance so long as the Preferred Stock is so listed or quoted; and the Company will also cause to be so listed, will register under the Exchange Act and will maintain such listing of, any Other Securities that at any time are issuable upon exercise of the Warrants, if and at the time that any securities of the same class shall be listed on such national securities exchange by the Company.

Section 5. Issue Tax. The issuance of certificates for shares of Preferred Stock upon exercise of this Warrant shall be made without charge to the holders hereof for any issuance tax in respect thereto.

Section 6. Closing of Books. The Company will at no time close its transfer books against the transfer of any Warrant or of any share of Preferred Stock (or Other Securities) issued or issuable upon the exercise of any Warrant in any manner which interferes with the timely exercise of such Warrant.

Section 7. No Rights or Liabilities as Stockholders. This Warrant shall not entitle the holder thereof to any of the rights of a stockholder of the Company, except as expressly contemplated herein. No provision of this Warrant, in the absence of the actual exercise of such Warrant and receipt by the holder thereof of Preferred Stock issuable upon such conversion, shall give rise to any liability on the part of such holder as a stockholder of the Company, whether such liability shall be asserted by the Company or by creditors of the Company.

Section 8. Restrictive Legends. Except as otherwise permitted by this Section 8, each Warrant originally issued and each Warrant issued upon direct or indirect transfer of, or in substitution for, any Warrant shall be stamped or otherwise imprinted with a legend in substantially the following form:

"This Warrant and any shares acquired upon the exercise of this Warrant have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exemption therefrom under such Act."

Except as otherwise permitted by this Section 8, (a) each certificate for Preferred Stock (or Other Securities) issued upon the exercise of any Warrant, and (b) each certificate issued upon the direct or indirect transfer of any such Preferred Stock (or Other Securities) shall be stamped or otherwise imprinted with a legend in substantially the following form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exemption therefrom under such Act."

The holder of any Restricted Securities shall be entitled to receive from the Company, without expense, new securities of like tenor not bearing the applicable legend set forth above in this Section 8 when such securities shall have been (a) effectively registered under the Securities Act and disposed of in accordance with the registration statement covering such Restricted Securities, (b) sold to the public pursuant to Rule 144 or any comparable rule under the Securities Act, or (c) when, in the opinion of independent counsel for the holder thereof experienced in Securities Act matters, such restrictions are no longer required in order to insure compliance with the Securities Act.

Section 9. Transfers.

9A. Transfers Prior to the Initial Exercise Date. Subject to Section 9C, prior to July 1, 2013, this Warrant may not be transferred in whole, or in part, except to one or more Persons to whom all or a portion of the indebtedness evidenced by the Tranche A 2009 Note has been transferred. If, prior to July 1, 2013, less than all of the principal amount of the Tranche A 2009 Note is transferred to any Person, then the holder of this Warrant may transfer to such Person only Warrants for that number of shares of Preferred Stock equal to the product of (a) the number of shares of Original Preferred Stock times (b) a fraction, the numerator of which is the principal amount of the Tranche A 2009 Note transferred to such Person, and the denominator of which is $6,300,000.

9B. Transfers On or After July 1, 2013. Subject to Section 9C, on or after July 1, 2013, this Warrant is detachable from the Tranche A 2009 Note and may be transferred, in whole or in part, to one or more Persons, separate from the Tranche A 2009 Note.

9C. Requirement that Transfers Be Made Only to Accredited Investors. Notwithstanding the provisions of Section 9A and 9B, this Warrant (i) may be transferred only to one or more "accredited investors" as such term is defined in Rule 501(a) of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act (an **"Accredited Investor"**) and (ii) may not be transferred to any "bank holding company" or "bank" as such terms are defined in the Bank Holding Company Act of 1956, as amended. At least 10 Business Days prior to transferring this Warrant, in whole or in part, the holder shall provide written notice to the Company of the name of the proposed transferee(s).

Section 10. Representations and Warranties of the Holder. The holder of this Warrant, by the acceptance hereof, represents and warrants and agrees as follows:

(1) Such holder is an Accredited Investor, is acquiring this Warrant and, upon exercise hereof, will acquire the shares of Preferred Stock (or Other Securities) and any shares of Common Stock into which such shares of Preferred Stock are convertible (collectively, the **"Warrant Securities"**), for such holder's own account and not with a view towards, or for resale in connection with, the public sale or distribution of the Warrant Securities, except pursuant to sales registered or exempted from registration under the Securities Act. The delivery of this Warrant for exercise shall constitute confirmation at such time by the holder of the representations concerning the Warrant Securities set forth in the preceding sentence, unless contemporaneous with the delivery of this Warrant for exercise, the holder notifies the Company in writing that it is not making such representation (a **"Representation Notice"**). If a holder delivers a Representation Notice in connection with an exercise, it shall be a condition to such holder's exercise of this Warrant and the Company's obligations under Section 1 in connection with such exercise, that the Company receive such other representations as the Company reasonably considers necessary to assure the Company that the issuance of its securities upon exercise of this Warrant shall not violate any United States or state securities laws, and the time periods for the Company's compliance with its obligations under Section 1D shall be tolled until such holder provides the Company with such other representations;

(2) Such holder understands that the Warrant Securities are "restricted securities" under the federal securities laws in as much as they are being or will be acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations neither this Warrant nor the Warrant Securities issuable upon its exercise may be resold without registration under the Securities Act or an exemption from such registration;

(3) Such holder will not offer or sell this Warrant or any of the Warrant Securities in the absence of an effective registration statement for the Warrant or the Warrant Securities, as applicable, under the Securities Act and such state or other laws as may be applicable, or receipt by the Company of a written opinion of counsel, in form and substance reasonably acceptable to the Company, that such registration is not required; provided, however, that no such opinion shall be required in connection with (i) a transaction pursuant to Rule 144 in which the holder provides the Company with certifications reasonably requested by the Company regarding compliance with the terms and provisions of Rule 144 or (ii) a distribution of any Warrant Securities to an Affiliate of the holder, so long as such Affiliate does not pay any consideration in connection with such distribution (other than the issuance of equity securities in such Affiliate) and the holder provides the Company with certifications reasonably requested by the Company in connection therewith.

(4) Such holder acknowledges and understands that the Warrant and each certificate for the Warrant and Warrant Securities will bear the legends set forth in Section 8 under the terms and circumstances set forth therein; and

(5) Such holder acknowledges and understands that the holder shall not have the right to exercise this Warrant, and the Company shall have no obligation to deliver shares of Preferred Stock upon the exercise hereof, if any Federal Reserve Board Approval required in connection with the issuance of such shares of Preferred Stock to the holder is not obtained by the holder on or before the date of exercise of the Warrant.

Section 11. Information Required By Rule 144A. The Company will, upon the request of the holder of this Warrant or of any shares of Preferred Stock issued upon the exercise of this Warrant, provide such holder, and any qualified institutional buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Warrants or shares of Preferred Stock, except at such times as the Company is subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act. For the purpose of this Section 11, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

Section 12. Ownership, Transfer and Replacement of Warrants.

12A. Ownership of Warrants. Except as otherwise required by law, the Company may treat the Person in whose name any Warrant is registered on the register kept at the principal office of the Company as the owner and holder thereof for all purposes, notwithstanding any notice to the contrary, except that, if and when any Warrant is properly assigned in blank, the Company, in its discretion, may (but shall not be obligated to) treat the bearer thereof as the owner of such Warrant for all purposes, notwithstanding any notice to the Company to the contrary. Subject to Section 8, a Warrant, if properly assigned, may be exercised by a new holder without first having a new Warrant issued.

12B. Transfer and Exchange of Warrants. Upon the surrender of any Warrant, properly endorsed, for registration of transfer or for exchange at the principal office of the Company, the Company at its expense will (subject to compliance with Section 8, if applicable, and Section 10), execute and deliver to or upon the order of the holder thereof a new Warrant or Warrants of like tenor, in the name of such holder or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Original Preferred Stock called for on the face or faces of the Warrant or Warrants so surrendered.

12C. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction of any Warrant held by a Person other than any institutional investor, upon delivery of its unsecured indemnity or, in the case of any such mutilation, upon surrender of such Warrant for cancellation at the principal office of the Company, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

Section 13. Registration Rights. The holder of this Warrant shall be entitled to certain registration rights under a registration rights agreement to be entered into between the Company or its successor and the Richard E. Workman 2001 Trust (the **"Registration Rights Agreement"**) in connection with the offer and sale of shares of Common Stock issuable upon the conversion of Preferred Stock (or Other Securities) issued upon exercise of this Warrant, upon the execution and delivery by the holder of the Registration Rights Agreement or a joinder to the Registration Rights Agreement.

Section 14. Information Rights. Each holder of Warrants shall be entitled to receive audited annual financial statements of the Company, as soon as such statements become available.

Section 15. Definitions. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

"Affiliate" shall mean, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract or otherwise. The grantor of a revocable trust shall be deemed to control such revocable trust.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in Chicago, Illinois are authorized or required by law to close.

"Cashless Exercise" shall have the meaning specified in Section 1F.

"Certificate of Designation" shall mean the Statement of Resolution Establishing Series of Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock of the Company, as filed with the Secretary of State of the State of Illinois prior to the date hereof.

"Common Stock" shall mean the common stock of the Company, $0.01 par value per share, or the common equity securities of any successor to the Company, including any surviving Person in a Transaction.

"Company" shall have the meaning specified in the opening paragraphs of this Warrant.

"Current Market Value" shall mean on any date specified herein, with respect to the Common Stock, (a) if the Common Stock is listed or admitted to trading on any securities exchange, the closing price, regular way, on such day on the principal exchange on which such Common Stock is traded, or if no sale takes place on such day, the average of the closing bid and asked prices on such day; (b) if the Common Stock is not then listed or admitted to trading on any securities exchange, the last reported sale price on such day, or if there is no such last reported sale price on such day, the average of the closing bid and the asked prices on such day, as reported by a reputable quotation source designated by the Company, (c) if neither clause (a) nor (b) is applicable, the average of the reported high bid and low asked prices on such day, as reported by a reputable quotation service designated by the Company, or

(d) if no such reported prices are available, the value of the Common Stock determined in good faith by the Board of Directors of the Company and certified in a board resolution, based, where possible, on the most recently completed arm's length transaction between the Company and a person other than an Affiliate of the Company in which such determination is necessary.

"Exchange Act" shall mean the Securities and Exchange Act of 1934, as amended.

"Exercise Price" shall have the meaning specified in Section 1B.

"Liquidation Preference" shall mean for each share of Preferred Stock, the liquidation preference then in effect for each such share of Preferred Stock, as provided for in the Certificate of Designation.

"Market Price" shall mean on any date specified herein, with respect to Preferred Stock, the amount per share equal to the greater of (a) the sum of the Liquidation Preference of such Preferred Stock plus all authorized, declared and unpaid dividends thereon as of such date and (b) the aggregate Current Market Value of the aggregate number of shares of Common Stock into which such share of Preferred Stock is convertible as of such date.

"Officer's Certificate" shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents or its Treasurer.

"Original Preferred Stock" shall have the meaning specified in the opening paragraphs of this Warrant.

"Other Securities" shall mean any stock (other than Preferred Stock) and any other securities of the Company or any other Person (corporate or otherwise) which the holders of the Warrants at any time shall be entitled to receive, or shall have received, upon the exercise of the Warrants, in lieu of or in addition to Preferred Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Preferred Stock or Other Securities pursuant to Section 2C or otherwise.

"Person" shall mean and include an individual, a partnership, an association, a joint venture, a corporation, a trust, a limited liability company, an unincorporated organization and a government or any department or agency thereof.

"Preferred Stock" shall mean the Original Preferred Stock, any stock into which such stock shall have been converted or changed or any stock resulting from any reclassification of such stock.

"Required Holders" shall mean the holders of at least a majority of all the Warrants at the time outstanding, determined on the basis of the number of shares of Preferred Stock then purchasable upon the exercise of all Warrants then outstanding.

"Restricted Securities" shall mean (a) any Warrants bearing the applicable legend set forth in Section 8 and (b) any shares of Preferred Stock (or Other Securities) which have been issued upon the exercise of Warrants and which are evidenced by a certificate or certificates bearing the applicable legend set forth in such section, and (c) unless the context otherwise requires, any shares of Preferred Stock (or Other Securities) which are at the time issuable upon the exercise of Warrants and which, when so issued, will be evidenced by a certificate or certificates bearing the applicable legend set forth in such section.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Tranche A 2009 Note" shall have the meaning specified in the opening paragraphs of this Warrant.

"Transaction" shall have the meaning specified in Section 2C.

"Warrant" shall have the meaning specified in the opening paragraphs of this Warrant.

Section 16. Remedies. The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

Section 17. Notices. Any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered (i) three (3) Business Days after deposit in the United States mails, with proper postage prepaid, (ii) when sent after receipt of confirmation or answerback if sent by telecopy, or other similar facsimile transmission or electronic mail, (iii) one (1) Business Day after deposited with a reputable overnight courier with all charges prepaid, or (iv) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

(i) if to the Company, to

Midland States Bancorp, Inc.
133 West Jefferson Avenue
Effingham, Illinois 62401
Attention: Douglas J. Tucker
Sr. Vice President and Corporate Counsel
Electronic Mail: dtucker@midlandstatesbank.com
Telecopy: (217) 342-9462
Confirmation: (217) 342-7566

With a copy to:

Barack Ferrazzano Kirschbaum & Nagelberg, LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Attention: Dennis R. Wendte
Electronic Mail: Dennis.Wendte@bfkn.com
Telecopy: (312) 984-3150

Confirmation: (312) 984-3188

(ii) if to any holder of any Warrant or any holder of any Preferred Stock (or Other Securities), at the registered address of such holder as set forth in the applicable register kept at the principal office of the Company;

provided that the exercise of any Warrant shall be effected in the manner provided in Section 1.

Section 18. Miscellaneous.

(a) This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

(b) The agreements of the Company contained in this Warrant other than those applicable solely to the Warrants and the holders thereof shall inure to the benefit of and be enforceable by any holder or holders at the time of any Preferred Stock (or Other Securities) issued upon the exercise of Warrants, whether so expressed or not, and shall survive the exercise of this Warrant.

(c) **THIS WARRANT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF ILLINOIS (EXCLUDING ANY CONFLICTS OF LAW RULES WHICH WOULD OTHERWISE CAUSE THIS WARRANT TO BE CONSTRUED OR ENFORCED IN ACCORDANCE WITH, OR THE RIGHTS OF THE PARTIES TO BE GOVERNED BY, THE LAWS OF ANY OTHER JURISDICTION).**

(d) **ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS WARRANT MAY BE BROUGHT IN STATE OR FEDERAL COURTS LOCATED IN COOK COUNTY, ILLINOIS, AND BY EXECUTION AND DELIVERY OF THIS WARRANT, THE COMPANY HEREBY IRREVOCABLY ACCEPTS, UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING. THE COMPANY FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT ITS ADDRESS PROVIDED IN SECTION 17, SUCH SERVICE TO BECOME EFFECTIVE UPON RECEIPT. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY HOLDER OF A WARRANT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS WARRANT BROUGHT IN ANY OF THE AFORESAID COURTS AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.**

(e) The section headings in this Warrant are for purposes of convenience only and shall not constitute a part hereof.

IN WITNESS WHEREOF, the undersigned has executed this Warrant as of the day and year first above written.

MIDLAND STATES BANCORP, INC.

By: /s/ Douglas J. Tucker
Name: Douglas J. Tucker
Title: Senior Vice President and Corporate Counsel

FORM OF SUBSCRIPTION
(To be executed only upon exercise of Warrant)

To: Midland States Bancorp, Inc.:

The undersigned registered holder of the within Warrant hereby irrevocably exercises such Warrant for, and purchases thereunder, _____ shares[(1)] of Original Preferred Stock of Midland States Bancorp, Inc., **[and herewith makes payment of $_____ in cash therefor] [(2)]/[surrenders $_____ in principal amount of the Tranche A 2009 Note] [(3)]/[in a Cashless Exercise pursuant to Section 1F of the within Warrant][(4)], and requests that the certificates for such shares be issued in the name of, and delivered to _____ whose address is _____.**

Dated: _____

_____
(Signature must conform in all respects to name of holder as specified on the face of this Warrant)

(Street Address)

(City) (State) (Zip Code)

(1) Insert here the number of shares called for on the face of this Warrant (or, in the case of a partial exercise, the portion thereof as to which this Warrant is being exercised), in either case without making any adjustment for additional Preferred Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of this Warrant, may be delivered upon exercise. In the case of a partial exercise, a new Warrant or Warrants will be issued and delivered, representing the unexercised portion of this Warrant, to the holder surrendering the same.

(2) Use in connection with an exercise involving a delivery of funds to the Company.

(3) Use in connection with an exercise involving the exchange of all or a portion of the principal amount of the Tranche A 2009 Note.

(4) Use in connection with a Cashless Exercise.

FORM OF ASSIGNMENT
(To be executed only upon transfer of Warrant)

For value received, the undersigned registered holder of the within Warrant hereby sells, assigns and transfers unto _____ the right represented by such Warrant to purchase _____(1) shares of Original Preferred Stock of Midland States Bancorp, Inc., to which such Warrant relates, and appoints _____ its Attorney to make such transfer on the books of Midland States Bancorp, Inc., maintained for such purpose, with full power of substitution in the premises.

Dated: _____

(Signature must conform in all respects to name of holder as specified on the face of this Warrant)

(Street Address)

(City) (State) (Zip Code)

Signed in the presence of:

(1) Insert here the number of shares called for on the face of the within Warrant (or, in the case of a partial assignment, the portion thereof as to which this Warrant is being assigned), in either case without making any adjustment for additional Preferred Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the within Warrant, may be delivered upon exercise. In the case of a partial assignment, a new Warrant or Warrants will be issued and delivered, representing the portion of the within Warrant not being assigned, to the holder assigning the same.

EXHIBIT C

Form of Series F Warrant

Series F Preferred Stock
Warrant No. P-1

THIS WARRANT AND ANY SHARES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SUCH ACT.

MIDLAND STATES BANCORP, INC.

Preferred Stock Purchase Warrant
Expiring April 1, 2016

Effingham, Illinois
May 11, 2011

MIDLAND STATES BANCORP, INC., an Illinois corporation (the **"Company"**), for value received, hereby certifies that RICHARD E. WORKMAN 2001 TRUST (Richard E. Workman 2001 Trust and each Person to whom this Warrant has been assigned or transferred in accordance with the terms hereof is referred to herein as a **"holder"**) is entitled to purchase from the Company five hundred (500) duly authorized, validly issued, fully paid and nonassessable shares of the Company's Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock, $2.00 par value per share (the **"Original Preferred Stock"**), at an initial exercise price per share of $10,000 per share, at any time or from time to time after the date of this Warrant and prior to 5:00 p.m., Chicago time, on April 1, 2016, subject to extension as provided in Section 1G (such time and date, as extended pursuant to Section 1G, if applicable, the **"Expiration Date"**), all subject to the terms, conditions and adjustments set forth below in this Warrant.

This Warrant (the **"Warrant"**, such term to include each Warrant issued in substitution herefor) is being issued in exchange for that certain Series D Preferred Stock Purchase Warrant, dated December 31, 2010, which was issued in connection with the issuance by the Company of the Company's Amended 2010 Term Note due April 1, 2020, in the aggregate principal amount of $5,000,000 (the **"Amended 2010 Term Note"**) pursuant to that certain Amended and Restated Credit Agreement, dated as of December 31, 2010, between the Company and Richard E. Workman 2001 Trust, as Lender (as amended from time to time, the **"Amended and Restated Credit Agreement"**). The Warrant originally issued hereby evidences rights to purchase five hundred (500) shares of Original Preferred Stock, subject to adjustment as provided herein. The term **"Amended 2010 Term Note"** as used herein shall include any note delivered in substitution or exchange for the Amended 2010 Term Note pursuant to the Amended and Restated Credit Agreement. Certain capitalized terms used in this Warrant are defined in Section 15.

Section 1. Exercise of Warrant.

1A. Manner of Exercise. This Warrant may be exercised by the holder hereof, in whole or in part, during normal business hours on any Business Day on or after the date of this Warrant to

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and including the Expiration Date, by surrender of this Warrant, with the form of subscription at the end hereof (or a reasonable facsimile thereof) duly executed by such holder, to the Company at its principal office at 133 West Jefferson Avenue, Effingham, Illinois 62401, Attention: Douglas J. Tucker, Senior Vice President and Corporate Counsel, or such other office or agency of the Company as the Company may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of the Company (or, if such exercise shall be in connection with an underwritten public offering of shares of Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities) subject to this Warrant, at the location at which the underwriters shall have agreed to accept delivery thereof), accompanied by payment in the amount (the **"Exercise Payment Amount"**) obtained by multiplying (a) the number of shares of Original Preferred Stock (without giving effect to any adjustment therein) designated in such form of subscription by (b) $10,000. If this Warrant is exercised before April 1, 2016, the Exercise Payment Amount may be paid solely by the exchange of an amount of the principal of the Amended 2010 Term Note then outstanding equal to the Exercise Payment Amount. If this Warrant is exercised on or after April 1, 2016, the Exercise Payment Amount may be paid, at the option of the holder, (i) in cash, by certified or official bank check payable to the order of the Company or by wire transfer of funds to the Company, (ii) by the exchange of an amount of the principal of the Amended 2010 Term Note then outstanding equal to the Exercise Payment Amount, or (iii) in accordance with Section 1F.

1B. Adjustment to Number of Shares of Preferred Stock. The number of duly authorized, validly issued, fully paid and nonassessable shares of Preferred Stock which the holder of this Warrant shall be entitled to receive upon each exercise hereof shall be determined by multiplying the number of shares of Preferred Stock which would otherwise (but for the provisions of Section 2) be issuable upon such exercise, as designated by the holder hereof pursuant to Section 1A, by a fraction of which (x) the numerator is $10,000 and (y) the denominator is the Exercise Price in effect on the date of such exercise. The **"Exercise Price"** shall initially be $10,000 per share, shall be adjusted and readjusted from time to time as provided in Section 2 and, as so adjusted and readjusted, shall remain in effect until a further adjustment or readjustment thereof is required by Section 2 (and the term **"Exercise Price"** at any time, as used herein, shall mean such price as last adjusted or readjusted).

1C. When Exercise Effective. Each exercise of this Warrant shall be deemed to have been effected and the Exercise Price shall be determined immediately prior to the close of business on the Business Day on which this Warrant shall have been surrendered to the Company as provided in Section 1A, and at such time the Person or Persons in whose name or names any certificate or certificates for shares of Original Preferred Stock (or Other Securities) shall be issuable upon such exercise as provided in Section 1D shall be deemed to have become the holder or holders of record thereof. Notwithstanding the foregoing, if an exercise of all or any portion of this Warrant is being made in connection with (i) a proposed public offering of Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities) subject to this Warrant, (ii) a proposed Transaction, or (iii) a proposed sale of outstanding shares of Preferred Stock (or Other Securities) or Common Stock issuable upon the conversion of Preferred Stock (or Other Securities) subject to this Warrant, then, at the election of the holder of this Warrant, such exercise may be conditioned upon the consummation of such public offering, Transaction or sale, in which case such exercise shall be effective concurrently with the consummation of such public offering, Transaction or sale.

1D. Delivery of Stock Certificates, etc. Promptly after the exercise of this Warrant, in whole or in part, and in any event within three Business Days thereafter (unless such exercise shall be in connection with a public offering of shares of Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities) or in connection with any Transaction or sale of outstanding shares of Preferred Stock (or Other Securities) or Common Stock issuable upon the conversion of the Preferred Stock (or Other Securities), in which event, at the election of the holder of this Warrant, concurrently with

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the effectiveness of such exercise, as provided in Section 1C, the Company at its expense will cause to be issued in the name of and delivered to the holder hereof or, subject to Section 8, as such holder may direct,

(1) a certificate or certificates for the number of duly authorized, validly issued, fully paid and nonassessable shares of Preferred Stock (or Other Securities) to which such holder shall be entitled upon such exercise, and

(2) in case such exercise is in part only, a new Warrant or Warrants of like tenor, specifying the aggregate on the face or faces thereof the number of shares of Preferred Stock equal to the number of such shares specified on the face of this Warrant minus the number of such shares designated by the holder upon such exercise as provided in Section 1A.

1E. Fractional Shares. No fractional shares shall be issued upon exercise of this Warrant and no payment or adjustment shall be made upon any exercise on account of any cash dividends on the Preferred Stock or Other Securities issued upon such exercise. If any fractional interest in a share of Preferred Stock would, except for the provisions of the first sentence of this Section 1E, be deliverable upon the exercise of this Warrant, the Company shall, in lieu of delivering the fractional share therefor, pay to the holder exercising this Warrant an amount in cash equal to the Market Price of such fractional interest.

1F. Cashless Exercise. The holder of this Warrant may exercise its right to purchase some or all of the shares of Preferred Stock pursuant to this Warrant on a net basis without the exchange of any funds (a **"Cashless Exercise"**), such that, upon the exercise hereof, the holder hereof receives that number of shares of Preferred Stock subscribed to pursuant to this Warrant less that number of shares of Preferred Stock, valued at Market Price at the time of exercise, equal to the aggregate Exercise Price that would otherwise have been paid by the holder of this Warrant for such shares of Preferred Stock subscribed to. *(For example: a holder exercises the right to purchase 100 shares. At that time the Market Price is $12,000 and the exercise price is $10,000. The aggregate Exercise Price for 100 shares would be $1,000,000. Therefore $1,000,000 ÷ $12,000 = 83.3. The holder would receive 16.7 shares [100-83.3] under a Cashless Exercise).*

1G. Notice of Expiration Date. The Company shall provide the holder of this Warrant with written notice of its expiration no more than 45 days before April 1, 2016, and this Warrant shall not expire until the later of (i) April 1, 2016 or (ii) the 30th day after the date such notice of expiration is given to the holder by the Company.

Section 2. Protection Against Impairment of Rights; Adjustment of Exercise Price.

2A. Adjustments for Combinations of Stock Dividends or Stock Splits. In case the outstanding shares of Preferred Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Preferred Stock, the Exercise Price in effect immediately prior to such combination or consolidation shall be proportionately increased. In case the Company shall, at any time or from time to time after the date hereof, pay a dividend or make a distribution in respect of its Preferred Stock, in each case in shares of its Preferred Stock, or subdivide its outstanding shares of Preferred Stock, by reclassification or otherwise, into a greater number of shares of Preferred Stock, the Exercise Price in effect immediately prior to such dividend, distribution, or subdivision shall be proportionately reduced. Such adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a combination, consolidation, or subdivision. Such adjustments shall be made successively whenever any such event shall occur.

2B. Minimum Adjustment of Exercise Price. If the amount of any adjustment of the Exercise Price required hereunder would be less than one percent of the Exercise Price in effect at the time such adjustment is otherwise so required to be made, such amount shall be carried forward and adjustment with respect thereto made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate at least one percent of such Exercise Price; provided, that upon the exercise of this Warrant, all adjustments carried forward and not theretofore made up to and including the date of such exercise shall be made to the nearest .00001 of a cent.

2C. Changes in Preferred Stock. If any capital reorganization or reclassification of the capital stock of the Company, any consolidation or merger of the Company with another Person (regardless of which entity is the surviving entity), the sale of all or substantially all of the assets of the Company to another Person, any liquidation of the Company or any other transaction (each such transaction being herein called a **"Transaction"**) shall be effected in such a way that holders of Preferred Stock shall be entitled to receive stock, securities or assets (including cash) upon conversion of or in exchange for Preferred Stock, then, as a condition of the consummation of the Transaction, lawful and adequate provisions (in form satisfactory to the Required Holders) shall be made whereby the holder of this Warrant shall thereafter have the right to receive upon the exercise hereof, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of the Preferred Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, and this Warrant shall thereafter represent the right to receive, such shares of stock, securities or assets (including cash) as may be issued or payable upon conversion of or in exchange for a number of outstanding shares of Preferred Stock equal to the number of shares of Preferred Stock which immediately theretofore were purchasable and receivable upon the exercise of the rights represented hereby had such Transaction not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets (including cash) thereafter deliverable upon the exercise hereof. In the event of a merger or consolidation of the Company with or into another Person as a result of which a number of shares of Preferred stock or other equity interests of the surviving Person greater or less than the number of shares of Preferred Stock of the Company outstanding immediately prior to such merger or consolidation are issuable to holders of Preferred Stock of the Company, then the Exercise Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Preferred Stock of the Company. Notwithstanding anything contained herein to the contrary, the Company shall not effect any Transaction unless prior to the consummation thereof each corporation or entity (other than the Company) which may be required to deliver any securities or other property upon the exercise of Warrants shall assume, by written instrument delivered to each holder of Warrants, the obligation to deliver to such holder such securities or other property as to which, in accordance with the foregoing provisions, such holder may be entitled, and such corporation or entity shall have similarly delivered to each holder of Warrants an opinion of counsel for such corporation or entity, satisfactory to each holder of Warrants, which opinion shall state that all the outstanding Warrants shall thereafter continue in full force and effect and shall be enforceable against such corporation or entity of the Warrants in accordance with the terms hereof and thereof, together with such other matters as such holders may reasonably request. If a purchase, tender or exchange offer is made to and accepted by the holders of more than 50% of the outstanding shares of Preferred Stock of the Company, the Company shall not effect any consolidation, merger or sale with the Person having made such offer or with any Affiliate of such Person, unless prior to the consummation of such consolidation, merger or sale, the holder of this Warrant shall have been given a reasonable opportunity to then elect to receive upon the exercise of this Warrant either the stock, securities or assets then issuable with respect to the Preferred

Stock of the Company or the stock, securities or assets (including cash), or the equivalent, issued to previous holders of the Preferred Stock in accordance with such offer as if the shares of Preferred Stock issued upon the exercise of this Warrant had been issued.

2D. Notice of Adjustment. Upon the occurrence of any event requiring an adjustment of the Exercise Price, then and in each such case the Company shall promptly deliver to the holder of this Warrant an Officer's Certificate stating the Exercise Price resulting from such adjustment and the increase or decrease, if any, in the number of shares of Preferred Stock issuable upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Within 90 days after each fiscal year in which any such adjustment shall have occurred, or within 30 days after any request therefor by the holder of this Warrant stating that such holder contemplates the exercise of such Warrant, the Company will obtain and deliver to the holder of this Warrant the opinion of its regular independent auditors or another firm of independent public accountants of recognized national or regional standing selected by the Company's Board of Directors, which opinion shall confirm the statements in the most recent Officer's Certificate delivered under this Section 2D.

2E. Other Notices. In case at any time:

(1) the Company shall declare or pay to the holders of Preferred Stock any dividend, other than a cash dividend in accordance with Section 2(a) of the Certificate of Designation;

(2) the Company shall offer for subscription pro rata to the holders of Preferred Stock any additional shares of stock of any class or other rights;

(3) any matter shall be submitted to the holders of the Preferred Stock for their vote or written consent;

(4) there shall be any capital reorganization, or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation or other entity;

(5) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

(6) the Company, subject to Section 2G(2), shall (i) exercise its right to call and convert all of the then outstanding shares of Preferred Stock into shares of Common Stock pursuant to Section 3(c) of the Certificate of Designation (the **"Mandatory Conversion Right"**), or (ii) exercise its right to call and redeem all of the then outstanding shares of Preferred Stock pursuant to Section 5 of the Certificate of Designation (the **"Mandatory Redemption Right"**);

(7) there shall be made any tender offer for any shares of capital stock of the Company; or

(8) there shall be any other Transaction;

then, in any one or more of such cases, the Company shall give to the holder of this Warrant, (i) at least 15 days prior to (A) the date on which the books of the Company shall close or a record shall be taken (each, a **"Record Date"**) with respect to any event referred to in subsections (1) through (6) above or, if no Record Date is fixed for an event referred to in subsection (6), (B) the date on which it gives notice of exercise of the Mandatory Conversion Right or notice of exercise of the Mandatory Redemption Right,

and within five days after it has knowledge of any pending tender offer or other Transaction, written notice of the Record Date for such dividend, distribution or subscription rights, for the exercise of the Mandatory Conversion Right or Mandatory Redemption Right or for determining rights to vote in respect of any matter submitted to the holders of Preferred Stock for their vote or written consent or in respect of such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up or Transaction or of the date by which shareholders must tender shares in any tender offer and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up or tender offer or Transaction known to the Company, at least 30 days prior written notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such notice in accordance with the foregoing clause (i) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Preferred Stock shall be entitled thereto, or in the case of the exercise of the Mandatory Conversion Right or Mandatory Redemption Right, the conversion date or redemption date, as applicable, and such notice in accordance with the foregoing clause (ii) shall also specify the date on which the holders of Preferred Stock shall be entitled to exchange their Preferred Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, tender offer or Transaction, as the case may be. Such notice shall also state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act or to a favorable vote of security holders, if either is required.

2F. Certain Events. If any event occurs as to which, in the good faith judgment of the Board of Directors of the Company, the other provisions of this Warrant are not strictly applicable or if strictly applicable would not fairly protect the exercise rights of the holders of the Warrants in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall appoint its regular independent auditors or another firm of independent public accountants of recognized national or regional standing which shall give their opinion upon the adjustment, if any, on a basis consistent with such essential intent and principles, necessary to preserve, without dilution, the rights of the holders of the Warrants. Upon receipt of such opinion, the Board of Directors of the Company shall forthwith make the adjustments described therein; provided, that no such adjustment shall have the effect of increasing the Exercise Price as otherwise determined pursuant to this Warrant. The Company may make such reductions in the Exercise Price as it deems advisable, including any reductions necessary to ensure that any event treated for Federal income tax purposes as a distribution of stock or stock rights not be taxable to recipients.

2G. Prohibition of Certain Actions.

(1) The Company shall not, without the prior written consent of the Required Holders:

(a) amend the Certificate of Designation;

(b) declare or pay any dividend or distribution on the Preferred Stock in excess of the dividends payable thereon under Section 2(a) of the Certificate of Designation; or

(c) take any action that requires, under the Certificate of Designation, the vote or written consent of the holders of at least 75% of the shares of Preferred Stock if, as of the record date for such vote or the date of such written consent, the shares of Preferred Stock issuable upon exercise of the Warrants would constitute, after giving effect to such exercise, more than 25% of the then outstanding Preferred Stock.

(2) The Company shall not exercise (a) the Mandatory Conversion Right, or (b) the Mandatory Redemption Right prior to the fifth anniversary of the date on which the Company first issues one or more shares of Preferred Stock upon the exercise of the Warrant.

(3) For so long as any Warrant is outstanding, the Company shall not, by amendment of its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may reasonably be requested by the holder of this Warrant in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company

(a) shall take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Preferred Stock upon the exercise of all Warrants from time to time outstanding; and

(b) shall not take any action which results in any adjustment of the Exercise Price if the total number of shares of Preferred Stock or Other Securities issuable after the action upon the exercise of all of the Warrants would exceed the total number of shares of Preferred Stock or Other Securities then authorized by the Company's certificate of incorporation and available for the purpose of issue upon such conversion.

Section 3. Stock to be Reserved. The Company will at all times reserve and keep available out of the authorized Preferred Stock, solely for the purpose of issue upon the exercise of the Warrants as herein provided, such number of shares of Preferred Stock as shall then be issuable upon the exercise of all outstanding Warrants, and the Company will maintain at all times all other rights and privileges sufficient to enable it to fulfill all its obligations hereunder. The Company covenants that all shares of Preferred Stock which shall be so issuable shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and that the issuance of such shares of Preferred Stock shall be free from preemptive or similar rights on the part of the holders of any shares of capital stock or securities of the Company or any other Person, and free from all taxes, liens and charges with respect to the issue thereof (not including any income taxes payable by the holders of Warrants being exercised in respect of gains thereon), and the Exercise Price will be credited to the capital and surplus of the Company. The Company will take all such action as may be necessary to assure that such shares of Preferred Stock may be so issued without violation of any applicable law or regulation, or of any applicable requirements of the National Association of Securities Dealers, Inc. and of any domestic securities exchange upon which the Preferred Stock may be listed.

Section 4. Federal Reserve Board and Other Approvals.

(a) Notwithstanding any other provision of this Warrant, the holder shall not have the right to exercise this Warrant, and the Company shall have no obligation to deliver shares of Preferred Stock upon the exercise hereof, if the issuance of such shares to the holder requires the approval of the Board of Governors of the Federal Reserve System (including, without limitation, any approval pursuant to the Bank Holding Company Act of 1956, as amended, or the Change in Bank Control Act of 1978, as amended, of the holder's ownership of 10% or more of the outstanding shares of any class of voting securities or control of the Company) (**"Federal Reserve Board Approval"**) and such approval is not obtained on or before the date of exercise of the Warrant. The Company will, at its expense and as expeditiously as possible, cooperate with the holder to obtain any required Federal Reserve Board Approval.

(b) At any such time as the Preferred Stock is listed on any national securities exchange, the Company will, at its expense, obtain promptly and maintain the approval for listing on each such exchange, upon official notice of issuance, the shares of Preferred Stock issuable upon exercise of the then outstanding Warrants and maintain the listing of such shares after their issuance so long as the Preferred Stock is so listed or quoted; and the Company will also cause to be so listed, will register under the Exchange Act and will maintain such listing of, any Other Securities that at any time are issuable upon exercise of the Warrants, if and at the time that any securities of the same class shall be listed on such national securities exchange by the Company.

Section 5. Issue Tax. The issuance of certificates for shares of Preferred Stock upon exercise of this Warrant shall be made without charge to the holders hereof for any issuance tax in respect thereto.

Section 6. Closing of Books. The Company will at no time close its transfer books against the transfer of any Warrant or of any share of Preferred Stock (or Other Securities) issued or issuable upon the exercise of any Warrant in any manner which interferes with the timely exercise of such Warrant.

Section 7. No Rights or Liabilities as Stockholders. This Warrant shall not entitle the holder thereof to any of the rights of a stockholder of the Company, except as expressly contemplated herein. No provision of this Warrant, in the absence of the actual exercise of such Warrant and receipt by the holder thereof of Preferred Stock issuable upon such conversion, shall give rise to any liability on the part of such holder as a stockholder of the Company, whether such liability shall be asserted by the Company or by creditors of the Company.

Section 8. Restrictive Legends. Except as otherwise permitted by this Section 8, each Warrant originally issued and each Warrant issued upon direct or indirect transfer of, or in substitution for, any Warrant shall be stamped or otherwise imprinted with a legend in substantially the following form:

"This Warrant and any shares acquired upon the exercise of this Warrant have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exemption therefrom under such Act."

Except as otherwise permitted by this Section 8, (a) each certificate for Preferred Stock (or Other Securities) issued upon the exercise of any Warrant, and (b) each certificate issued upon the direct or indirect transfer of any such Preferred Stock (or Other Securities) shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exemption therefrom under such Act."

The holder of any Restricted Securities shall be entitled to receive from the Company, without expense, new securities of like tenor not bearing the applicable legend set forth above in this Section 8 when such securities shall have been (a) effectively registered under the Securities Act and disposed of in accordance with the registration statement covering such Restricted Securities, (b) sold to the public pursuant to Rule 144 or any comparable rule under the Securities Act, or (c) when, in the opinion of independent counsel for the holder thereof experienced in Securities Act matters, such restrictions are no longer required in order to insure compliance with the Securities Act.

Section 9. Transfers.

9A. Transfers Prior to the Initial Exercise Date. Subject to Section 9C, prior to April 1, 2016, this Warrant may not be transferred in whole, or in part, except to one or more Persons to whom all or a portion of the indebtedness evidenced by the Amended 2010 Term Note has been transferred. If, prior to April 1, 2016, less than all of the principal amount of the Amended 2010 Term Note is transferred to any Person, then the holder of this Warrant may transfer to such Person only Warrants for that number of shares of Preferred Stock equal to the product of (a) the number of shares of Original Preferred Stock times (b) a fraction, the numerator of which is the principal amount of the Amended 2010 Term Note transferred to such Person, and the denominator of which is $5,000,000.

9B. Transfers On or After April 1, 2016. Subject to Section 9C, on or after April 1, 2016, this Warrant is detachable from the Amended 2010 Term Note and may be transferred, in whole or in part, to one or more Persons, separate from the Amended 2010 Term Note.

9C. Requirement that Transfers Be Made Only to Accredited Investors. Notwithstanding the provisions of Section 9A and 9B, this Warrant (i) may be transferred only to one or more "accredited investors" as such term is defined in Rule 501(a) of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act (an **"Accredited Investor"**) and (ii) may not be transferred to any "bank holding company" or "bank" as such terms are defined in the Bank Holding Company Act of 1956, as amended. At least 10 Business Days prior to transferring this Warrant, in whole or in part, the holder shall provide written notice to the Company of the name of the proposed transferee(s).

Section 10. Representations and Warranties of the Holder. The holder of this Warrant, by the acceptance hereof, represents and warrants and agrees as follows:

(1) Such holder is an Accredited Investor, is acquiring this Warrant and, upon exercise hereof, will acquire the shares of Preferred Stock (or Other Securities) and any shares of Common Stock into which such shares of Preferred Stock are convertible (collectively, the **"Warrant Securities"**), for such holder's own account and not with a view towards, or for resale in connection with, the public sale or distribution of the Warrant Securities, except pursuant to sales registered or exempted from registration under the Securities Act. The delivery of this Warrant for exercise shall constitute confirmation at such time by the holder of the representations concerning the Warrant Securities set forth in the preceding sentence, unless contemporaneous with the delivery of this Warrant for exercise, the holder notifies the Company in writing that it is not making such representation (a **"Representation Notice"**). If a holder delivers a Representation Notice in connection with an exercise, it shall be a condition to such holder's exercise of this Warrant and the Company's obligations under Section 1 in connection with such exercise, that the Company receive such other representations as the Company reasonably considers necessary to assure the Company that the issuance of its securities upon exercise of this Warrant shall not violate any United States or state securities laws, and the time periods for the Company's compliance with its obligations under Section 1D shall be tolled until such holder provides the Company with such other representations;

(2) Such holder understands that the Warrant Securities are "restricted securities" under the federal securities laws in as much as they are being or will be acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations neither this Warrant nor the Warrant Securities issuable upon its exercise may be resold without registration under the Securities Act or an exemption from such registration;

(3) Such holder will not offer or sell this Warrant or any of the Warrant Securities in the absence of an effective registration statement for the Warrant or the Warrant Securities, as applicable, under the Securities Act and such state or other laws as may be applicable, or receipt by the Company of a written opinion of counsel, in form and substance reasonably acceptable to the Company, that such registration is not required; provided, however, that no such opinion shall be required in connection with (i) a transaction pursuant to Rule 144 in which the holder provides the Company with certifications reasonably requested by the Company regarding compliance with the terms and provisions of Rule 144 or (ii) a distribution of any Warrant Securities to an Affiliate of the holder, so long as such Affiliate does not pay any consideration in connection with such distribution (other than the issuance of equity securities in such Affiliate) and the holder provides the Company with certifications reasonably requested by the Company in connection therewith.

(4) Such holder acknowledges and understands that the Warrant and each certificate for the Warrant and Warrant Securities will bear the legends set forth in Section 8 under the terms and circumstances set forth therein; and

(5) Such holder acknowledges and understands that the holder shall not have the right to exercise this Warrant, and the Company shall have no obligation to deliver shares of Preferred Stock upon the exercise hereof, if any Federal Reserve Board Approval required in connection with the issuance of such shares of Preferred Stock to the holder is not obtained by the holder on or before the date of exercise of the Warrant.

Section 11. Information Required By Rule 144A. The Company will, upon the request of the holder of this Warrant or of any shares of Preferred Stock issued upon the exercise of this Warrant, provide such holder, and any qualified institutional buyer designated by such holder, such financial

and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Warrants or shares of Preferred Stock, except at such times as the Company is subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act. For the purpose of this Section 11, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

Section 12. Ownership, Transfer and Replacement of Warrants.

12A. Ownership of Warrants. Except as otherwise required by law, the Company may treat the Person in whose name any Warrant is registered on the register kept at the principal office of the Company as the owner and holder thereof for all purposes, notwithstanding any notice to the contrary, except that, if and when any Warrant is properly assigned in blank, the Company, in its discretion, may (but shall not be obligated to) treat the bearer thereof as the owner of such Warrant for all purposes, notwithstanding any notice to the Company to the contrary. Subject to Section 8, a Warrant, if properly assigned, may be exercised by a new holder without first having a new Warrant issued.

12B. Transfer and Exchange of Warrants. Upon the surrender of any Warrant, properly endorsed, for registration of transfer or for exchange at the principal office of the Company, the Company at its expense will (subject to compliance with Section 8, if applicable, and Section 10), execute and deliver to or upon the order of the holder thereof a new Warrant or Warrants of like tenor, in the name of such holder or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Original Preferred Stock called for on the face or faces of the Warrant or Warrants so surrendered.

12C. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction of any Warrant held by a Person other than any institutional investor, upon delivery of its unsecured indemnity or, in the case of any such mutilation, upon surrender of such Warrant for cancellation at the principal office of the Company, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

Section 13. Registration Rights. The holder of this Warrant shall be entitled to certain registration rights under a registration rights agreement to be entered into between the Company or its successor and the Richard E. Workman 2001 Trust (the **"Registration Rights Agreement"**) in connection with the offer and sale of shares of Common Stock issuable upon the conversion of Preferred Stock (or Other Securities) issued upon exercise of this Warrant, upon the execution and delivery by the holder of the Registration Rights Agreement or a joinder to the Registration Rights Agreement.

Section 14. Information Rights. Each holder of Warrants shall be entitled to receive audited annual financial statements of the Company, as soon as such statements become available.

Section 15. Definitions. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

"Affiliate" shall mean, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract or otherwise. The grantor of a revocable trust shall be deemed to control such revocable trust.

"Amended 2010 Term Notes" shall have the meaning specified in the opening paragraphs of this Warrant.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in Chicago, Illinois are authorized or required by law to close.

"Cashless Exercise" shall have the meaning specified in Section 1F.

"Certificate of Designation" shall mean the Statement of Resolution Establishing Series of Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock of the Company, as filed with the Secretary of State of the State of Illinois prior to the date hereof.

"Common Stock" shall mean the common stock of the Company, $0.01 par value per share, or the common equity securities of any successor to the Company, including any surviving Person in a Transaction.

"Company" shall have the meaning specified in the opening paragraphs of this Warrant.

"Current Market Value" shall mean on any date specified herein, with respect to the Common Stock, (a) if the Common Stock is listed or admitted to trading on any securities exchange, the closing price, regular way, on such day on the principal exchange on which such Common Stock is traded, or if no sale takes place on such day, the average of the closing bid and asked prices on such day; (b) if the Common Stock is not then listed or admitted to trading on any securities exchange, the last reported sale price on such day, or if there is no such last reported sale price on such day, the average of

the closing bid and the asked prices on such day, as reported by a reputable quotation source designated by the Company, (c) if neither clause (a) nor (b) is applicable, the average of the reported high bid and low asked prices on such day, as reported by a reputable quotation service designated by the Company, or (d) if no such reported prices are available, the value of the Common Stock determined in good faith by the Board of Directors of the Company and certified in a board resolution, based, where possible, on the most recently completed arm's length transaction between the Company and a person other than an Affiliate of the Company in which such determination is necessary.

"Exchange Act" shall mean the Securities and Exchange Act of 1934, as amended.

"Exercise Price" shall have the meaning specified in Section 1B.

"Liquidation Preference" shall mean for each share of Preferred Stock, the liquidation preference then in effect for each such share of Preferred Stock, as provided for in the Certificate of Designation.

"Market Price" shall mean on any date specified herein, with respect to Preferred Stock, the amount per share equal to the greater of (a) the sum of the Liquidation Preference of such Preferred Stock plus all authorized, declared and unpaid dividends thereon as of such date and (b) the aggregate Current Market Value of the aggregate number of shares of Common Stock into which such share of Preferred Stock is convertible as of such date.

"Officer's Certificate" shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents or its Treasurer.

"Original Preferred Stock" shall have the meaning specified in the opening paragraphs of this Warrant.

"Other Securities" shall mean any stock (other than Preferred Stock) and any other securities of the Company or any other Person (corporate or otherwise) which the holders of the Warrants at any time shall be entitled to receive, or shall have received, upon the exercise of the Warrants, in lieu of or in addition to Preferred Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Preferred Stock or Other Securities pursuant to Section 2C or otherwise.

"Person" shall mean and include an individual, a partnership, an association, a joint venture, a corporation, a trust, a limited liability company, an unincorporated organization and a government or any department or agency thereof.

"Preferred Stock" shall mean the Original Preferred Stock, any stock into which such stock shall have been converted or changed or any stock resulting from any reclassification of such stock.

"Required Holders" shall mean the holders of at least a majority of all the Warrants at the time outstanding, determined on the basis of the number of shares of Preferred Stock then purchasable upon the exercise of all Warrants then outstanding.

"Restricted Securities" shall mean (a) any Warrants bearing the applicable legend set forth in Section 8 and (b) any shares of Preferred Stock (or Other Securities) which have been issued upon the exercise of Warrants and which are evidenced by a certificate or certificates bearing the applicable legend set forth in such section, and (c) unless the context otherwise requires, any shares of Preferred Stock (or Other Securities) which are at the time issuable upon the exercise of Warrants and which, when

so issued, will be evidenced by a certificate or certificates bearing the applicable legend set forth in such section.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Transaction" shall have the meaning specified in Section 2C.

"Warrant" shall have the meaning specified in the opening paragraphs of this Warrant.

Section 16. Remedies. The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

Section 17. Notices. Any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered (i) three (3) Business Days after deposit in the United States mails, with proper postage prepaid, (ii) when sent after receipt of confirmation or answerback if sent by telecopy, or other similar facsimile transmission or electronic mail, (iii) one (1) Business Day after deposited with a reputable overnight courier with all charges prepaid, or (iv) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

(i) if to the Company, to

Midland States Bancorp, Inc.
133 West Jefferson Avenue
Effingham, Illinois 62401
Attention: Douglas J. Tucker
Sr. Vice President and Corporate Counsel
Electronic Mail: dtucker@midlandstatesbank.com
Telecopy: (217) 342-9462
Confirmation: (217) 342-7566

With a copy to:

Barack Ferrazzano Kirschbaum & Nagelberg, LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Attention: Dennis R. Wendte
Electronic Mail: Dennis.Wendte@bfkn.com
Telecopy: (312) 984-3150
Confirmation: (312) 984-3188

(ii) if to any holder of any Warrant or any holder of any Preferred Stock (or Other Securities), at the registered address of such holder as set forth in the applicable register kept at the principal office of the Company;

provided that the exercise of any Warrant shall be effected in the manner provided in Section 1.

Section 18. Miscellaneous.

(a) This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

(b) The agreements of the Company contained in this Warrant other than those applicable solely to the Warrants and the holders thereof shall inure to the benefit of and be enforceable by any holder or holders at the time of any Preferred Stock (or Other Securities) issued upon the exercise of Warrants, whether so expressed or not, and shall survive the exercise of this Warrant.

(c) **THIS WARRANT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF ILLINOIS (EXCLUDING ANY CONFLICTS OF LAW RULES WHICH WOULD OTHERWISE CAUSE THIS WARRANT TO BE CONSTRUED OR ENFORCED IN ACCORDANCE WITH, OR THE RIGHTS OF THE PARTIES TO BE GOVERNED BY, THE LAWS OF ANY OTHER JURISDICTION).**

(d) **ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS WARRANT MAY BE BROUGHT IN STATE OR FEDERAL COURTS LOCATED IN COOK COUNTY, ILLINOIS, AND BY EXECUTION AND DELIVERY OF THIS WARRANT, THE COMPANY HEREBY IRREVOCABLY ACCEPTS, UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING. THE COMPANY FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT ITS ADDRESS PROVIDED IN SECTION 17, SUCH SERVICE TO BECOME EFFECTIVE UPON RECEIPT. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY HOLDER OF A WARRANT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS WARRANT BROUGHT IN ANY OF THE AFORESAID COURTS AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.**

(e) The section headings in this Warrant are for purposes of convenience only and shall not constitute a part hereof.

IN WITNESS WHEREOF, the undersigned has executed this Warrant as of the day and year first above written.

MIDLAND STATES BANCORP, INC.

By: /s/ Douglas J. Tucker
Name: Douglas J. Tucker
Title: Senior Vice President and Corporate Counsel

FORM OF SUBSCRIPTION
(To be executed only upon exercise of Warrant)

To: Midland States Bancorp, Inc.:

The undersigned registered holder of the within Warrant hereby irrevocably exercises such Warrant for, and purchases thereunder, _____ shares[(1)] of Original Preferred Stock of Midland States Bancorp, Inc., **[and herewith makes payment of $_____ in cash therefor]** [(2)]**/[surrenders $_____ in principal amount of the Amended 2010 Term Note]** [(3)]**/[in a Cashless Exercise pursuant to Section 1F of the within Warrant][(4)], and requests that the certificates for such shares be issued in the name of, and delivered to _____ whose address is _____.**

Dated: _____

_____
(Signature must conform in all respects to name of holder as specified on the face of this Warrant)

(Street Address)

(City) (State) (Zip Code)

(1) Insert here the number of shares called for on the face of this Warrant (or, in the case of a partial exercise, the portion thereof as to which this Warrant is being exercised), in either case without making any adjustment for additional Preferred Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of this Warrant, may be delivered upon exercise. In the case of a partial exercise, a new Warrant or Warrants will be issued and delivered, representing the unexercised portion of this Warrant, to the holder surrendering the same.

(2) Use in connection with an exercise involving a delivery of funds to the Company.

(3) Use in connection with an exercise involving the exchange of all or a portion of the principal amount of the Amended 2010 Term Note.

(4) Use in connection with a Cashless Exercise.

FORM OF ASSIGNMENT
(To be executed only upon transfer of Warrant)

For value received, the undersigned registered holder of the within Warrant hereby sells, assigns and transfers unto _____ the right represented by such Warrant to purchase _____(1) shares of Original Preferred Stock of Midland States Bancorp, Inc., to which such Warrant relates, and appoints _____ its Attorney to make such transfer on the books of Midland States Bancorp, Inc., maintained for such purpose, with full power of substitution in the premises.

Dated: _____

(Signature must conform in all respects to name of holder as specified on the face of this Warrant)

(Street Address)

(City) (State) (Zip Code)

Signed in the presence of:

(1) Insert here the number of shares called for on the face of the within Warrant (or, in the case of a partial assignment, the portion thereof as to which this Warrant is being assigned), in either case without making any adjustment for additional Preferred Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the within Warrant, may be delivered upon exercise. In the case of a partial assignment, a new Warrant or Warrants will be issued and delivered, representing the portion of the within Warrant not being assigned, to the holder assigning the same.

EXHIBIT D

EXCHANGE OF SERIES E AND F WARRANTS

for

SERIES C AND D WARRANTS

and

AMENDMENT NO. 1 TO

AMENDED AND RESTATED CREDIT AGREEMENT

between

MIDLAND STATES BANCORP, INC. (“Issuer”)

and

RICHARD E. WORKMAN 2001 TRUST (“Purchaser”)

May 11, 2011

Document Checklist:

1. Amendment Agreement between Issuer and Purchaser amending the following documents:

   (a) the Credit Agreement;

   (b) the Amended and Restated 2009 Exchange and Warrant Purchase Agreement between Issuer and Purchaser;

   (c) the Amended and Restated 2010 Exchange and Warrant Purchase Agreement between Issuer and Purchaser; and

   (d) the Registration Rights Agreement between Issuer and Purchaser.

2. Preferred Stock Purchase Warrant issued by Issuer in favor of Purchaser regarding Issuer's Series E Preferred Stock

3. Preferred Stock Purchase Warrant issued by Issuer in favor of Purchaser regarding Issuer's Series F Preferred Stock

4. Certificate of Secretary of Issuer including certificate as to incumbency of the following:

(a)	Exhibit A	Articles of Incorporation of Issuer and all amendments thereto certified by the Secretary of State of the State of Illinois
(b)	Exhibit B	By-laws of Issuer
(c)	Exhibit C	Resolutions of Board of Directors of Issuer approving exchange, including:

(i) Statement of Resolutions Establishing Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock
(ii) Statement of Resolutions Establishing Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock

5. Opinion of Barack Ferrazzano Kirschbaum & Nagelberg LLP

6. Certificate of Good Standing of Issuer from the Secretary of State of Illinois

7. Consent of Lender, pursuant to Section 6.10 of the Credit Agreement, to amend, modify, cancel or supplement Related Documents as contemplated by this Agreement

8. On or before May 20, 2011, a Statement of Correction relating to the Statement of Resolutions Establishing Series E 9% Non-Cumulative Perpetual Preferred Stock, as filed with the Secretary of State of Illinois

9. On or before May 20, 2011, a Statement of Correction relating to the Statement of Resolutions Establishing Series F 9% Non-Cumulative Perpetual Preferred Stock, as filed with the Secretary of State of Illinois

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EXHIBIT E

Form of Statement of Resolutions Establishing Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock

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STATEMENT OF RESOLUTION ESTABLISHING SERIES
OF
SERIES E 9% NON-CUMULATIVE PERPETUAL CONVERTIBLE
PREFERRED STOCK
OF
MIDLAND STATES BANCORP, INC.

Pursuant to and in accordance with Section 6.10 of the Illinois Business Corporation Act of 1983 (the "IBCA"), the undersigned corporation made the following statement:

ARTICLE 1

The name of the corporation is Midland States Bancorp, Inc. (the "Corporation").

ARTICLE 2

That pursuant to the authority vested in the board of directors of the Corporation (the "Board of Directors") in accordance with the provisions of the Articles of Incorporation of the Corporation (the "Articles"), the Board of Directors on March 7, 2011, adopted the following resolution creating a series of 630 shares of Preferred Stock designated as "Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock":

RESOLVED, that pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Articles, a series of Preferred Stock, par value $2.00 per share, of the Corporation is hereby created, such series to be known as Series E 9% Non-Cumulative Perpetual Convertible

Preferred Stock, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series, and the qualifications, limitations and restrictions thereof are as follows:

1. **Issuance**. The Board of Directors (the "Board") of the Corporation has determined that 630 shares of the authorized and unissued preferred stock be identified as "Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock" and has authorized such shares for issuance at a price of $10,000 per share (hereinafter referred to as the "Series E Preferred Stock").

2. **Dividends**.

(a) Dividends on the Series E Preferred Stock will be payable semi-annually in arrears, when, as and if authorized by the Board of Directors and declared by the Corporation out of legally available funds, on a non-cumulative basis on the $10,000 per share liquidation preference, at an annual rate equal to 9%. Subject to the foregoing, dividends will be payable in arrears on December 1 and June 1 of each year (each, a "Dividend Payment Date"), commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date (as defined in paragraph 3(b)), or, if any such day is not a business day, the next business day. Each dividend will be payable to holders of record as they appear on the

Corporation's stock register on the fifteenth day of the month prior to the month in which the relevant Dividend Payment Date occurs. Each period from and including a Dividend Payment Date (or the date of the issuance of the Series E Preferred Stock) to but excluding the following Dividend Payment Date is herein referred to as a "Dividend Period." Dividends payable for each Dividend Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. If a scheduled Dividend Payment Date falls on a day that is not a business day, the dividend will be paid on the next business day as if it were paid on the scheduled Dividend Payment Date, and no interest or other amount will accrue on the dividend so payable for the period from and after that Dividend Payment Date to the date the dividend is paid.

(b) Dividends on the Series E Preferred Stock will be non-cumulative. If for any reason the Board of Directors does not authorize and the Corporation does not declare full cash dividends on the Series E Preferred Stock for a Dividend Period, the Corporation will have no obligation to pay any dividends for that period, whether or not the Board of Directors authorizes and the Corporation declares dividends on the Series E Preferred Stock for any subsequent Dividend Period. The Corporation is not obligated to and will not pay holders of the Series E Preferred Stock any dividend in excess of the dividends on the Series E Preferred Stock that are payable as described above. There is no sinking fund with respect to dividends.

(c) The Series E Preferred Stock created hereby shall rank equally, as to dividends, with the Corporation's Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"), Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series D Preferred Stock") and Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series F Preferred Stock"). The Corporation may not declare or pay or set apart for payment full dividends on any series of preferred stock ranking, as to dividends, equally with or junior to the Series E Preferred Stock unless the Corporation has previously declared and paid or set apart for payment, or the Corporation contemporaneously declares and pays or sets apart for payment, full dividends on the Series E Preferred Stock for the most recently completed Dividend Period. When dividends are not paid in full on the Series E Preferred Stock and any series of preferred stock ranking equally as to dividends, all dividends upon the Series E Preferred Stock and such equally ranking series will be declared and paid pro rata. For purposes of calculating the pro rata allocation of partial dividend payments, the Corporation will allocate dividend payments based on the ratio between the then-current dividend payments due on shares of Series E Preferred Stock and the aggregate of the current and accrued dividends due on any equally ranking series. The Corporation will not pay interest or any sum of money instead of interest on any dividend payment that may be in arrears on the Series E Preferred Stock. Unless the Corporation has paid or declared and set aside for payment full dividends on the Series E Preferred Stock for the most recently completed Dividend Period, the Corporation will not:

- declare or make any dividend payment or distribution on any junior ranking stock, other than a dividend paid in junior ranking stock, or
- redeem, purchase, otherwise acquire or set apart money for a sinking fund for the redemption of any junior or equally ranking stock, except by conversion into or exchange for junior ranking stock.

As used herein, "junior to the Series E Preferred Stock," "junior ranking stock" and like terms refer to the Corporation's Common Stock and any other class or series of the Corporation's capital stock over which the Series E Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on the Corporation's liquidation, dissolution or winding up, and "equally ranking" and like terms refer to the Series C Preferred Stock, the Series D Preferred Stock and the Series F Preferred Stock, and any other class or series of the Corporation's capital stock that ranks on a parity with the Series E Preferred Stock in the payment of dividends or in the distribution of assets on the Corporation's liquidation, dissolution or winding up. Subject to the conditions described above, and not otherwise, dividends (payable in cash, stock, or otherwise), as may be determined by the Board of Directors or a duly authorized committee of the Board of Directors, may be declared and paid on the Corporation's Common Stock and any other stock ranking equally with or junior to the Series E Preferred Stock from time to time out of any assets legally available for such payment, and the holders of the Series E Preferred Stock will not be entitled to participate in those dividends.

3. **Conversion**. The holders of the Series E Preferred Stock shall have the following conversion rights (the "Conversion Rights") and be subject to the following provisions with respect to the conversion of Series E Preferred Stock:

(a) Right to Convert. Each share of Series E Preferred Stock may be converted at any time at the option of the holder into fully paid and nonassessable shares of Common Stock, at the Conversion Price (as hereafter defined) therefor in effect at the time of conversion determined as provided herein, at the option of the holder thereof, at any time after the date of issuance of such shares, at the office of the Corporation or any transfer agent for the Series E Preferred Stock or Common Stock.

(b) Conversion Price. Each share of Preferred Stock shall be convertible into the number of shares of Common Stock that results from dividing $10,000 by the Conversion Price per share in effect at the time of conversion for each share of Preferred Stock. The Conversion Price per share for the Preferred Stock at the date on which such share of Preferred Stock is originally issued (the "Original Issue Date") shall be $11.75, provided that if at the

date of conversion the Corporation has not declared and paid dividends with respect to two or more Dividend Periods, the Conversion Price shall be $9.243 (the "Conversion Price"). The Conversion Price shall be subject to adjustment from time to time as provided herein.

(c) Mandatory Conversion; Unpaid Dividends.

(i) The Corporation shall have the right at any time (the "Mandatory Conversion Date") after the fifth anniversary of the Original Issue Date to call and convert all (but not less than all) of the outstanding shares of Series E Preferred Stock into shares of Common Stock if, on the date the Corporation gives the Conversion Notice (as hereinafter defined), the Book Value Per Share of the Corporation's Common Stock equals or exceeds $10.629. "Book Value Per Share of the Corporation's Common Stock" at any date means the result obtained by dividing (i) the Corporation's total common shareholders' equity at that date by (ii) the number of shares of Common Stock then outstanding, net of any shares held in the treasury.

(ii) Not less than 30 days nor more than 60 days prior to the Mandatory Conversion Date, written notice (the "Conversion Notice") shall be mailed, first class postage prepaid, to the holders of the shares of the Series E Preferred Stock at their address last shown on the records of the Corporation. The Conversion Notice shall state: (A) the number of shares being converted; (B) what the Mandatory Conversion Date and Conversion Price are; (C) that the holders' voluntary Conversion Rights (as herein defined) shall terminate; and (D) that each holder is to surrender to the Corporation, in the manner and at the place designated, the certificates representing the shares of Series E Preferred Stock to be converted.

(iii) On or before the Mandatory Conversion Date, the holders of shares of Series E Preferred Stock being converted shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Conversion Notice, and thereupon a certificate or certificates for the number of shares of Common Stock into which such shares of Series E Preferred Stock have been converted shall be issued to the person whose name appears on such surrendered certificate or certificates as the owner thereof, and each surrendered certificate shall be cancelled and retired.

(iv) If the Conversion Notice shall have been duly given, and if on the Mandatory Conversion Date the required number of shares of Common Stock are issuable, all shares of Series E Preferred Stock shall no longer be outstanding, shall be cancelled and retired and shall cease to exist. Each certificate formerly representing any shares of the Series E Preferred Stock shall thereafter represent only the right to receive (A) the corresponding shares of Common Stock, plus cash in lieu of any fractional shares of Common Stock due upon conversion of shares of Series E Preferred Stock, (B) the amount of dividends or other distributions with a record date after the Mandatory Conversion Date but prior to the surrender date, and with a payment date at, prior or subsequent to the surrender date, not paid with respect to the Common Stock issuable upon conversion, less the amount of any withholding taxes which may be required thereon and (C) the amount equal to any authorized, declared and unpaid dividends, without accumulation of any undeclared dividends, on such Series E Preferred Stock (the "Net Accrued Dividends") through such Mandatory Conversion Date.

(d) Mechanics of Voluntary Conversion; Unpaid Dividends.

(i) Before any holder of Series E Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent of the Series E Preferred Stock or Common Stock, and shall give written notice by mail, postage prepaid, to the Corporation at such office that he elects to convert the same and shall state therein the number of shares of Series E Preferred Stock being converted and the name or names in which the certificate or certificates for shares of Common Stock are to be issued. Thereupon the Corporation shall promptly issue and deliver at such office to such holder of Series E Preferred Stock or to the nominee or nominees of such holder a certificate or certificates for the number of shares of Common Stock to which he shall be entitled.

(ii) Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series E Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable

upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date. A holder of Series E Preferred Stock who surrenders shares of Series E Preferred Stock for conversion shall be entitled to receive from the Corporation on the date of such surrender an amount in cash equal to the Net Accrued Dividends on such surrendered shares of Series E Preferred Stock, but any future dividends with respect to the surrendered shares of Series E Preferred Stock shall cease to accrue after such surrender and all rights with respect to such shares shall forthwith after such surrender terminate.

(e) Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Original Issue Date effect a subdivision of the outstanding Common Stock, the Conversion Price then in effect immediately before that subdivision shall be proportionately decreased; conversely, if the Corporation shall at any time or from time to time after the Original Issue Date reduce the outstanding shares of Common Stock by a stock combination, the Conversion Price then in effect immediately before the combination shall be proportionately increased. Any adjustment under this paragraph 3(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price for the Series E Preferred Stock then in effect shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price for the Series E Preferred Stock by a fraction:

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the

date fixed therefor, the Conversion Price for the Series E Preferred Stock shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price for the Series E Preferred Stock shall be adjusted pursuant to this paragraph 3(f) as of the time of actual payment of such dividends or distributions.

(g) Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, then and in each such event provision shall be made so that the holders of Series E Preferred Stock shall receive upon conversion thereof in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Corporation that they would have received

had their Series E Preferred Stock been converted into Common Stock on the date of such event and had thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period giving application to all adjustments called for during such period under this paragraph 3 with respect to the rights of the holders of the Series E Preferred Stock. Notwithstanding the foregoing, to the extent the Corporation has a rights plan in effect with respect to the Common Stock on any date upon which Series E Preferred Stock is converted, upon conversion, the holder will receive, in addition to the shares of Common Stock, the rights under the rights plan, unless, prior to such date, the rights have separated from the shares of Common Stock in accordance with the provisions of such rights plan.

(h) Adjustment for Reclassification, Exchange or Substitution. If the Common Stock issuable upon the conversion of the Series E Preferred Stock shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares of stock dividend provided for above, or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this paragraph 3), then and in each such event the holder of each share of Series E Preferred Stock shall have the right thereafter to convert such share into the kind and amounts of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, by holders of the number of shares of Common Stock into which such shares of Series E Preferred Stock might have been converted immediately prior to such reorganization, reclassification or change, all subject to further adjustment as provided herein.

(i) Reorganization, Mergers, Consolidations or Sales of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this paragraph 3) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all the Corporation's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the holders of the Series E Preferred Stock shall thereafter be entitled to receive upon conversion of the Series E Preferred Stock, the number of shares of stock or other securities or property of the Corporation, or of the successor Corporation resulting from such merger or consolidation or sale, to which a holder of that number of shares of Common Stock deliverable upon conversion of the Series E Preferred Stock would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this paragraph 3 with respect to the rights of the holders of the Series E Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this paragraph 3 (including adjustment of the Conversion Prices and the number of shares purchasable upon conversion of the Series E Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(j) Sale of Shares Below Conversion Price.

(i) If at any time or from time to time after the Original Issue Date, the Corporation shall issue or sell Additional Shares of Common Stock (as hereinafter defined), other than as a dividend as provided in paragraph 3(f) above, and other than upon a subdivision or combination of shares of Common Stock as provided in paragraph 3(e) above, for a

consideration per share less than the Conversion Price for the Series E Preferred Stock (or, if an adjusted Conversion Price shall be in effect by reason of a previous adjustment, then less than such adjusted Conversion Price), then and in each case the applicable Conversion Price for the Series E Preferred Stock shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Conversion Price by a fraction, the numerator of which shall be the sum of (A) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (B) the number of shares of Common Stock that the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price, and the denominator of which shall be the sum of (X) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (Y) the number of such Additional Shares of Common Stock so issued.

(ii) For the purpose of making any adjustment in the Conversion Price or number of shares of Common Stock purchasable on the conversion of Series E Preferred Stock as provided above, the consideration received by the Corporation for any issue or sale of securities shall,

(A) to the extent it consists of cash, be computed at the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, concessions or compensation paid or allowed by the Corporation in connection with such issue or sale,

(B) to the extent it consists of services or property other than cash, be computed at the fair value of such services or property as determined in good faith by the Board of Directors; and

(C) if Additional Shares of Common Stock, Convertible Securities (as hereinafter defined), or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration that covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(iii) For the purpose of the adjustment provided in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of, or stock or other securities convertible into, Additional Shares of Common Stock (such convertible stock or securities being hereinafter referred to as "Convertible Securities"), then, in each case, if the Effective Price (as

hereinafter defined) of such rights, options or Convertible Securities shall be less than the then existing Conversion Price for the Series E Preferred Stock, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such shares, or an amount equal to the total amount of the consideration, if any, received by the Corporation for the rights or options or Convertible Securities, plus, in the case of such options

or rights, the minimum amounts of consideration, if any, payable to the Corporation upon exercise or conversion of such options or rights. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total of all such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities shall be made as a result of the actual issuance of Additional Shares of Common Stock on the exercise of any such rights or options or the conversion of any such Convertible Securities.

If any such rights or options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities shall be readjusted to the Conversion Price that would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such rights or options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Corporation upon such exercise, plus the consideration, if any, actually received by the Corporation for the granting of all such rights or options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted plus the consideration, if any, actually received by the Corporation on the conversion of such Convertible Securities.

(iv) For the purpose of the adjustment provided for in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of Convertible Securities, then, in each such case, if the Effective Price thereof is less than the current Conversion Price, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options the maximum number of Additional Shares of Common Stock issuable upon conversion of the total amount of Convertible Securities covered by such rights or options and to have received as consideration for the issuance of such Additional Shares of Common Stock an amount equal to the amount of consideration, if any, received by the Corporation for the issuance of such rights or options, plus the minimum amounts of consideration, if any, payable to the Corporation upon the conversion of such Convertible Securities. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total amount of such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of such Conversion Price adjusted upon the issuance of such rights or options shall be made as a result of the actual issuance of the Convertible Securities upon the exercise of such rights or options or upon the actual issuance of Additional Shares of Common Stock upon the conversion of such Convertible Securities.

The provisions of subparagraph (iii) above for the readjustment of such Conversion Price upon the expiration of rights or options or the rights of conversion of Convertible Securities, shall apply *mutatis mutandis* to the rights, options and Convertible Securities referred to in this subparagraph (iv).

(k) Definition. The term "Additional Shares of Common Stock" as used herein shall mean all shares of Common Stock issued or deemed issued by the Corporation after the Original Issue Date, whether or not subsequently reacquired or retired by the Corporation, other than

(i) shares of Common Stock issued upon conversion of the Series E Preferred Stock and (ii) any shares of Common Stock (as adjusted for all stock dividends, stock splits, subdivisions and combinations) issued to employees, officers, directors, consultants or other persons performing services for the Corporation (if so issued solely because of any such person's status as an officer, director, employee, consultant or other person performing services for the Corporation and not as part of any offering of the Corporation's securities) pursuant to any stock option plan, stock purchase plan or management incentive plan, agreement or arrangement approved by the Board.

(l) Accountants' Certificate of Adjustment. In each case of an adjustment or readjustment of the Conversion Price for the number of shares of Common Stock or other securities issuable upon conversion of the Series E Preferred Stock, the Corporation, at its expense, shall cause independent certified public accountants of recognized standing selected by the Corporation (who may be the independent certified public accountants then auditing the books of the Corporation) to compute such adjustment or readjustment in accordance herewith and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Series E Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based including a statement of (i) the consideration received or to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the Conversion Price at the time in effect for each series of the Series E Preferred Stock and (iii) the number of Additional Shares of Common Stock and the type and amount, if any, of other property which at the time would be received upon conversion of the Series E Preferred Stock.

(m) Notices of Record Date. In the event of any reclassification or recapitalization of the capital stock of the Corporation, any merger or consolidation of the Corporation, or any transfer of all or substantially all the assets of the Corporation to any other corporation, entity or person, or any voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation, the Corporation shall mail to each holder of Series E Preferred Stock (other than any such holder who is also a holder of record, or the affiliate of a holder of record, of the Corporation's Common Stock, or is a director or executive officer, or an affiliate of a director or executive officer, of the Corporation) at least 20 days prior to the record date specified therein, a notice specifying (A) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective and (B) the time, if any is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

(n) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of shares of Series E Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to the product of such fraction multiplied by the fair market value of one share of the Corporation's Common Stock on the date of conversion, as determined in good faith by the Corporation's Board of

Directors. Whether or not the fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series E Preferred Stock the holder holds at the time

converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(o) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series E Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series E Preferred Stock. As a condition precedent to the taking of any action which would cause an adjustment to the Conversion Price, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient in order that it may validly and legally issue the shares of its Common Stock issuable based upon such adjusted Conversion Price.

(p) Notices. Any notice required by the provisions of this paragraph 3 to be given to the holder of shares of the Series E Preferred Stock shall be deemed given (i) when delivered by hand, (ii) when delivered by Federal Express or a similar overnight courier to each holder of record at his or her address appearing on the books of the Corporation or (iii) five days after being deposited in any United States Post Office enclosed in a postage prepaid, registered or certified envelope addressed to each holder of record at his or her address appearing on the books of the Corporation.

(q) Payment of Taxes. The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series E Preferred Stock or shares of Common Stock or other securities issued on account of Series E Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of shares of Series E Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series E Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(r) No Dilution or Impairment. The Corporation shall not amend its articles of incorporation, as amended, or participate in any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the material terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series E Preferred Stock against dilution or other impairment.

4. Voting Rights.

(a) The Series E Preferred Stock shall have no voting rights except as provided herein or as otherwise from time to time required by law.

(b) Whenever dividends payable on the Series E Preferred Stock have not been paid for three or more Dividend Periods, whether or not consecutive, the holders shall have the right, with holders of any other series of securities of the Corporation ranking equally with the Series E Preferred Stock as to dividends that have similar voting rights (including, without limitation, the Series C Preferred Stock, the Series D Preferred Stock and the Series F Preferred Stock) and on which dividends likewise have not been paid (the "Voting Parity Securities"), voting together as a class, at a special meeting called at the request of holders of at least 20% of the shares of Series E Preferred Stock outstanding or of holders of at least 20% of the shares of any Voting Parity Securities (unless such request for a special meeting is received less than 90 calendar days before the date fixed for the next annual or special meeting of the Corporation's shareholders, in which event such election shall be held only at such next annual or special meeting of the Corporation's shareholders) or at the Corporation's next annual or special meeting of the Corporation's shareholders, to elect two additional directors to the Board of Directors; provided that the election of any such director does not cause the Corporation to violate the applicable corporate governance requirements or any applicable exchange or trading market where the Common Stock is then listed or quoted, as the case may be; and provided, further, that at no time will the Corporation's Board of Directors include more than two directors elected pursuant to this paragraph 4(b). At any meeting held for the purpose of electing such a director, the presence in person or by proxy of the holders of shares representing at least a majority of the voting power of the Series E Preferred Stock and any Voting Parity Securities, voting together as a class, shall be required to constitute a quorum of such shares. The affirmative vote of the holders of Series E Preferred Stock and holders of any Voting Parity Securities, voting together as a class, representing a majority of the voting power of such shares present at such meeting, in person or by proxy, shall be sufficient to elect any such director.

(c) Upon the election of any such directors, the number of directors that comprise the board of directors shall be increased by such number of directors. Such directors shall be elected to terms that are the shorter of the next annual meeting of the Corporation and such time as full dividends have been paid on the Series E Preferred Stock for at least three consecutive Dividend Periods. In the event such term expires prior to the time full dividends have been paid on the Series E Preferred Stock for at least three consecutive Dividend Periods, any such directors may be elected to successive terms of similar duration until full dividends have been paid on the Series E Preferred Stock for at least three consecutive Dividend Periods. Holders of Series E Preferred Stock, together with holders of any Voting Parity Securities, voting together as a class, may remove any director they elected. Any vacancy created by the removal of any such director shall be filled only by the vote of the holders of the Series E Preferred Stock and holders of any Voting Parity Securities, voting together as a class. If the office of either such director becomes vacant for any reason other than removal, the remaining director may choose a successor who will hold office for the unexpired term of the vacant office.

(d) So long as any shares of Series E Preferred Stock remain outstanding, the Corporation shall not, without the vote, in person or by proxy, or written consent of the holders of at least 75% of the shares of the Series E Preferred Stock, voting as a separate class:

(i) amend the articles of incorporation, as amended, to authorize, or increase the authorized amount of, any shares of any class or series of stock ranking senior to the Series E Preferred Stock with respect to payment of dividends or distribution of assets on liquidation of the Corporation; as well as any amendment of the articles of incorporation, as amended, or amended and restated bylaws that would alter or change the voting powers, preferences or special rights of the Series E Preferred Stock so as to materially and adversely affect them; provided that the amendment of the articles of incorporation, as amended, so as to authorize or create, or to increase the authorized amount of any shares of any class or series or any securities convertible into shares of any class or series of stock of the Corporation ranking on a parity with or junior to the Series E Preferred Stock with respect to dividends and in the distribution of assets on liquidation, dissolution or winding-up of the Corporation shall not be deemed to materially and adversely affect the voting powers, preferences or special rights of the Series E Preferred Stock; or

(ii) consummate a binding share exchange, a reclassification involving the Series E Preferred Stock or a merger or consolidation of the Corporation with another entity; provided, however, that the holders of Series E Preferred Stock shall have no right to vote under this provision or otherwise under Illinois law if in each case (A) both (1) the Series E Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, is converted into or exchanged for preferred securities of the surviving or resulting entity (or its ultimate parent) that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and (2) the Series E Preferred Stock remaining outstanding or the new preferred securities, as the case may be, have such powers, preferences and special rights, taken as a whole, as are not materially less favorable to the holders thereof than the powers, preferences and special rights of the Series E Preferred Stock, or (B) the Corporation has exercised its mandatory conversion rights pursuant to paragraph 3(c) hereof in connection with such consummation.

(e) The number of votes of each share of Series E Preferred Stock and any Voting Parity Securities participating in the votes described above shall be calculated on an as converted basis or, if not all of such stock is convertible or exchangeable for Common Stock, shall be in proportion to the liquidation preference of such share.

5. Redemption Rights.

(a) The Corporation shall have the right at any time after the fifth anniversary of the Original Issue Date (the "Redemption Date") to call and redeem all (but not less than all) of the outstanding shares of Series E Preferred Stock at a price of $10,000 per share, plus any authorized, declared and unpaid dividends thereon, without accumulation of any undeclared dividends, through the Redemption Date (the "Redemption Price"). Redemption of the Series E Preferred Stock is subject to receipt by the Corporation of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority.

(b) Not less than 30 days nor more than 60 days prior to the Redemption Date, written notice (the "Redemption Notice") shall be mailed, first class postage prepaid, to the holders of the shares of the Series E Preferred Stock at their address last shown on the records of the Corporation. The Redemption Notice shall state: (i) the number of shares being redeemed; (ii) what the Redemption Date and Redemption Price are; (iii) that the holders' voluntary Conversion Rights (as defined in paragraph 3) shall terminate; and (iv) that each holder is to surrender to the Corporation, in the manner and at the place designated, the certificates representing the shares of Series E Preferred Stock to be redeemed.

(c) On or before the Redemption Date, the holders of shares of Series E Preferred Stock being redeemed, unless a holder has exercised his or her right to convert the shares as provided in paragraph 3 hereof, shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof.

(d) If the Redemption Notice shall have been duly given, and if on or before the Redemption Date the Redemption Price has been set aside by the Corporation, then all shares of Series E Preferred Stock shall no longer be outstanding, shall be cancelled and retired and shall cease to exist. Each certificate formerly representing any shares of the Series E Preferred Stock shall thereafter represent only the right to receive the Redemption Price.

6. Liquidation. Upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series E Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, the amount of $10,000 per share, plus any authorized, declared and unpaid dividends through the date of such distribution, without accumulation of any undeclared dividends, before any payment or distribution shall be made on the Common Stock but pro rata with and in proportion to the liquidation rights of the holders of any other series of preferred stock with parity rights upon liquidation that are then outstanding. In the event the assets of the Corporation available for distribution to the holders of shares of the Series E Preferred Stock upon any dissolution, liquidation or winding up of the Corporation shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to this paragraph 6, then all of the assets of the Corporation to be distributed to such holders of Series E Preferred Stock shall be distributed ratably to the holders of Series E Preferred Stock. After the payment to the holders of the shares of the Series E Preferred Stock of the full amounts provided for in this paragraph 6, the holders of the Series E Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

7. Information Rights. The holders of shares of Series E Preferred Stock shall be entitled to receive audited annual financial statements of the Corporation, as soon as such statements become available.

FURTHER RESOLVED, that the statements contained in the foregoing resolutions creating and designating the said issue of Series E Preferred Stock and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the articles of incorporation, as amended, of the Corporation pursuant to the provisions of the Illinois Business Corporation Act.

IN WITNESS WHEREOF, Midland States Bancorp, Inc. has caused this Statement of Resolution Establishing Series to be signed this 7th day of March, 2011, by a duly authorized officer, who affirms, under penalties of perjury, that the facts stated herein are true.

MIDLAND STATES BANCORP, INC.

By: /s/ Douglas J. Tucker
Name: Douglas J. Tucker
Title: Senior Vice President and Corporate Counsel

EXHIBIT F

Form of Statement of Resolutions Establishing Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock

STATEMENT OF RESOLUTION ESTABLISHING SERIES
OF
SERIES F 9% NON-CUMULATIVE PERPETUAL CONVERTIBLE
PREFERRED STOCK
OF
MIDLAND STATES BANCORP, INC.

Pursuant to and in accordance with Section 6.10 of the Illinois Business Corporation Act of 1983 (the "IBCA"), the undersigned corporation made the following statement:

ARTICLE 1

The name of the corporation is Midland States Bancorp, Inc. (the "Corporation").

ARTICLE 2

That pursuant to the authority vested in the board of directors of the Corporation (the "Board of Directors") in accordance with the provisions of the Articles of Incorporation of the Corporation (the "Articles"), the Board of Directors on March 7, 2011, adopted the following resolution creating a series of 500 shares of Preferred Stock designated as "Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock":

RESOLVED, that pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Articles, a series of Preferred Stock, par value $2.00 per share, of the Corporation is hereby created, such series to be known as Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series, and the qualifications, limitations and restrictions thereof are as follows:

1. Issuance. The Board of Directors (the "Board") of the Corporation has determined that 500 shares of the authorized and unissued preferred stock be identified as "Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock" and has authorized such shares for issuance at a price of $10,000 per share (hereinafter referred to as the "Series F Preferred Stock"). The date on which the Series F Preferred Stock is originally issued shall hereinafter be referred to as the "Original Issue Date."

2. Dividends.

(a) Dividends on the Series F Preferred Stock will be payable semi-annually in arrears, when, as and if authorized by the Board of Directors and declared by the Corporation out of legally available funds, on a non-cumulative basis on the $10,000 per share liquidation preference, at an annual rate equal to 9%. Subject to the foregoing, dividends will be payable in arrears on December 1 and June 1 of each year (each, a "Dividend Payment Date"), commencing with the first such Dividend Payment Date to occur at least 20 calendar days after the Original Issue Date, or, if any such day is not a business day, the next business day. Each dividend will

be payable to holders of record as they appear on the Corporation's stock register on the fifteenth day of the month prior to the month in which the relevant Dividend Payment Date occurs. Each period from and including a Dividend Payment Date (or the date of the issuance of the Series F Preferred Stock) to but excluding the following Dividend Payment Date is herein referred to as a "Dividend Period". Dividends payable for each Dividend Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. If a scheduled Dividend Payment Date falls on a day that is not a business day, the dividend will be paid on the next business day as if it were paid on the scheduled Dividend Payment Date, and no interest or other amount will accrue on the dividend so payable for the period from and after that Dividend Payment Date to the date the dividend is paid.

(b) Dividends on the Series F Preferred Stock will be non-cumulative. If for any reason the Board of Directors does not authorize and the Corporation does not declare full cash dividends on the Series F Preferred Stock for a Dividend Period, the Corporation will have no obligation to pay any dividends for that period, whether or not the Board of Directors authorizes and the Corporation declares dividends on the Series F Preferred Stock for any subsequent Dividend Period. The Corporation is not obligated to and will not pay holders of the Series F Preferred Stock any dividend in excess of the dividends on the Series F Preferred Stock that are payable as described above. There is no sinking fund with respect to dividends.

(c) The Series F Preferred Stock created hereby shall rank equally, as to dividends, with the Corporation's Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"), Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series D Preferred Stock") and Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series E Preferred Stock"). The Corporation may not declare or pay or set apart for payment full dividends on any series of preferred stock ranking, as to dividends, equally with or junior to the Series F Preferred Stock unless the Corporation has previously declared and paid or set apart for payment, or the Corporation contemporaneously declares and pays or sets apart for payment, full dividends on the Series F Preferred Stock for the most recently completed Dividend Period. When dividends are not paid in full on the Series F Preferred Stock and any series of preferred stock ranking equally as to dividends, all dividends upon the Series F Preferred Stock and such equally ranking series will be declared and paid pro rata. For purposes of calculating the pro rata allocation of partial dividend payments, the Corporation will allocate dividend payments based on the ratio between the then-current dividend payments due on shares of Series F Preferred Stock and the aggregate of the current and accrued dividends due on any equally ranking series. The Corporation will not pay interest or any sum of money instead of interest on any dividend payment that may be in arrears on the Series F Preferred Stock. Unless the Corporation has paid or declared and set aside for payment full dividends on the Series F Preferred Stock for the most recently completed Dividend Period, the Corporation will not:

- declare or make any dividend payment or distribution on any junior ranking stock, other than a dividend paid in junior ranking stock, or
- redeem, purchase, otherwise acquire or set apart money for a sinking fund for the redemption of any junior or equally ranking stock, except by conversion into or exchange for junior ranking stock.

As used herein, "junior to the Series F Preferred Stock," "junior ranking stock" and like terms refer to the Corporation's Common Stock and any other class or series of the Corporation's capital stock over which the Series F Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on the Corporation's liquidation, dissolution or winding up, and "equally ranking" and like terms refer to the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock, and any other class or series of the Corporation's capital stock that ranks on a parity with the Series F Preferred Stock in the payment of dividends or in the distribution of assets on the Corporation's liquidation, dissolution or winding up. Subject to the conditions described above, and not otherwise, dividends (payable in cash, stock, or otherwise), as may be determined by the Board of Directors or a duly authorized committee of the Board of Directors, may be declared and paid on the Corporation's Common Stock and any other stock ranking equally with or junior to the Series F Preferred Stock from time to time out of any assets legally available for such payment, and the holders of the Series F Preferred Stock will not be entitled to participate in those dividends.

3. Conversion. The holders of the Series F Preferred Stock shall have the following conversion rights (the "Conversion Rights") and be subject to the following provisions with respect to the conversion of Series F Preferred Stock:

(a) Right to Convert. Each share of Series F Preferred Stock may be converted at any time at the option of the holder into fully paid and nonassessable shares of Common Stock, at the Conversion Price (as hereafter defined) as provided herein, at the option of the holder thereof, at any time after the date of issuance of such shares, at the office of the Corporation or any transfer agent for the Series F Preferred Stock or Common Stock.

(b) Conversion Price. Each share of Series F Preferred Stock shall be convertible into the number of shares of Common Stock that results from dividing $10,000 by the Conversion Price per share. The Conversion Price per share shall be equal to $23.00 (the "Conversion Price"). The Conversion Price shall be subject to adjustment from time to time as provided herein.

(c) Mandatory Conversion; Unpaid Dividends.

(i) The Corporation shall have the right at any time (the "Mandatory Conversion Date") after the fifth anniversary of the Original Issue Date to call and convert all (but not less than all) of the outstanding shares of Series F Preferred Stock into shares of Common Stock if, on the date the Corporation gives the Conversion Notice (as hereinafter defined), the Book Value Per Share of the Corporation's Common Stock equals or exceeds $18.487. "Book Value Per Share of the Corporation's Common Stock" at any date means the result obtained by dividing (i) the Corporation's total common shareholders' equity at that date, by (ii) the number of shares of Common Stock then outstanding, net of any shares held in the treasury.

(ii) Not less than 30 days nor more than 60 days prior to the Mandatory Conversion Date, written notice (the "Conversion Notice") shall be mailed, first class postage prepaid, to the holders of the shares of the Series F Preferred Stock at their address last shown on the records of the Corporation. The Conversion Notice shall state: (A) the number of shares being converted; (B) the Mandatory Conversion Date; (C) that the holders' voluntary Conversion

Rights (as herein defined) shall terminate; and (D) that each holder is to surrender to the Corporation, in the manner and at the place designated, the certificates representing the shares of Series F Preferred Stock to be converted.

(iii) On or before the Mandatory Conversion Date, the holders of shares of Series F Preferred Stock being converted shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Conversion Notice, and thereupon a certificate or certificates for the number of shares of Common Stock into which such shares of Series F Preferred Stock have been converted shall be issued to the person whose name appears on such surrendered certificate or certificates as the owner thereof, and each surrendered certificate shall be cancelled and retired.

(iv) If the Conversion Notice shall have been duly given, and if on the Mandatory Conversion Date the required number of shares of Common Stock are issuable, all shares of Series F Preferred Stock shall no longer be outstanding, shall be cancelled and retired and shall cease to exist. Each certificate formerly representing any shares of the Series F Preferred Stock shall thereafter represent only the right to receive (A) the corresponding shares of Common Stock, plus cash in lieu of any fractional shares of Common Stock due upon conversion of shares of Series F Preferred Stock, (B) the amount of dividends or other distributions with a record date after the Mandatory Conversion Date but prior to the surrender date, and with a payment date at, prior or subsequent to the surrender date, not paid with respect to the Common Stock issuable upon conversion, less the amount of any withholding taxes which may

be required thereon and (C) the amount equal to any authorized, declared and unpaid dividends, without accumulation of any undeclared dividends, on such Series F Preferred Stock (the "Net Accrued Dividends") through such Mandatory Conversion Date.

(d) Mechanics of Voluntary Conversion; Unpaid Dividends.

(i) Before any holder of Series F Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent of the Series F Preferred Stock or Common Stock, and shall give written notice by mail, postage prepaid, to the Corporation at such office that he elects to convert the same and shall state therein the number of shares of Series F Preferred Stock being converted and the name or names in which the certificate or certificates for shares of Common Stock are to be issued. Thereupon the Corporation shall promptly issue and deliver at such office to such holder of Series F Preferred Stock or to the nominee or nominees of such holder a certificate or certificates for the number of shares of Common Stock to which he shall be entitled.

(ii) Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series F Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date. A holder of Series F Preferred Stock who surrenders shares of Series F Preferred Stock for conversion shall be entitled to receive from the Corporation on the date of such surrender an amount in cash equal to the Net Accrued Dividends on such surrendered shares of Series F Preferred Stock, but any future dividends with respect to

the surrendered shares of Series F Preferred Stock shall cease to accrue after such surrender and all rights with respect to such shares shall forthwith after such surrender terminate.

(e) Adjustment for Stock Splits and Combinations. If the Corporation shall at any time or from time to time after the Original Issue Date effect a subdivision of the outstanding Common Stock, the Conversion Price shall be proportionately decreased; conversely, if the Corporation shall at any time or from time to time after the Original Issue Date reduce the outstanding shares of Common Stock by a stock combination, the Conversion Price shall be proportionately increased. Any adjustment under this paragraph 3(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) Adjustment for Certain Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price for the Series F Preferred Stock shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price for the Series F Preferred Stock by a fraction:

(i) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(ii) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price for the Series F Preferred Stock shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price for the Series F Preferred Stock shall be adjusted pursuant to this paragraph 3(f) as of the time of actual payment of such dividends or distributions.

(g) Adjustments for Other Dividends and Distributions. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation other than shares of Common Stock, then and in each such event provision shall be made so that the holders of Series F Preferred Stock shall receive upon conversion thereof in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Corporation that they would have received had their Series F Preferred Stock been converted into Common Stock on the date of such event and had thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period giving application to all adjustments called for during such period under this paragraph 3 with respect to the rights of the holders of the Series F Preferred Stock. Notwithstanding the foregoing, to the extent the Corporation has a rights plan in effect with respect to the Common Stock on any date

upon which Series F Preferred Stock is converted, upon conversion, the holder will receive, in addition to the shares of Common Stock, the rights under the rights plan, unless, prior to such date, the rights have separated from the shares of Common Stock in accordance with the provisions of such rights plan.

(h) Adjustment for Reclassification, Exchange or Substitution. If the Common Stock issuable upon the conversion of the Series F Preferred Stock shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares of stock dividend provided for above, or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this paragraph 3), then and in each such event the holder of each share of Series F Preferred Stock shall have the right thereafter to convert such share into the kind and amounts of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, by holders of the number of shares of Common Stock into which such shares of Series F Preferred Stock might have been converted immediately prior to such reorganization, reclassification or change, all subject to further adjustment as provided herein.

(i) Reorganization, Mergers, Consolidations or Sales of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this paragraph 3) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all the Corporation's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the holders of the Series F Preferred Stock shall thereafter be entitled to receive upon conversion of the Series F Preferred Stock, the number of shares of stock or other securities or property of the

Corporation, or of the successor Corporation resulting from such merger or consolidation or sale, to which a holder of that number of shares of Common Stock deliverable upon conversion of the Series F Preferred Stock would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this paragraph 3 with respect to the rights of the holders of the Series F Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this paragraph 3 (including adjustment of the Conversion Prices and the number of shares purchasable upon conversion of the Series F Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(j) Sale of Shares Below Conversion Price.

(i) If at any time or from time to time after the Original Issue Date, the Corporation shall issue or sell Additional Shares of Common Stock (as hereinafter defined), other than as a dividend as provided in paragraph 3(f) above, and other than upon a subdivision or combination of shares of Common Stock as provided in paragraph 3(e) above, for a consideration per share less than the Conversion Price for the Series F Preferred Stock (or, if an adjusted Conversion Price shall be in effect by reason of a previous adjustment, then less than such adjusted Conversion Price), then and in each case the applicable Conversion Price for the Series F Preferred Stock shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Conversion Price by a fraction, the numerator of which shall be the sum of (A) the number of shares of Common Stock outstanding immediately

prior to such issue or sale plus (B) the number of shares of Common Stock that the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price, and the denominator of which shall be the sum of (X) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (Y) the number of such Additional Shares of Common Stock so issued.

(ii) For the purpose of making any adjustment in the Conversion Price or number of shares of Common Stock purchasable on the conversion of Series F Preferred Stock as provided above, the consideration received by the Corporation for any issue or sale of securities shall,

(A) to the extent it consists of cash, be computed at the net amount of cash received by the Corporation after deduction of any underwriting or similar commissions, concessions or compensation paid or allowed by the Corporation in connection with such issue or sale,

(B) to the extent it consists of services or property other than cash, be computed at the fair value of such services or property as determined in good faith by the Board of Directors; and

(C) if Additional Shares of Common Stock, Convertible Securities (as hereinafter defined), or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Corporation for a consideration that covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(iii) For the purpose of the adjustment provided in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of, or stock or other securities convertible into, Additional Shares of Common Stock (such convertible stock or securities being hereinafter referred to as "Convertible Securities"), then, in each case, if the Effective Price (as hereinafter defined) of such rights, options or Convertible Securities shall be less than the then existing Conversion Price for the Series F Preferred Stock, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such shares, or an amount equal to the total amount of the consideration, if any, received by the Corporation for the rights or options or Convertible Securities, plus, in the case of such options or rights, the minimum amounts of consideration, if any, payable to the Corporation upon exercise or conversion of such options or rights. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total of all such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities

shall be made as a result of the actual issuance of Additional Shares of Common Stock on the exercise of any such rights or options or the conversion of any such Convertible Securities.

If any such rights or options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, the Conversion Price adjusted upon the issuance of such rights, options or Convertible Securities shall be readjusted to the Conversion Price that would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such rights or options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Corporation upon such exercise, plus the consideration, if any, actually received by the Corporation for the granting of all such rights or options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted plus the consideration, if any, actually received by the Corporation on the conversion of such Convertible Securities.

(iv) For the purpose of the adjustment provided for in subparagraph (i) of this paragraph 3(j), if at any time or from time to time after the Original Issue Date the Corporation shall issue any rights or options for the purchase of Convertible Securities, then, in each such case, if the Effective Price thereof is less than the Conversion Price, the Corporation shall be deemed to have issued at the time of the issuance of such rights or options the maximum number of Additional Shares of Common Stock issuable upon conversion of the total amount of Convertible Securities covered by such rights or options and to have received as consideration for the issuance of such Additional Shares of Common Stock an amount equal to the amount of consideration, if any, received by the Corporation for the issuance of such rights or options, plus the minimum amounts of consideration, if any, payable to the Corporation upon the conversion of such Convertible Securities. For purposes of the foregoing, "Effective Price" shall mean the quotient determined by dividing the total amount of such consideration by such maximum number of Additional Shares of Common Stock. No further adjustment of such Conversion Price adjusted

upon the issuance of such rights or options shall be made as a result of the actual issuance of the Convertible Securities upon the exercise of such rights or options or upon the actual issuance of Additional Shares of Common Stock upon the conversion of such Convertible Securities.

The provisions of subparagraph (iii) above for the readjustment of such Conversion Price upon the expiration of rights or options or the rights of conversion of Convertible Securities, shall apply *mutatis mutandis* to the rights, options and Convertible Securities referred to in this subparagraph (iv).

(k) Definition. The term "Additional Shares of Common Stock" as used herein shall mean all shares of Common Stock issued or deemed issued by the Corporation after the Original Issue Date, whether or not subsequently reacquired or retired by the Corporation, other than (i) shares of Common Stock issued upon conversion of the Series F Preferred Stock and (ii) any shares of Common Stock (as adjusted for all stock dividends, stock splits, subdivisions and combinations) issued to employees, officers, directors, consultants or other persons performing services for the Corporation (if so issued solely because of any such person's status as an officer, director, employee, consultant or other person performing services for the Corporation and not as

part of any offering of the Corporation's securities) pursuant to any stock option plan, stock purchase plan or management incentive plan, agreement or arrangement approved by the Board.

(l) Accountants' Certificate of Adjustment. In each case of an adjustment or readjustment of the Conversion Price for the number of shares of Common Stock or other securities issuable upon conversion of the Series F Preferred Stock, the Corporation, at its expense, shall cause independent certified public accountants of recognized standing selected by the Corporation (who may be the independent certified public accountants then auditing the books of the Corporation) to compute such adjustment or readjustment in accordance herewith and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Series F Preferred Stock at the holder's address as shown in the Corporation's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based including a statement of (i) the consideration received or to be received by the Corporation for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the Conversion Price at the time in effect for each series of the Series F Preferred Stock and (iii) the number of Additional Shares of Common Stock and the type and amount, if any, of other property which at the time would be received upon conversion of the Series F Preferred Stock.

(m) Notices of Record Date. In the event of any reclassification or recapitalization of the capital stock of the Corporation, any merger or consolidation of the Corporation, or any transfer of all or substantially all the assets of the Corporation to any other corporation, entity or person, or any voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation, the Corporation shall mail to each holder of Series F Preferred Stock (other than any such holder who is also a holder of record, or the affiliate of a holder of record, of the Corporation's Common Stock, or is a director or executive officer, or an affiliate of a director or executive officer, of the Corporation) at least 20 days prior to the record date specified therein, a notice specifying (A) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up is expected to become effective and (B) the time, if any is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

(n) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of shares of Series F Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to the product of such fraction multiplied by the fair market value of one share of the Corporation's Common Stock on the date of conversion, as determined in good faith by the Corporation's Board of Directors. Whether or not the fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series F Preferred Stock the holder holds at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(o) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the

purpose of effecting the conversion of the shares of the Series F Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series F Preferred Stock. As a condition precedent to the taking of any action which would cause an adjustment to the Conversion Price, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient in order that it may validly and legally issue the shares of its Common Stock issuable based upon such adjusted Conversion Price.

(p) Notices. Any notice required by the provisions of this paragraph 3 to be given to the holder of shares of the Series F Preferred Stock shall be deemed given (i) when delivered by hand, (ii) when delivered by Federal Express or a similar overnight courier to each holder of record at his or her address appearing on the books of the Corporation or (iii) five days after being deposited in any United States Post Office enclosed in a postage prepaid, registered or certified envelope addressed to each holder of record at his or her address appearing on the books of the Corporation.

(q) Payment of Taxes. The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series F Preferred Stock or shares of Common Stock or other securities issued on account of Series F Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of shares of Series F Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series F Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(r) No Dilution or Impairment. The Corporation shall not amend its articles of incorporation, as amended, or participate in any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the material terms to be observed or performed hereunder by the Corporation, but will at all times in

good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series F Preferred Stock against dilution or other impairment.

4. Voting Rights.

(a) The Series F Preferred Stock shall have no voting rights except as provided herein or as otherwise from time to time required by law.

(b) Whenever dividends payable on the Series F Preferred Stock have not been paid for three or more Dividend Periods, whether or not consecutive, the holders shall have the right,

with holders of any other series of securities of the Corporation ranking equally with the Series F Preferred Stock as to dividends that have similar voting rights (including, without limitation, the Series C Preferred Stock, the Series D Preferred Stock and the Series E Preferred Stock) and on which dividends likewise have not been paid (the "Voting Parity Securities"), voting together as a class, at a special meeting called at the request of holders of at least 20% of the shares of Series F Preferred Stock outstanding or of holders of at least 20% of the shares of any Voting Parity Securities (unless such request for a special meeting is received less than 90 calendar days before the date fixed for the next annual or special meeting of the Corporation's shareholders, in which event such election shall be held only at such next annual or special meeting of the Corporation's shareholders) or at the Corporation's next annual or special meeting of the Corporation's shareholders, to elect two additional directors to the Board of Directors; provided that the election of any such director does not cause the Corporation to violate the applicable corporate governance requirements or any applicable exchange or trading market where the Common Stock is then listed or quoted, as the case may be; and provided, further, that at no time will the Corporation's Board of Directors include more than two directors elected pursuant to this paragraph 4(b). At any meeting held for the purpose of electing such a director, the presence in person or by proxy of the holders of shares representing at least a majority of the voting power of the Series F Preferred Stock and any Voting Parity Securities, voting together as a class, shall be required to constitute a quorum of such shares. The affirmative vote of the holders of Series F Preferred Stock and holders of any Voting Parity Securities, voting together as a class, representing a majority of the voting power of such shares present at such meeting, in person or by proxy, shall be sufficient to elect any such director.

(c) Upon the election of any such directors, the number of directors that comprise the board of directors shall be increased by such number of directors. Such directors shall be elected to terms that are the shorter of the next annual meeting of the Corporation and such time as full dividends have been paid on the Series F Preferred Stock for at least three consecutive Dividend Periods. In the event such term expires prior to the time full dividends have been paid on the Series F Preferred Stock for at least three consecutive Dividend Periods, any such directors may be elected to successive terms of similar duration until full dividends have been paid on the Series F Preferred Stock for at least three consecutive Dividend Periods. Holders of Series F Preferred Stock, together with holders of any Voting Parity Securities, voting together as a class, may remove any director they elected. Any vacancy created by the removal of any such director shall be filled only by the vote of the holders of the Series F Preferred Stock and holders of any Voting Parity Securities, voting together as a class. If the office of either such director becomes vacant for any reason other than removal, the remaining director may choose a successor who will hold office for the unexpired term of the vacant office.

(d) So long as any shares of Series F Preferred Stock remain outstanding, the Corporation shall not, without the vote, in person or by proxy, or written consent of the holders of at least 75% of the shares of the Series F Preferred Stock, voting as a separate class:

(i) amend the articles of incorporation, as amended, to authorize, or increase the authorized amount of, any shares of any class or series of stock ranking senior to the Series F Preferred Stock with respect to payment of dividends or distribution of assets on liquidation of the Corporation; as well as any amendment of the articles of incorporation, as amended, or amended and restated bylaws that would alter or change the voting powers, preferences or

special rights of the Series F Preferred Stock so as to materially and adversely affect them; provided that the amendment of the articles of incorporation, as amended, so as to authorize or create, or to increase the authorized amount of any shares of any class or series or any securities convertible into shares of any class or series of stock of the Corporation ranking on a parity with or junior to the Series F Preferred Stock with respect to dividends and in the distribution of assets on liquidation, dissolution or winding-up of the Corporation shall not be deemed to materially and adversely affect the voting powers, preferences or special rights of the Series F Preferred Stock; or

(ii) consummate a binding share exchange, a reclassification involving the Series F Preferred Stock or a merger or consolidation of the Corporation with another entity; provided, however, that the holders of Series F Preferred Stock shall have no right to vote under this provision or otherwise under Illinois law if in each case (A) both (1) the Series F Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, is converted into or exchanged for preferred securities of the surviving or resulting entity (or its ultimate parent) that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and (2) the Series F Preferred Stock remaining outstanding or the new preferred securities, as the case may be, have such powers, preferences and special rights, taken as a whole, as are not materially less favorable to the holders thereof than the powers, preferences and special rights of the Series F Preferred Stock, or (B) the Corporation has exercised its mandatory conversion rights pursuant to paragraph 3(c) hereof in connection with such consummation.

(e) The number of votes of each share of Series F Preferred Stock and any Voting Parity Securities participating in the votes described above shall be calculated on an as converted basis or, if not all of such stock is convertible or exchangeable for Common Stock, shall be in proportion to the liquidation preference of such share.

5. Redemption Rights.

(a) The Corporation shall have the right at any time after the fifth anniversary of the Original Issue Date (the "Redemption Date") to call and redeem all (but not less than all) of the outstanding shares of Series F Preferred Stock at a price of $10,000 per share, plus any authorized, declared and unpaid dividends thereon, without accumulation of any undeclared dividends, through the Redemption Date (the "Redemption Price"). Redemption of the

Series F Preferred Stock is subject to receipt by the Corporation of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority.

(b) Not less than 30 days nor more than 60 days prior to the Redemption Date, written notice (the "Redemption Notice") shall be mailed, first class postage prepaid, to the holders of the shares of the Series F Preferred Stock at their address last shown on the records of the Corporation. The Redemption Notice shall state: (i) the number of shares being redeemed; (ii) what the Redemption Date and Redemption Price are; (iii) that the holders' voluntary Conversion Rights (as defined in paragraph 3) shall terminate; and (iv) that each holder is to surrender to the Corporation, in the manner and at the place designated, the certificates representing the shares of Series F Preferred Stock to be redeemed.

(c) On or before the Redemption Date, the holders of shares of Series F Preferred Stock being redeemed, unless a holder has exercised his or her right to convert the shares as provided in paragraph 3 hereof, shall surrender the certificate or certificates representing such shares to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof.

(d) If the Redemption Notice shall have been duly given, and if on or before the Redemption Date the Redemption Price has been set aside by the Corporation, then all shares of Series F Preferred Stock shall no longer be outstanding, shall be cancelled and retired and shall cease to exist. Each certificate formerly representing any shares of the Series F Preferred Stock shall thereafter represent only the right to receive the Redemption Price.

6. Liquidation. Upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series F Preferred Stock shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, the amount of $10,000 per share, plus any authorized, declared and unpaid dividends through the date of such distribution, without accumulation of any undeclared dividends, before any payment or distribution shall be made on the Common Stock but pro rata with and in proportion to the liquidation rights of the holders of any other series of preferred stock with parity rights upon liquidation that are then outstanding. In the event the assets of the Corporation available for distribution to the holders of shares of the Series F Preferred Stock upon any dissolution, liquidation or winding up of the Corporation shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to this paragraph 6, then all of the assets of the Corporation to be distributed to such holders of Series F Preferred Stock shall be distributed ratably to the holders of Series F Preferred Stock. After the payment to the holders of the shares of the Series F Preferred Stock of the full amounts provided for in this paragraph 6, the holders of the Series F Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

7. Information Rights. The holders of shares of Series F Preferred Stock shall be entitled to receive audited annual financial statements of the Corporation, as soon as such statements become available.

FURTHER RESOLVED, that the statements contained in the foregoing resolutions creating and designating the said issue of Series F Preferred Stock and fixing the number, powers, preferences and relative, optional, participating, and other special rights and the qualifications, limitations, restrictions, and other distinguishing characteristics thereof shall, upon the effective date of said series, be deemed to be included in and be a part of the articles of incorporation, as amended, of the Corporation pursuant to the provisions of the Illinois Business Corporation Act.

IN WITNESS WHEREOF, Midland States Bancorp, Inc. has caused this Statement of Resolution Establishing Series to be signed this 7th day of March, 2011, by a duly authorized officer, who affirms, under penalties of perjury, that the facts stated herein are true.

MIDLAND STATES BANCORP, INC.

By: /s/ Douglas J. Tucker
Name: Douglas J. Tucker
Title: Senior Vice President and Corporate Counsel

SCHEDULE 7.2

Authorized Equity Interests of Borrower

(a) Common Stock: The Borrower has authorized 40,000,000 shares of common stock, 4,249,777 shares of which have been issued and remain outstanding as of May 11, 2011.

(b) Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock ("Series C Preferred Stock"). The Borrower has currently authorized 3,130 shares of Series C Preferred Stock, 2,360 shares of which are outstanding.

(c) Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock ("Series D Preferred Stock"). The Borrower has currently authorized 4,400 shares of Series D Preferred Stock, 2,377 shares of which are outstanding.

(d) Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock ("Series E Preferred Stock"). The Borrower has currently authorized 630 shares of Series E Preferred Stock, and none of such shares are outstanding.

(e) Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock ("Series F Preferred Stock"). The Borrower has currently authorized 500 shares of Series F Preferred Stock, and none of such shares are outstanding.

(f) Stock Options.

Exerciserable	Non-Exercisable	Total Outstanding
183,610	390,260	573,870

(g) Restricted Stock. Included in the 4,249,777 shares of common stock listed in item (a) above are 31,360 shares which are restricted as to transferability.

(h) Authorized Equity Interests of Subsidiaries. Midland States Bank (the "Bank") is the sole subsidiary of the Borrower. All authorized and outstanding equity interests of the Bank are currently held by the Borrower.

Exhibit 10.3

AMENDMENT NO. 2 TO REGISTRATION RIGHTS AGREEMENT

This AMENDMENT NO. 2 TO REGISTRATION RIGHTS AGREEMENT, dated as of DECEMBER 10, 2013, is entered into between MIDLAND STATES BANCORP, INC., an Illinois corporation (the "**Company**"), and the RICHARD E. WORKMAN 2001 TRUST, an Illinois trust dated July 4, 2001 (the "**Initial Holder**").

WHEREAS, the parties previously entered into that certain Registration Rights Agreement, dated as of January 18, 2011, as amended by that certain Amendment Agreement dated May 11, 2011, providing the Initial Holder certain registration rights with respect to all shares of the Company's common stock. $2.00 par value per share ("**Common Stock**"), held by the Initial Holder, including any shares of Common Stock obtained through the conversion of any shares of the Company's preferred stock held by the Initial Holder (as previously amended, the "**Registration Rights Agreement**"); and

WHEREAS, the Company has requested that the Initial Holder (i) convert all of its shares of the Company's Series C Preferred Stock, Series E Preferred Stock and Series F Preferred Stock (the "**Early Conversion**"); (ii) elect to take all dividends payable in connection with the Early Conversion in the form of additional shares of the Company's Common Stock, as described in the Notice of Early Conversion, dated November 7, 2013 (the "**Additional Share Election**"); and (iii) subscribe for additional shares of the Company's common stock pursuant to the terms of a Private Placement Memorandum dated November 7, 2013 in an amount not less than $1.0 million (the "**Additional Subscription**"); and

WHEREAS, the Initial Holder is willing to effect the Early Conversion, the Additional Share Election and the Additional Subscription, provided the Company is willing to amend the Registration Rights Agreement in the manner set forth below.

NOW THEREFORE, for good and valuable consideration and intending to be legally bound, the parties agree as follows:

1. Upon the closing of the Early Conversion, the Additional Share Election and the Additional Subscription:

(a) the following definitions shall automatically be deemed to have been added to the Registration Rights Agreement:

"Additional Share Election" means the election of the Initial Holder to take, in the form of additional shares of Common Stock, all dividends payable in connection with the Initial Holder's early conversion of its shares of Series C Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, as described in the Notice of Early Conversion, dated November 7, 2013.

"Additional Subscription" means the subscription by the Initial Holder to purchase additional shares of Common Stock, in an amount not

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less than $1 million, pursuant to the terms of the Private Placement Memorandum of the Company, dated November 7, 2013.

(b) the following definition set forth in Section 1.1 of the Registration Rights Agreement shall automatically be deemed to have been deleted in its entirety and replaced with the following:

"Registrable Securities" means any shares of Common Stock: (a) held by the Initial Holder at any time, including any shares of Common Stock issued or issuable upon, or in connection with, the conversion of the Series C Preferred Stock currently held by the Initial Holder, including any shares of Common Stock issued pursuant to the Additional Share Election; (b) issued or issuable upon, or in connection with, the conversion of any shares of Series E Preferred Stock or Series F Preferred Stock acquired or that may be acquired by any Holder upon the exercise of a Warrant, including any shares of Common Stock issued pursuant to the Additional Share Election; (c) issued pursuant to the Additional Subscription; or (d) issued or issuable with respect to any shares of Common Stock referred to in the preceding clauses (a), (b) and (c) by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to any particular Registrable Securities, once issued, such securities shall cease to be Registrable Securities when (i) a registration statement with respect to the sale of such securities shall have become effective under the Securities Act and such securities have been sold pursuant to such registration statement, (ii) such securities shall have been sold to the public pursuant to Rule 144, (iii) such securities shall have ceased to be outstanding, or (iv) such securities have been transferred in a transaction in which the transferor's rights hereunder are not assigned to a transferee or transferees in accordance with Section 6 hereof. For purposes of this Agreement, a Person will be deemed to be a holder of Registrable Securities whenever such Person has the right to acquire such Registrable Securities (by conversion, exercise or otherwise, including successive exercises and conversions), whether or not such acquisition has actually been effected;

(c) Section 6 of the Registration Rights Agreement shall automatically be deemed to have been deleted in its entirety and replaced with the following:

6. ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns. Any Holder (including the Initial Holder) may assign any or all of its rights hereunder (but only with all related obligations) to an Affiliate or to any other Person or Persons to whom the Holder transfers or assigns (i) the Warrants, in whole or in part, in accordance with the terms and conditions thereof, or (ii) any Registrable Securities, with respect to any Registrable Securities acquired by such

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Person or Persons as a result of such transfer or assignment; *provided that* (i) the Company is, within thirty (30) Business Days after such transfer or assignment, furnished with written notice of the name and address of such transferee(s) or assignee(s) and the securities with

respect to which such registration rights are being assigned and (ii) each such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement through the execution and delivery of a joinder, substantially in the form of Exhibit A hereto; and

(d) Section 7 of the Registration Rights Agreement shall automatically be deemed to have been deleted in its entirety and replaced with the following:

7. TERM. This Agreement shall terminate on the earlier of: (i) the fifth (5th) anniversary of the effective date of the registration statement with respect to the Initial Public Offering; and (ii) the date on which no Holder owns any Registrable Securities; provided, that, the indemnification rights and obligations pursuant to Section 2.5, as well as the Company's obligations to pay Registration Expenses pursuant to this Agreement, shall survive with respect to any registration statement in which any Registrable Securities of the Holders were included; and provided further, that the Company shall be obligated to comply with any request for registration of Registrable Securities received under Section 2.1(a) or 2.2(a) prior to such termination date, whether or not such registration has been completed by the date on which this Agreement terminates.

2. Except as expressly amended herein, the Registration Rights Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Amendment No. 2 to Registration Rights Agreement to be executed and delivered by their respective officers hereunto duly authorized as of the date first above written.

MIDLAND STATES BANCORP, INC.

By: /s/ Jeff Ludwig
Name: Jeff Ludwig
Title: EVP, CFO

RICHARD E. WORKMAN 2001 TRUST

By: /s/ Richard E. Workman
Name: Richard E. Workman
Title: Trustee

Exhibit 10.4

Execution Copy

TRANSITIONAL EMPLOYMENT AGREEMENT

THIS TRANSITIONAL EMPLOYMENT AGREEMENT (this "**Agreement**") is made and entered into as of November 16, 2015 (the "**Effective Date**") by and between Midland States Bancorp, Inc., (the "**Company**"), Midland States Bank, an Illinois banking corporation (the "**Bank**") (the Bank and the Company hereinafter collectively referred to as the "**Employer**"), and Leon J. Holschbach ("**Executive**"). As used in this Agreement, capitalized terms have the meanings set forth in **Section 5.**

RECITALS

A. The Bank is a wholly-owned subsidiary of the Company.

B. Executive is currently employed as President and Chief Executive Officer of the Company and President and Chief Executive Officer of the Bank and currently serves as a member of the Board and the Bank Board.

C. The Company and the Bank desire, with Executive's assistance, to implement a succession plan with respect to Executive's employment, and Executive desires to provide such assistance.

D. The Company and the Bank desire to continue to employ Executive pursuant to the terms of this Agreement and Executive desires to continue to be employed by the Company and the Bank pursuant to such terms until Executive's Retirement Date.

E. The Parties have made commitments to each other on a variety of important issues concerning Executive's employment, including the performance that will be expected of Executive, the compensation Executive will be paid, how long and under what circumstances Executive will remain employed, and the financial details relating to any decision that either the Company or Executive may make to terminate this Agreement and Executive's employment with the Company.

F. The Parties desire to enter into this Agreement as of the Effective Date and, to the extent provided herein, to have this Agreement supersede all prior employment agreements between the Parties, whether or not in writing, and to have any such prior employment agreements become null and void as of the Effective Date.

AGREEMENT

In consideration of the foregoing and the mutual promises and covenants of the Parties set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby expressly covenant and agree as follows:

1. **Prior Agreement.** As of the Effective Date, this Agreement shall supersede and replace any and all prior agreements respecting Executive's employment by, or service to, the Employer as may from time to time have been made by and between the Parties, whether or not in writing, including but not limited to the Prior Agreement; *provided, however,* that any vested

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benefits due to Executive pursuant to any pension plan, welfare benefit plan or any other employee benefit plan shall continue to be available to Executive subject to the terms and conditions of the applicable plan as may be in effect from time to time.

2. **Employment Period.** Subject to the terms and conditions of this Agreement, the Employer hereby agrees to continue to employ Executive during the Employment Period and Executive hereby agrees to continue to remain in the employ of the Employer and to provide services during the Employment Period in accordance with this Agreement. The "**Employment Period**" shall be the period commencing on the Effective Date and ending as of the close of business on the Retirement Date, unless sooner terminated as provided herein.

3. **Duties.** Subject to the transitions set forth below, Executive agrees that during the Employment Period, Executive will devote his full business time, energies and talents to serving at the direction of the Board and the Bank Board, as the case may be.

(a) Subject to the following subsections of this **Section 3**, during the Employment Period, Executive shall continue serving as the President and Chief Executive Officer of the Company and the Bank, subject to the direction of the Board.

(b) On or after January 1, 2016, the Bank Board shall have the right, and sole discretion, to appoint a new President of the Bank.

(c) On or after January 1, 2017, the Bank Board shall have the right, and sole discretion, to appoint a new Chief Executive Officer of the Bank.

(d) On or after January 1, 2018, the Board shall have the right, and sole discretion to appoint a new President of the Company.

(e) During the Employment Term and through the end of the director term ending in calendar year 2020 (ending as of the annual shareholders meeting), the Executive shall continue to serve as a member of the Board and the Bank Board.

(f) Executive shall have such duties and responsibilities as may be assigned to Executive from time to time by the Board and the Bank Board, which duties and responsibilities shall be commensurate with Executive's above positions, shall perform all duties assigned to Executive faithfully and efficiently, which shall specifically include facilitating an amicable and efficient transition of duties to Executive's successor for each of the above positions, subject to the direction of the Board and the Bank Board, and shall have such authorities and powers as are inherent to the undertakings applicable to Executive's positions and necessary to carry out the responsibilities and duties required of Executive hereunder. Through the Retirement Date, Executive will

perform the duties required by this Agreement at the Company's principal place of business unless the nature of such duties requires otherwise. Notwithstanding the foregoing, during the Employment Period, Executive may devote reasonable time to activities other than those required under this Agreement, including activities of a charitable, educational, religious or similar nature (including professional associations) to the extent such activities do not, in the reasonable judgment of the Board or the Bank Board, inhibit, prohibit, interfere with or conflict with Executive's duties under this Agreement or conflict in any material way with the business of the Employer and its Affiliates; *provided, however,* that Executive shall not serve on the board

of directors of any business (other than the Employer or its Affiliates) or hold any other position with any business without receiving the prior written consent of the Board and the Bank Board.

4. **Compensation and Benefits.** Subject to the terms and conditions of this Agreement, during the Employment Period, while Executive is employed by the Employer, the Employer shall compensate Executive for Executive's services as follows for periods following the Effective Date:

(a) **Annual Base Salary**. Executive shall be compensated at an annual rate of $529,390.00 (the "**Annual Base Salary**"), which shall be payable in accordance with the Employer's normal payroll practices as are in effect from time to time. Beginning on January 1, 2016 and on each anniversary of such date, Executive's rate of Annual Base Salary shall be reviewed by the Compensation Committee of the Board (the "**Compensation Committee**"), and following such review, the Annual Base Salary may be adjusted upward but in no event will it be decreased.

(b) **Incentive Bonus**. Executive shall be entitled to receive performance based annual incentive bonuses (each, the "**Incentive Bonus**") from the Employer for each fiscal year ending during the Employment Period. Any such Incentive Bonus shall be paid to Executive within thirty (30) days of the completion of the annual audit by the Company's auditor, but in no event later than two and one-half months after the close of each such fiscal year. Executive's target Incentive Bonus shall be not less than fifty percent (50%) of the Annual Base Salary, which Incentive Bonus shall be determined by specific performance criteria established from time to time by the Compensation Committee. Executive shall not be eligible for Incentive Bonuses for performance periods that begin following the Retirement Date.

(c) **Life Insurance**. The Employer shall secure, at its sole expense, for the benefit of Executive and his beneficiaries, life insurance covering the life of Executive with an aggregate death benefit equal to $1,000,000.00. Such life insurance may be provided pursuant to a group term life insurance plan maintained by the Employer for the benefit of its employees generally, pursuant to an individual life insurance policy covering the life of Executive, or a combination thereof. Executive shall have sole discretion to designate the beneficiaries of such life insurance. Any such policies provided pursuant to this subsection shall provide for the portability of such policies in the event of Executive's termination of employment.

(d) **Supplemental Retirement Benefit**. The Employer shall provide for a supplemental executive retirement benefit for Executive that shall provide benefits during calendar years 2019, 2020, and 2021, provided that Executive at all times is available to assist the Company on as needed basis for business development or strategic initiatives, but in no event providing services greater than 20% percent of the level of services provided in calendar year 2018. Benefits provided under this subsection (d) shall be based upon 50%, 40%, and 30% of Executive's Annual Base Salary, as in effect immediately prior to the Retirement Date, for calendar years 2019, 2020, and 2021, respectively. Such benefits shall be made in substantially equal monthly installments, subject to all applicable withholding requirements. Benefits provided under this subsection (d) shall be separately reflected in a written agreement, setting forth the complete terms and conditions with respect to such benefits.

(e) **Future Equity Awards**. For each of 2015, 2016 and 2017, Executive shall be eligible to receive restricted stock unit awards with a grant date fair value of not less than 33% of Executive's Annual Base Salary as in effect on the date of grant. The restricted stock units shall vest as of the earlier of Executive's death or disability, the Retirement Date, the date of a Change of Control and in event of a termination by the Company without Cause and resignation for Good Reason. The restricted stock units shall be settled in cash or stock, at the election of Executive. The restricted stock units shall be separately reflected in written award agreements, setting forth the complete terms and conditions with respect to each such award.

(f) **Outstanding Stock Options**. Effective as of the date hereof, all of Executive's stock options outstanding as of the Effective Date shall be amended to provide for the continued right to exercise such awards until the earlier of (i) the of the original expiration date of the awards (assuming that Executive had remained an employee of the Company through such dates, other than in the event of Executive's termination for Cause), and (ii) December 31, 2020; provided that Executive remains in compliance with the Restrictive Covenants set forth in **Section 8** below.

(g) **Outstanding Restricted Stock Awards**. Effective as of the date hereof, the Board shall retain the right, but not the obligation, to fully vest as of the Retirement Date, all restricted stock or restricted stock units outstanding as of the Effective Date.

(h) **Other Benefit Plans**. Subject to the foregoing, Executive shall be eligible to participate, subject to the terms and conditions thereof, in all other incentive plans and programs as may be in effect from time to time with respect to senior executives employed by the Employer on as favorable a basis as provided to other similarly situated senior executives. Executive and Executive's dependents, as the case may be, shall be eligible to participate in all pension and similar benefit plans (qualified, non-qualified and supplemental), profit sharing, 401(k), as well as all medical and dental, disability, group and executive life, accidental death and travel accident insurance, and other similar welfare benefit plans and programs of the Employer, subject to the terms and conditions thereof, as in effect from time to time with respect to senior executives employed by the Employer on as favorable a basis as provided to other similarly situated senior executives.

(i) **Vacation**. Executive shall be entitled to accrue vacation at a rate of no less than four (4) weeks paid vacation for each calendar year, subject to the Employer's vacation programs and policies as may be in effect during the Employment Period.

(j) **Expense Reimbursement**. Executive shall be reimbursed by the Employer, on terms and conditions that are substantially similar to those that apply to other similarly situated executives of the Employer, for reasonable out-of-pocket expenses for entertainment, travel, meals, lodging and similar items which are consistent with the Employer's expense reimbursement policy and actually incurred by Executive in the promotion of the Employer's business.

5. **Definitions**. As used throughout this Agreement, all of the terms defined in this **Section 5** shall have the meanings given below.

(a) "**Affiliate**" shall mean each company, corporation, partnership, bank, savings bank, savings and loan association, credit union or other financial institution, directly or indirectly, which is controlled by, controls, or is under common control with, the Company, where "control" means (i) the ownership of 51% or more of the voting securities or other voting interest or other equity interest of any corporation, partnership, joint venture or other business entity, or (ii) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such corporation, partnership, joint venture or other business entity.

(b) "**Bank**" means Midland States Bank.

(c) "**Bank Board**" means the board of directors of the Bank.

(d) "**Base Compensation**" shall mean the amount equal to the sum of (i) the greater of Executive's then-current Annual Base Salary or Executive's Annual Base Salary as of the date one (1) day prior to the Change of Control; and (ii) the average of the Incentive Bonus paid (or payable) for the three (3) most recently completed fiscal years of the Company.

(e) "**Board**" means the board of directors of the Company.

(f) "**Change of Control**" shall mean the first to occur of the following:

(i) Any Person, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the beneficial owner (within the meaning of Rule 13d-3 of the Exchange Act), directly or indirectly, of securities representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding Voting Securities; or

(ii) During any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) Consummation of: (A) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (B) a complete liquidation of the Company or the Bank or an agreement for the sale or disposition by the Company of all or substantially all the Company's or the Bank's assets.

However, in no event shall a Change of Control be deemed to have occurred, with respect to the Executive if the Executive is part of a purchasing group which consummates the Change of Control transaction. The Executive shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Executive is an equity participant in the purchase company or group (except for (i) passive ownership of less than two percent (2%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change of Control by a majority of the non-employee continuing Directors).

In the event that any benefit under this Agreement constitutes deferred compensation, and the settlement of, or distribution of such benefits is to be triggered by a Change of Control, then such settlement or distribution shall be subject to the event constituting the Change of Control also constituting a "change in the ownership" or "change in the effective control" of the Company, as permitted under Code Section 409A.

(g) "**Covered Period**" shall mean the period beginning six (6) months prior to a Change of Control and ending twenty-four (24) months after the Change of Control.

(h) "**Disability**" shall mean that Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Employer.

(i) "**Financial Institution**" shall mean any person, firm, partnership, corporation or trust which owns, operates or is in the process of forming, a bank, savings and loan association, credit union or similar financial institution.

(j) "**Good Reason**" shall mean Executive's voluntary Termination of employment for one or more of the following reasons:

(i) an adverse change in the nature, scope or status of Executive's position, authorities or duties from those in effect in accordance with **Section 3**, or if applicable and greater, immediately prior to the Covered Period;

(ii) a reduction in Executive's Annual Base Salary, Incentive Bonus opportunity, or material reduction in Executive's aggregate compensation and benefits from that in effect immediately following the Effective Date, or if applicable and greater, immediately prior to the Covered Period;

(iii) relocation of Executive's primary place of employment of more than ninety (90) miles from Executive's primary place of employment immediately following the Effective Date, or if applicable, prior to the Covered Period, or a requirement that Executive engage in travel that is materially greater than was required prior to the Covered Period;

(iv) failure by an acquirer to assume this Agreement at the time of a Change of Control; or

(v) a material breach by the Employer, or its successor, of this Agreement.

Notwithstanding the foregoing, prior to Executive's Termination for Good Reason, Executive must give the Employer written notice of the existence of any condition set forth in clause (i) — (v) above within ninety (90) days of such initial existence and the Employer shall have thirty (30) days from the date of receipt of such notice in which to cure the condition giving rise to Good Reason, if curable. If, during such thirty (30) day period, the Employer cures the condition giving rise to Good Reason, no payments or benefits shall be due under **Section 6** of this Agreement with respect to such occurrence. If, during such thirty (30) day period, the Employer fails or refuses to cure the condition giving rise to Good Reason, Executive shall be entitled to payments or benefits under **Section 6** of this Agreement upon such Termination; *provided* such Termination occurs within 24 months of such initial existence of the applicable condition.

(k) "**Minimum Payments**" shall mean, as applicable, the following amounts:

(i) Executive's earned but unpaid Annual Base Salary for the period ending on the Termination Date;

(ii) Executive's earned but unpaid Incentive Bonus for the previously completed fiscal year;

(iii) Executive's accrued but unpaid vacation pay for the period ending on the Termination Date;

(iv) Executive's unreimbursed business expenses and all other items earned and owed to Executive through the Termination Date; and

(v) benefits, incentives and awards described in **Section 6(f)**.

(l) "**Parties**" means the Company, the Bank, and Executive.

(m) "**Prior Agreement**" means that certain employment agreement by and between the parties dated December 1, 2010.

(n) "**Pro Rata Bonus**" means a payment equal to the Incentive Bonus that Executive would have earned for the year of termination, based upon actual results of the Employer and pro rated on a per diem basis (by dividing the number of days employed during the applicable performance period by the total number of days in the applicable performance period).

(o) "**Release**" shall mean a general release and waiver substantially in the form attached hereto as **Exhibit A**.

(p) "**Restricted Area**" shall mean an area that encompasses a twenty-five (25) mile radius from each banking or other office location of the Employer and its Affiliates; *provided however*, that, in the event of a Change of Control, the Restricted Area shall be limited to the Restricted Area immediately prior to such Change of Control.

(q) "**Restricted Period**" shall mean the time period including Executive's employment with the Employer and for a period of eighteen (18) months (twelve (12) months if the termination occurs during a Covered Period) immediately following the termination of employment, for whatever reason, where such termination occurs during the Employment Period or thereafter.

(r) "**Restrictive Covenants**" means each of the restrictive covenants set forth in **Section 8**.

(s) "**Retirement Date**" means Executive's retirement as of the close of business on December 31, 2018.

(t) "**Severance Amount**" shall mean:

(i) for any Termination occurring during the Employment Period and not during a Covered Period, an amount equal to Executive's Base Compensation for the remaining Employment Period; or

(ii) for any Termination occurring during a Covered Period, an amount equal to two hundred percent (200%) of Executive's Base Compensation.

(u) "**Termination**" shall mean termination of Executive's employment either:

(i) by the Employer or its successor, as the case may be, other than a Termination for Cause or any termination as a result of death or Disability; or

(ii) by Executive for Good Reason.

(v) "**Termination Date**" shall mean the date of employment termination, for any reason or no reason, indicated in the written notice provided by the Employer or Executive to the other.

(w) "**Termination for Cause**" shall mean only a termination by the Employer as a result of:

(i) Executive's willful and continuing failure, that is not remedied within twenty (20) days after receipt of written notice of such failure from the Board, to perform his obligations hereunder;

(ii) Executive's willful act or acts of gross misconduct that are, alone or in the aggregate, materially and demonstrably injurious, monetarily or otherwise, to the Employer or an Affiliate, as determined in the sole discretion of the Board and Bank Board; or

(iii) Executive's breach of fiduciary responsibility or any obligation of Executive pursuant to **Section 8**.

Any determination of a Termination for Cause under this Agreement shall be made by resolution adopted by a two-thirds (2/3) vote of the Board at a meeting called and held for that purpose. Executive shall be provided with reasonable notice of such meeting and shall be given the opportunity to be heard, with the presence of counsel, prior to the vote being taken by the Board.

(x) "**Voting Securities**" shall mean any securities which ordinarily possess the power to vote in the election of directors without the happening of any pre-condition or contingency.

6. Rights and Obligations Upon Termination. This Agreement and Executive's employment under this Agreement may be terminated for any of the reasons described in this **Section 6**, *provided* that this Agreement and Executive's employment under this Agreement shall in all events terminate as of the Retirement Date if no such termination has occurred prior to the Retirement Date. Executive's right to benefits, if any, for periods after the Termination Date shall be determined in accordance with this **Section 6**:

(a) Minimum Payments. If the Termination Date occurs during the Employment Period for any reason, Executive shall be entitled to the Minimum Payments, in addition to any payments or benefits to which Executive may be entitled under the following provisions of this **Section 6** (other than this **Section 6(a)**) or the express terms of any employee benefit plan or as required by law. Any payments to be made to Executive pursuant to this **Section 6(a)** shall be made within thirty (30) days after the Termination Date; provided that any benefits, incentives or awards payable as described in **Section 6(f)** shall be made in accordance with the provisions of the applicable plan, program or arrangement. Except as may be otherwise expressly provided to the contrary in this Agreement or as otherwise provided by law, nothing in this Agreement shall be construed as requiring Executive to be treated as employed by the Employer following the Termination Date for purposes of any employee benefit plan or arrangement in which Executive may participate at such time.

(b) Termination for Cause, Death, Disability, Voluntary Resignation and Expiration.

(i) Upon a determination of a Termination for Cause by the Employer, Executive's death or Disability, or Executive's voluntary resignation other than for Good Reason, Executive's employment shall immediately terminate.

(ii) If the Termination Date occurs during the Employment Period and is a result of a Termination for Cause, death, Disability, voluntary resignation other than for Good Reason or if this Agreement expires as of the Retirement Date, then, other than the Minimum Payments, Executive shall have no right to payments or benefits under this Agreement (and the Employer shall have no obligation to make any such payments or provide any such benefits) for periods after the Termination Date.

(c) Termination Other than for Cause or Termination for Good Reason. Subject to **Section 7** below, if Executive's employment by the Employer, or any Affiliate or

successor of the Employer, shall be subject to a Termination other than during a Covered Period, then, in addition to the Minimum Payments, the Employer shall provide Executive the following benefits:

(i) Commencing on the Termination Date, Executive shall receive the applicable Severance Amount (less any amount described in **subparagraph (ii)** below) paid in twelve (12) substantially equal monthly installments, with each successive payment being due on the monthly anniversary of the Termination Date.

(ii) To the extent any portion of the applicable Severance Amount exceeds the "safe harbor" amount described in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A), Executive shall receive such portion of the applicable Severance Amount that exceeds the "safe harbor" amount in a single lump sum payment payable within five (5) days after Executive's Termination Date.

(iii) Executive (and dependents, as may be applicable) shall be entitled to the medical benefits provided in **Section 6(e)** below.

(iv) Executive shall be entitled to receive a Pro Rata Bonus, when Incentive Bonuses are paid to other senior management of Employer, consistent with **Section 4(a)** of this Agreement.

(d) Termination Upon a Change of Control. Subject to **Section 7** below, if Executive's employment by the Employer, or any Affiliate or successor of the Employer, shall be subject to a Termination within a Covered Period, then, in addition to Minimum Payments, the Employer shall provide Executive the following benefits:

(i) Within five (5) days after Executive's Termination Date, the Employer shall pay Executive a lump sum payment in an amount equal to the Severance Amount.

(ii) Executive (and his dependents, as may be applicable) shall be entitled to the medical benefits provided in **Section 6(e)** below.

(iii) Within five (5) days after Executive's Termination Date, the Employer shall pay Executive a lump sum payment in an amount equal to the Pro Rata Bonus, based upon the actual performance of the Company through the Termination Date.

(e) Medical, Dental and Life Insurance Benefits. If Executive's employment by the Employer or any Affiliate or successor of the Employer shall be subject to a Termination as provided in **subsections (c)** or **(d)** above within the Employment Period, then to the extent that Executive or any of Executive's dependents may be covered under the terms of any medical and dental plans of the Employer (or any Affiliate) for active employees immediately prior to the termination, then, for as long as Executive is eligible for and elects coverage under the health care continuation rules of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("**COBRA**"), the Employer will provide Executive and those dependents with equivalent coverage, with Executive required to pay the same amount as Executive would pay if Executive continued in employment with the Employer or an Affiliate

during such period, but in no event more than eighteen (18) months following termination; *provided*, *however*, that such coverage shall be provided only to the extent that it does not result in any additional tax or other penalty being imposed on the Company (or an Affiliate) or violate any nondiscrimination requirements then applicable with respect to the applicable plans. The coverage may be procured directly by the Employer (or any Affiliate, if appropriate) apart from, and outside of the terms of the plans themselves; provided that Executive and Executive's dependents comply with all of the conditions of the medical or dental plans, with the cost to the Employer not to exceed the cost for continued COBRA coverage. In the event Executive or any of Executive's dependents become eligible for coverage under the terms of any other medical and/or dental plan of a subsequent employer which plan benefits are comparable to Employer (or any Affiliate) plan benefits, coverage under Employer (or any Affiliate) plans will cease for the eligible Executive and/or dependent. Executive and Executive's dependents must notify the Employer (or any Affiliate) of any subsequent employment and provide information regarding medical and/or dental coverage available. In the event the Employer (or any Affiliate) discovers that Executive and/or dependent has become employed and not provided the above notification, all payments and benefits under this **subsection (e)** will cease. In the event that as of the date of a Change of Control, Executive is covered by life insurance pursuant to Section 4(c), the Employer (or its successor) shall continue such coverage in effect for eighteen (18) months, at which time Executive shall be permitted to take over such payments pursuant to a "roll out" of such policies to Executive.

(f) Other Benefits. Executive's rights following a Termination with respect to any benefits, incentives or awards provided to Executive pursuant to the terms and conditions of any plan, program or arrangement sponsored or maintained by the Employer, whether tax-qualified or not, which are not specifically addressed herein, shall be subject to the terms and conditions of such plan, program or arrangement and this Agreement shall have no effect upon such terms and conditions except as specifically provided herein.

(g) Removal from any Boards and Positions. Upon a Termination for Cause, Executive shall be deemed to resign (i) if a member, from the Board and the board of directors of any Affiliate and any other board to which Executive has been appointed or nominated by or on behalf of the Company or an Affiliate, (ii) from each position with the Company and any Affiliate, including as an officer of the Company or an Affiliate and (iii) as a fiduciary of any employee benefit plan of the Company and any Affiliate.

(h) Clawback. Notwithstanding any provision of this Agreement to the contrary, if any statute, law or Employer policy (where such policy is no more expansive than required by law or the rules of an applicable stock exchange) require the recapture or "clawback" of any benefits paid to Executive under this Agreement following the Termination Date, Executive shall repay to the Company the aggregate amount of any such payments, with such repayment to occur no later than thirty (30) days following Executive's receipt of a written notice from the Company indicating that payments received by Executive under this Agreement are subject to recapture or clawback.

7. Release. Notwithstanding anything contained in this Agreement to the contrary, no payments or benefits (including without limitation, vesting of any and all stock options, shares of restricted stock, restricted stock units and other unvested incentive awards) payable to

Executive under **Section 6(c), 6(d) or 6(e)** (except for payments and benefits described in **Section 6(a)**) shall be paid or provided to Executive unless he first executes (without subsequent revocation) and delivers to the Employer a Release. To the extent any of the payments and/or benefits due under **Section 6(c)**, **6(d)** or **6(e)** are determined to be subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), the Release must be executed and become irrevocable on or before the 60th day following the Termination Date. Provided that an executed, irrevocable Release has been delivered and become irrevocable on or before the 60th day following the Termination Date, any payments and benefits that are determined to be subject to Section 409A of the Code shall become payable, or shall otherwise commence, as of the 60th day following the Termination Date. If an executed, irrevocable Release is not delivered and become irrevocable on or before the 60th day following the Termination Date, Executive shall forever forfeit any and all rights to any payment or benefit (to the extent such payment or benefit is determined to be subject to Section 409A of the Code) under **Section 6(c)**, **6(d)** or **6(e)** or any payment or benefit in lieu thereof.

8. Restrictive Covenants.

(a) Confidential Information. Executive acknowledges that, during the course of his employment with the Employer, Executive may produce and have access to confidential and/or proprietary non-public information concerning the Employer and its Affiliates, including marketing materials, financial and other information concerning customers and prospective customers, customer lists, records, data, trade secrets, proprietary business information, pricing and profitability information and policies, strategic planning, commitments, plans, procedures, litigation, pending litigation and other information not generally available to the public (collectively, "**Confidential Information**"). Executive agrees not to directly or indirectly use, disclose, copy or make lists of Confidential Information for the benefit of anyone other than the Employer, either during or after his employment with the Employer, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by the Employer, required by law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Executive of his duties hereunder. Executive agrees that, if he receives a subpoena or other court order or is otherwise required by law to provide information to a governmental authority or other person concerning the activities of the Employer or any of its Affiliates, or his activities in connection with the business of the Employer or any of its Affiliates, Executive will immediately notify the Employer of such subpoena, court order or other requirement and deliver

forthwith to the Employer a copy thereof and any attachments and non-privileged correspondence related thereto. Executive shall take reasonable precautions to protect against the inadvertent disclosure of Confidential Information. Executive agrees to abide by the Employer's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of the Employer and its Affiliates. In this regard, Executive shall not directly or indirectly render services to any person or entity where Executive's service would involve the use or disclosure of Confidential Information. Executive agrees not to use any Confidential Information to guide him in searching publications or other publicly available information, selecting a series of items of knowledge from unconnected sources and fitting them together to claim that he did not violate any agreements set forth in this Agreement.

(b) Documents and Property.

(i) All records, files, documents and other materials or copies thereof relating to the business of the Employer and its Affiliates, which Executive shall prepare, receive, or use, shall be and remain the sole property of the Employer and, other than in connection with performance by Executive of his duties hereunder, shall not be removed from the premises of the Employer or any of its Affiliates without the Employer's prior written consent, and shall be promptly returned to the Employer upon Executive's termination of employment together with all copies (including copies or recordings in electronic form), abstracts, notes or reproductions of any kind made from or about the records, files, documents or other materials.

(ii) Executive acknowledges that Executive's access to and permission to use the Employer's and its Affiliates' computer systems, networks, and equipment, and all the Employer and Affiliate information contained therein, is restricted to legitimate business purposes on behalf of the Employer and reasonable personal use in accordance with the Employer's applicable policies and procedures. Any other access to or use of such systems, networks, equipment, and information is without authorization and is prohibited. The restrictions contained in this **Section 8(b)** extend to any personal computers or other electronic devices of Executive that are used for business purposes relating to the Employer or its Affiliates. Executive shall not transfer any Employer or Affiliate information to any personal computer or other electronic device that is not otherwise used for any business purpose relating to the Employer or an Affiliate. Upon a Termination, Executive's authorization to access and permission to use the Company's and its Affiliates' computer systems, networks, and equipment, and any Employer and Affiliate information contained therein, shall cease, and Executive shall delete any Employer and Affiliate information from Executive's personal computer or other electronic device.

(c) Non-Competition and Non-Solicitation. The Employer and Executive have agreed that the primary service area of the Employer's lending and deposit taking functions in which Executive will actively participate extends to the Restricted Area. Therefore, as an essential ingredient of and in consideration of this Agreement and his employment by the Employer, Executive agrees that, during the Restricted Period, he will not, except with the express prior written consent of the Employer, directly or indirectly, do any of the following:

(i) Engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation or control of, be employed by, associated with, or in any manner connected with, serve as a director, officer or consultant to, lend his name or any similar name to, lend his credit to, or render services or advice to a Financial Institution with an office located, or to be located at an address identified in a filing with any regulatory authority, within the Restricted Area; *provided however,* that the ownership by Executive of shares of the capital stock of any Financial Institution which shares are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System and which do not represent more than five percent (5%) of the institution's outstanding capital stock, shall not violate any terms of this Agreement.

(ii) Executive will not, directly or indirectly, either for himself, or any Financial Institution: (1) induce or attempt to induce any employee of the Employer or any of its Affiliates to leave the employ of the Employer or any of its Affiliates; (2) in any way interfere with the relationship between the Employer or any of its Affiliates and any employee of the Employer or any of its Affiliates; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer or any of its Affiliates to cease doing business with the Employer or any of its Affiliates or in any way interfere with the relationship between the Employer or any of its Affiliates and their respective customers, suppliers, licensees or business relations.

(iii) Executive will not, directly or indirectly, either for himself, or any Financial Institution, solicit the business of any person or entity known to Executive to be a customer of the Employer or any of its Affiliates, where Executive, or any person reporting to Executive, had personal contact with such person or entity, with respect to products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(iv) Executive will not, directly or indirectly, serve as the agent, broker or representative of, or otherwise assist, any person or entity in obtaining services or products from any Financial Institution within the Restricted Area, with respect to the products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(v) Notwithstanding the foregoing, subsections (i) and (iv) above shall not apply with respect to a Financial Institution with assets of less than $100,000,000 at all times during the Restricted Period.

(d) Work for Hire Provisions.

(i) **Exclusive Rights of the Employer in Work Product.** The parties acknowledge and agree that all work performed by Executive for the Employer or any of its Affiliates shall be deemed "work for hire." The Employer shall at all times own and have exclusive right, title and interest in and to all Confidential Information and Inventions (as defined below), and the Employer shall retain the exclusive right to license, sell, transfer and otherwise use and dispose of the same. Any and all enhancements of the technology of the Employer or any of its Affiliates that are developed by Executive shall be the exclusive property of the Employer. Executive hereby assigns to the Employer any right, title and interest in and to all Inventions that he may have, by law or equity, without additional consideration of any kind whatsoever from the Employer or any of its Affiliates. Executive agrees to execute and deliver any instruments or documents and to do all other things (including the giving of testimony) requested by the Employer (both during and after the termination of his employment with the Employer) in order to vest more fully in the Employer or any of its Affiliates all ownership rights in the Inventions (including obtaining patent, copyright or trademark protection therefore in the United States and/or foreign countries).

(ii) **Definitions and Exclusions.** For purposes of this Agreement, "**Inventions**" means all systems, procedures, techniques, manuals, data bases, plans, lists,

inventions, trade secrets, copyrights, patents, trademarks, discoveries, innovations, concepts, ideas and software conceived, compiled or developed by Executive in the course of his employment with the Employer or any of its Affiliates and/or comprised, in whole or part, of Confidential Information. Notwithstanding the foregoing, Inventions shall not include: (i) any inventions independently developed by Executive and not derived, in whole or part, from any Confidential Information or (ii) any invention made by Executive prior to his exposure to any Confidential Information.

(e) Remedies for Breach of Restrictive Covenants. Executive has reviewed the provisions of this Agreement with legal counsel, or has been given adequate opportunity to seek such counsel, and Executive acknowledges and expressly agrees that the covenants contained in this **Section 8** are reasonable with respect to their duration, geographical area and scope. Executive further acknowledges that the restrictions contained in this **Section 8** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer to enter into this Agreement. In the event of any violation or threatened violation of these restrictions, the Employer, in addition to and not in limitation of, any other rights, remedies or damages available to the Employer under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Executive and any and all persons directly or indirectly acting for or with him, as the case may be.

(f) In the event of the existence of any other agreement between the parties which (i) is in effect during the Restricted Period, and (ii) which contains restrictive covenants that conflict with any of the provisions of this **Section 8**, then the more restrictive of such provisions from the agreements shall control for the period during which the agreements would otherwise be in effect.

9. No Set-Off; No Mitigation. Except as provided herein, the Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including any set-off, counterclaim, recoupment, defense or other right which the Employer may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

10. Notices. Notices and all other communications under this Agreement shall be in writing and shall be deemed given when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company (with a copy to the Bank):

Midland States Bancorp, Inc.
Attention: Chairman of the Board of Directors

133 W. Jefferson Street
Effingham, Illinois 62401

If to the Bank (with a copy to the Company):

Midland States Bank
Attention: Chairman of the Board of Directors
133 W. Jefferson Street
Effingham, Illinois 62401

If to Executive, to such home address or other address as Executive has most recently provided to the Employer.

or to such other address as either Party may furnish to the other in writing, except that notices of changes of address shall be effective only upon receipt.

11. Applicable Law. All questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction, and any court action commenced to enforce this Agreement shall have as its sole and exclusive venue the County of Effingham, Illinois.

12. Entire Agreement; Survival.

(a) This Agreement constitutes the entire agreement between Executive and the Employer concerning the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral, specifically including the Prior Agreement. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and Executive hereby agrees that such scope may be judicially modified accordingly.

(b) The provisions of **Section 8** shall survive the termination of this Agreement.

13. **Withholding of Taxes**. The Employer may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling.

14. **No Assignment**. Executive's rights to receive payments or benefits under this Agreement shall not be assignable or transferable whether by pledge, creation of a security interest or otherwise, other than a transfer by will or by the laws of descent or distribution. In the

event of any attempted assignment or transfer contrary to this Section, the Employer shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

15. **Successors**. This Agreement shall be binding upon and inure to the benefit of the Employer, its successors and assigns (including, without limitation, any company into or with which the Employer may merge or consolidate). The Employer agrees that it will not effect the sale or other disposition of all or substantially all of its assets (where such transaction would constitute a Change of Control) unless either (a) the person or entity acquiring the assets, or a substantial portion of the assets, shall expressly assume by an instrument in writing all duties and obligations of the Employer under this Agreement, or (b) the Employer shall provide, through the establishment of a separate reserve, for the payment in full of all amounts which are or may reasonably be expected to become payable to Executive under this Agreement.

16. **Legal Fees**. In the event that either Party commences arbitration or litigation to enforce or protect his and/or its rights under this Agreement, the prevailing Party in any such action shall be entitled to recover reasonable attorneys' fees and costs (including the costs of experts, evidence and counsel) relating to such action, in addition to all other entitled relief, including but not limited to damages and injunctive relief.

17. **Amendment**. This Agreement may not be amended or modified except by written agreement signed by Executive and the Employer.

18. **Internal Revenue Code Section 409A.**

(a) It is intended that this Agreement shall comply with the provisions of Section 409A of the Code so as not to subject Executive to the payment of additional taxes and interest under Section 409A of the Code. In furtherance of this intent, this Agreement shall be interpreted, operated and administered in a manner consistent with these intentions, and to the extent that any regulations or other guidance issued under Section 409A of the Code would result in Executive being subject to payment of additional income taxes or interest under Section 409A of the Code, the parties agree to amend this Agreement to maintain to the maximum extent practicable the original intent of the Agreement while avoiding the application of such taxes or interest under Section 409A of the Code.

(b) Notwithstanding any provision of this Agreement to the contrary, no termination or similar payments or benefits shall be payable hereunder on account of a Termination unless such Termination constitutes a "separation from service" within the meaning of Code Section 409A. For purposes of Code Section 409A, all installment payments of deferred compensation made hereunder, or pursuant to another plan or arrangement, shall be deemed to be separate payments. To the extent any reimbursements or in-kind benefit payments under this Agreement are subject to Code Section 409A, such reimbursements and in-kind benefit payments shall be made in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv). This **Section 18** shall not be construed as a guarantee of any particular tax effect for Executive's benefits under this Agreement and the Company does not guarantee that any such benefits will satisfy the provisions of Code Section 409A or any other provision of the Code.

(c) Notwithstanding any provision in this Agreement to the contrary, if Executive is determined to be a Specified Employee as of the Termination Date, then, to the extent required pursuant to Section 409A(a)(2)(B)(i) of the Code, payments due under this Agreement which are deemed to be deferred compensation shall be subject to a six (6) month delay following the Termination Date. For purposes of Section 409A of the Code, all installment payments of deferred compensation made hereunder, or pursuant to another plan or arrangement, shall be deemed to be separate payments and, accordingly, the aforementioned deferral shall only apply to separate payments which would occur during the six (6) month deferral period and all other payments shall be unaffected. All delayed payments shall be accumulated and paid in a lump-sum catch-up payment as of the first day of the seventh-month following the Termination Date (or, if earlier, the date of death of Executive) with all such delayed payments being credited with interest (compounded monthly) for this period of delay equal to the prime rate in effect on the first day of such six-month period. Any portion of the benefits hereunder that were not otherwise due to be paid during the six-month period following the Termination Date shall be paid to Executive in accordance with the payment schedule established herein.

(d) The term "**Specified Employee**" shall mean any person who is a "key employee" (as defined in Code Section 416(i) of the Code without regard to paragraph (5) thereof), as determined by the Employer based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the "identification period"). If Executive is determined to be a key employee under Section 416(i) of the Code (without regard to paragraph (5) thereof), he shall be treated as a Specified Employee for purposes of this Agreement during the 12-month period that begins on the April 1 following the close of such identification period. For purposes of determining whether Executive is a key employee under Section 416(i) of the Code, "compensation" shall mean Executive's W-2 compensation as reported by the Employer for a particular calendar year.

19. **Construction.**

(a) In this Agreement, unless otherwise stated, the following uses apply: (i) references to a statute refer to the statute and any amendments and any successor statutes, and to all regulations promulgated under or implementing the statute, as amended, or its successors, as in effect at the relevant time; (ii) in computing periods from a specified date to a later specified date, the words "from" and "commencing on" (and the like) mean "from and including," and the words "to," "until," and "ending on" (and the like) mean "to, and including"; (iii) references to a governmental or quasi-governmental agency, authority, or instrumentality also refer to a regulatory body that succeeds to the functions of the agency, authority, or instrumentality; (iv) indications of time of day are based upon the time applicable to the location of the principal headquarters of the Company; (v) the words "include," "includes," and "including" (and the like) mean "include, without limitation," "includes, without limitation," and "including, without limitation," (and the like) respectively; (vi) all references to preambles, recitals, sections, and exhibits are to preambles, recitals, sections, and exhibits in or to this Agreement; (vii) the words "hereof," "herein," "hereto," "hereby," "hereunder," (and the like) refer to this Agreement as a whole (including exhibits); (viii) any reference to a document

or set of documents, and the rights and obligations of the parties under any such documents, means such document or documents as amended from time to time, and all modifications, extensions, renewals, substitutions, or replacements thereof; (ix) all words used shall be construed to be of

such gender or number as the circumstances and context require; (x) the captions and headings of preambles, recitals, sections, and exhibits appearing in or attached to this Agreement have been inserted solely for convenience of reference and shall not be considered a part of this Agreement, nor shall any of them affect the meaning or interpretation of this Agreement or any of its provisions; and (xi) all accounting terms not specifically defined herein shall be construed in accordance with GAAP.

(b) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same Agreement.

(remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

MIDLAND STATES BANCORP, INC.

By: /s/ John M. Schultz
Name: John M. Schultz
Its: Chairman

LEON J. HOLSCHBACH

/s/ Leon J. Holschbach
[Signature]

MIDLAND STATES BANK

By: /s/ John M. Schultz
Name: John M. Schultz
Its: Chairman

EXHIBIT A

GENERAL RELEASE AND WAIVER

THIS GENERAL RELEASE AND WAIVER (the "**Release**") is made and entered into as of this day of , 200 , by and between Midland States Bancorp, Inc., (the "**Company**"), Midland States Bank, an Illinois banking corporation (the "**Bank**") (the Bank and the Company hereinafter collectively referred to as the "**Employer**"), and Leon J. Holschbach ("**Executive**").

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Termination of Employment. Executive and the Employer agree that Executive's employment with the Employer terminated effective . Executive further agrees that without prior written consent of the Employer he will not hereafter seek reinstatement, recall or reemployment with the Employer.

2. Severance Payment.

(a) A description of the payments to which Executive may be entitled upon termination of employment are contained in **Section 6** of that certain Employment Agreement entered into by and between the Employer and Executive dated [, 2015], which is incorporated by reference herein (the "**Employment Agreement**").

(b) The payments described in this **Section** 2 are over and above that to which Executive would be otherwise entitled to upon the termination of his employment with the Employer, absent executing this Release, notwithstanding the terms of the Employment Agreement. Executive affirms that he has agreed in the Employment Agreement, and again herein, that he is only entitled to such payments if he executes this Release.

3. General Release. In consideration of the payments and benefits to be made by the Employer to Executive in **Section 2** above, Executive, with full understanding of the contents and legal effect of this Release and having the right and opportunity to consult with his counsel, releases and discharges the Employer, its shareholders, officers, directors, supervisors, managers, employees, agents, representatives, attorneys, parent companies, divisions, subsidiaries and affiliates, and all related entities of any kind or nature, and its and their predecessors, successors, heirs, executors, administrators, and assigns (collectively, the "**Released Parties**") from any and all claims, actions, causes of action, grievances, suits, charges, or complaints of any kind or nature whatsoever, that he ever had or now has, whether fixed or contingent, liquidated or unliquidated, known or unknown, suspected or unsuspected, and whether arising in tort, contract, statute, or equity, before any federal, state, local, or private court, agency, arbitrator, mediator, or other entity, regardless of the relief or remedy, arising prior to the execution of this Release. Without limiting the generality of the foregoing, it being the intention of the parties to make this Release as broad and as general as the law permits, this Release specifically includes any and all subject matters and claims arising from any alleged violation by the Released Parties under the Age Discrimination in Employment Act of 1967, as amended; Title VII of the Civil Rights Act

of 1964, as amended; the Civil Rights Act of 1866, as amended by the Civil Rights Act of 1991 (42 U.S.C. § 1981); the Rehabilitation Act of 1973, as amended; the Employee Retirement Income Security Act of 1974, as amended; the Illinois Human Rights Act, and other similar state or local laws; the Americans with Disabilities Act; the Worker Adjustment and Retraining Notification Act; the Equal Pay Act; Executive Order 11246; Executive Order 11141; and any other statutory claim, employment or other contract or implied contract claim, claim for equity in the Employer, or common law claim for wrongful discharge, breach of an implied covenant of good faith and fair dealing, defamation, or invasion of privacy arising out of or involving his employment with the Employer, the termination of his employment with the Employer, or involving any continuing effects of his employment with the Employer or termination of employment with the Employer; provided, however, that nothing herein waives or releases Executive's rights to any payments or benefits the Employer is required to pay or provide pursuant to the terms of the Employment Agreement or this Release or to indemnification which Executive may have under the Employer's governing documents, by any agreement, under any applicable law or otherwise. Executive further acknowledges that he is aware that statutes exist that render null and void releases and discharges of any claims, rights, demands, liabilities, action and causes of action which are unknown to the releasing or discharging part at the time of execution of the release and discharge. Executive hereby expressly waives, surrenders and agrees to forego any protection to which he would otherwise be entitled by virtue of the existence of any such statute in any jurisdiction including, but not limited to, the State of Illinois.

4. **Covenant Not to Sue.** Executive agrees not to bring, file, charge, claim, sue or cause, assist, or permit to be brought, filed, charged or claimed any action, cause of action, or proceeding regarding or in any way related to any of the claims described in **Section 3** hereof, and further agrees that his Release is, will constitute and may be pleaded as, a bar to any such claim, action, cause of action or proceeding. If any government agency or court assumes jurisdiction of any charge, complaint, or cause of action covered by this Release, Executive will not seek and will not accept any personal equitable or monetary relief in connection with such investigation, civil action, suit or legal proceeding.

5. **No Disparaging, Untrue Or Misleading Statements.** Executive represents that he has not made, and agrees that he will not make, to any third party any disparaging, untrue, or misleading written or oral statements about or relating to, respectively, the Employer, its products or services (or about or relating to any officer, director, agent, employee, or other person acting on the Employer's behalf), or Executive.

6. **Severability.** If any provision of this Release shall be found by a court to be invalid or unenforceable, in whole or in part, then such provision shall be construed and/or modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Release, as the case may require, and this Release shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be. The Parties further agree to seek a lawful substitute for any provision found to be unlawful; provided, that, if the Parties are unable to agree upon a lawful substitute, the Parties desire and request that a court or other authority called upon to decide the enforceability of this Release modify the Release so

that, once modified, the Release will be enforceable to the maximum extent permitted by the law in existence at the time of the requested enforcement.

7. **Waiver.** A waiver by the Employer of a breach of any provision of this Release by Executive shall not operate or be construed as a waiver or estoppel of any subsequent breach by Executive. No waiver shall be valid unless in writing and signed by an authorized officer of the Employer.

8. **Non-Disclosure.** Executive agrees that he will keep the terms and amounts set forth in this Release completely confidential and will not disclose any information concerning this Release's terms and amounts to any person other than his attorney, accountant, tax advisor, or immediate family, until such time as the information in this Release is disclosed by the Employer as may be required by law.

9. **Restrictive Covenants.** Executive agrees that he will abide by the terms set forth in Section 8 of the Employment Agreement.

10. **Return of Employer Materials.**

(a) Executive represents that he has returned to the Employer all information, property, and supplies belonging to the Employer or any of its affiliates, including any confidential or proprietary information, Employer autos, keys (for equipment or facilities), laptop computers and related equipment, cellular phones, smart phones or PDAs (including SIM cards), security cards, corporate credit cards, and the originals and all copies of all files, materials, and documents (whether in tangible or electronic form) containing confidential or proprietary information or relating to the business of the Employer or any of its affiliates.

(b) Executive shall not, at any time on or after the Termination Date, directly or indirectly use, access, or in any way alter or modify any of the databases, e-mail systems, software, computer systems, or hardware or other electronic, computerized, or technological systems of the Employer or any of its affiliates. Executive acknowledges that any such conduct by Executive would be illegal and would subject Executive to legal action by the Employer, including claims for damages and/or appropriate injunctive relief.

11. **Representation.** Executive hereby agrees that this Release is given knowingly and voluntarily and acknowledges that:

(a) this Release is written in a manner understood by Executive;

(b) this Release refers to and waives any and all rights or claims that he may have arising under the Age Discrimination in Employment Act, as amended;

(c) Executive has not waived any rights arising after the date of this Release;

(d) Executive has received valuable consideration in exchange for the Release in addition to amounts Executive is already entitled to receive; and

(e) Executive has been advised to consult with an attorney prior to executing this Release.

12. **Consideration and Revocation.** Executive is receiving this Release on , 201 , and Executive shall be given twenty-one (21) days from receipt of this Release to consider whether to sign the Release. Executive agrees that changes or modifications to this Release do not restart or otherwise extend the above twenty-one (21) day period, unless specifically agreed to in writing by the Employer. Moreover, Executive shall have seven (7) days following execution to revoke this Release in writing to the Secretary of the Employer and the Release shall not take effect until those seven (7) days have ended.

13. **Future Cooperation.** In connection with any and all claims, disputes, negotiations, investigations, lawsuits or administrative proceedings involving the Employer which relate to periods of time during the Employment Period (as defined in the Employment Agreement), Executive agrees to make himself reasonably available, upon reasonable notice from the Employer and without the necessity of subpoena, to provide information or documents, provide declarations or statements to the Employer, meet with attorneys or other representatives of the Employer, prepare for and give depositions or testimony, and/or otherwise cooperate in the investigation, defense or prosecution of any or all such matters. Executive shall be reimbursed for reasonable costs and expenses incurred by him as a result of actions taken pursuant to this **Section 13**. It is expressly agreed and understood that Executive will provide only truthful testimony if required to do so, and that any payment to him is solely to reimburse his expenses and costs for cooperation with the Employer. Nothing in this **Section 13** is intended to require Executive to expend an unreasonable period of time in activities required by this Section.

14. **Amendment.** This Release may not be altered, amended, or modified except in writing signed by both Executive and the Employer.

15. **Joint Participation.** The parties hereto participated jointly in the negotiation and preparation of this Release, and each Party has had the opportunity to obtain the advice of legal counsel and to review and comment upon the Release. Accordingly, it is agreed that no rule of construction shall apply against any Party or in favor of any Party. This Release shall be construed as if the parties jointly prepared this Release, and any uncertainty or ambiguity shall not be interpreted against one Party and in favor of the other.

16. **Binding Effect; Assignment.** This Release and the various rights and obligations arising hereunder shall inure to the benefit of and be binding upon the parties and their respective successors, heirs, representatives and permitted assigns. Neither Party may assign its respective interests hereunder without the express written consent of the other Party.

17. **Applicable Law.** All questions concerning the construction, validity and interpretation of this Release and the performance of the obligations imposed by this Release shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction and any court action commenced to enforce this Release shall have as its sole and exclusive venue the County of Effingham, Illinois.

18. **Execution of Release.** This Release may be executed in several counterparts, each of which shall be considered an original, but which when taken together, shall constitute one Release.

PLEASE READ THIS RELEASE AND CAREFULLY CONSIDER ALL OF ITS PROVISIONS BEFORE SIGNING IT. THIS RELEASE CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS, INCLUDING THOSE UNDER THE FEDERAL AGE DISCRIMINATION IN EMPLOYMENT ACT, AND OTHER FEDERAL, STATE AND LOCAL LAWS PROHIBITING DISCRIMINATION IN EMPLOYMENT.

If Executive signs this Release less than 21 days after he receives it from the Employer, he confirms that he does so voluntarily and without any pressure or coercion from anyone at the Employer.

(remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Release as of the date first stated above.

MIDLAND STATES BANCORP, INC.

By: _____
Name: _____
Its: _____

LEON J. HOLSCHBACH

_____
[Signature]

MIDLAND STATES BANK

By: _____
Name: _____
Its: _____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is made and entered into as of December 1, 2010 (the "**Effective Date**") by and between Midland States Bancorp, Inc., (the "**Company**"), Midland States Bank, an Illinois banking corporation (the "**Bank**") (the Bank and the Company hereinafter collectively referred to as the "**Employer**"), and Jeffrey Ludwig ("**Executive**").

RECITALS

A. The Bank is a wholly-owned subsidiary of the Company.

B. Executive is currently employed as Executive Vice President of Finance and Chief Financial Officer of the Company and Executive Vice President of Finance and Chief Financial Officer of the Bank pursuant to the terms and conditions of that certain employment agreement by and between the parties dated January 1, 2010 (the "**Prior Agreement**").

C. The Company is considering various strategic initiatives, one of which may be an initial public offering (an "**IPO**") of its common stock pursuant to which the Company would become a publicly-traded corporation.

D. In anticipation of the possibility of an IPO, or other strategic initiatives, the parties desire to reconsider, amend and restate the terms and conditions of employment applicable to Executive's employment with the Company and the Bank.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements hereinafter contained, it is covenanted and agreed by and between the parties hereto as follows:

AGREEMENTS

1. Prior Agreement. As of the Effective Date, this Agreement shall supersede and replace any and all prior agreements respecting Executive's employment by, or service to, the Employer as may from time to time have been made by and between the parties, whether or not in writing, including but not limited to the Prior Agreement; *provided, however,* that any vested benefits due to Executive pursuant to any pension plan, welfare benefit plan or any other employee benefit plan shall continue to be available to Executive subject to the terms and conditions of the applicable plan as may be in effect from time to time.

2. Employment Period. Subject to the terms and conditions of this Agreement, the Employer hereby agrees to continue to employ Executive during the Employment Period and Executive hereby agrees to continue to remain in the employ of the Employer and to provide services during the Employment Period in accordance with this Agreement. The "**Employment Period**" shall be the period commencing on the Effective Date and ending three (3) years thereafter, unless sooner terminated as provided herein. As of the first anniversary of the Effective Date, and each anniversary thereafter (each an "**Extension Date**"), the Employment Period shall automatically be extended for one (1) additional year, unless either the Company or

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the Executive notifies the other party, by written notice delivered no later than 90 days prior to such Extension Date, that the "**Employment Period**" shall not be extended for an additional year. Notwithstanding anything contained herein to the contrary, if a Change of Control occurs during the Employment Period, this Agreement shall remain in effect for the two (2) year period following the Change of Control and shall then terminate.

3. Duties. Executive agrees that during the Employment Period, Executive will devote his full business time, energies and talents to serving as the Executive Vice President of Finance and Chief Financial Officer of the Company and the Executive Vice President of Finance and Chief Financial Officer of the Bank, at the direction of the Chief Executive Officer of the Company and the Chief Executive Officer of the Bank (collectively, the "**CEO**"), as the case may be. Executive shall have such duties and responsibilities as may be assigned to Executive from time to time by the CEO, which duties and responsibilities shall be commensurate with Executive's position, shall perform all duties assigned to Executive faithfully and efficiently, subject to the direction of the CEO, and shall have such authorities and powers as are inherent to the undertakings applicable to Executive's position and necessary to carry out the responsibilities and duties required of Executive hereunder. Executive will perform the duties required by this Agreement at the Company's principal place of business unless the nature of such duties requires otherwise. Notwithstanding the foregoing, during the Employment Period, Executive may devote reasonable time to activities other than those required under this Agreement, including activities of a charitable, educational, religious or similar nature (including professional associations) to the extent such activities do not, in the reasonable judgment of the CEO, inhibit, prohibit, interfere with or conflict with Executive's duties under this Agreement or conflict in any material way with the business of the Employer and its Affiliates; *provided, however,* that Executive shall not serve on the board of directors of any business (other than the Employer or its Affiliates) or hold any other position with any business without receiving the prior written consent of the CEO.

4. Compensation and Benefits. Subject to the terms and conditions of this Agreement, during the Employment Period, while Executive is employed by the Employer, the Employer shall compensate Executive for Executive's services as follows for periods following the Effective Date:

(a) Executive shall be compensated at an annual rate of $290,000 (the "**Annual Base Salary**"), which shall be payable in accordance with the Employer's normal payroll practices as are in effect from time to time. Beginning on January 1, 2012 and on each anniversary of such date, Executive's rate of Annual Base Salary shall be reviewed by the Compensation Committee (the "**Compensation Committee**") of the Board of Directors of the Company (the "**Board**"), and following such review, the Annual Base Salary may be adjusted upward but in no event will it be decreased.

(b) Executive shall be entitled to receive performance based annual incentive bonuses (each, the "**Incentive Bonus**") from the Employer for each fiscal year ending during the Employment Period. Any such Incentive Bonus shall be paid to Executive within thirty (30) days of the completion of the annual audit by the Company's auditor, but in no event later than two and one-half months after the close of each such fiscal year. Executive's target Incentive Bonus shall be not less than forty percent (40%) of the Annual Base Salary, which Incentive

Bonus shall be determined by specific performance criteria established from time to time by the Compensation Committee.

(c) Executive shall be eligible to participate, subject to the terms and conditions thereof, in all other incentive plans and programs, including such cash and deferred bonus programs and equity incentive plans as may be in effect from time to time with respect to senior executives employed by the Employer on as favorable a basis as provided to other similarly situated senior executives. Executive and Executive's dependents, as the case may be, shall be eligible to participate in all pension and similar benefit plans (qualified, non-qualified and supplemental), profit sharing, 401(k), as well as all medical and dental, disability, group and executive life, accidental death and travel accident insurance, and other similar welfare benefit plans and programs of the Employer, subject to the terms and conditions thereof, as in effect from time to time with respect to senior executives employed by the Employer on as favorable a basis as provided to other similarly situated senior executives.

(d) Executive shall be entitled to accrue vacation at a rate of no less than four (4) weeks paid vacation for each calendar year, subject to the Employer's vacation programs and policies as may be in effect during the Employment Period.

(e) Executive shall be reimbursed by the Employer, on terms and conditions that are substantially similar to those that apply to other similarly situated executives of the Employer, for reasonable out-of-pocket expenses for entertainment, travel, meals, lodging and similar items which are consistent with the Employer's expense reimbursement policy and actually incurred by Executive in the promotion of the Employer's business.

5. **Definitions**. As used throughout this Agreement, all of the terms defined in this **Section 5** shall have the meanings given below.

(a) "**Affiliate**" shall mean each company, corporation, partnership, bank, savings bank, savings and loan association, credit union or other financial institution, directly or indirectly, which is controlled by, controls, or is under common control with, the Company, where "control" means (x) the ownership of 51% or more of the voting securities or other voting interest or other equity interest of any corporation, partnership, joint venture or other business entity, or (y) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such corporation, partnership, joint venture or other business entity.

(b) "**Base Compensation**" shall mean the amount equal to the sum of (i) the greater of Executive's then-current Annual Base Salary or Executive's Annual Base Salary as of the date one (1) day prior to the Change of Control; and (ii) the average of the Incentive Bonus paid (or payable) for the three (3) most recently completed fiscal years of the Company.

(c) "**Change of Control**" shall mean the first to occur of the following:

(i) Any Person, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the beneficial owner (within the meaning of Rule 13d-3 of the

Exchange Act), directly or indirectly, of securities representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding Voting Securities; or

(ii) During any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) Consummation of: (i) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (ii) a complete liquidation of the Company or the Bank or an agreement for the sale or disposition by the Company of all or substantially all the Company's or the Bank's assets.

However, in no event shall a Change in Control be deemed to have occurred, with respect to the Executive if the Executive is part of a purchasing group which consummates the Change-in-Control transaction. The Executive shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Executive is an equity participant in the purchase company or group (except for (i) passive ownership of less than two percent (2%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change in Control by a majority of the non-employee continuing Directors).

In the event that any benefit under this Agreement constitutes deferred compensation, and the settlement of, or distribution of such benefits is to be triggered by a Change in Control, then such settlement or distribution shall be subject to the event constituting the Change in Control also constituting a "change in the ownership" or "change in the effective control" of the Company, as permitted under Code Section 409A.

(d) "**Covered Period**" shall mean the period beginning six (6) months prior to a Change of Control and ending twenty-four (24) months after the Change of Control.

(e) "**Disability**" shall mean that Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer.

(f) "**Good Reason**" shall mean Executive's voluntary Termination of employment for one or more of the following reasons:

(i) an adverse change in the nature, scope or status of Executive's position, authorities or duties from those in effect in accordance with **Section 3** immediately following the Effective Date, or if applicable and greater, immediately prior to the Covered Period;

(ii) a reduction in Executive's Annual Base Salary, Incentive Bonus opportunity, or material reduction in Executive's aggregate compensation and benefits from that in effect immediately following the Effective Date, or if applicable and greater, immediately prior to the Covered Period;

(iii) relocation of Executive's primary place of employment of more than ninety (90) miles from Executive's primary place of employment immediately following the Effective Date, or if applicable, prior to the Covered Period, or a requirement that Executive engage in travel that is materially greater than was required prior to the Covered Period;

(iv) failure by an acquirer to assume this Agreement at the time of a Change of Control; or

(v) a material breach by the Employer, or its successor, of this Agreement.

Notwithstanding the foregoing, prior to Executive's Termination for Good Reason, Executive must give the Employer written notice of the existence of any condition set forth in clause (i) – (v) above within ninety (90) days of such initial existence and the Employer shall have thirty (30) days from the date of receipt of such notice in which to cure the condition giving rise to Good Reason, if curable. If, during such thirty (30) day period, the Employer cures the condition giving rise to Good Reason, no payments or benefits shall be due under **Section 6** of this Agreement with respect to such occurrence. If, during such thirty (30) day period, the Employer fails or refuses to cure the condition giving rise to Good Reason, Executive shall be entitled to payments or benefits under **Section 6** of this Agreement upon such Termination; *provided* such Termination occurs within 24 months of such initial existence of the applicable condition.

(g) "**Minimum Payments**" shall mean, as applicable, the following amounts:

(i) Executive's earned but unpaid Annual Base Salary for the period ending on the Termination Date;

(ii) Executive's earned but unpaid Incentive Bonus for the previously completed fiscal year;

(iii) Executive's accrued but unpaid vacation pay for the period ending on the Termination Date;

(iv) Executive's unreimbursed business expenses and all other items earned and owed to Executive through the Termination Date; and

(v) benefits, incentives and awards described in **Section 6(f)**.

(h) "**Pro Rata Bonus**" means a payment equal to the Incentive Bonus that Executive would have earned for the year of termination, based upon actual results of the Employer and pro rated on a per diem basis (by dividing the number of days employed during the applicable performance period by the total number of days in the applicable performance period).

(i) "**Release**" shall mean a general release and waiver substantially in the form attached hereto as **Exhibit A**.

(j) "**Severance Amount**" shall mean:

(i) for any Termination occurring during the Employment Period and not during a Covered Period, an amount equal to one hundred percent (100%) of Executive's Base Compensation; or

(ii) for any Termination occurring during a Covered Period, an amount equal to one hundred-fifty percent (150%) of Executive's Base Compensation.

(k) "**Termination**" shall mean termination of Executive's employment either:

(i) by the Employer or its successor, as the case may be, other than a Termination for Cause or any termination as a result of death or Disability; or

(ii) by Executive for Good Reason.

(l) "**Termination Date**" shall mean the date of employment termination, for any reason or no reason, indicated in the written notice provided by the Employer or Executive to the other.

(m) "**Termination for Cause**" shall mean only a termination by the Employer as a result of:

(i) Executive's willful and continuing failure, that is not remedied within twenty (20) days after receipt of written notice of such failure from the CEO, to perform his obligations hereunder;

(ii) Executive's willful act or acts of gross misconduct that are, alone or in the aggregate, materially and demonstrably injurious, monetarily or otherwise, to the Employer or an Affiliate, as determined in the sole discretion of the CEO; or

(iii) Executive's breach of fiduciary responsibility or any obligation of Executive pursuant to **Section 8**.

Any determination of a Termination for Cause under this Agreement shall be made by resolution adopted by a two-thirds (2/3) vote of the Board at a meeting called and held for that purpose.

Executive shall be provided with reasonable notice of such meeting and shall be given the opportunity to be heard, with the presence of counsel, prior to the vote being taken by the Board.

(n) "**Voting Securities**" shall mean any securities which ordinarily possess the power to vote in the election of directors without the happening of any pre-condition or contingency.

6. Rights and Payments Upon Termination. Either party may terminate Executive's employment under this Agreement pursuant to the terms and conditions of this **Section 6**. Subject to **Section 7** below, Executive's right to benefits and payments, if any, for periods after the Termination Date shall be determined in accordance with this **Section 6**:

(a) Minimum Payments. If the Termination Date occurs during the Employment Period for any reason, Executive shall be entitled to the Minimum Payments, in addition to any payments or benefits to which Executive may be entitled under the following provisions of this **Section 6** (other than this **Section 6(a)**) or the express terms of any employee benefit plan or as required by law. Any payments to be made to Executive pursuant to this **Section 6(a)** shall be made within thirty (30) days after the Termination Date; provided that any benefits, incentives or awards payable as described in **Section 6(f)** shall be made in accordance with the provisions of the applicable plan, program or arrangement. Except as may be otherwise expressly provided to the contrary in this Agreement or as otherwise provided by law, nothing in this Agreement shall be construed as requiring Executive to be treated as employed by the Employer following the Termination Date for purposes of any employee benefit plan or arrangement in which Executive may participate at such time.

(b) Termination for Cause, Death, Disability, Voluntary Resignation and Non-Renewal.

(i) Upon a determination of a Termination for Cause by the Employer, Executive's death or Disability, or Executive's voluntary resignation other than for Good Reason, Executive's employment shall immediately terminate.

(ii) If the Termination Date occurs during the Employment Period and is a result of a Termination for Cause, death, Disability, voluntary resignation other than for Good Reason or if this Agreement expires due to notice of non-renewal by either party as provided under **Section 2** or at the end of a Covered Period, then, other than the Minimum Payments, Executive shall have no right to payments or benefits under this Agreement (and the Employer shall have no obligation to make any such payments or provide any such benefits) for periods after the Termination Date.

(c) Termination Other than for Cause or Termination for Good Reason. If Executive's employment by the Employer, or any Affiliate or successor of the Employer, shall be subject to a Termination other than during a Covered Period, then, in addition to the Minimum Payments, the Employer shall provide Executive the following benefits:

(i) Commencing on the Termination Date, Executive shall receive the applicable Severance Amount (less any amount described in **subparagraph (ii)** below) paid in 12

substantially equal monthly installments, with each successive payment being due on the monthly anniversary of the Termination Date.

(ii) To the extent any portion of the applicable Severance Amount exceeds the "safe harbor" amount described in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A), Executive shall receive such portion of the applicable Severance Amount that exceeds the "safe harbor" amount in a single lump sum payment payable within five (5) days after Executive's Termination Date.

(iii) Executive (and dependents, as may be applicable) shall be entitled to the medical benefits provided in **Section 6(e)** below.

(iv) Executive shall be entitled to receive a Pro Rata Bonus, when Incentive Bonuses are paid to other senior management of Employer, consistent with **Section 4(b)** of this Agreement.

(d) Termination Upon a Change of Control. If Executive's employment by the Employer, or any Affiliate or successor of the Employer, shall be subject to a Termination within a Covered Period, then, in addition to Minimum Payments, the Employer shall provide Executive the following benefits:

(i) Within five (5) days after Executive's Termination Date, the Employer shall pay Executive a lump sum payment in an amount equal to the Severance Amount.

(ii) Executive (and his dependents, as may be applicable) shall be entitled to the medical benefits provided in **Section 6(e)** below.

(iii) Executive shall be entitled to receive a Pro Rata Bonus, when Incentive Bonuses are paid to other senior management of Employer, consistent with **Section 4(b)** of this Agreement.

(e) Medical, Dental and Life Insurance Benefits. If Executive's employment by the Employer or any Affiliate or successor of the Employer shall be subject to a Termination as provided in **subsections (c)** or **(d)** above within the Employment Period, then to the extent that Executive or any of Executive's dependents may be covered under the terms of any medical and dental plans of the Employer (or any Affiliate) for active employees

immediately prior to the termination, then, for as long as Executive is eligible for and elects coverage under the health care continuation rules of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("**COBRA**"), the Employer will provide Executive and those dependents with equivalent coverage, with Executive required to pay the same amount as Executive would pay if Executive continued in employment with the Employer or an Affiliate during such period, but in no event more than twelve (12) months (eighteen (18) months if such termination occurs during a Covered Period) following termination, The coverage may be procured directly by the Employer (or any Affiliate, if appropriate) apart from, and outside of the terms of the plans themselves; provided that Executive and Executive's dependents comply with all of the conditions of the medical or dental plans, with the cost to the Employer not to exceed the cost for continued COBRA coverage. In the event Executive or any of Executive's dependents become eligible for coverage under the terms of any other medical and/or dental plan

of a subsequent employer which plan benefits are comparable to Employer (or any Affiliate) plan benefits, coverage under Employer (or any Affiliate) plans will cease for the eligible Executive and/or dependent. Executive and Executive's dependents must notify the Employer (or any Affiliate) of any subsequent employment and provide information regarding medical and/or dental coverage available. In the event the Employer (or any Affiliate) discovers that Executive and/or dependent has become employed and not provided the above notification, all payments and benefits under this subsection (e) will cease.

(f) Other Benefits. Executive's rights following a Termination with respect to any benefits, incentives or awards provided to Executive pursuant to the terms and conditions of any plan, program or arrangement sponsored or maintained by the Employer, whether tax-qualified or not, which are not specifically addressed herein, shall be subject to the terms and conditions of such plan, program or arrangement and this Agreement shall have no effect upon such terms and conditions except as specifically provided herein.

7. Release. Notwithstanding anything contained in this Agreement to the contrary, no payments or benefits (including without limitation, vesting of any and all stock options, shares of restricted stock, restricted stock units and other unvested incentive awards) payable to Executive under **Section 6(c), 6(d) or 6(e)** (except for payments and benefits described in **Section 6(a)**) shall be paid or provided to Executive unless he first executes (without subsequent revocation) and delivers to the Employer a Release. To the extent any of the payments and/or benefits due under **Section 6(c)**, **6(d)** or **6(e)** are determined to be subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), the Release must be executed and become irrevocable on or before the 60th day following the Termination Date. Provided that an executed, irrevocable Release has been delivered on or before the 60th day following the Termination Date, any payments and benefits that are determined to be subject to Section 409A of the Code shall become payable, or shall otherwise commence, as of the 60th day following the Termination Date. If an executed, irrevocable Release is not delivered on or before the 60th day following the Termination Date, Executive shall forever forfeit any and all rights to any payment or benefit (to the extent such payment or benefit is determined to be subject to Section 409A of the Code) under **Section 6(c)**, **6(d)** or **6(e)** or any payment or benefit in lieu thereof.

8. Restrictive Covenants.

(a) Confidential Information. Executive acknowledges that, during the course of his employment with the Employer, Executive may produce and have access to confidential and/or proprietary non-public information concerning the Employer and its Affiliates, including marketing materials, financial and other information concerning customers and prospective customers, customer lists, records, data, trade secrets, proprietary business information, pricing and profitability information and policies, strategic planning, commitments, plans, procedures, litigation, pending litigation and other information not generally available to the public (collectively, "**Confidential Information**"). Executive agrees not to directly or indirectly use, disclose, copy or make lists of Confidential Information for the benefit of anyone other than the Employer, either during or after his employment with the Employer, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by the Employer, required by law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate

in connection with performance by Executive of his duties hereunder. Executive agrees that, if he receives a subpoena or other court order or is otherwise required by law to provide information to a governmental authority or other person concerning the activities of the Employer or any of its Affiliates, or his activities in connection with the business of the Employer or any of its Affiliates, Executive will immediately notify the Employer of such subpoena, court order or other requirement and deliver forthwith to the Employer a copy thereof and any attachments and non-privileged correspondence related thereto. Executive shall take reasonable precautions to protect against the inadvertent disclosure of Confidential Information. Executive agrees to abide by the Employer's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of the Employer and its Affiliates. In this regard, Executive shall not directly or indirectly render services to any person or entity where Executive's service would involve the use or disclosure of Confidential Information. Executive agrees not to use any Confidential Information to guide him in searching publications or other publicly available information, selecting a series of items of knowledge from unconnected sources and fitting them together to claim that he did not violate any agreements set forth in this Agreement.

(b) Documents and Property. All records, files, documents and other materials or copies thereof relating to the business of the Employer and its Affiliates, which Executive shall prepare, receive, or use, shall be and remain the sole property of the Employer and, other than in connection with performance by Executive of his duties hereunder, shall not be removed from the premises of the Employer or any of its Affiliates without the Employer's prior written consent, and shall be promptly returned to the Employer upon Executive's termination of employment together with all copies (including copies or recordings in electronic form), abstracts, notes or reproductions of any kind made from or about the records, files, documents or other materials.

(c) Non-Competition and Non-Solicitation. The Employer and Executive have agreed that the primary service area of the Employer's lending and deposit taking functions in which Executive will actively participate extends separately to an area that encompasses a twenty-five (25) mile radius from each banking or other office location of the Employer and its Affiliates (collectively, the "**Restricted Area**"). Therefore, as an essential ingredient of and in consideration of this Agreement and his employment by the Employer, Executive agrees that, during his employment with the Employer and for a period of twelve (12) months immediately following the termination of his employment (the "**Restricted Period**"), for whatever reason, where such termination occurs during the Employment Period or thereafter, he will not, except with the express prior written consent of the Employer, directly or indirectly, do any of the following (all of which are collectively referred to in this agreement as the "**Restrictive Covenant**"):

(i) Engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation or control of, be employed by, associated with, or in any manner connected with, serve as a director, officer or consultant to, lend his name or any similar name to, lend his credit to, or render services or advice to, any person, firm, partnership, corporation or trust which owns, operates or is in the process of forming, a bank, savings and loan association, credit union or similar financial institution (a "**Financial Institution**") with an office located, or to be located at an address identified in a filing with any

regulatory authority, within the Restricted Area; *provided however,* that the ownership by Executive of shares of the capital stock of any Financial Institution which shares are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System and which do not represent more than five percent (5%) of the institution's outstanding capital stock, shall not violate any terms of this Agreement.

(ii) Executive will not, directly or indirectly, either for himself, or any Financial Institution: (1) induce or attempt to induce any employee of the Employer or any of its Affiliates to leave the employ of the Employer or any of its Affiliates; (2) in any way interfere with the relationship between the Employer or any of its Affiliates and any employee of the Employer or any of its Affiliates; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer or any of its Affiliates to cease doing business with the Employer or any of its Affiliates or in any way interfere with the relationship between the Employer or any of its Affiliates and their respective customers, suppliers, licensees or business relations.

(iii) Executive will not, directly or indirectly, either for himself, or any Financial Institution, solicit the business of any person or entity known to Executive to be a customer of the Employer or any of its Affiliates, where Executive, or any person reporting to Executive, had personal contact with such person or entity, with respect to products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(iv) Executive will not, directly or indirectly, serve as the agent, broker or representative of, or otherwise assist, any person or entity in obtaining services or products from any Financial Institution within the Restricted Area, with respect to the products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(d) Work for Hire Provisions.

(i) **Exclusive Rights of the Employer in Work Product.** The parties acknowledge and agree that all work performed by Executive for the Employer or any of its Affiliates shall be deemed "work for hire." The Employer shall at all times own and have exclusive right, title and interest in and to all Confidential Information and Inventions (as defined below), and the Employer shall retain the exclusive right to license, sell, transfer and otherwise use and dispose of the same. Any and all enhancements of the technology of the Employer or any of its Affiliates that are developed by Executive shall be the exclusive property of the Employer. Executive hereby assigns to the Employer any right, title and interest in and to all Inventions that he may have, by law or equity, without additional consideration of any kind whatsoever from the Employer or any of its Affiliates. Executive agrees to execute and deliver any instruments or documents and to do all other things (including the giving of testimony) requested by the Employer (both during and after the termination of his employment with the Employer) in order to vest more fully in the Employer or any of its Affiliates all ownership rights in the Inventions (including obtaining patent, copyright or trademark protection therefore in the United States and/or foreign countries).

(ii) **Definitions and Exclusions.** For purposes of this Agreement, "**Inventions**" means all systems, procedures, techniques, manuals, data bases, plans, lists, inventions, trade secrets, copyrights, patents, trademarks, discoveries, innovations, concepts, ideas and software conceived, compiled or developed by Executive in the course of his employment with the Employer or any of its Affiliates and/or comprised, in whole or part, of Confidential Information. Notwithstanding the foregoing, Inventions shall not include: (i) any inventions independently developed by Executive and not derived, in whole or part, from any Confidential Information or (ii) any invention made by Executive prior to his exposure to any Confidential Information.

(e) Remedies for Breach of Restrictive Covenants. Executive has reviewed the provisions of this Agreement with legal counsel, or has been given adequate opportunity to seek such counsel, and Executive acknowledges and expressly agrees that the covenants contained in this **Section 8** are reasonable with respect to their duration, geographical area and scope. Executive further acknowledges that the restrictions contained in this **Section 8** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer to enter into this Agreement. In the event of any violation or threatened violation of these restrictions, the Employer, in addition to and not in limitation of, any other rights, remedies or damages available to the Employer under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Executive and any and all persons directly or indirectly acting for or with her, as the case may be.

(f) In the event of the existence of any other agreement between the parties which (i) is in effect during the Restricted Period, and (ii) which contains restrictive covenants that conflict with any of the provisions of this **Section 8**, then the more restrictive of such provisions from the agreements shall control for the period during which the agreements would otherwise be in effect.

9. No Set-Off; No Mitigation. Except as provided herein, the Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including any set-off, counterclaim, recoupment, defense or other right which the Employer may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

10. Notices. Notices and all other communications under this Agreement shall be in writing and shall be deemed given when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company (with a copy to the Bank):

Midland States Bancorp, Inc.
Attention: Chief Executive Officer and General Counsel
133 W. Jefferson Street
Effingham, Illinois 62401

If to the Bank (with a copy to the Company):

Midland States Bank
Attention: Chief Executive Officer and General Counsel
133 W. Jefferson Street
Effingham, Illinois 62401

If to Executive, to such home address or other address as Executive has most recently provided to the Employer.

or to such other address as either party may furnish to the other in writing, except that notices of changes of address shall be effective only upon receipt.

11. **Applicable Law**. All questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction, and any court action commenced to enforce this Agreement shall have as its sole and exclusive venue the County of Effingham, Illinois.

12. **Entire Agreement; Survival.**

(a) This Agreement constitutes the entire agreement between Executive and the Employer concerning the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral, specifically including the Prior Agreement. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and Executive hereby agrees that such scope may be judicially modified accordingly.

(b) The provisions of **Section 8** shall survive the termination of this Agreement.

13. **Withholding of Taxes**. The Employer may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling.

14. **No Assignment**. Executive's rights to receive payments or benefits under this Agreement shall not be assignable or transferable whether by pledge, creation of a security interest or otherwise, other than a transfer by will or by the laws of descent or distribution. In the event of any attempted assignment or transfer contrary to this Section, the Employer shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

15. **Successors**. This Agreement shall be binding upon and inure to the benefit of the Employer, its successors and assigns (including, without limitation, any company into or with which the Employer may merge or consolidate). The Employer agrees that it will not effect the sale or other disposition of all or substantially all of its assets (where such transaction would constitute a Change in Control) unless either (a) the person or entity acquiring the assets, or a substantial portion of the assets, shall expressly assume by an instrument in writing all duties and obligations of the Employer under this Agreement, or (b) the Employer shall provide, through the establishment of a separate reserve, for the payment in full of all amounts which are or may reasonably be expected to become payable to Executive under this Agreement.

16. **Legal Fees**. In the event that either party commences arbitration or litigation to enforce or protect his and/or its rights under this Agreement, the prevailing party in any such action shall be entitled to recover reasonable attorneys' fees and costs (including the costs of experts, evidence and counsel) relating to such action, in addition to all other entitled relief, including but not limited to damages and injunctive relief.

17. **Amendment**. This Agreement may not be amended or modified except by written agreement signed by Executive and the Employer.

18. **Internal Revenue Code Section 409A.**

(a) It is intended that this Agreement comply with the provisions of Section 409A of the Code so as not to subject Executive to the payment of additional taxes and interest under Section 409A of the Code. In furtherance of this intent, this Agreement shall be interpreted, operated and administered in a manner consistent with these intentions, and to the extent that any regulations or other guidance issued under Section 409A of the Code would result in Executive being subject to payment of additional income taxes or interest under Section 409A of the Code, the parties agree to amend this Agreement to maintain to the maximum extent practicable the original intent of the Agreement while avoiding the application of such taxes or interest under Section 409A of the Code.

(b) Notwithstanding any provision in this Agreement to the contrary, if Executive is determined to be a Specified Employee as of the Termination Date, then, to the extent required pursuant to Section 409A(a)(2)(B)(i) of the Code, payments due under this Agreement which are deemed to be

deferred compensation shall be subject to a six (6) month delay following the Termination Date. For purposes of Section 409A of the Code, all installment payments of deferred compensation made hereunder, or pursuant to another plan or arrangement, shall be deemed to be separate payments and, accordingly, the aforementioned deferral shall only apply to separate payments which would occur during the six (6) month deferral period and all

other payments shall be unaffected. All delayed payments shall be accumulated and paid in a lump-sum catch-up payment as of the first day of the seventh-month following the Termination Date (or, if earlier, the date of death of Executive) with all such delayed payments being credited with interest (compounded monthly) for this period of delay equal to the prime rate in effect on the first day of such six-month period. Any portion of the benefits hereunder that were not otherwise due to be paid during the six-month period following the Termination Date shall be paid to Executive in accordance with the payment schedule established herein.

(c) The term "**Specified Employee**" shall mean any person who is a "key employee" (as defined in Code Section 416(i) of the Code without regard to paragraph (5) thereof), as determined by the Employer based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the "identification period"). If Executive is determined to be a key employee under Section 416(i) of the Code (without regard to paragraph (5) thereof), he shall be treated as a Specified Employee for purposes of this Agreement during the 12-month period that begins on the April 1 following the close of such identification period. For purposes of determining whether Executive is a key employee under Section 416(i) of the Code, "compensation" shall mean Executive's W-2 compensation as reported by the Employer for a particular calendar year.

(remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Its: President & CEO

JEFFREY LUDWIG

/s/ Jeffrey Ludwig

MIDLAND STATES BANK

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Its: President & CEO

EXHIBIT A

GENERAL RELEASE AND WAIVER

THIS GENERAL RELEASE AND WAIVER (the "**Release**") is made and entered into as of this day of , 20 , by and between Midland States Bancorp, Inc., (the "**Company**"), Midland States Bank, an Illinois banking corporation (the "**Bank**") (the Bank and the Company hereinafter collectively referred to as the "**Employer**"), and Jeffrey Ludwig ("**Executive**").

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Termination of Employment. Executive and the Employer agree that Executive's employment with the Employer terminated effective . Executive further agrees that without prior written consent of the Employer he will not hereafter seek reinstatement, recall or reemployment with the Employer.

2. Severance Payment.

(a) A description of the payments to which Executive may be entitled upon termination of employment are contained in **Section 6** of that certain Employment Agreement entered into by and between the Employer and Executive dated December 1, 2010, which is incorporated by reference herein (the "**Employment Agreement**").

(b) The payments described in this **Section 2** are over and above that to which Executive would be otherwise entitled to upon the termination of his employment with the Employer, absent executing this Release, notwithstanding the terms of the Employment Agreement. Executive affirms that he has agreed in the Employment Agreement, and again herein, that he is only entitled to such payments if he executes this Release.

3. General Release. In consideration of the payments and benefits to be made by the Employer to Executive in **Section 2** above, Executive, with full understanding of the contents and legal effect of this Release and having the right and opportunity to consult with his counsel, releases and discharges the Employer, its shareholders, officers, directors, supervisors, managers, employees, agents, representatives, attorneys, parent companies, divisions, subsidiaries and affiliates, and all related entities of any kind or nature, and its and their predecessors, successors, heirs, executors, administrators,

and assigns (collectively, the "**Released Parties**") from any and all claims, actions, causes of action, grievances, suits, charges, or complaints of any kind or nature whatsoever, that he ever had or now has, whether fixed or contingent, liquidated or unliquidated, known or unknown, suspected or unsuspected, and whether arising in tort, contract, statute, or equity, before any federal, state, local, or private court, agency, arbitrator, mediator, or other entity, regardless of the relief or remedy, arising prior to the execution of this Release. Without limiting the generality of the foregoing, it being the intention of the parties to make this Release as broad and as general as the law permits, this Release specifically includes any and all subject matters and claims arising from any alleged violation by the Released Parties under the Age Discrimination in Employment Act of 1967, as amended; Title VII of the Civil Rights Act

of 1964, as amended; the Civil Rights Act of 1866, as amended by the Civil Rights Act of 1991 (42 U.S.C. § 1981); the Rehabilitation Act of 1973, as amended; the Employee Retirement Income Security Act of 1974, as amended; the Illinois Human Rights Act, and other similar state or local laws; the Americans with Disabilities Act; the Worker Adjustment and Retraining Notification Act; the Equal Pay Act; Executive Order 11246; Executive Order 11141; and any other statutory claim, employment or other contract or implied contract claim, claim for equity in the Employer, or common law claim for wrongful discharge, breach of an implied covenant of good faith and fair dealing, defamation, or invasion of privacy arising out of or involving his employment with the Employer, the termination of his employment with the Employer, or involving any continuing effects of his employment with the Employer or termination of employment with the Employer; provided, however, that nothing herein waives or releases Executive's rights to any payments or benefits the Employer is required to pay or provide pursuant to the terms of the Employment Agreement or this Release or to indemnification which Executive may have under the Employer's governing documents, by any agreement, under any applicable law or otherwise. Executive further acknowledges that he is aware that statutes exist that render null and void releases and discharges of any claims, rights, demands, liabilities, action and causes of action which are unknown to the releasing or discharging part at the time of execution of the release and discharge. Executive hereby expressly waives, surrenders and agrees to forego any protection to which he would otherwise be entitled by virtue of the existence of any such statute in any jurisdiction including, but not limited to, the State of Illinois.

4. **Covenant Not to Sue.** Executive agrees not to bring, file, charge, claim, sue or cause, assist, or permit to be brought, filed, charged or claimed any action, cause of action, or proceeding regarding or in any way related to any of the claims described in **Section 3** hereof, and further agrees that his Release is, will constitute and may be pleaded as, a bar to any such claim, action, cause of action or proceeding. If any government agency or court assumes jurisdiction of any charge, complaint, or cause of action covered by this Release, Executive will not seek and will not accept any personal equitable or monetary relief in connection with such investigation, civil action, suit or legal proceeding.

5. **No Disparaging, Untrue Or Misleading Statements.** Executive represents that he has not made, and agrees that he will not make, to any third party any disparaging, untrue, or misleading written or oral statements about or relating to, respectively, the Employer, its products or services (or about or relating to any officer, director, agent, employee, or other person acting on the Employer's behalf), or Executive.

6. **Severability.** If any provision of this Release shall be found by a court to be invalid or unenforceable, in whole or in part, then such provision shall be construed and/or modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Release, as the case may require, and this Release shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be. The parties further agree to seek a lawful substitute for any provision found to be unlawful; provided, that, if the parties are unable to agree upon a lawful substitute, the parties desire and request that a court or other authority called upon to decide the enforceability of this Release modify the Release so

that, once modified, the Release will be enforceable to the maximum extent permitted by the law in existence at the time of the requested enforcement.

7. **Waiver.** A waiver by the Employer of a breach of any provision of this Release by Executive shall not operate or be construed as a waiver or estoppel of any subsequent breach by Executive. No waiver shall be valid unless in writing and signed by an authorized officer of the Employer.

8. **Non-Disclosure.** Executive agrees that he will keep the terms and amounts set forth in this Release completely confidential and will not disclose any information concerning this Release's terms and amounts to any person other than his attorney, accountant, tax advisor, or immediate family, until such time as the information in this Release is disclosed by the Employer as may be required by law.

9. **Restrictive Covenants.** Executive agrees that he will abide by the terms set forth in Section 8 of the Employment Agreement.

10. **Return of Employer Materials.** Executive represents that he has returned all Employer property and all originals and all copies, including electronic and hard copy, of all documents, within his possession at the time of the execution of this Release, including but not limited to the laptop computer, printer, Blackberry device, telephone, and credit card, as may be applicable.

11. **Representation.** Executive hereby agrees that this Release is given knowingly and voluntarily and acknowledges that:

(a) this Release is written in a manner understood by Executive;

(b) this Release refers to and waives any and all rights or claims that he may have arising under the Age Discrimination in Employment Act, as amended;

(c) Executive has not waived any rights arising after the date of this Release;

(d) Executive has received valuable consideration in exchange for the Release in addition to amounts Executive is already entitled to receive; and

(e) Executive has been advised to consult with an attorney prior to executing this Release.

12. **Consideration and Revocation.** Executive is receiving this Release on , 20 , and Executive shall be given twenty-one (21) days from receipt of this Release to consider whether to sign the Release. Executive agrees that changes or modifications to this Release do not restart or otherwise extend the above twenty-one (21) day period, unless specifically agreed to in writing by the Employer. Moreover, Executive shall have seven (7) days following execution to revoke this Release in writing to the Secretary of the Employer and the Release shall not take effect until those seven (7) days have ended.

13. **Future Cooperation.** In connection with any and all claims, disputes, negotiations, investigations, lawsuits or administrative proceedings involving the Employer which relate to periods of time during the Employment Period (as defined in the Employment Agreement), Executive agrees to make himself reasonably available, upon reasonable notice from the Employer and without the necessity of subpoena, to provide information or documents, provide declarations or statements to the Employer, meet with attorneys or other representatives of the Employer, prepare for and give depositions or testimony, and/or otherwise cooperate in the investigation, defense or prosecution of any or all such matters. Executive shall be reimbursed for reasonable costs and expenses incurred by him as a result of actions taken pursuant to this **Section 13**. It is expressly agreed and understood that Executive will provide only truthful testimony if required to do so, and that any payment to him is solely to reimburse his expenses and costs for cooperation with the Employer. Nothing in this **Section 13** is intended to require Executive to expend an unreasonable period of time in activities required by this Section.

14. **Amendment.** This Release may not be altered, amended, or modified except in writing signed by both Executive and the Employer.

15. **Joint Participation.** The parties hereto participated jointly in the negotiation and preparation of this Release, and each party has had the opportunity to obtain the advice of legal counsel and to review and comment upon the Release. Accordingly, it is agreed that no rule of construction shall apply against any party or in favor of any party. This Release shall be construed as if the parties jointly prepared this Release, and any uncertainty or ambiguity shall not be interpreted against one party and in favor of the other.

16. **Binding Effect; Assignment.** This Release and the various rights and obligations arising hereunder shall inure to the benefit of and be binding upon the parties and their respective successors, heirs, representatives and permitted assigns. Neither party may assign its respective interests hereunder without the express written consent of the other party.

17. **Applicable Law.** All questions concerning the construction, validity and interpretation of this Release and the performance of the obligations imposed by this Release shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction and any court action commenced to enforce this Release shall have as its sole and exclusive venue the County of Effingham, Illinois.

18. **Execution of Release.** This Release may be executed in several counterparts, each of which shall be considered an original, but which when taken together, shall constitute one Release.

PLEASE READ THIS RELEASE AND CAREFULLY CONSIDER ALL OF ITS PROVISIONS BEFORE SIGNING IT. THIS RELEASE CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS, INCLUDING THOSE UNDER THE FEDERAL AGE DISCRIMINATION IN EMPLOYMENT ACT, AND OTHER FEDERAL, STATE AND LOCAL LAWS PROHIBITING DISCRIMINATION IN EMPLOYMENT.

If Executive signs this Release less than 21 days after he receives it from the Employer, he confirms that he does so voluntarily and without any pressure or coercion from anyone at the Employer.

IN WITNESS WHEREOF, the parties have executed this Release as of the date first stated above.

MIDLAND STATES BANCORP, INC.

By: _____
Name: _____
Its: _____

JEFFREY LUDWIG

_____
[Signature]

MIDLAND STATES BANK

By: _____
Name: _____
Its: _____

Exhibit 10.6

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT (this "**Amendment**") is made and entered into as of February 2, 2016 by and between Midland States Bancorp, Inc. (the "**Company**"), Midland States Bank, an Illinois banking corporation (the "**Bank**") (the Bank and the Company hereinafter collectively referred to as the "**Employer**"), and Jeffrey Ludwig ("**Executive**").

RECITALS

A. The Executive is currently employed as the Executive Vice President and Chief Financial Officer of the Company and the Bank and has entered into an Employment Agreement with the Company and the Bank, dated as of December 1, 2010 (the "**Employment Agreement**").

B. The Chief Executive Officer of the Bank has recommended, and the Board of Directors of the Bank has approved, the promotion of Executive to the position of President of the Bank.

C. This Amendment is intended to reflect the Executive's promotion from Executive Vice President of the Bank to President of the Bank, with all other positions held by the Executive at the Company and the Bank remaining unchanged.

AGREEMENTS

1. The references in Section 3 of the Employment Agreement to Executive's position as Executive Vice President of the Bank are hereby amended to "President."

2. The reference in Section 4(b) of the Employment Agreement to a target Incentive Bonus of not less than "forty percent (40%)" are hereby amended to "forty-five percent (45%)."

In all other respects the Employment Agreement shall remain fully in force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the Effective Date.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon Holschbach
Name: Leon Holschbach
Its: President & CEO

JEFFREY LUDWIG

/s/ Jeffrey Ludwig

MIDLAND STATES BANK

By: /s/ Leon Holschbach
Name: Leon Holschbach
Its: CEO

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is made and entered into as of December 1, 2010 (the "**Effective Date**") by and between Midland States Bancorp, Inc., (the "**Company**"), Midland States Bank, an Illinois banking corporation (the "**Bank**") (the Bank and the Company hereinafter collectively referred to as the "**Employer**"), and Douglas J. Tucker ("**Executive**").

RECITALS

A. The Bank is a wholly-owned subsidiary of the Company.

B. Executive is currently employed as Senior Vice President Corporate Counsel of the Company and Senior Vice President Corporate Counsel of the Bank.

C. The Company is considering various strategic initiatives, one of which may be an initial public offering (an "**IPO**") of its common stock pursuant to which the Company would become a publicly-traded corporation.

D. In anticipation of the possibility of an IPO, or other strategic initiatives, the parties desire to reconsider, amend and restate the terms and conditions of employment applicable to Executive's employment with the Company and the Bank.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements hereinafter contained, it is covenanted and agreed by and between the parties hereto as follows:

AGREEMENTS

1. **Prior Agreement.** As of the Effective Date, this Agreement shall supersede and replace any and all prior agreements or understandings respecting Executive's employment by, or service to, the Employer as may from time to time have been made by and between the parties, whether or not in writing; *provided, however,* that any vested benefits due to Executive pursuant to any pension plan, welfare benefit plan or any other employee benefit plan shall continue to be available to Executive subject to the terms and conditions of the applicable plan as may be in effect from time to time.

2. **Employment Period.** Subject to the terms and conditions of this Agreement, the Employer hereby agrees to continue to employ Executive during the Employment Period and Executive hereby agrees to continue to remain in the employ of the Employer and to provide services during the Employment Period in accordance with this Agreement. The "**Employment Period**" shall be the period commencing on the Effective Date and ending two (2) years thereafter, unless sooner terminated as provided herein. As of the first anniversary of the Effective Date, and each anniversary thereafter (each an "**Extension Date**"), the Employment Period shall automatically be extended for one (1) additional year, unless either the Company or the Executive notifies the other party, by written notice delivered no later than 90 days prior to such Extension Date, that the "**Employment Period**" shall not be extended for an additional year. Notwithstanding anything contained herein to the contrary, if a Change of Control occurs

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during the Employment Period, this Agreement shall remain in effect for the two (2) year period following the Change of Control and shall then terminate.

3. **Duties.** Executive agrees that during the Employment Period, Executive will devote his full business time, energies and talents to serving as the Senior Vice President Corporate Counsel of the Company and Senior Vice President Corporate Counsel of the Bank, at the direction of the Chief Executive Officer of the Company the Chief Executive Officer of the Bank (collectively, the "**CEO**"), as the case may be. Executive shall have such duties and responsibilities as may be assigned to Executive from time to time by the CEO, which duties and responsibilities shall be commensurate with Executive's position, shall perform all duties assigned to Executive faithfully and efficiently, subject to the direction of the CEO, and shall have such authorities and powers as are inherent to the undertakings applicable to Executive's position and necessary to carry out the responsibilities and duties required of Executive hereunder. Executive will perform the duties required by this Agreement at the Company's principal place of business unless the nature of such duties requires otherwise. Notwithstanding the foregoing, during the Employment Period, Executive may devote reasonable time to activities other than those required under this Agreement, including activities of a charitable, educational, religious or similar nature (including professional associations) to the extent such activities do not, in the reasonable judgment of the CEO, inhibit, prohibit, interfere with or conflict with Executive's duties under this Agreement or conflict in any material way with the business of the Employer and its Affiliates; *provided, however,* that Executive shall not serve on the board of directors of any business (other than the Employer or its Affiliates) or hold any other position with any business without receiving the prior written consent of the CEO.

4. **Compensation and Benefits.** Subject to the terms and conditions of this Agreement, during the Employment Period, while Executive is employed by the Employer, the Employer shall compensate Executive for Executive's services as follows for periods following the Effective Date:

(a) Executive shall be compensated at an annual rate of $200,000 (the "**Annual Base Salary**"), which shall be payable in accordance with the Employer's normal payroll practices as are in effect from time to time. Beginning on January 1, 2012 and on each anniversary of such date, Executive's rate of Annual Base Salary shall be reviewed by the CEO, and following such review, the Annual Base Salary may be adjusted upward but in no event will it be decreased.

(b) Executive shall be entitled to receive performance based annual incentive bonuses (each, the "**Incentive Bonus**") from the Employer for each fiscal year ending during the Employment Period. Any such Incentive Bonus shall be paid to Executive within thirty (30) days of the completion of the annual audit by the Company's auditor, but in no event later than two and one-half months after the close of each such fiscal year. Executive's target Incentive Bonus shall be not less than thirty-five percent (35%) of the Annual Base Salary, which Incentive Bonus shall be determined by specific performance criteria established from time to time by the Compensation Committee or the CEO.

(c) Executive shall be eligible to participate, subject to the terms and conditions thereof, in all other incentive plans and programs, including such cash and deferred

bonus programs and equity incentive plans as may be in effect from time to time with respect to senior executives employed by the Employer on as favorable a basis as provided to other similarly situated senior executives. Executive and Executive's dependents, as the case may be, shall be eligible to participate in all pension and similar benefit plans (qualified, non-qualified and supplemental), profit sharing, 401(k), as well as all medical and dental, disability, group and executive life, accidental death and travel accident insurance, and other similar welfare benefit plans and programs of the Employer, subject to the terms and conditions thereof, as in effect from time to time with respect to senior executives employed by the Employer on as favorable a basis as provided to other similarly situated senior executives. In the event that Executive is granted stock option awards or similar equity-type awards during the Employment Period, such awards shall provide for an expiration period of not less than five (5) years following termination (other than for Cause) to exercise such awards, but in no event beyond the original term of such awards.

(d) Executive shall be entitled to accrue vacation at a rate of no less than four (4) weeks paid vacation for each calendar year, subject to the Employer's vacation programs and policies as may be in effect during the Employment Period.

(e) Executive shall be reimbursed by the Employer, on terms and conditions that are substantially similar to those that apply to other similarly situated executives of the Employer, for reasonable out-of-pocket expenses for entertainment, travel, meals, lodging and similar items which are consistent with the Employer's expense reimbursement policy and actually incurred by Executive in the promotion of the Employer's business.

5. **Definitions**. As used throughout this Agreement, all of the terms defined in this **Section 5** shall have the meanings given below.

(a) "**Affiliate**" shall mean each company, corporation, partnership, bank, savings bank, savings and loan association, credit union or other financial institution, directly or indirectly, which is controlled by, controls, or is under common control with, the Company, where "control" means (x) the ownership of 51% or more of the voting securities or other voting interest or other equity interest of any corporation, partnership, joint venture or other business entity, or (y) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such corporation, partnership, joint venture or other business entity.

(b) "**Base Compensation**" shall mean the amount equal to the sum of (i) the greater of Executive's then-current Annual Base Salary or Executive's Annual Base Salary as of the date one (1) day prior to the Change of Control; and (ii) the average of the Incentive Bonus paid (or payable) for the three (3) most recently completed fiscal years of the Company.

(c) "**Change of Control**" shall mean the first to occur of the following:

(i) Any Person, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the beneficial owner (within the meaning of Rule 13d-3 of the

Exchange Act), directly or indirectly, of securities representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding Voting Securities; or

(ii) During any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) Consummation of: (i) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (ii) a complete liquidation of the Company or the Bank or an agreement for the sale or disposition by the Company of all or substantially all the Company's or the Bank's assets.

However, in no event shall a Change in Control be deemed to have occurred, with respect to the Executive if the Executive is part of a purchasing group which consummates the Change-in-Control transaction. The Executive shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Executive is an equity participant in the purchase company or group (except for (i) passive ownership of less than two percent (2%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change in Control by a majority of the non-employee continuing Directors).

In the event that any benefit under this Agreement constitutes deferred compensation, and the settlement of, or distribution of such benefits is to be triggered by a Change in Control, then such settlement or distribution shall be subject to the event constituting the Change in Control also constituting a "change in the ownership" or "change in the effective control" of the Company, as permitted under Code Section 409A.

(d) "**Covered Period**" shall mean the period beginning six (6) months prior to a Change of Control and ending twenty-four (24) months after the Change of Control.

(e) "**Disability**" shall mean that Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer.

(f) "**Good Reason**" shall mean Executive's voluntary Termination of employment for one or more of the following reasons:

(i) an adverse change in the nature, scope or status of Executive's position, authorities or duties from those in effect in accordance with **Section 3** immediately following the Effective Date, or if applicable and greater, immediately prior to the Covered Period;

(ii) a reduction in Executive's Annual Base Salary, Incentive Bonus opportunity, or material reduction in Executive's aggregate compensation and benefits from that in effect immediately following the Effective Date, or if applicable and greater, immediately prior to the Covered Period;

(iii) relocation of Executive's primary place of employment of more than ninety (90) miles from Executive's primary place of employment immediately following the Effective Date, or if applicable, prior to the Covered Period, or a requirement that Executive engage in travel that is materially greater than was required prior to the Covered Period;

(iv) failure by an acquirer to assume this Agreement at the time of a Change of Control; or

(v) a material breach by the Employer, or its successor, of this Agreement.

Notwithstanding the foregoing, prior to Executive's Termination for Good Reason, Executive must give the Employer written notice of the existence of any condition set forth in clause (i) – (v) above within ninety (90) days of such initial existence and the Employer shall have thirty (30) days from the date of receipt of such notice in which to cure the condition giving rise to Good Reason, if curable. If, during such thirty (30) day period, the Employer cures the condition giving rise to Good Reason, no payments or benefits shall be due under **Section 6** of this Agreement with respect to such occurrence. If, during such thirty (30) day period, the Employer fails or refuses to cure the condition giving rise to Good Reason, Executive shall be entitled to payments or benefits under **Section 6** of this Agreement upon such Termination; *provided* such Termination occurs within 24 months of such initial existence of the applicable condition.

(g) "**Minimum Payments**" shall mean, as applicable, the following amounts:

(i) Executive's earned but unpaid Annual Base Salary for the period ending on the Termination Date;

(ii) Executive's earned but unpaid Incentive Bonus for the previously completed fiscal year;

(iii) Executive's accrued but unpaid vacation pay for the period ending on the Termination Date;

(iv) Executive's unreimbursed business expenses and all other items earned and owed to Executive through the Termination Date; and

(v) benefits, incentives and awards described in **Section 6(f)**.

(h) "**Pro Rata Bonus**" means a payment equal to the Incentive Bonus that Executive would have earned for the year of termination, based upon actual results of the Employer and pro rated on a per diem basis (by dividing the number of days employed during the applicable performance period by the total number of days in the applicable performance period).

(i) "**Release**" shall mean a general release and waiver substantially in the form attached hereto as **Exhibit A**.

(j) "**Severance Amount**" shall mean:

(i) for any Termination occurring during the Employment Period and not during a Covered Period, an amount equal to fifty percent (50%) of Executive's Base Compensation; or

(ii) for any Termination occurring during a Covered Period, an amount equal to one hundred percent (100%) of Executive's Base Compensation.

(k) "**Termination**" shall mean termination of Executive's employment either:

(i) by the Employer or its successor, as the case may be, other than a Termination for Cause or any termination as a result of death or Disability; or

(ii) by Executive for Good Reason.

(l) "**Termination Date**" shall mean the date of employment termination, for any reason or no reason, indicated in the written notice provided by the Employer or Executive to the other.

(m) "**Termination for Cause**" shall mean only a termination by the Employer as a result of:

(i) Executive's willful and continuing failure, that is not remedied within twenty (20) days after receipt of written notice of such failure from the CEO, to perform his obligations hereunder;

(ii) Executive's willful act or acts of gross misconduct that are, alone or in the aggregate, materially and demonstrably injurious, monetarily or otherwise, to the Employer or an Affiliate, as determined in the sole discretion of the CEO; or

(iii) Executive's breach of fiduciary responsibility or any obligation of Executive pursuant to **Section 8**.

(n) "**Voting Securities**" shall mean any securities which ordinarily possess the power to vote in the election of directors without the happening of any pre-condition or contingency.

6. **Rights and Payments Upon Termination.** Either party may terminate Executive's employment under this Agreement pursuant to the terms and conditions of this **Section 6**. Subject to **Section 7** below, Executive's right to benefits and payments, if any, for periods after the Termination Date shall be determined in accordance with this **Section 6**:

(a) **Minimum Payments.** If the Termination Date occurs during the Employment Period for any reason, Executive shall be entitled to the Minimum Payments, in addition to any payments or benefits to which Executive may be entitled under the following provisions of this **Section 6** (other than this **Section 6(a)**) or the express terms of any employee benefit plan or as required by law. Any payments to be made to Executive pursuant to this **Section 6(a)** shall be made within thirty (30) days after the Termination Date; provided that any benefits, incentives or awards payable as described in **Section 6(f)** shall be made in accordance with the provisions of the applicable plan, program or arrangement. Except as may be otherwise expressly provided to the contrary in this Agreement or as otherwise provided by law, nothing in this Agreement shall be construed as requiring Executive to be treated as employed by the Employer following the Termination Date for purposes of any employee benefit plan or arrangement in which Executive may participate at such time.

(b) **Termination for Cause, Death, Disability, Voluntary Resignation and Non-Renewal.**

(i) Upon a determination of a Termination for Cause by the Employer, Executive's death or Disability, or Executive's voluntary resignation other than for Good Reason, Executive's employment shall immediately terminate.

(ii) If the Termination Date occurs during the Employment Period and is a result of a Termination for Cause, death, Disability, voluntary resignation other than for Good Reason or if this Agreement expires due to notice of non-renewal by either party as provided under **Section 2** or at the end of a Covered Period, then, other than the Minimum Payments, Executive shall have no right to payments or benefits under this Agreement (and the Employer shall have no obligation to make any such payments or provide any such benefits) for periods after the Termination Date.

(c) **Termination Other than for Cause or Termination for Good Reason.** If Executive's employment by the Employer, or any Affiliate or successor of the Employer, shall be subject to a Termination other than during a Covered Period, then, in addition to the Minimum Payments, the Employer shall provide Executive the following benefits:

(i) Commencing on the Termination Date, Executive shall receive the applicable Severance Amount (less any amount described in **subparagraph (ii)** below) paid in 12 substantially equal monthly installments, with each successive payment being due on the monthly anniversary of the Termination Date.

(ii) To the extent any portion of the applicable Severance Amount exceeds the "safe harbor" amount described in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A), Executive shall receive such portion of the applicable Severance Amount that

exceeds the "safe harbor" amount in a single lump sum payment payable within five (5) days after Executive's Termination Date.

(iii) Executive (and dependents, as may be applicable) shall be entitled to the medical benefits provided in **Section 6(e)** below.

(d) **Termination Upon a Change of Control.** If Executive's employment by the Employer, or any Affiliate or successor of the Employer, shall be subject to a Termination within a Covered Period, then, in addition to Minimum Payments, the Employer shall provide Executive the following benefits:

(i) Within five (5) days after Executive's Termination Date, the Employer shall pay Executive a lump sum payment in an amount equal to the Severance Amount.

(ii) Executive (and his dependents, as may be applicable) shall be entitled to the medical benefits provided in **Section 6(e)** below.

(iii) Executive shall be entitled to receive a Pro Rata Bonus, when Incentive Bonuses are paid to other senior management of Employer, consistent with **Section 4(b)** of this Agreement.

(e) **Medical, Dental and Life Insurance Benefits**. If Executive's employment by the Employer or any Affiliate or successor of the Employer shall be subject to a Termination as provided in **subsections (c)** or **(d)** above within the Employment Period, then to the extent that Executive or any of Executive's dependents may be covered under the terms of any medical and dental plans of the Employer (or any Affiliate) for active employees immediately prior to the termination, then, for as long as Executive is eligible for and elects coverage under the health care continuation rules of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("**COBRA**"), the Employer will provide Executive and those dependents with equivalent coverage, with Executive required to pay the same amount as Executive would pay if Executive continued in employment with the Employer or an Affiliate during such period, but in no event more than twelve (12) months following termination, The coverage may be procured directly by the Employer (or any Affiliate, if appropriate) apart from, and outside of the terms of the plans themselves; provided that Executive and Executive's dependents comply with all of the conditions of the medical or dental plans, with the cost to the Employer not to exceed the cost for continued COBRA coverage. In the event Executive or any of Executive's dependents become eligible for coverage under the terms of any other medical and/or dental plan of a subsequent employer which plan benefits are comparable to Employer (or any Affiliate) plan benefits, coverage under Employer (or any Affiliate) plans will cease for the eligible Executive

and/or dependent. Executive and Executive's dependents must notify the Employer (or any Affiliate) of any subsequent employment and provide information regarding medical and/or dental coverage available. In the event the Employer (or any Affiliate) discovers that Executive and/or dependent has become employed and not provided the above notification, all payments and benefits under this subsection (e) will cease.

(f) Other Benefits. Executive's rights following a Termination with respect to any benefits, incentives or awards provided to Executive pursuant to the terms and conditions

of any plan, program or arrangement sponsored or maintained by the Employer, whether tax-qualified or not, which are not specifically addressed herein, shall be subject to the terms and conditions of such plan, program or arrangement and this Agreement shall have no effect upon such terms and conditions except as specifically provided herein.

7. Release. Notwithstanding anything contained in this Agreement to the contrary, no payments or benefits (including without limitation, vesting of any and all stock options, shares of restricted stock, restricted stock units and other unvested incentive awards) payable to Executive under **Section 6(c), 6(d) or 6(e)** (except for payments and benefits described in **Section 6(a)**) shall be paid or provided to Executive unless he first executes (without subsequent revocation) and delivers to the Employer a Release. To the extent any of the payments and/or benefits due under **Section 6(c)**, **6(d)** or **6(e)** are determined to be subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), the Release must be executed and become irrevocable on or before the 60th day following the Termination Date. Provided that an executed, irrevocable Release has been delivered on or before the 60th day following the Termination Date, any payments and benefits that are determined to be subject to Section 409A of the Code shall become payable, or shall otherwise commence, as of the 60th day following the Termination Date. If an executed, irrevocable Release is not delivered on or before the 60th day following the Termination Date, Executive shall forever forfeit any and all rights to any payment or benefit (to the extent such payment or benefit is determined to be subject to Section 409A of the Code) under **Section 6(c)**, **6(d)** or **6(e)** or any payment or benefit in lieu thereof.

8. Restrictive Covenants.

(a) Confidential Information. Executive acknowledges that, during the course of his employment with the Employer, Executive may produce and have access to confidential and/or proprietary non-public information concerning the Employer and its Affiliates, including marketing materials, financial and other information concerning customers and prospective customers, customer lists, records, data, trade secrets, proprietary business information, pricing and profitability information and policies, strategic planning, commitments, plans, procedures, litigation, pending litigation and other information not generally available to the public (collectively, "**Confidential Information**"). Executive agrees not to directly or indirectly use, disclose, copy or make lists of Confidential Information for the benefit of anyone other than the Employer, either during or after his employment with the Employer, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by the Employer, required by law or any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with performance by Executive of his duties hereunder. Executive agrees that, if he receives a subpoena or other court order or is otherwise required by law to provide information to a governmental authority or other person concerning the activities of the Employer or any of its Affiliates, or his activities in connection with the business of the Employer or any of its Affiliates, Executive will immediately notify the Employer of such subpoena, court order or other requirement and deliver forthwith to the Employer a copy thereof and any attachments and non-privileged correspondence related thereto. Executive shall take reasonable precautions to protect against the inadvertent disclosure of Confidential Information. Executive agrees to abide by the Employer's reasonable policies, as in effect from time to time, respecting avoidance of interests conflicting with those of the Employer and its Affiliates. In this

regard, Executive shall not directly or indirectly render services to any person or entity where Executive's service would involve the use or disclosure of Confidential Information. Executive agrees not to use any Confidential Information to guide him in searching publications or other publicly available information, selecting a series of items of knowledge from unconnected sources and fitting them together to claim that he did not violate any agreements set forth in this Agreement.

(b) Documents and Property. All records, files, documents and other materials or copies thereof relating to the business of the Employer and its Affiliates, which Executive shall prepare, receive, or use, shall be and remain the sole property of the Employer and, other than in connection with performance by Executive of his duties hereunder, shall not be removed from the premises of the Employer or any of its Affiliates without the Employer's prior written consent, and shall be promptly returned to the Employer upon Executive's termination of employment together with all copies (including copies or recordings in electronic form), abstracts, notes or reproductions of any kind made from or about the records, files, documents or other materials.

(c) Non-Competition and Non-Solicitation. The Employer and Executive have agreed that the primary service area of the Employer's lending and deposit taking functions in which Executive will actively participate extends separately to an area that encompasses the County of Effingham, Illinois (the "**Restricted Area**"). Therefore, as an essential ingredient of and in consideration of this Agreement and his employment by the Employer, Executive agrees that, during his employment with the Employer and for a period of twelve (12) months immediately following the termination of his employment (the "**Restricted Period**"), for whatever reason, where such termination occurs during the Employment Period or thereafter, he will not, except with the express prior written consent of the Employer, directly or indirectly, do any of the following (all of which are collectively referred to in this agreement as the "**Restrictive Covenant**"):

(i) Engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation or control of, be employed by, associated with, or in any manner connected with, serve as a director, officer or consultant to, lend his name or any similar name to, lend his credit to, or render services or advice to, any person, firm, partnership, corporation or trust which owns, operates or is in the process of forming, a bank, savings and loan association, credit union or similar financial institution (a "**Financial Institution**") with an office located, or to be located at an address identified in a filing with any regulatory authority, within the Restricted Area; *provided however,* that the ownership by Executive of shares of the capital stock of any Financial Institution which shares are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System and which do not represent more than five percent (5%) of the institution's outstanding capital stock, shall not violate any terms of this Agreement: *provided further*, that nothing contained herein is intended to restrict Executive's ability to engage in the private practice of law within the Restricted Area.

(ii) Executive will not, directly or indirectly, either for himself, or any Financial Institution: (1) induce or attempt to induce any employee of the Employer or any of its Affiliates to leave the employ of the Employer or any of its Affiliates; (2) in any way interfere

with the relationship between the Employer or any of its Affiliates and any employee of the Employer or any of its Affiliates; or (3) induce or attempt to induce any customer, supplier, licensee, or business relation of the Employer or any of its Affiliates to cease doing business with the Employer or any of its Affiliates or in any way interfere with the relationship between the Employer or any of its Affiliates and their respective customers, suppliers, licensees or business relations.

(iii) Executive will not, directly or indirectly, either for himself, or any Financial Institution, solicit the business of any person or entity known to Executive to be a customer of the Employer or any of its Affiliates, where Executive, or any person reporting to Executive, had personal contact with such person or entity, with respect to products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(iv) Executive will not, directly or indirectly, serve as the agent, broker or representative of, or otherwise assist, any person or entity in obtaining services or products from any Financial Institution within the Restricted Area, with respect to the products, activities or services which compete in whole or in part with the products, activities or services of the Employer or any of its Affiliates.

(d) Work for Hire Provisions.

(i) **Exclusive Rights of the Employer in Work Product.** The parties acknowledge and agree that all work performed by Executive for the Employer or any of its Affiliates shall be deemed "work for hire." The Employer shall at all times own and have exclusive right, title and interest in and to all Confidential Information and Inventions (as defined below), and the Employer shall retain the exclusive right to license, sell, transfer and otherwise use and dispose of the same. Any and all enhancements of the technology of the Employer or any of its Affiliates that are developed by Executive shall be the exclusive property of the Employer. Executive hereby assigns to the Employer any right, title and interest in and to all Inventions that he may have, by law or equity, without additional consideration of any kind whatsoever from the Employer or any of its Affiliates. Executive agrees to execute and deliver any instruments or documents and to do all other things (including the giving of testimony) requested by the Employer (both during and after the termination of his employment with the Employer) in order to vest more fully in the Employer or any of its Affiliates all ownership rights in the Inventions (including obtaining patent, copyright or trademark protection therefore in the United States and/or foreign countries).

(ii) **Definitions and Exclusions.** For purposes of this Agreement, "**Inventions**" means all systems, procedures, techniques, manuals, data bases, plans, lists, inventions, trade secrets, copyrights, patents, trademarks, discoveries, innovations, concepts, ideas and software conceived, compiled or developed by Executive in the course of his employment with the Employer or any of its Affiliates and/or comprised, in whole or part, of Confidential Information. Notwithstanding the foregoing, Inventions shall not include: (i) any inventions independently developed by Executive and not derived, in whole or part, from any Confidential Information or (ii) any invention made by Executive prior to his exposure to any Confidential Information.

(e) Remedies for Breach of Restrictive Covenants. Executive has reviewed the provisions of this Agreement with legal counsel, or has been given adequate opportunity to seek such counsel, and Executive acknowledges and expressly agrees that the covenants contained in this **Section 8** are reasonable with respect to their duration, geographical area and scope. Executive further acknowledges that the restrictions contained in this **Section 8** are reasonable and necessary for the protection of the legitimate business interests of the Employer, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to the Employer and such interests, and that such restrictions were a material inducement to the Employer to enter into this Agreement. In the event of any violation or threatened violation of these restrictions, the Employer, in addition to and not in limitation of, any other rights, remedies or damages available to the Employer under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by Executive and any and all persons directly or indirectly acting for or with her, as the case may be.

(f) In the event of the existence of any other agreement between the parties which (i) is in effect during the Restricted Period, and (ii) which contains restrictive covenants that conflict with any of the provisions of this **Section 8**, then the more restrictive of such provisions from the agreements shall control for the period during which the agreements would otherwise be in effect.

9. No Set-Off; No Mitigation. Except as provided herein, the Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including any set-off, counterclaim, recoupment, defense or other right which the Employer may have against Executive or others. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

10. Notices. Notices and all other communications under this Agreement shall be in writing and shall be deemed given when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company (with a copy to the Bank):

Midland States Bancorp, Inc.
Attention: Chief Executive Officer
133 W. Jefferson Street
Effingham, Illinois 62401

If to the Bank (with a copy to the Company):

Midland States Bank
Attention: Chief Executive Officer
133 W. Jefferson Street
Effingham, Illinois 62401

If to Executive, to such home address or other address as Executive has most recently provided to the Employer.

or to such other address as either party may furnish to the other in writing, except that notices of changes of address shall be effective only upon receipt.

11. **Applicable Law**. All questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction, and any court action commenced to enforce this Agreement shall have as its sole and exclusive venue the County of Effingham, Illinois.

12. **Entire Agreement; Survival.**

(a) This Agreement constitutes the entire agreement between Executive and the Employer concerning the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral, specifically including the Prior Agreement. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect. The various covenants and provisions of this Agreement are intended to be severable and to constitute independent and distinct binding obligations. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and Executive hereby agrees that such scope may be judicially modified accordingly.

(b) The provisions of **Section 8** shall survive the termination of this Agreement.

13. **Withholding of Taxes**. The Employer may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law, governmental regulation or ruling.

14. **No Assignment**. Executive's rights to receive payments or benefits under this Agreement shall not be assignable or transferable whether by pledge, creation of a security interest or otherwise, other than a transfer by will or by the laws of descent or distribution. In the event of any attempted assignment or transfer contrary to this Section, the Employer shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

15. **Successors**. This Agreement shall be binding upon and inure to the benefit of the Employer, its successors and assigns (including, without limitation, any company into or with which the Employer may merge or consolidate). The Employer agrees that it will not effect the sale or other disposition of all or substantially all of its assets (where such transaction would constitute a Change in Control) unless either (a) the person or entity acquiring the assets, or a substantial portion of the assets, shall expressly assume by an instrument in writing all duties and obligations of the Employer under this Agreement, or (b) the Employer shall provide, through the establishment of a separate reserve, for the payment in full of all amounts which are or may reasonably be expected to become payable to Executive under this Agreement.

16. **Legal Fees**. In the event that either party commences arbitration or litigation to enforce or protect his and/or its rights under this Agreement, the prevailing party in any such action shall be entitled to recover reasonable attorneys' fees and costs (including the costs of experts, evidence and counsel) relating to such action, in addition to all other entitled relief, including but not limited to damages and injunctive relief.

17. **Amendment**. This Agreement may not be amended or modified except by written agreement signed by Executive and the Employer.

18. **Internal Revenue Code Section 409A.**

(a) It is intended that this Agreement comply with the provisions of Section 409A of the Code so as not to subject Executive to the payment of additional taxes and interest under Section 409A of the Code. In furtherance of this intent, this Agreement shall be interpreted, operated and administered in a manner consistent with these intentions, and to the extent that any regulations or other guidance issued under Section 409A of the Code would result in Executive being subject to payment of additional income taxes or interest under Section 409A of the Code, the parties agree to amend this Agreement to maintain to the maximum extent practicable the original intent of the Agreement while avoiding the application of such taxes or interest under Section 409A of the Code.

(b) Notwithstanding any provision in this Agreement to the contrary, if Executive is determined to be a Specified Employee as of the Termination Date, then, to the extent required pursuant to Section 409A(a)(2)(B)(i) of the Code, payments due under this Agreement which are deemed to be deferred compensation shall be subject to a six (6) month delay following the Termination Date. For purposes of Section 409A of the Code, all installment payments of deferred compensation made hereunder, or pursuant to another plan or arrangement, shall be deemed to be separate payments and, accordingly, the aforementioned deferral shall only apply to separate payments which would occur during the six (6) month deferral period and all other payments shall be unaffected. All delayed payments shall be accumulated and paid in a lump-sum catch-up payment as of the first day of the seventh-month following the Termination Date (or, if earlier, the date of death of Executive) with all such delayed payments being credited with interest (compounded monthly) for this period of delay equal to the prime rate in effect on the first day of such six-month period. Any portion of the benefits hereunder that were not otherwise due to be paid during the six-month period following the Termination Date shall be paid to Executive in accordance with the payment schedule established herein.

(c) The term "**Specified Employee**" shall mean any person who is a "key employee" (as defined in Code Section 416(i) of the Code without regard to paragraph (5) thereof), as determined by the Employer based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the "identification period"). If Executive is determined to be a key employee under Section 416(i) of the Code (without regard to paragraph (5) thereof), he shall be treated as a Specified Employee for purposes of this Agreement during the 12-month period that begins on the April 1 following the close of such identification period. For purposes of determining whether Executive is a key employee under Section 416(i) of the Code, "compensation" shall mean Executive's W-2 compensation as reported by the Employer for a particular calendar year.

(remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

MIDLAND STATES BANCORP, INC.		**DOUGLAS J. TUCKER**
By:	/s/ Leon J. Holschbach	/s/ Douglas J. Tucker
Name:	Leon J. Holschbach	
Its:	President & CEO	

MIDLAND STATES BANK

By:	/s/ Leon J. Holschbach
Name:	Leon J. Holschbach
Its:	President & CEO

EXHIBIT A

GENERAL RELEASE AND WAIVER

THIS GENERAL RELEASE AND WAIVER (the "**Release**") is made and entered into as of this day of , 20 , by and between Midland States Bancorp, Inc., (the "**Company**"), Midland States Bank, an Illinois banking corporation (the "**Bank**") (the Bank and the Company hereinafter collectively referred to as the "**Employer**"), and Douglas J. Tucker ("**Executive**").

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Termination of Employment. Executive and the Employer agree that Executive's employment with the Employer terminated effective . Executive further agrees that without prior written consent of the Employer he will not hereafter seek reinstatement, recall or reemployment with the Employer.

2. Severance Payment.

(a) A description of the payments to which Executive may be entitled upon termination of employment are contained in **Section 6** of that certain Employment Agreement entered into by and between the Employer and Executive dated December 1, 2010, which is incorporated by reference herein (the "**Employment Agreement**").

(b) The payments described in this **Section 2** are over and above that to which Executive would be otherwise entitled to upon the termination of his employment with the Employer, absent executing this Release, notwithstanding the terms of the Employment Agreement. Executive affirms that he has agreed in the Employment Agreement, and again herein, that he is only entitled to such payments if he executes this Release.

3. General Release. In consideration of the payments and benefits to be made by the Employer to Executive in **Section 2** above, Executive, with full understanding of the contents and legal effect of this Release and having the right and opportunity to consult with his counsel, releases and discharges the Employer, its shareholders, officers, directors, supervisors, managers, employees, agents, representatives, attorneys, parent companies, divisions, subsidiaries and affiliates, and all related entities of any kind or nature, and its and their predecessors, successors, heirs, executors, administrators, and assigns (collectively, the "**Released Parties**") from any and all claims, actions, causes of action, grievances, suits, charges, or complaints of any kind or nature whatsoever, that he ever had or now has, whether fixed or contingent, liquidated or unliquidated, known or unknown, suspected or unsuspected, and whether arising in tort, contract, statute, or equity, before any federal, state, local, or private court, agency, arbitrator, mediator, or other entity, regardless of the relief or remedy, arising prior to the execution of this Release. Without limiting the generality of the foregoing, it being the intention of the parties to make this Release as broad and as general as the law permits, this Release specifically includes any and all subject matters and claims arising from any alleged violation by the Released Parties under the Age Discrimination in Employment Act of 1967, as amended; Title VII of the Civil Rights Act

of 1964, as amended; the Civil Rights Act of 1866, as amended by the Civil Rights Act of 1991 (42 U.S.C. § 1981); the Rehabilitation Act of 1973, as amended; the Employee Retirement Income Security Act of 1974, as amended; the Illinois Human Rights Act, and other similar state or local laws; the Americans with Disabilities Act; the Worker Adjustment and Retraining Notification Act; the Equal Pay Act; Executive Order 11246; Executive Order 11141; and any other statutory claim, employment or other contract or implied contract claim, claim for equity in the Employer, or common law claim for wrongful discharge, breach of an implied covenant of good faith and fair dealing, defamation, or invasion of privacy arising out of or involving his employment with the Employer, the termination of his employment with the Employer, or involving any continuing effects of his employment with the Employer or termination of employment with the Employer; provided, however, that nothing herein waives or releases Executive's rights to any payments or benefits the Employer is required to pay or provide pursuant to the terms of the Employment Agreement or this Release or to indemnification which Executive may have under the Employer's governing documents, by any agreement, under any applicable law or otherwise. Executive further acknowledges that he is aware that statutes exist that render null and void releases and discharges of any claims, rights, demands, liabilities, action and causes of action which are unknown to the releasing or discharging part at the time of execution of the release and discharge. Executive hereby expressly waives, surrenders and agrees to forego any protection to which he would otherwise be entitled by virtue of the existence of any such statute in any jurisdiction including, but not limited to, the State of Illinois.

4. **Covenant Not to Sue.** Executive agrees not to bring, file, charge, claim, sue or cause, assist, or permit to be brought, filed, charged or claimed any action, cause of action, or proceeding regarding or in any way related to any of the claims described in **Section 3** hereof, and further agrees that his Release is, will constitute and may be pleaded as, a bar to any such claim, action, cause of action or proceeding. If any government agency or court assumes jurisdiction of any charge, complaint, or cause of action covered by this Release, Executive will not seek and will not accept any personal equitable or monetary relief in connection with such investigation, civil action, suit or legal proceeding.

5. **No Disparaging, Untrue Or Misleading Statements.** Executive represents that he has not made, and agrees that he will not make, to any third party any disparaging, untrue, or misleading written or oral statements about or relating to, respectively, the Employer, its products or services (or about or relating to any officer, director, agent, employee, or other person acting on the Employer's behalf), or Executive.

6. **Severability.** If any provision of this Release shall be found by a court to be invalid or unenforceable, in whole or in part, then such provision shall be construed and/or modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Release, as the case may require, and this Release shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be. The parties further agree to seek a lawful substitute for any provision found to be unlawful; provided, that, if the parties are unable to agree upon a lawful substitute, the parties desire and request that a court or other authority called upon to decide the enforceability of this Release modify the Release so

that, once modified, the Release will be enforceable to the maximum extent permitted by the law in existence at the time of the requested enforcement.

7. **Waiver.** A waiver by the Employer of a breach of any provision of this Release by Executive shall not operate or be construed as a waiver or estoppel of any subsequent breach by Executive. No waiver shall be valid unless in writing and signed by an authorized officer of the Employer.

8. **Non-Disclosure.** Executive agrees that he will keep the terms and amounts set forth in this Release completely confidential and will not disclose any information concerning this Release's terms and amounts to any person other than his attorney, accountant, tax advisor, or immediate family, until such time as the information in this Release is disclosed by the Employer as may be required by law.

9. **Restrictive Covenants.** Executive agrees that he will abide by the terms set forth in Section 8 of the Employment Agreement.

10. **Return of Employer Materials.** Executive represents that he has returned all Employer property and all originals and all copies, including electronic and hard copy, of all documents, within his possession at the time of the execution of this Release, including but not limited to the laptop computer, printer, Blackberry device, telephone, and credit card, as may be applicable.

11. **Representation.** Executive hereby agrees that this Release is given knowingly and voluntarily and acknowledges that:

(a) this Release is written in a manner understood by Executive;

(b) this Release refers to and waives any and all rights or claims that he may have arising under the Age Discrimination in Employment Act, as amended;

(c) Executive has not waived any rights arising after the date of this Release;

(d) Executive has received valuable consideration in exchange for the Release in addition to amounts Executive is already entitled to receive; and

(e) Executive has been advised to consult with an attorney prior to executing this Release.

12. **Consideration and Revocation.** Executive is receiving this Release on , 20 , and Executive shall be given twenty-one (21) days from receipt of this Release to consider whether to sign the Release. Executive agrees that changes or modifications to this Release do not restart or otherwise extend the above twenty-one (21) day period, unless specifically agreed to in writing by the Employer. Moreover, Executive shall have seven (7) days following execution to revoke this Release in writing to the Secretary of the Employer and the Release shall not take effect until those seven (7) days have ended.

13. **Future Cooperation.** In connection with any and all claims, disputes, negotiations, investigations, lawsuits or administrative proceedings involving the Employer which relate to periods of time during the Employment Period (as defined in the Employment Agreement), Executive agrees to make himself reasonably available, upon reasonable notice from the Employer and without the necessity of subpoena, to provide information or documents, provide declarations or statements to the Employer, meet with attorneys or other representatives of the Employer, prepare for and give depositions or testimony, and/or otherwise cooperate in the investigation, defense or prosecution of any or all such matters. Executive shall be reimbursed for reasonable costs and expenses incurred by him as a result of actions taken pursuant to this **Section 13**. It is expressly agreed and understood that Executive will provide only truthful testimony if required to do so, and that any payment to him is solely to reimburse his expenses and costs for cooperation with the Employer. Nothing in this **Section 13** is intended to require Executive to expend an unreasonable period of time in activities required by this Section.

14. **Amendment.** This Release may not be altered, amended, or modified except in writing signed by both Executive and the Employer.

15. **Joint Participation.** The parties hereto participated jointly in the negotiation and preparation of this Release, and each party has had the opportunity to obtain the advice of legal counsel and to review and comment upon the Release. Accordingly, it is agreed that no rule of construction shall apply against any party or in favor of any party. This Release shall be construed as if the parties jointly prepared this Release, and any uncertainty or ambiguity shall not be interpreted against one party and in favor of the other.

16. **Binding Effect; Assignment.** This Release and the various rights and obligations arising hereunder shall inure to the benefit of and be binding upon the parties and their respective successors, heirs, representatives and permitted assigns. Neither party may assign its respective interests hereunder without the express written consent of the other party.

17. **Applicable Law.** All questions concerning the construction, validity and interpretation of this Release and the performance of the obligations imposed by this Release shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction and any court action commenced to enforce this Release shall have as its sole and exclusive venue the County of Effingham, Illinois.

18. **Execution of Release.** This Release may be executed in several counterparts, each of which shall be considered an original, but which when taken together, shall constitute one Release.

PLEASE READ THIS RELEASE AND CAREFULLY CONSIDER ALL OF ITS PROVISIONS BEFORE SIGNING IT. THIS RELEASE CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS, INCLUDING THOSE UNDER THE FEDERAL AGE DISCRIMINATION IN EMPLOYMENT ACT, AND OTHER FEDERAL, STATE AND LOCAL LAWS PROHIBITING DISCRIMINATION IN EMPLOYMENT.

If Executive signs this Release less than 21 days after he receives it from the Employer, he confirms that he does so voluntarily and without any pressure or coercion from anyone at the Employer.

IN WITNESS WHEREOF, the parties have executed this Release as of the date first stated above.

MIDLAND STATES BANCORP, INC.

By: _____
Name: _____
Its: _____

DOUGLAS J. TUCKER

_____
[Signature]

MIDLAND STATES BANK

By: _____
Name: _____
Its: _____

Exhibit 10.8

MIDLAND STATES BANCORP, INC.

OMNIBUS STOCK OWNERSHIP AND LONG TERM INCENTIVE PLAN

THIS IS THE OMNIBUS STOCK OWNERSHIP AND LONG TERM INCENTIVE PLAN ("Plan") of Midland States Bancorp, Inc. ("the Corporation" or "Company"), a Delaware corporation with its principal office in Effingham County, Illinois, under which Incentive Stock Options and Non-Qualified Options to acquire shares of the Stock, Restricted Stock, Stock Appreciation Rights, and/or Units may be granted from time to time to Eligible Employees of the Corporation and of any of its Subsidiaries (the "Subsidiaries"), subject to the following provisions:

ARTICLE I
DEFINITIONS

The following terms shall have the meanings set forth below. Additional terms defined in this Plan shall have the meanings ascribed to them when first used herein.

Board. The Board of Directors of Midland States Bancorp, Inc.

Change in Control Transaction. The dissolution or liquidation of the Corporation; a reorganization, merger or consolidation of the Corporation as a result of which the outstanding securities of the class then subject to Rights hereunder are changed into or exchanged for cash or property or securities not of the Corporation's issue; or a sale of all or substantially all of the assets of the Corporation to, or the acquisition of stock representing more than fifty percent (50%) of the voting power of the capital stock of the Corporation then outstanding by, another corporation, bank, other entity or person.

Code. The Internal Revenue Code of 1986, as amended, together with the rules and regulations promulgated thereunder.

Committee. The Compensation Committee of the Board.

Common Stock. The Common Stock, $2.00 par value per share, of the Corporation.

Death. The date of death of an Eligible Employee who has received Rights as established by the relevant death certificate.

Disability. The date on which an Eligible Employee who has received Rights becomes permanently and totally disabled within the meaning of Section 22 (e) (3) of the Code, which shall be determined by the Committee on the basis of such medical or other evidence as it may reasonably require or deem appropriate.

Effective Date. The date on which this Plan is effective, which shall be the date it is approved by the shareholders of the Corporation.

Eligible Employees. Those individuals who meet the following eligibility requirements:

(i) Such individual must be a full time employee of the Corporation or a Subsidiary. For this purpose, an individual shall be considered to be an "employee" only if there exists between the Corporation or a Subsidiary and the individual the legal and bona fide relationship of employer and employee. In determining whether such relationship exists, the regulations of the United States Treasury Department relating to the determination of such relationship for the purpose of collection of income tax at the source on wages shall be applied.

(ii) Such individual is identified by the Committee as a key employee who is in a position to significantly influence the long-term success of the Corporation, subject to ratification of such action by the Board.

(iii) If the Registration shall not have occurred, such individual must have such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the investment involved in the receipt and/or exercise of a Right.

(iv) Such individual, being otherwise an Eligible Employee under the foregoing items, shall have been selected by the Committee as a person to whom a Right or Rights shall be granted under the Plan.

Fair Market Value. With respect to the Corporation's Common Stock, the market price per share of such Common Stock determined by the Committee, consistent with the requirements of Section 422 of the Code and to the extent consistent therewith, as follows, as of the date specified in the context within which such term is used:

(i) if the Common Stock was traded on a stock exchange on the date in question, then the Fair Market Value will be equal to the closing price reported by the applicable composite-transactions report for such date;

(ii) if the Common Stock was traded over-the-counter on the date in question and was classified as a national market issue, then the Fair Market Value will be equal to the last transaction price quoted by the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), National Market System ("NMS");

(iii) if the Common Stock was traded over-the-counter on the date in question but was not classified as a national market issue, then the Fair Market Value will be equal to the average of the last reported representative bid and asked prices quoted by the NASDAQ for such date; and

(iv) if none of the foregoing provisions is applicable, then the Fair Market Value will be determined by the Committee in good faith on such basis as it deems appropriate, subject to the approval of the Board. In such case, the Committee shall maintain a written record of its method of determining Fair Market Value.

ISO. An "incentive stock option" as defined in Section 422 of the Code.

Just Cause Termination. A termination by the Corporation or a Subsidiary of an Eligible Employee's employment by the Corporation or the Subsidiary in connection with the good faith determination of the Board or the Board of Directors of the Subsidiary, as applicable, that the Eligible Employee is incompetent or otherwise has engaged in any acts involving dishonesty or moral turpitude or in any acts

that materially and adversely affect the business, affairs or reputation of the Corporation or the Subsidiary.

Long Term Incentive Compensation Units. The Right of a Long Term Incentive Compensation Unit Recipient to receive cash when, as and in the amounts described in Article V.

Long Term Incentive Compensation Unit Agreement. The agreement between the Corporation and Long Term Incentive Compensation Unit Recipient with respect to the award of Long Term Incentive Compensation Units to the Long Term Incentive Compensation Unit Recipient, including such terms and conditions as are necessary or appropriate under Article V.

Non-Qualified Option. Any Option granted under Article III whether designated by the Committee as a Non-Qualified Option or otherwise, other than an Option designated by the Committee as an ISO, or any Option so designated but which, for any reason, fails to qualify as an ISO pursuant to Section 422 of the Code and the rules and regulations thereunder.

Option Agreement. The agreement between the Corporation and an Optionee with respect to Options granted to such Optionee, including such terms and provisions as are necessary or appropriate under Article III.

Options. ISOs and Non-Qualified Options are collectively referred to herein as "Options;" provided, however, whenever reference is specifically made only to ISOs or Non-Qualified Options, such reference shall be deemed to be made to the exclusion of the other.

Plan Pool. A total of 100,000 shares of authorized, but unissued, and/or Treasury shares of Common Stock, as adjusted pursuant to Section 2.3(b), which shall be available as Stock under this Plan.

Registration. A registration by the Corporation under the 1933 Act and applicable state "Blue Sky" and securities laws of this Plan, the offering of Rights under this Plan, the offering of Stock under this Plan, and/or the Stock acquirable under this Plan.

Restricted Stock. The Stock that a Holder shall be awarded with restrictions when, as, in the amounts and with the restrictions described in Article IV.

Restricted Stock Grant Agreement. The agreement between the Corporation and a Holder with respect to Rights to Restricted Stock, including such terms and provisions as are necessary or appropriate under Article IV.

Restricted Stock Unit. Any unit granted under Article IV of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share), or any combination of cash and Shares, at some future date.

Restricted Stock Unit Grant Agreement. The agreement between the Corporation and a Holder with respect to Rights to Restricted Stock Units, including such terms and provisions as are necessary or appropriate under Article IV.

Retirement. "Retirement" shall mean

(i) the termination of an Eligible Employee's employment under conditions which would constitute "normal retirement" or "early retirement" under any tax qualified retirement plan maintained by the Corporation or a Subsidiary, or

(ii) termination of employment after attaining age 65 (except in the case of a Just Cause Termination).

Rights. The rights to exercise, purchase or receive the Options, Restricted Stock, Units and SARs described herein.

Rights Agreement. An Option Agreement, a Restricted Stock Grant Agreement, a Unit Agreement or an SAR Agreement.

SAR. The Right of an SAR Recipient to receive cash when, as and in the amounts described in Article VI.

SAR Agreement. The agreement between the Corporation and an SAR Recipient with respect to the SAR awarded to the SAR Recipient, including such terms and conditions as are necessary or appropriate under Article VI.

SEC. The Securities and Exchange Commission.

Stock. The shares of Common Stock in the Plan Pool available for issuance pursuant to the valid exercise of a Right or on which the cash value of a Right is to be based.

Tax Withholding Liability. All federal and state income taxes, social security tax, and any other taxes applicable to the compensation income arising from the transaction required by applicable law to be withheld by the Corporation.

Transfer. The sale, assignment, transfer, conveyance, pledge, hypothecation, encumbrance, loan, gift, attachment, levy upon, assignment for the benefit of creditors, by operation of law (by will or descent and distribution), transfer by a qualified domestic relations order, a property settlement or maintenance agreement, transfer by result of the bankruptcy laws or otherwise of a share of Stock or of a Right.

1933 Act. The Securities Act of 1933, as amended, together with the rules and regulations promulgated thereunder.

1934 Act. The Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated thereunder.

ARTICLE II
GENERAL

Section 2.1. Purpose.

The purposes of this Plan are to encourage and motivate selected key employees to contribute to the successful performance of the Corporation and its Subsidiaries and the growth of the market value of the Corporation's Common Stock; to achieve a unity of purpose between such employees and shareholders by providing ownership opportunities, and, when viewed in conjunction with potential benefit plans for

members of the Board and the Boards of Directors of some or all of the Subsidiaries, to achieve a unity of purpose between such employees and directors in the achievement of the Corporation's primary long term performance objectives; and to retain such employees by rewarding them with potentially tax-advantageous future compensation. These objectives will be promoted through the granting of Rights to designated Eligible Employees pursuant to the terms of this Plan

Section 2.2. Administration.

(a) The Plan shall be administered by the Committee. Subject to the provisions of SEC Rule 16b-3(d), the Committee may designate any officers or employees of the Corporation or any Subsidiary to assist in the administration of the Plan, to execute documents on behalf of the Committee and to perform such other ministerial duties as may be delegated to them by the Committee.

(b) Subject to the provisions of the Plan, the determinations and the interpretation and construction of any provision of the Plan by the Committee shall be recommended to the Board for approval, and when so approved by the Board shall be final and conclusive upon persons affected thereby. By way of illustration and not of limitation, the Committee shall have the discretion, subject to the approval by the Board,

(i) to construe and interpret the Plan and all Rights granted hereunder and to determine the terms and provisions (and amendments thereof) of the Rights granted under the Plan (which need not be identical);

(ii) to define the terms used in the Plan and in the Rights granted hereunder;

(iii) to prescribe, amend and rescind the rules and regulations relating to the Plan;

(iv) to determine the Eligible Employees to whom and the time or times at which such Rights shall be granted, the number of shares of Stock, as and when applicable, to be subject to each Right, the exercise price or, other relevant purchase price or value pertaining to a Right, and the determination of leaves of absence which may be granted to Eligible Employees without constituting a termination of their employment for the purposes of the Plan; and

(v) to make all other determinations and interpretations necessary or advisable for the administration of the Plan.

(c) Notwithstanding the foregoing, or any other provision of this Plan, the Committee will have no authority to determine any matters, or exercise any discretion, to the extent that the power to make such determinations or to exercise such discretion would cause the loss of exemption under SEC Rule 16b-3 of any grant or award hereunder.

(d) It shall be in the discretion of the Committee, subject to approval by the Board, to grant Options to purchase shares of Stock which qualify as ISOs under the Code or which will be given tax treatment as Non-Qualified Options. Any Options granted which fail to satisfy the requirements for ISOs shall become Non-Qualified Options.

(e) The Corporation shall make available to Eligible Employees receiving Rights and/or shares of Stock in connection therewith all disclosure documents required under applicable federal and state securities laws. The Committee shall be responsible for supplying the recipient of a Right and/or shares of Stock in connection therewith with such information about the Corporation as is contemplated by the federal and state securities laws in connection with exemptions from the registration requirements of such laws, as well as providing the recipient of a Right with the opportunity to ask questions and receive answers concerning the Corporation and the terms and conditions of the Rights granted under this Plan. In addition, if a Registration shall not occur, the Committee shall be responsible, subject to approval by the Board, for determining the maximum number of Eligible Employees and the suitability of particular persons to be Eligible Employees in order to comply with applicable federal and state securities statutes and regulations governing such exemptions.

(f) In determining the Eligible Employees to whom Rights may be granted and the number of shares of Stock to be covered by each Right, the Committee and the Board shall take into account the nature of the services rendered by such Eligible Employees, their present and potential contributions to the success of the Corporation and/or a Subsidiary and such other factors as the Committee and the Board shall deem relevant. An Eligible Employee who has been granted a Right under this Plan may be granted an additional Right or Rights under this Plan if the Committee and the Board shall so determine. If pursuant to the terms of this Plan, or otherwise in connection with this Plan, it is necessary that

the percentage of stock ownership of an Eligible Employee be determined, the ownership attribution provisions set forth in Section 424(d) of the Code shall be controlling.

(g) The granting of Rights pursuant to this Plan is in the exclusive discretion of the Board, and until the Board acts, no individual shall have any rights under this Plan. The terms of this Plan shall be interpreted in accordance with this intent.

Section 2.3. Stock Available For Rights.

(a) Shares of the Stock shall be subject to, or underlying, grants of Options, Restricted Stock, Restricted Stock Units, SARs and Long Term Incentive Compensation Units under this Plan. The total number of shares of Stock for which, or with respect to which, Rights may be granted (including the number of shares of Stock in respect of which SARs and Long Term Incentive Compensation Units may be granted) under this Plan shall be those designated in the Plan Pool. In the event that a Right granted under this Plan to any Eligible Employee expires or is terminated unexercised as to any shares of Stock covered thereby, such shares thereafter shall be deemed available in the Plan Pool for the granting of Rights under this Plan; provided, however, if the expiration or termination date of a Right is beyond the term of existence of this Plan as described in Section 7.3, then any shares of Stock covered by unexercised or terminated Rights shall not reactivate the existence of this Plan and therefore shall not be available for additional grants of Rights under this Plan.

(b) In the event the outstanding shares of Common Stock are increased, decreased, changed into or exchanged for a different number or kind of securities as a result of a stock split, reverse stock split, stock dividend, recapitalization, merger, share exchange acquisition, combination or reclassification appropriate proportionate adjustments will be made in: (i) the aggregate number and/or kind of shares of Stock in the Plan Pool that may be issued pursuant to the exercise of, or that are underlying, Rights granted hereunder; (ii) the exercise or other purchase price or value pertaining to, and the number and/or kind of shares of Stock called for

with respect to, or underlying, each outstanding Right granted hereunder; and (iii) other rights and matters determined on a per share basis under this Plan or any Rights Agreement. Any such adjustments will be made only by the Committee, subject to approval by the Board, and when so approved will be effective, conclusive and binding for all purposes with respect to this Plan and all Rights then outstanding. No such adjustments will be required by reason of (i) the issuance or sale by the Corporation for cash of additional shares of its Common Stock or securities convertible into or exchangeable for shares of its Common Stock, or (ii) the issuance of shares of Common Stock in exchange for shares of the capital stock of any corporation, financial institution or other organization acquired by the Corporation or any Subsidiary in connection therewith.

(c) The grant of a Right pursuant to this Plan shall not affect in any way the right or power of the Corporation to make adjustments, reclassification, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

(d) No fractional shares of Stock shall be issued under this Plan for any adjustment under Section 2.3(b).

Section 2.4. Severable Provisions.

The Corporation intends that the provisions of each of Articles III, IV, V and VI, in each case together with Articles I, II and VII, shall each be deemed to be effective on an independent basis, and that if one or more of such Articles, or the operative provisions thereof, shall be deemed invalid, void or voidable, the remainder of such Articles shall continue in full force and effect.

ARTICLE III
OPTIONS

Section 3.1. Grant of Options.

(a) The Company may grant Options to Eligible Employees as provided in this Article III. Options will be deemed granted pursuant to this Article III only upon (i) authorization by the Committee, (ii) the approval of such grant by the Board, and (iii) the execution and delivery of an Option Agreement by the Eligible Employee optionee (“the “Optionee”) and a duly authorized officer of the Company. Options will not be deemed granted hereunder merely upon authorization of such grant by the Committee. The aggregate number of shares of Stock potentially acquirable under all Options granted shall not exceed the total number of shares of Stock remaining in the Plan Pool, less all shares of Stock potentially acquired under, or underlying, all other Rights outstanding under this Plan.

(b) Subject to approval by the Board, the Committee shall designate Options at the time a grant is authorized as either ISOs or Non-Qualified Options. In accordance with Section 422 (d) of the Code, the aggregate Fair Market Value (determined as of the date an ISO is granted) of the shares of Stock as to which an ISO may first become exercisable by an Optionee in a particular calendar year (pursuant to Article III and all other plans of the Company and/or its Subsidiaries) may not exceed $100,000 (the “$100,000 Limitation”). If an Optionee is granted Options in excess of the $100,000 Limitation, or if such Options otherwise become exercisable with respect to a number of shares of Stock which would exceed the $100,000 Limitation, such excess Options shall be Non-Qualified Options.

Section 3.2. Exercise Price.

(a) Subject to approval by the Board, the initial exercise price of each Option granted under this Plan (the “Exercise Price”) shall be determined by the Committee in its discretion; provided, however, that the Exercise Price of an ISO shall not be less than (i) the Fair Market Value of the Common Stock on the date of grant of the Option, in the case of any Eligible Employee who does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of the capital stock of the Company (within the meaning of Section 422 (b) (6) of

the Code), or (ii) one hundred ten percent (110%) of such Fair Market Value in the case of any Eligible Employee who owns stock in excess of such amount.

(b) Subject to the approval of the Board and the provisions of Section 3.2(a) (as to the establishment of the Exercise Price of an Option on the date of grant), the Committee may establish that the Exercise Price of an Option shall be adjusted upward or downward, on a quarterly basis, based upon the market value performance of the Common Stock in comparison with the aggregate market value performance of one or more indices composed of publicly-traded financial institutions and financial institution holding companies deemed by the Committee to be similar (in terms of asset size, capitalization, trading volumes and other factors deemed relevant by the Committee) to the Corporation (an "Index" and the "Indices"); provided, however, that the Exercise Price of an ISO shall not be adjustable if, under the Code, such adjustable Exercise Price would disqualify the ISO as an ISO. The Committee may utilize Indices published by third parties and/or may construct one or more Indices meeting the characteristics described above.

The Indices utilized will be recalculated quarterly, including in such quarterly recalculation such adjustments for stock splits, reverse stock splits and stock dividends of the companies in the indices and of the Company as are appropriate. Each such Index shall include no fewer than fifteen (15) publicly-traded financial institutions and financial institution holding companies. If more than one Index is utilized by the Committee, it may give such weighting to each Index utilized as the Committee may determine in its sole discretion, consistent with the provisions of this Article III.

Section 3.3. Terms and Conditions of Options.

(a) All Options must be granted within ten (10) years of the Effective Date.

(b) The Committee, subject to the approval by the Board, may grant ISOs and Non-Qualified Options, either separately or jointly, to an Eligible Employee.

(c) Each grant of Options shall be evidenced by an Option Agreement in form and substance satisfactory to the Committee in its discretion, consistent with the provisions of this Article III.

(d) At the discretion of the Committee, an Optionee, as a condition to the granting of an Option, must execute and deliver to the Company a confidential information agreement approved by the Committee.

(e) Nothing contained in Article III, any Option Agreement or in any other agreement executed in connection with the granting of an Option under this Article III will confer upon any Optionee

any right with respect to the continuation of his or her status as an employee of the Company or any of its Subsidiaries.

(f) Except as otherwise provided herein, each Option Agreement may specify the period or periods of time within which each Option or portion thereof will first become exercisable (the "Vesting Period") with respect to the total number of shares of Stock acquirable thereunder. Such Vesting Periods will be fixed by the Committee in its discretion, and may be accelerated or shortened by the Committee in its discretion; provided, however, that the Vesting Period for any portion of each ISO shall be at least one year (1) from the date such Option was granted.

(g) Not less than one hundred (100) shares of Stock may be purchased at any one time through the exercise of an Option unless the number purchased is the total number at that time purchasable under all Options granted to the Optionee.

(h) An Optionee shall have no rights as a shareholder of the Company with respect to any shares of Stock covered by Options granted to the Optionee until payment in full of the Exercise Price by such Optionee for the shares being purchased. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such Stock is fully paid for, except as provided in Sections 2.3(b) and 3.2(b).

(i) Additionally and notwithstanding any other provisions of this Article III, no shares of Stock obtained pursuant to an Option may be Transferred until at least six (6) months and one (1) day shall have elapsed since the date such Option was granted.

Section 3.4. Exercise of Options.

(a) An Optionee must be an Eligible Employee at all times from the date of grant until the exercise of the Options granted, except as provided in Section 3.5(b).

(b) An Option may be exercised to the extent exercisable (i) by giving written notice of exercise to the Company, specifying the number of full shares of Stock to be purchased and, if applicable, accompanied by full payment of the Exercise Price thereof and the amount of the Tax Withholding Liability pursuant to Section 3.4(c) below; and (ii) by giving assurances satisfactory to the Company that the shares of Stock to be purchased upon such exercise are being purchased for investment and not with a view to resale in connection with any distribution of such shares in violation of the 1933 Act; provided, however, that in the event the prior occurrence of the Registration or in the event resale of such Stock without such Registration would otherwise be permissible, this second condition will be inoperative if, in the opinion of counsel for the Company, such condition is not required under the 1933 Act or any other applicable law, regulation or rule of any governmental agency.

(c) As a condition to the issuance of the shares of Stock upon full or partial exercise of a Non-Qualified Option, the Optionee will pay to the Company in cash, or in such other form as the Committee may determine in its discretion, the amount of the Company's Tax Withholding Liability required in connection with such exercise.

(d) The Exercise Price of an Option shall be payable to the Company either (i) in United States dollars, in cash or by check, or money order payable to the order of the Company, or (ii) at the

discretion of the Committee and the Board, through the delivery of shares of the Stock owned by the Optionee (including, if the Committee so permits, a portion of the shares of Stock as to which the Option is then being exercised) with a Fair Market Value as of the date of delivery equal to the Exercise Price, or (iii) at the discretion of the Committee and the Board, by a combination of (i) and (ii) above. No shares of Stock shall be delivered until full payment has been made.

Section 3.5. Term and Termination of Option.

(a) Subject to approval by the Board, the Committee shall determine, and each Option Agreement shall state, the expiration date or dates of each Option, but such expiration date shall be not later than ten (10) years after the date such Option was granted (the "Option Period"). In the event an ISO is granted to a 10% Shareholder, the expiration date or dates of each Option Period shall be not later than five (5) years after the date such Option is granted. Subject to approval by the Board, the Committee may extend the expiration date or dates of an Option Period of any Non-Qualified Option after such date was originally set; provided, however such expiration date may not exceed the maximum expiration date described in this Section 3.5(a).

(b) To the extent not previously exercised, each Option will terminate upon the expiration of the Option Period specified in the Option Agreement; provided, however, that, subject to the provisions of Section 3.5(a), each ISO will terminate upon the earlier of: (i) ninety (90) days after the date that the Optionee ceases to be an Eligible Employee for any reason, other than by reason of Death, Disability, or a Just Cause Termination; (ii) twelve (12) months after the date that the Optionee ceases to be an Eligible Employee by reason of Disability or Death; or (iii) immediately as of the date that the Optionee ceases to be an Eligible Employee by reason of a Just Cause Termination. The Committee may, subject to approval by the Board, and compliance with the Code requirements for ISOs, specify other events that will result in the termination of an ISO. In the case of Non-Qualified Options, the Committee shall have discretion, subject to approval by the Board, to specify what, if any, events will terminate the Option prior to the expiration of the Option Period.

Section 3.6. Change in Control Transaction.

At any time prior to the date of consummation of a Change in Control Transaction, the Committee may, in its absolute discretion, determine that all or any part of the Options theretofore granted under this Article III shall become immediately exercisable in full and may thereafter be exercised at any time before the date of consummation of the Change in Control Transaction (except as otherwise provided in Article II hereof, and except to the extent that such acceleration of exercisability would result in an "excess parachute payment" within the meaning of Section 280G of the Code). Any Option that has not been fully exercised before the date of consummation of the Change in Control Transaction shall terminate on such date, unless a provision has been made in writing in connection with such transaction for the assumption of all Options theretofore granted, or the substitution for such Options of options to acquire the voting stock of a successor employer corporation, or a parent or a subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices, in which event the Options theretofore granted shall continue in the manner and under the terms so provided.

Section 3.7. Restrictions On Transfer.

An Option granted under Article III may not be Transferred except by will or the laws of descent and distribution and, during the lifetime of the Optionee to whom it was granted, may be exercised only by such Optionee.

Section 3.8. Stock Certificates.

Certificates representing the Stock issued pursuant to the exercise of Options will bear all legends required by law and necessary to effectuate the provisions hereof. The Company may place a "stop transfer" order against such shares of Stock until all restrictions and conditions set forth in this Article III, the applicable Option Agreement, and in the legends referred to in this Section 3.8 have been complied with.

Section 3.9. Amendment and Discontinuance.

The Board may amend, suspend or discontinue the provisions of this Article III at any time or from time to time; provided that no action of the Board will cause ISOs granted under this Plan not to comply with Section 422 of the Code unless the Board specifically declares such action to be made for that purpose; and, provided, further, that no such action may, without the approval of the shareholders of the Company, materially increase (other than by reason of an adjustment pursuant to Section 2.3(b) hereof) the maximum aggregate number of shares of Stock in the Plan Pool, materially increase the benefits accruing to Eligible Employees or materially modify eligibility requirements for participation under this Article III. Moreover, no such action may alter or impair any Option previously granted under this Article III without the consent of the applicable Optionee.

Section 3.10. Compliance with Rule 16b-3.

With respect to persons subject to Section 16 of the 1934 Act, transactions under this Article III are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of this Article III or action by the Board or the Committee fails so to comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee and the Board.

ARTICLE IV
RESTRICTED STOCK AND RESTRICTED STOCK UNIT GRANTS

Section 4.1 Grants of Restricted Stock and Restricted Stock Units.

(a) The Company may issue Restricted Stock and Restricted Stock Units to Eligible Employees as provided in this Article IV. Restricted Stock and Restricted Stock Units will be deemed issued only upon (i) authorization by the Committee, (ii) approval by the Board, and (iii) the execution and delivery of a Restricted Stock or Restricted Stock Units Grant Agreement by the Eligible Employee to whom such Restricted Stock or Restricted

Stock Unit is to be issued (the "Holder") and a duly authorized officer of the Company. Restricted Stock and Restricted Stock Units will not be deemed to have been issued merely upon authorization by the Committee.

(b) Each issuance of Restricted Stock and Restricted Stock Units pursuant to this Article IV will be evidenced by a Restricted Stock or Restricted Stock Units Grant Agreement between the Company and the Holder in form and substance satisfactory to the Committee in its sole discretion, consistent with this Article IV. Each Restricted Stock or Restricted Stock Units

Grant Agreement will specify the purchase price per share, if any, paid by the Holder for the Restricted Stock or Restricted Stock Units, such amount to be fixed by the Committee and the Board.

(c) Without limiting the foregoing, each Restricted Stock or Restricted Stock Units Grant Agreement shall set forth the terms and conditions of any forfeiture provisions regarding the Restricted Stock or Restricted Stock Units, (including any provisions for accelerated vesting in the event of a Change in Control Transaction) as determined by the Committee and the Board.

(d) At the discretion of the Committee, the Holder, as a condition to such issuance, may be required (i) to execute and deliver to the Company a confidential information agreement approved by the Committee, and/or (ii) to pay to the Corporation in cash, or in such other form as the Committee may determine in its discretion, the amount of the Corporation's Tax Withholding Liability required in connection with such issuance.

(e) Nothing contained in this Article IV, any Restricted Stock or Restricted Stock Units Grant Agreement or in any other agreement executed in connection with the issuance of Restricted Stock and Restricted Stock Units under this Article IV will confer upon any holder any right with respect to the continuation of his or her status as an employee of the Company or any of its Subsidiaries.

Section 4.2. Restrictions on Transfer of Restricted Stock and Restricted Stock Units.

(a) Shares of Restricted Stock and Restricted Stock Units acquired by a Holder may be transferred only in accordance with the specific limitations on the Transfer of Restricted Stock and Restricted Stock Units imposed by applicable state or federal securities laws or set forth below, and subject to certain undertakings of the transferee set forth in Section 4.2(c). All Transfers of Restricted Stock and Restricted Stock Units not meeting the conditions set forth in this Section 4.2(a) are expressly prohibited.

(b) Any prohibited Transfer of Restricted Stock or Restricted Stock Units is void and of no effect. Should such a Transfer purport to occur, the Company may refuse to carry out the Transfer on its books, attempt to set aside the Transfer, enforce any undertaking or right under this Section 4.2(b), and/or exercise any other legal or equitable remedy.

(c) Any Transfer of Restricted Stock or Restricted Stock Units that would otherwise be permitted under the terms of this Plan is prohibited unless the transferee executes such documents as the Company may reasonably require to ensure the Company's rights under a Restricted Stock or Restricted Stock Units Grant Agreement and this Article IV are adequately protected with respect to the Restricted Stock and Restricted Stock Units so Transferred. Such documents may include, without limitation, an agreement by the transferee to be bound by all of the terms of this Plan applicable to Restricted Stock and Restricted Stock Units and of the applicable Restricted Stock or Restricted Stock Units Grant Agreement, as if the transferee were the original Holder of such Restricted Stock and Restricted Stock Units.

(d) To facilitate the enforcement of the restrictions on Transfer set forth in this Article IV, the Committee may, at its discretion, require the Holder of shares of Restricted Stock to deliver the certificate(s) for such shares with a stock power executed in blank by the Holder and the Holder's spouse, to the Secretary of the Company or his or her designee, and the Company

may hold said certificate(s) and stock power(s) in escrow and take all such actions as are necessary to insure that all Transfers and/or releases are made in accordance with the terms of this Plan. The certificates may be held in escrow so long as the shares of Restricted Stock whose ownership they evidence are subject to any restriction on Transfer under this Article IV or under a Restricted Stock Grant Agreement. Each Holder acknowledges that the Secretary of the Company (or his or her designee) is so appointed as the escrow holder with the foregoing authorities as a material inducement to the issuance of shares of Restricted Stock under this Article IV, that the appointment is coupled with an interest, and that it accordingly will be irrevocable. The escrow holder will not be liable to any party to a Restricted Stock Grant Agreement (or to any other party) for any actions or omissions unless the escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine.

Section 4.3. Compliance with Law.

Notwithstanding any other provision of this Article IV, Restricted Stock and Restricted Stock Units may be issued pursuant to this Article IV only after there has been compliance with all applicable federal and state securities laws, and such issuance will be subject to this overriding condition. The Company may include shares of Restricted Stock in a Registration, but will not be required to register or qualify Restricted Stock with the SEC or any state agency, except that the Company will register with, or as required by local law, file for and secure an exemption from such registration requirements from, the applicable securities administrator and other officials of each jurisdiction in which an Eligible Employee would be issued Restricted Stock hereunder prior to such issuance.

Section 4.4. Stock Certificates.

Certificates representing the Restricted Stock issued pursuant to this Article IV will bear all legends required by law and necessary to effectuate the provisions hereof. The Company may place a "stop transfer" order against shares of Restricted Stock until all restrictions and conditions set forth in this Article IV, the applicable Restricted Stock Grant Agreement and the legends referred to in this Section 4.4 have been complied with.

Section 4.5. Market Standoff.

To the extent requested by the Company and any underwriter of securities of the Company in connection with a firm commitment underwriting, no Holder of any shares of Restricted Stock will Transfer any such shares not included in such underwriting, or not previously registered in a Registration, during the one hundred twenty (120) day period following the effective date of the registration statement filed with the SEC under the 1933 Act in connection with such offering.

Section 4.6. Amendment and Discontinuance.

The Board may amend, suspend or discontinue this Article IV at any time or from time to time; provided, that no such action of the Board shall alter or impair any rights previously granted to Holders under this Article IV without the consent of such affected Holders; and provided, further, that no such action may, without the approval of the Company's shareholders, materially increase (other than by reason of an adjustment pursuant to Section 2.3(b) hereof) the maximum aggregate number of shares of Stock in the Plan Pool, materially increase the benefits accruing to Eligible Employees under this Article IV or materially modify the requirements as to eligibility for participation under this Article IV. Moreover, no

such action may alter or impair any Restricted Stock and Restricted Stock Units previously granted under this Article IV without the consent of the applicable Holder.

Section 4.7. Compliance with Rule 16b-3.

With respect to persons subject to Section 16 of the 1934 Act, transactions under this Article IV are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of this Article IV or action by the Board or the Committee fails so to comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee and the Board.

Section 4.8. Dividend Equivalent Restricted Stock Units.

On each record date for dividends on the Common Stock, an amount equal to the dividend payable on one share of Common Stock will be determined and credited (the "Dividend Equivalent Credit") on the payment date to each Restricted Stock Unit Holder's account for each Unit which has been awarded to the Unit Holder and not distributed or canceled. Such amount will be converted within the account to an additional number of Units equal to the number of shares of Common Stock that could be purchased at Fair Market Value on such dividend payment date. These Units will be treated for purposes of this Article IV in the same manner as those Units granted pursuant to Section 4.1.

Section 4.9. Other Conditions.

(a) No person shall have any claim to be granted an award of Restricted Stock Units under this Article IV and there is no obligation for uniformity of treatment of Eligible Employees or Unit Holders under this Article IV.

(b) The Company shall have the right to deduct from any distribution or payment in cash under this Article IV, and the Restricted Stock Unit Holder or other person receiving shares of Stock under this Article IV shall be required to pay to the Company, any Tax Withholding Liability. The number of shares of Stock to be distributed to any individual Restricted Stock Unit Recipient may be reduced by the number of shares of Stock, the Fair Market Value of which on the Distribution Date (as defined in Section 4.9(d) below) is equivalent to the cash necessary to pay any Tax Withholding Liability, where the cash to be distributed is not sufficient to pay such Tax Withholding Liability, or the Unit Holder may deliver to the Company cash sufficient to pay such Tax Withholding Liability.

(c) Any distribution of shares of Stock under this Article IV may be delayed until the requirements of any applicable laws or regulations, and any stock exchange or NASDAQ-NMS requirements, are satisfied. The shares of Stock distributed under this Article IV shall be subject to such restrictions and conditions on disposition as counsel for the Company shall determine to be desirable or necessary under applicable law.

(d) For the purpose of distribution of Restricted Stock Units in cash, the value of a Unit shall be the Fair Market Value on the Distribution Date. Except as otherwise determined by the Committee, the "Distribution Date'' shall be March 15th in the year of distribution (or the first business day thereafter), except that in the case of special distributions the Distribution Date shall be the first business day of the month in which the Committee and the Board determine the amount and form of the distribution.

(e) Notwithstanding any other provision of this Article IV, no Dividend Equivalent Credits shall be made and no distributions of Restricted Stock Units shall be made if at the time a Dividend Equivalent Credit or distribution would otherwise have been made:

(i) The regular quarterly dividend on the Common Stock has been omitted and not subsequently paid or there exists any default in payment of dividends on any such outstanding shares of capital stock of the Corporation:

(ii) The rate of dividends on the Common Stock is lower than at the time the Restricted Stock Units to which the Dividend Equivalent Credit relates were awarded, adjusted for any change of the type referred to in Section 2.3(b).

(iii) Estimated consolidated net income of the Corporation for the twelve month period preceding the month the Dividend Equivalent Credit or distribution would otherwise have been made is less than the sum of the amount of the Dividend Equivalent Credits and Restricted Stock Units eligible for distribution under this Article IV in that month plus all dividends applicable to such period on an accrual basis, either paid, declared or accrued at the most recently paid rate, on all outstanding shares of Common Stock; or

(iv) The Dividend Equivalent Credit or distribution would result in a default in any agreement by which the Corporation is bound.

(f) In the event net income available under Section 4.9(e) above for Dividend Equivalent Credits and awards eligible for distribution under this Article IV is sufficient to cover part but not all of such amounts, the following order shall be applied in making payments: (i) Dividend Equivalent Credits, and then (ii) Restricted Stock Units eligible for distribution under this Article IV.

ARTICLE V
LONG-TERM INCENTIVE COMPENSATION UNITS

Section 5.1. Awards of Units.

(a) The Company may grant awards of Units to Eligible Employees as provided in this Article V. Units will be deemed granted only upon (i) authorization by the Committee, (ii) approval by the Board, and (iii) the execution and delivery of a Unit Agreement by the Eligible Employee to whom Units are to be granted (a "Unit Recipient") and an authorized officer of the Company. Units will not be deemed granted merely upon authorization by the Committee. Units may be granted in each of the years 2008 through 2018 in such amounts and to such Unit Recipients as the Committee may determine, subject to approval by the Board and to the limitation in Section 5.2 below.

(b) Each grant of Units pursuant to this Article V will be evidenced by a Unit Award Agreement between the Company and the Unit Recipient in form and substance satisfactory to the Committee in its sole discretion, consistent with this Article V.

(c) Except as otherwise provided herein, Units will be distributed only after the end of a performance period of two or more years ("Performance Period") beginning with the year in which such Units were awarded. The Performance Period shall be set by the Committee and the Board for each year's awards.

(d) The percentage of the Units awarded under this Section 5.1 or credited pursuant to Section 5.5 that will be distributed to Unit Recipients shall depend on the levels of financial performance and other performance objectives achieved during each year of the Performance Period; provided, however, that the Committee may, subject to approval of the Board, adopt one or more performance categories or eliminate all performance categories other than financial performance. Financial performance shall be based on the consolidated results of the Company and its Subsidiaries prepared on the same basis as the financial statements published for financial reporting purposes and determined in accordance with Section 5.1(e) below. Other performance categories adopted by the Committee shall be based on measurements of performance as the Committee shall deem appropriate.

(e) Distributions of Units awarded will be based on the Company's financial performance with results from other performance categories applied as a factor, not exceeding one (1), against financial results. The annual financial and other performance results will be averaged over the Performance Period and translated into percentage factors according to graduated criteria established by the Committee, subject to approval of the Board, for the entire Performance Period. The resulting percentage factors shall determine the percentage of Units to be distributed. No distributions of Units, based on financial performance and other performance, shall be made if a minimum average percentage of the applicable measurement of performance, to be established by the Committee and approved by the Board, is not achieved for the Performance Period. The performance levels achieved for each Performance Period and percentage of Units to be distributed shall be conclusively determined by the Committee, subject to approval by the Board.

(f) The percentage of Units awarded which Unit Recipients become entitled to receive based on the levels of performance (including those Units credited under Section 5.5) will be determined as soon as practicable after each Performance Period and are called "Retained Units."

(g) As soon as practical after determination of the number of Retained Units, such Retained Units shall be distributed in the form of cash as determined by the Committee, subject to approval by the Board. The Units awarded, but which Unit Recipients do not become entitled to receive, shall be canceled.

(h) Notwithstanding any other provision in this Article V, the Committee, if it determines that it is necessary or advisable under the circumstances, may, subject to approval by the Board, adopt rules pursuant to which Eligible Employees by virtue of hire, or promotion or upgrade to a higher job grade classification, or special individual circumstances, may be granted the total award of Units or any portion thereof, with respect to one or more Performance Periods that began in prior years and at the time of the awards have not yet been completed.

Section 5.2. Limitations.

The aggregate number of all Units granted, including those Units credited pursuant to Section 5.5, shall not exceed the total number of shares of Stock remaining in the Plan Pool, less all shares of Stock potentially acquirable under, or underlying, all other Rights outstanding under this Plan.

Section 5.3. Terms and Conditions.

(a) All awards of Units must be made within ten (10) years of the Effective Date.

(b) The award of Units shall be evidenced by a Unit Award Agreement in form and substance satisfactory to the Committee in its discretion, consistent with the provisions of this Article V.

(c) At the discretion of the Committee and the Board, a Unit Recipient, as a condition to the award of Units, may be required to execute and deliver to the Company a confidential information agreement approved by the Committee.

(d) Nothing contained in this Article V, any Unit Award Agreement or in any other agreement executed in connection with the award of Units under this Article V will confer upon any Unit Recipient any right with respect to the continuation of his or her status as an employee of the Company or any of its Subsidiaries.

(e) A Unit Recipient shall have no rights as a shareholder of the Company with respect to any Units granted.

Section 5.4. Special Distribution Rules.

(a) Except as otherwise provided in this Section 5.4, a Unit Recipient must be an Eligible Employee from the date a Unit is awarded to him or her continuously through and including the date of distribution of such Unit.

(b) In case of the Death or Disability of a Unit Recipient prior to the end of any Performance Period, the number of Units awarded to the Unit Recipient for such Performance Period shall be reduced pro rata based on the number of months remaining in the Performance Period after the month of Death or Disability. The remaining Units, reduced in the discretion of the Committee and the Board to the percentage indicated by the levels of performance achieved prior to the date of Death or Disability, if any, shall be distributed within a reasonable time after Death or Disability. All other Units awarded to the Unit Recipient for such Performance Period shall be canceled.

(c) If a Unit Recipient enters into Retirement prior to the end of any Performance Period, the Units awarded to such Unit Recipient under this Article V and not yet distributed shall be prorated to the end of the year in which such Retirement occurs and distributed at the end of the Performance Period based upon the Company's performance for such period.

(d) In the event of the termination of the Unit Recipient's status as an Eligible Employee prior to the end of any Performance Period for any reason other than Death, Disability or Retirement, all Units awarded to the Unit Recipient with respect to any such Performance Period shall be immediately forfeited and canceled.

(e) Upon a Unit Recipient's promotion to a higher job grade classification, the Committee and the Board may award to the Unit Recipient the total Units, or any portion thereof, which are associated with the higher job grade classification for the then current Performance Period.

Notwithstanding any other provision of this Plan, the Committee may reduce or eliminate awards to a Unit Recipient who has been demoted, and where circumstances warrant, may permit continued participation, proration or early distribution, or a combination thereof, of awards which would otherwise be canceled.

Section 5.5. Adjustments.

(a) In addition to the provisions of Section 2.3(b), if an extraordinary change occurs during a Performance Period which significantly alters the basis upon which the performance levels were established under Section 5.1 for that Performance Period, to avoid distortion in the operation of this Article V, but subject to Section 5.2, the Committee may, subject to approval by the Board, make adjustments in such performance levels to preserve the incentive features of this Article V, whether before or after the end of the Performance Period, to the extent it deems appropriate in its sole discretion, which adjustments shall be conclusive and binding upon all parties concerned. Such changes may include, without limitation, adoption of, or changes in, accounting practices, tax laws and regulatory or other laws or regulations; economic changes not in the ordinary course of business cycles; or compliance with judicial decrees or other legal authorities.

(b) At any time prior to the date of consummation of a Change in Control Transaction, the Committee may, subject to approval by the Board, determine that all or any part of the Units theretofore awarded under this Article V shall become immediately distributable (reduced pro rata based on the number of months remaining in the Performance Period after the consummation of the Change in Control Transaction) and may thereafter be distributed at any time before the date of consummation of the Change in Control Transaction (except as otherwise provided in Article II hereof, and except to the extent that such acceleration of distribution would result in an "excess parachute payment" within the meaning of Section 280G of the Code). Any Units that have not been distributed before the date of consummation of a Change in Control Transaction shall terminate on such date, unless a provision has been made in writing in connection with such transaction for the assumption of all awards of Units theretofore made, or the substitution for such Units of awards of compensation units having comparable characteristics under a long term incentive award plan of a successor employer corporation, or a parent or a subsidiary thereof, with appropriate adjustments, in which event the awards of Units theretofore made shall continue in the manner and under the terms so provided.

Section 5.6. Other Conditions.

(a) No person shall have any claim to be granted an award of Units under this Article V and there is no obligation for uniformity of treatment of Eligible Employees or Unit Recipients under this Article V.

(b) The Company shall have the right to deduct from any distribution or payment under this Article V, and the Unit Recipient shall be required to pay to the Company, any Tax Withholding Liability.

(c) For the purpose of distribution of Units, the cash value of a Unit shall be the Fair Market Value on the Distribution Date. Except as otherwise determined by the Committee, the "Distribution Date'' shall be March 15th in the year of distribution (or the first business day thereafter), except that in the case of special distributions the Distribution Date shall be the first business day of the month in which the Committee and the Board determine the amount and form of the distribution.

Section 5.7. Designation of Beneficiaries.

A Unit Recipient may designate a beneficiary or beneficiaries to receive all or part of the cash to be distributed to the Unit Recipient under this Article V in case of Death. A designation of beneficiary may be replaced by a new designation or may be revoked by the Unit Recipient at any time. A designation or revocation shall be on a form to be provided for that purpose and shall be signed by the Unit Recipient and delivered to the Corporation prior to the Unit Recipient's Death. In case of the Unit Recipient's Death, any amounts to be distributed to the Unit Recipient under this Article V with respect to which a designation of beneficiary has been made (to the extent it is valid and enforceable under applicable law) shall be distributed in accordance with this Article V to the designated beneficiary or beneficiaries. The amount distributable to a Unit Recipient upon Death and not subject to such a designation shall be distributed to the Unit Recipient's Estate. If there shall be any question as to the legal right of any beneficiary to receive a distribution under this Article V, the amount in question may be paid to the estate of the Unit Recipient, in which event the Corporation shall have no further liability to anyone with respect to such amount.

Section 5.8. Restrictions On Transfer.

Units granted under Article V may not be Transferred, except as provided in Section 5.7, and, during the lifetime of the Unit Recipient to whom it was awarded, cash receivable with respect to Units may be received only by such Unit Recipient.

Section 5.10. Amendment and Discontinuance.

No award of Units may be granted under this Article V after December 31, 2018. The Board may amend, suspend or discontinue the provisions of this Article V at any time or from time to time, provided, that no such action may, without the approval of the shareholders of the Corporation, materially increase (other than by reason of an adjustment pursuant to Section 2.3(b) hereof) the maximum number of shares of Stock in the Plan Pool, materially increase the benefits accruing to Eligible Employees under this Article V or materially modify the eligibility requirements for participation under this Article V.

Section 5.11. Compliance with Rule 16b-3.

With respect to persons subject to Section 16 of the 1934 Act, transactions under this Article V are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of this Article V or action by the Board or the Committee fails so to comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee and the Board.

ARTICLE VI
STOCK APPRECIATION RIGHTS

Section 6.1. Grants of SARs.

(a) The Corporation may grant SARs under this Article VI. SARs will be deemed granted only upon (i) authorization by the Committee, (ii) approval by the Board, and (iii) the execution and delivery of a SAR Agreement by the Eligible Employee to whom the SARs are to be granted (the "SAR Recipient") and a duly authorized officer of the Corporation. SARs will not be deemed granted merely upon authorization by the Committee. The aggregate number of shares of Stock which shall underlie SARs granted hereunder shall not exceed the total

number of shares of Stock remaining in the Plan Pool, less all shares of Stock potentially acquirable under or underlying all other Rights outstanding under this Plan.

(b) Each grant of SARs pursuant to this Article VI shall be evidenced by a SAR Agreement between the Corporation and the SAR Recipient, in form and substance satisfactory to the Committee in its sole discretion, consistent with this Article VI.

Section 6.2. Terms and Conditions of SARs.

(a) All SARs must be granted within ten (10) years of the Effective Date.

(b) Each SAR issued pursuant to this Article VI shall have an initial base value (the "Base Value") equal to the Fair Market Value of a share of Common Stock on the date of issuance of the SAR.

(c) Subject to the approval of the Board and to the provisions of Section 6.2(b) (as to the establishment of the initial Base Value of a SAR), the Committee may establish that the Base Value of a SAR shall be adjusted, upward or downward, on a quarterly basis, based upon the market value performance of the Common Stock in comparison with the aggregate market value performance of the Index or Indices utilized under Section 3.2(b).

(d) At the discretion of the Committee and the Board, a SAR Recipient, as a condition to the granting of a SAR, must execute and deliver to the Corporation a confidential information agreement approved by the Committee.

(e) Nothing contained in this Article VI, any SAR Agreement or in any other agreement executed in connection with the granting of a SAR under this Article VI will confer upon any SAR Recipient any right with respect to the continuation of his or her status as an employee of the Corporation or any of its Subsidiaries.

(f) Except as otherwise provided herein, each SAR Agreement may specify the period or periods of time within which each SAR or portion thereof will first become exercisable (the "SAR Vesting Period"). Such SAR Vesting Periods will be fixed by the Committee, subject to approval by the Board, and may be accelerated or shortened by the Committee, subject to approval by the Board.

(g) SARs relating to no less than one hundred (100) shares of Stock may be exercised at any one time unless the number exercised is the total number at that time exercisable under all SARs granted to the SAR Recipient.

(h) A SAR Recipient shall have no rights as a shareholder of the Corporation with respect to any shares of Stock underlying such SAR. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for

which the record date is prior to the date such Stock is fully paid for, except as provided in Sections 2.3(b) and 6.2(c).

Section 6.3. Restrictions On Transfer of SARs.

SARs granted under this Article VI may not be Transferred, except as provided in Section 6.7, and during the lifetime of the SAR Recipient to whom it was granted, may be exercised only by such SAR Recipient.

Section 6.4. Exercise of SARs.

(a) A SAR Recipient (or his or her executors or administrators, or heirs or legatees) shall exercise a SAR by giving written notice of such exercise to the Corporation. SARs may be exercised only upon the completion of the SAR Vesting Period, if any, applicable to such SAR (the date such notice is received by the Corporation being referred to herein as the "SAR Exercise Date").

(b) Within ten (10) business days of the SAR Exercise Date applicable to a SAR exercised in accordance with Section 6.4(a), the SAR Recipient shall be paid in cash or shares of Stock the difference between the Base Value of such SAR (as adjusted, if applicable under Section 6.2(c), as of the most recently preceding quarterly period) and the Fair Market Value of the Common Stock as of the SAR Exercise Date, as such difference is reduced by the Company's Tax Withholding Liability arising from such exercise.

Section 6.5. Termination of SARs.

Subject to approval by the Board, the Committee shall determine, and each SAR Agreement shall state, the expiration date or dates of each SAR, but such expiration date shall be not later than ten (10) years after the date such SAR is granted (the "SAR Period"). Subject to approval by the Board, the Committee may extend the expiration date or dates of a SAR Period after such date was originally set; provided, however, such expiration date may not exceed the maximum expiration date described in this Section 6.5(a).

Section 6.6. Change in Control Transaction.

At any time prior to the date or consummation of a Change in Control Transaction, the Committee may, in its absolute discretion, determine that all or any part of the SARs theretofore granted under this Article VI shall become immediately exercisable in full and may thereafter be exercised at any time before the date of consummation of the Change in Control Transaction (except as otherwise provided in Article II hereof, and except to the extent that such acceleration of exercisability would result in an excess parachute payment within the meaning of Section 280G of the Code). Any SAR that has not been fully exercised before the date of consummation of the Change in Control Transaction shall terminate on such date, unless a provision has been made in writing in connection with such transaction for the assumption of all SARs theretofore granted, or the substitution for such SARs of grants of stock appreciation rights having comparable characteristics under a stock appreciation rights plan of a successor employer corporation or bank, or a parent or a subsidiary thereof, with appropriate adjustments, in which event the SARs theretofore granted shall continue in the manner and under the terms so provided.

Section 6.7. Designation of Beneficiaries.

A SAR Recipient may designate a beneficiary or beneficiaries to receive all or part of the cash to be paid to the SAR Recipient under this Article VI in case of Death. A designation of beneficiary may be replaced by a new designation or may be revoked by the SAR Recipient at any time. A designation or revocation shall be on a form to be provided for that purpose and shall be signed by the SAR Recipient and delivered to the Corporation prior to the SAR Recipient's Death. In case of the SAR Recipient's Death, the amounts to be distributed to the SAR Recipient under this Article VI with respect to which a designation of beneficiary has been made (to the extent it is valid and enforceable under applicable law) shall be distributed in accordance with this Article VI to the designated beneficiary or beneficiaries. The

amount distributable to a SAR Recipient upon Death and not subject to such a designation shall be distributed to the SAR Recipient's estate. If there shall be any question as to the legal right of any beneficiary to receive a distribution under this Article VI, the amount in question may be paid to the estate of the SAR Recipient in which event the Corporation shall have no further liability to anyone with respect to such amount.

Section 6.8. Amendment and Discontinuance.

The Board may amend, suspend or discontinue the provisions of this Article VI at any time or from time to time provided that no action of the Board may, without the approval of the shareholders of the Corporation materially increase (other than by reason of an adjustment pursuant to Section 2.3(b) hereof) the maximum aggregate number of shares of Stock in the Plan Pool, materially increase the benefits accruing to Eligible Employees or materially modify eligibility requirements for participation under this Article VI. Moreover, no such action may alter or impair any SAR previously granted under this Article VI without the consent of the applicable SAR Recipient.

Section 6.9. Compliance With Rule 16b-3.

With respect to persons subject to Section 16 of the 1934 Act, transactions under this Article VI are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of this Article VI or action by the Board or the Committee fails so to comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee and the Board.

ARTICLE VII
ADDITIONAL STOCK BASED AND OTHER RIGHTS

Section 7.1. Stock Based Rights.

The Board shall have the right to grant additional Rights based on, or with respect to the Stock, which may include, without limitation, the grant of Shares based on certain conditions, the payment of cash based on the market performance of the Common Stock, and the grant of securities convertible into Shares.

Section 7.2. Other Rights.

The Board shall have the right to provide other types of Rights under the Plan in addition to those specifically listed, if the Board believes that such Rights would further the purposes for which the Plan has been established.

ARTICLE VIII
AMENDMENT OR TERMINATION OF THE PLAN

The Board may at any time and from time to time alter or amend, in whole or in part, any or all of the provisions of the Plan, or may at any time suspend or terminate the Plan, provided that no change in any Rights theretofore granted to any Eligible Employee may be made which would impair or diminish the rights of the Eligible Employee without the Eligible Employee's consent, and provided further, that no alteration or amendment may be made without the approval of the holders of a majority of the Common Stock then outstanding and entitled to vote if such stockholder approval is necessary to comply with the requirements of any Federal or state laws or regulations as may be applicable. This authority of the

Board to alter, amend, suspend or terminate the Plan is in addition to the right of the Board to amend, suspend or discontinue the various Articles of the Plan as provided herein. By way of illustration and not limitation, of the Board's right to amend the Plan in whole or in part, the Board shall have the authority to make such clarifying and conforming amendments to the Plan as are necessary to obtain or maintain compliance with the Code, applicable Federal and state securities laws, accounting standards and such other laws, rules and regulations as are necessary to carry out the purposes of the Plan.

ARTICLE IX
MISCELLANEOUS

Section 9.1. Application of Funds.

The proceeds received by the Corporation from the sale of Stock pursuant to the exercise of Rights will be used for general corporate purposes.

Section 9.2. No Obligation to Exercise Right.

The granting of a Right shall impose no obligation upon the recipient to exercise such Right.

Section 9.3. Term of Plan.

Except as otherwise specifically provide herein, Rights may be granted pursuant to this Plan from time to time within ten (10) years from the Effective Date.

Section 9.4. Captions and Headings; Gender and Number.

Captions and paragraph headings used herein are for convenience only, do not modify or affect the meaning of any provision herein, are not a part of, and shall not serve as a basis for, interpretation or construction of this Plan. As used herein, the masculine gender shall include the feminine and neuter, and the singular number shall include the plural, and vice versa, whenever such meanings are appropriate.

Section 9.5. Expenses of Administration of Plan.

All costs and expenses incurred in the operation and administration of this Plan shall be borne by the Corporation or by one or more Subsidiaries. The Corporation shall also indemnify, defend and hold each member of the Committee and the Board harmless against all claims, expenses and liabilities arising out of or related to the exercise of the powers of the Committee and the Board and the discharge of the duties of the Committee and the Board hereunder.

Section 9.6. Governing Law.

Without regard to the principles of conflicts of laws the laws of the State of Illinois shall govern and control the validity, interpretation, performance and enforcement of this Plan.

Section 9.7. Inspection of Plan.

A copy of this Plan, and any amendments thereto, shall be maintained by the Secretary of the Corporation and shall be shown to any proper person making inquiry about it.

Exhibit 10.9

THIRD AMENDMENT AND RESTATEMENT
MIDLAND STATES BANCORP, INC.
1999 STOCK OPTION PLAN

Section 1. Establishment and Purpose

Midland States Bancorp, Inc. (the "Company") hereby establishes a long-term incentive plan to be named the Third Amended and Restated Midland States Bancorp, Inc. 1999 Stock Option Plan (the "Plan"), for Key Employees of the Company or its subsidiaries. The purpose of this Plan is to encourage those Key Employees who are given awards by the Committee administering this Plan to acquire and maintain an interest in the Common Stock of the Company and thus to have additional incentive to continue to work for the success of the Company and its subsidiaries.

Section 2. Definitions

Whenever used herein, the following terms shall have the respective meanings set forth below:

(a) *Board* means the Board of Directors of the Company.

(b) *Code* means the Internal Revenue Code of 1986, as amended and in effect from time to time.

(c) *Committee* means the Compensation Committee of the Board, or any successor to such Committee, the members of which shall be appointed by the Board.

(d) *Company* means Midland States Bancorp, Inc., a Delaware corporation.

(e) *Disability* means permanent and total disability as defined in Section 22(e)(3) of the Code, as determined by the Committee in good faith, upon receipt of and in reliance on sufficient competent medical advice.

(f) *Exercise Price* of an Option means a price fixed by the Committee upon grant of the Option as the purchase price for Stock under the Option, as such may be adjusted under Section 10 of this Plan.

(g) *Fair Market Value* means, for any particular day, the fair market price per share of Stock for such day as determined by the Board.

(h) *Key Employee* means an employee (including officers and directors who are also employees) of the Company or its subsidiaries designated by the Committee.

(i) *Option* means the right to purchase Stock at the Exercise Price for a specified period of time and subject to specified conditions. For purposes of this Plan, an Option may be an Incentive Stock Option within the meaning of Section 422 of the Code or any successor provision, or a Nonqualified (nonstatutory) Stock Option.

(j) *Option Agreement* means the written agreement evidencing an Option under this Plan, which shall be executed by the Company and the Participant.

(k) *Participant* means any Key Employee designated by the Committee to receive an Option under this Plan.

(l) *Stock* means the Common Stock of the Company.

(m) *Taxable Event* means an event relating to an Option granted under this Plan which requires federal, state or local tax to be withheld by the Company or a subsidiary.

(n) *Terminated for Cause* means, (i) for Key Employees serving under an employment agreement containing a provision for termination of employment for "cause," termination of employment of the Key Employee pursuant to such provision, and (ii) for other Key Employees, termination of employment of the Key Employee by a two-thirds (2/3) vote of the entire Board or of Effingham State Bank, an Illinois Banking Corporation and wholly-owned subsidiary of the Company (the "Bank"), or of any other subsidiary employing such Key Employee, expressly for one of the following "causes," as evidenced in a certified resolution of such Board:

(A) the willful engaging by the Key Employee in gross misconduct that is materially and demonstrably injurious to the Bank, monetarily or otherwise; or

(B) the willful and continued failure by the Key Employee to substantially perform such Key Employee's duties with the Bank or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness or Disability), after a written demand for substantial performance is delivered to the Key Employee by the Board, which demand specifically identifies the manner in which the Key Employee has not substantially performed his or her duties, and the Key Employee fails to comply with such demand within a reasonable time.

Section 3. Administration

(a) This Plan will be administered by the Committee; provided, however, that notwithstanding anything to the contrary that follows in the balance of this Section, or elsewhere in this Plan, all of the Committee's actions and decisions shall be subject to the prior approval of the Board as a condition to effectiveness. The determinations of the Committee shall be made in accordance with its judgment as to the best interests of the Company and its stockholders and in accordance with the purposes of this Plan. Subject to the provisions of this Plan, the Committee shall: (i) construe and interpret this Plan

and Options granted under this Plan, establish, amend and revoke rules and regulations regulating this Plan and its administration, and correct any defect, supply any omission or reconcile any inconsistency in this Plan or in any Option Agreement, in a manner and to the extent it shall deem necessary, all of which determinations and interpretations made by the Committee, after the requisite approval by the Board, shall be conclusive and binding on all Participants and on their legal representatives and beneficiaries;

(ii) determine the time or times an Option may be exercised, the number of shares as to which an Option may be exercised at any one time, when an Option may terminate, and any other term or condition of an Option; and (iii) determine all questions of policy and expediency that may arise in the administration of this Plan and generally exercise such powers and perform such acts as are deemed necessary or expedient to promote the best interests of the Company and its subsidiaries.

(b) A majority of the members of the Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under this Plan may be made without notice or meeting upon the unanimous written consent of the Committee, and all actions made or taken by the Committee pursuant to the provisions of this Plan and this Section shall be final, binding and conclusive for all purposes and upon all persons.

Section 4. Shares Reserved Under this Plan

There is hereby reserved for issuance under this Plan an aggregate of 49,325 shares of Stock, subject in each case to adjustment as provided in Section 10 of this Plan. Such shares may be authorized but unissued shares or treasury shares. Shares of Stock underlying outstanding Options will be counted against this Plan maximum while such Options are outstanding; provided, however, any shares of Stock covered by an Option that are not delivered to a Participant or beneficiary because the Option is forfeited, shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock reserved for issuance under this Plan. In addition, if the exercise price of any Option granted under this Plan is satisfied by tendering shares of Stock to the Company, only the number of shares of Stock issued net of the shares of Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Stock reserved for issuance under this Plan.

Section 5. Participants

Persons eligible for grants of Options under this Plan will be those Key Employees of the Company or of its subsidiaries who are expected to play a significant role in the success and future growth and profitability of the Company and its subsidiaries, as determined by the Committee and as evidenced by the decision of the Committee to grant Options to such individuals, including transferees of Key Employees, to the extent the transfer is permitted by this Plan and the applicable Option Agreement. Designation of a Key Employee as a Participant to receive an Option in any year shall not require the Committee to designate such Key Employee to receive an Option in any other year or to designate any other Key Employee to receive an Option in such year or any other year. The Committee shall consider such factors as it deems pertinent in selecting Key Employees to receive Options and determining the type and amount of their respective Options.

Section 6. Types of Options

The Committee may grant, in any proportion in accordance with this Plan, Incentive Stock Options and Nonqualified Stock Options, both as described below. Except as specifically limited herein, the Committee shall have complete discretion in determining the type and number of Options to be granted to any Key Employee and, subject to the provisions of this Plan, the terms and conditions which attach to each Option, which terms and conditions need not be uniform as among different Participants. Each Option shall be evidenced by an Option Agreement, as provided in Section 7 of this Plan. From time to time, as the Committee deems appropriate and in the best long-term interests of the Company and its stockholders, the Committee may elect to modify or waive one or more terms or conditions of an outstanding Option previously granted to a Participant under this Plan, provided that: (a) no such modification or waiver shall give the Participant or any other Participant under this Plan any right to a similar modification or waiver of any other Option previously or subsequently granted under this Plan; (b) no such modification or waiver of an Option shall involve a change in the number of shares subject to the Option or a change in the Exercise Price of an Option or the purchase price, if any; and (c) any such modification or waiver which is adverse or arguably adverse to the interests of the Participant holding such Option shall not be effective unless and until the Participant shall consent thereto.

Section 7. Option Agreements

Within ten business days after the grant of an Option, the Company shall notify the Participant of the grant and shall hand deliver or mail to the Participant an Option Agreement in such form as determined by the Committee, duly executed by and on behalf of the Company, with the requirement that the Participant execute the Option Agreement within 30 days after the date of mailing or delivery by the Company and return the same to the Company. The date of execution and return of the Option Agreement shall not necessarily be or affect the date of grant of the Option, which may precede such date of execution and return, as the Committee may determine. If the Participant shall fail to execute and return to the Company the Option Agreement within said 30-day period, the Option shall be deemed void and never to have been granted.

Section 8. Incentive Stock Options

(a) Incentive Stock Options shall consist of Options to purchase shares of Stock at an Exercise Price established by the Committee upon grant, which Exercise Price shall not be less than, but may be more than, one hundred percent (100%) of the Fair Market Value of the Stock on the date of grant; provided, however, if at the time an Incentive Stock Option is granted the Participant receiving the Incentive Stock Option owns or will be considered to own by reason of Section 424(d) of the Code more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, then the Exercise Price shall not be less than, but may be more than, one hundred and ten percent (110%) of the Fair Market Value of the Stock on the date of grant. The aggregate Fair Market Value (determined as of the date of grant) of all shares of stock under all incentive stock options granted by the Company or any subsidiary or affiliate of the Company (under this Plan or any other stock option plan) to any Key Employee which may vest in any one calendar year may not exceed $100,000. If the vesting of an Incentive Stock

Option hereunder would cause a violation of the foregoing limitation, such portion of such Option that vests in violation of such limitation shall be deemed to be a Nonqualified Stock Option.

(b) Any outstanding Incentive Stock Option and all unexercised rights thereunder shall expire and terminate automatically upon the earliest of: (i) ten (10) days after the effective date of the termination of the employment or engagement of Participant by the Company or by its subsidiaries where such employment or engagement was Terminated for Cause; (ii) the date which is ninety (90) days following the date of cessation of the employment or engagement of the Participant by the Company or by its subsidiaries for any reason other than as set forth in clause (i), death or Disability; (iii) the date which is one (1) year following the date on which the Participant's service with the Company or its subsidiaries ceases due to death or Disability; (iv) the date of expiration of the Incentive Stock Option determined by the Committee at the time the Option is granted and specified in such Option; and (v) the tenth anniversary date of the granting of the Incentive Stock Option, or, if at the time such Option is granted the Participant owns (or would be considered to own by reason of Section 424(d) of the Code) more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, then on the fifth such anniversary; provided, however, that the Committee shall have the right, but not the obligation, to extend the expiration date of the Incentive Stock Options held by a Participant whose service with the Company or its subsidiaries has ceased for any reason to the end of their original terms, notwithstanding that such Options may no longer qualify as Incentive Stock Options under the Code.

(c) The Committee may provide, upon grant of an Incentive Stock Option, that full exercisability will be phased in and/or phased out over some designated period of time. The Committee also may provide upon grant that exercisability of an Incentive Stock Option will be accelerated, to the extent such Option is not already then exercisable, upon the subsequent occurrence of a "change of control" of the Company as defined by the Committee.

(d) Upon exercise of an Incentive Stock Option, in whole or in part, the Exercise Price with respect to the number of shares as to which the Option is then being exercised may be paid only by check or, if the Participant so elects and the Committee shall have authorized such form of payment upon grant of the Option, in whole or in part by delivery to the Company of shares of Stock, provided that such shares shall have been then owned by the Participant for a period of at least six months prior to the exercise. Any Participant-owned Stock to be used in full or partial payment of the Exercise Price shall be valued at the Fair Market Value of the Stock on the date of exercise. Delivery by the Company of the shares as to which an Incentive Stock Option has been exercised shall be made to the person exercising the Option or the designee of such person. If so provided by the Committee upon grant of the Option, the shares received upon exercise may be subject to certain restrictions upon subsequent transfer or sale by the Participant.

Section 9. Nonqualified Stock Options

(a) Nonqualified Stock Options shall consist of Options to purchase shares of Stock at an Exercise Price established by the Committee upon grant, which Exercise Price shall be determined by the Committee in its sole discretion.

(b) Any outstanding Nonqualified Stock Option and all unexercised rights thereunder shall expire and terminate automatically upon the earliest of: (i) ten (10) days after the effective date of the termination of the employment or engagement of Participant by the Company or by its subsidiaries where such employment or engagement was Terminated for Cause; (ii) the date which is ninety (90) days following the date of cessation of the employment or engagement of the Participant by the Company or by its subsidiaries for any reason other than as set forth in clause (i), death or Disability; (iii) the date which is one (1) year following the date on which the Participant's service with the Company or its subsidiaries ceases due to death or Disability; (iv) the date of expiration of the Option determined by the Committee at the time the Nonqualified Stock Option is granted and specified in such Option; and (v) the tenth annual anniversary date of the granting of such Option; provided, however, that the Committee shall have the right, but not the obligation, to extend the expiration date of the Options held by a Participant whose service with the Company or its subsidiaries has ceased for any reason to the end of their original terms.

(c) The Committee may provide, upon grant of a Nonqualified Stock Option, that full exercisability will be phased in and/or phased out over some designated period of time. The Committee also may provide upon grant that exercisability of a Nonqualified Stock Option will be accelerated, to the extent such Option is not already then exercisable, upon the subsequent occurrence of a "change of control" of the Company as defined by the Committee.

(d) Upon exercise of a Nonqualified Stock Option, in whole or in part, the Exercise Price with respect to the number of shares as to which the Option is then being exercised may be paid only by check or, if the Participant so elects and the Committee shall have authorized such form of payment upon grant of the Option, in whole or in part by delivery to the Company of shares of Stock, provided that such shares shall have been then owned by the Participant for a period of at least six months prior to the exercise. Any Participant-owned Stock to be used in full or partial payment of the Exercise Price shall be valued at the Fair Market Value of the Stock on the date of exercise. Delivery by the Company of the shares as to which a Nonqualified Stock Option has been exercised shall be made to the person exercising the Option or the designee of such person. If so provided by the Committee upon grant of the Option, the shares received upon exercise may be subject to certain restrictions upon subsequent transfer or sale by the Participant.

Section 10. Adjustment Provisions

(a) If the Company shall at any time change the number of issued shares of Stock without new consideration to the Company (such as by a stock dividend or stock split), the total number of shares reserved for issuance under this Plan, the maximum number of shares available for Options to a particular Participant and the number of shares and the Exercise Price covered by each outstanding Option shall be adjusted so that the aggregate consideration payable to the Company, if any, and the value of each such Option to the Participant, shall not be changed. Options may also contain provisions for their continuation or for other equitable adjustments after changes in the Stock resulting from reorganization, sale, merger, consolidation, issuance of stock rights or warrants or similar occurrence.

(b) Notwithstanding any other provision of this Plan, and without affecting the number of shares reserved or available for issuance hereunder, the Board shall use its best efforts to authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization involving the liquidation, discontinuation, merger out of existence or fundamental corporate restructuring of the Company, upon such terms and conditions as it may deem appropriate.

Section 11. Transfers of Options

Subject to any overriding restrictions and conditions as may be established from time to time by the Board, the Committee may determine that any Option granted under this Plan may be transferable prior to exercise thereof under such terms and conditions as the Committee may specify; provided, that no Incentive Stock Option granted under this Plan shall be assignable or transferable by the Participant, either voluntarily or by operation of law, other than by will or the laws of descent and distribution and, during the lifetime of the Participant, shall be exercisable only by the Participant. Unless the Committee shall specifically determine that an Option is transferable prior to exercise thereof, each Option granted under this Plan to a Participant shall not be transferable otherwise than by will or the laws of descent and distribution, and, during the Participant's lifetime, shall be exercisable only by the Participant or, in the event of the Disability of the Participant, by the attorney-in-fact or guardian of the Participant. In the event of the death of a Participant holding an unexercised Option, exercise of the Option may be made only by the executor, administrator or personal representative of the estate of the deceased Participant or the person or persons to whom the deceased Participant's rights under the Option shall pass by will or the laws of descent and distribution, and such exercise may be made only to the extent that the deceased Participant was entitled to exercise such Option at the date of death.

Section 12. Taxes

The Company shall be entitled to withhold, and shall withhold, the minimum amount of any Federal, state or local tax attributable to any Stock deliverable under this Plan, whether upon exercise of an Option or occurrence of any other Taxable Event, and the Committee may condition the delivery of any shares or other benefits under this Plan on satisfaction of the applicable withholding obligations. Such withholding obligation of the Company may be satisfied by any reasonable method including, if the Committee so provides upon grant of the Option, reducing the number of shares otherwise deliverable to or on behalf of the Participant on such Taxable Event by a number of shares having a fair value, based on the Fair Market Value of the Stock on the date of such Taxable Event, equal to the amount of such withholding obligation.

Section 13. No Right to Employment

A Participant's right, if any, to continue to serve the Company or its subsidiaries as an officer, employee or otherwise shall not be enhanced or otherwise affected by the designation of such employee as a Participant under this Plan.

Section 14. Duration, Amendment and Termination

No Option shall be granted under this Plan on or after the date which is the tenth

anniversary date of the adoption by the Board of this Plan. The Board may, from time to time, with respect to any shares at the time not subject to Options, suspend or terminate this Plan or amend or revise the terms of this Plan; provided that any amendment to this Plan shall be approved by a majority of the shareholders of the Company if the amendment would: (a) materially increase the benefits accruing to participants under this Plan; (b) increase the number of shares of Stock which may be issued under this Plan, except as permitted under the provisions of Section 10 above; or (c) materially modify the requirements as to eligibility for participation in this Plan. By mutual agreement between the Company and a Participant, one or more Options may be granted to such Participant in substitution and exchange for, and in cancellation of, any certain Options previously granted such Participant under this Plan, provided that any such substitution Option shall be deemed a new Option for purposes of calculating any applicable exercise period for Options. To the extent that any Options which may be granted within the terms of this Plan would qualify under present or future laws for tax treatment that is beneficial to a Participant, any such beneficial treatment shall be considered within the intent, purpose and operational purview of this Plan and the discretion of the Committee, and to the extent that any such Options would so qualify within the terms of this Plan, the Committee shall have full and complete authority to grant Options that so qualify (including the authority to grant, simultaneously or otherwise, Options which do not so qualify) and to prescribe the terms and conditions (which need not be identical as among Participants) in respect to the grant or exercise of any such Options under this Plan.

Section 15. Miscellaneous Provisions

(a) *Naming of Beneficiaries*. In connection with an Option, a Participant may name one or more beneficiaries to receive the Participant's benefits, to the extent permissible pursuant to the various provisions of this Plan, in the event of the death of the Participant.

(b) *Successors*. All obligations of the Company under this Plan with respect to Options issued hereunder shall be binding on any successor to the Company.

(c) *Governing Law*. The provisions of this Plan and all Option Agreements under this Plan shall be construed in accordance with, and governed by, the laws of the State of Illinois without reference to conflict of laws provisions, except insofar as any such provisions may be expressly made subject to the laws of any other state or federal law.

(d) *Section 409A*. Notwithstanding anything in the Plan to the contrary, it is the intent of the Company that the administration of the Plan, and the granting of all Options under this Plan, shall be done in accordance with Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance issued thereunder, including any guidance or regulations that may be issued after the effective date of this Plan, and shall not cause the acceleration of, or the imposition of the taxes provided for in Section 409A of the Code. In the event that it is reasonably determined by the Board that any amounts payable in respect of any Option under the Plan will be taxable to a Participant under Section 409A of the Code prior to the payment and/or delivery to such Participant of such amounts or will be subject to the acceleration of taxation or the imposition of penalty taxation under Section 409A of the Code, the Company may either (i) adopt such amendments to the Plan and related Option, and appropriate policies and procedures, including amendments and policies with retroactive effect,

that the Board determines necessary or appropriate to preserve the intended tax treatment of the benefits provided by the Plan and Options hereunder, and/or (ii) take such other actions as the Board determines necessary or appropriate to comply with the requirements of Section 409A of the Code.

Section 16. Restriction on Shares

If the Company shall be advised by counsel that certain requirements under the Federal or state securities laws must be met before Stock may be issued under this Plan, the Company shall notify all persons who have been issued Options, and the Company shall have no liability for failure to issue Stock under any exercise of Options because of delay while such requirements are being met or the inability of the Company to comply with such requirements.

Section 17. Investment Purpose

Each Option granted hereunder may be issued on the condition that any purchase of Stock pursuant to the exercise of an Option which shall not be the subject of a registration statement permitting the sale or other distribution thereof shall be for investment purposes and not with a view to resale or distribution (the "Restricted Stock"). If requested by the Company, each Participant must agree, at the time of the purchase of any Restricted Stock, to execute an "investment representation letter" setting forth such investment intent in the form acceptable to the Company and must consent to any stock certificate issued to such Participant thereunder bearing a restrictive legend setting forth the restrictions applicable to the further resale, transfer or other conveyance thereof without registration under the Securities Act of 1933, as amended, and under the applicable securities or blue sky laws of any other jurisdiction (together, the "Securities Laws"), or the availability of exemptions from registration thereunder and to the placing of transfer restrictions on the records of the transfer agent for the Stock. No Restricted Stock may thereafter be resold, transferred or otherwise conveyed unless:

(a) an opinion of the Participant's counsel is received, in form and substance satisfactory to counsel for the Company, that registration under the applicable Securities Laws is not required; or

(b) such Stock is registered under the applicable Securities Laws; or

(c) "no action" letters are received from the staff of the Securities and Exchange Commission and from the administrative agencies administering all other applicable securities or blue sky laws, based on the opinion of counsel for Participant in form and substance reasonably satisfactory to counsel for the Company, advising that registrations under the Securities Laws are not required.

Section 18. Effective Date of Plan

This Plan shall become effective upon adoption by the Board and approval by the Company's stockholders; provided, however, that prior to approval of this Plan by the Company's stockholders but after adoption by the Board, Options may be granted under this Plan subject to obtaining such approval.

Adopted by the Board of Directors of the Company as of March 9, 1999.

Adopted by the Stockholders of the Company as of April 13, 1999.

Amended and Restated by the Board of Directors of the Company as of March 8, 2000 (Stockholder approval not being required).

Second Amendment and Restatement by the Board of Directors of the Company as of August 6, 2002. (Stockholder approval not being required).

Third Amendment and Restatement by the Board of Directors of the Company as of March 5, 2007.

Third Amendment and Restatement approved by the Stockholders of the Company as of April 2, 2007.

MIDLAND STATES BANCORP, INC.

AMENDED AND RESTATED

2010 LONG-TERM INCENTIVE PLAN

Article 1
GENERAL

Section 1.1 Purpose, Effective Date and Term. The purpose of this **MIDLAND STATES BANCORP, INC. AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN** (the "**Plan**") is to promote the long-term financial success of **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the "**Company**"), and any Subsidiary by providing a means to attract, retain and reward individuals who can and do contribute to such success and to further align their interests with those of the Company's stockholders. The "**Effective Date**" of the Plan is October 18, 2010, in accordance with the approval of the Plan by the Company's stockholders. The Plan has been amended and restated effective December 31, 2010 to reflect a ten-for-one Stock exchange that occurred as part of the Company's reincorporation from the State of Delaware to the State of Illinois, on December 31, 2010. The Plan shall remain in effect as long as any awards under it are outstanding; *provided, however,* that no awards may be granted under the Plan after the ten-year anniversary of the Effective Date.

Section 1.2 Administration. The authority to control and manage the operation of the Plan shall be vested in a committee of the Board (the "**Committee**"), in accordance with **Section 5.1**.

Section 1.3 Participation. Each employee or Director of, or service provider to, the Company or any Subsidiary of the Company who is granted, and currently holds, an award in accordance with the terms of the Plan shall be a "**Participant**" in the Plan. Awards under the Plan shall be limited to employees and Directors of, and service providers to, the Company or any Subsidiary; *provided, however,* that an award (other than an award of an ISO) may be granted to an individual prior to the date on which he or she first performs services as an employee or a Director, provided that such award does not become vested prior to the date such individual commences such services.

Section 1.4 Definitions. Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of **Article 8**).

Article 2
AWARDS

Section 2.1 General. Any award under the Plan may be granted singularly, in combination with another award (or awards), or in tandem whereby the exercise or vesting of

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one award held by a Participant cancels another award held by the Participant. Each award under the Plan shall be subject to the terms and conditions of the Plan and such additional terms, conditions, limitations and restrictions as the Committee shall provide with respect to such award and as evidenced in the Award Agreement. Subject to the provisions of **Section 2.6**, an award may be granted as an alternative to or replacement of an existing award under (i) the Plan; (ii) any other plan of the Company or any Subsidiary; (iii) any Prior Plan; or (iv) as the form of payment for grants or rights earned or due under any other compensation plan or arrangement of the Company or any Subsidiary, including without limitation the plan of any entity acquired by the Company or any Subsidiary. The types of awards that may be granted under the Plan include:

(a) *Stock Options*. A stock option represents the right to purchase shares of Stock at an Exercise Price established by the Committee. Any option may be either an incentive stock option (an "**ISO**") that is intended to satisfy the requirements applicable to an "incentive stock option" described in Code Section 422(b) or a non-qualified option that is not intended to be an ISO, *provided, however*, that no ISOs may be: (i) granted after the ten-year anniversary of the earlier of the Effective Date or stockholder approval of the Plan; or (ii) granted to a non-employee. Unless otherwise specifically provided by its terms, any option granted under the Plan shall be a non-qualified option. Any ISO granted under this Plan that does not qualify as an ISO for any reason shall be deemed to be a non-qualified option. In addition, any ISO granted under this Plan may be unilaterally modified by the Committee to disqualify such option from ISO treatment such that it shall become a non-qualified option.

(b) *Stock Appreciation Rights.* A stock appreciation right (an "**SAR**") is a right to receive, in cash, Stock or a combination of both (as shall be reflected in the Award Agreement), an amount equal to or based upon the excess of: (i) the Fair Market Value of a share of Stock at the time of exercise; over (ii) an Exercise Price established by the Committee.

(c) *Stock Awards*. A stock award is a grant of shares of Stock or a right to receive shares of Stock (or their cash equivalent or a combination of both) in the future. Such awards may include, but shall not be limited to, bonus shares, stock units, performance shares, performance units, restricted stock or restricted stock units or any other equity-based award as determined by the Committee.

(d) *Cash Incentive Awards*. A cash incentive award is the grant of a right to receive a payment of cash, determined on an individual basis or as an allocation of an incentive pool (or Stock having a value equivalent to the cash otherwise payable) that is contingent on the achievement of performance objectives established by the Committee.

Section 2.2 Exercise of Options and SARs. An option or SAR shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee. In no event, however, shall an option or SAR expire later than ten (10) years after the date of its grant (five (5) years in the case of a 10% Stockholder with respect to an ISO). The "**Exercise Price**" of each option and SAR shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant (or, if greater, the par value of a share of Stock); *provided, however,* that the Exercise Price of an ISO shall not be less than 110% of Fair Market Value of a share of Stock on the date of grant in the case of a 10% Stockholder; *further,*

provided, that, to the extent permitted under Code Section 409A, the Exercise Price may be higher or lower in the case of options or SARs granted in replacement of existing awards held by an employee, Director or service provider granted under a Prior Plan or by an acquired entity. The payment of the Exercise Price of an option shall be by cash or, subject to limitations imposed by applicable law, by such other means as the Committee may from time to time permit, including: (a) by tendering, either actually or by attestation, shares of Stock acceptable to the Committee, and valued at Fair Market Value as of the day of exercise; (b) by irrevocably authorizing a third party, acceptable to the Committee, to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the option and to remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise; (c) with respect to options, payment through a net exercise such that, without the payment of any funds, the Participant may exercise the option and receive the net number of shares of Stock equal in value to (i) the number of shares of Stock as to which the option is being exercised, multiplied by (ii) a fraction, the numerator of which is the Fair Market Value (on such date as is determined by the Committee) less the Exercise Price, and the denominator of which is such Fair Market Value (the number of net shares of Stock to be received shall be rounded down to the nearest whole number of shares of Stock); (d) by personal, certified or cashiers' check; (e) by other property deemed acceptable by the Committee; or (f) by any combination thereof.

Section 2.3 **Performance-Based Compensation.** Any award under the Plan which is intended to be "performance-based compensation" within the meaning of Code Section 162(m) shall be conditioned on the achievement of one or more objective performance measures, to the extent required by Code Section 162(m), as may be determined by the Committee. The grant of any award and the establishment of performance measures that are intended to be performance-based compensation shall be made during the period required under Code Section 162(m).

(a) *Performance Measures.* Such performance measures may be based on any one or more of the following: earnings (*e.g.*, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization; or earnings per share); financial return ratios (*e.g.*, return on investment, return on invested capital, return on equity or return on assets); increase in revenue, operating or net cash flows; cash flow return on investment; total stockholder return; market share; net operating income, operating income or net income; debt load reduction; loan and lease losses; expense management; economic value added; stock price; book value; overhead; assets, asset quality level, charge offs, loan reserves, non-performing assets, loans, deposits, growth of loans, deposits or assets; interest sensitivity gap levels, regulatory compliance, improvement of financial rating, achievement of balance sheet or income statement objectives; efficiency ratio; net interest margin and strategic business objectives, consisting of one or more objectives based on meeting specific cost targets, business expansion goals and goals relating to acquisitions or divestitures. Performance measures may be based on the performance of the Company as a whole or of any one or more Subsidiaries or business units of the Company or a Subsidiary and may be measured relative to a peer group, an index or a business plan and may be stated in the aggregate or on a per share basis or other measure.

(b) *Partial Achievement.* The terms of any award may provide that partial achievement of the performance measures may result in a payment or vesting based upon the degree of achievement.

(c) *Extraordinary Items.* In establishing any performance measures, the Committee may provide for the exclusion of the effects of the following items, to the extent identified in the audited financial statements of the Company, including footnotes, or in the Management's Discussion and Analysis section of the Company's annual report: (i) extraordinary, unusual, and/or nonrecurring items of gain or loss; (ii) gains or losses on the disposition of a business; (iii) changes in tax or accounting principles, regulations or laws; or (iv) mergers or acquisitions. To the extent not specifically excluded, such effects shall be included in any applicable performance measure.

(d) *Adjustments*. Pursuant to this **Section 2.3**, in certain circumstances the Committee may adjust performance measures; *provided, however,* no adjustment may be made with respect to an award that is intended to be performance-based compensation, except to the extent the Committee exercises such negative discretion as is permitted under applicable law for purposes of an exception under Code Section 162(m). If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company or the manner in which the Company or any Subsidiary conducts its business or other events or circumstances render current performance measures to be unsuitable, the Committee may modify such performance measures, in whole or in part, as the Committee deems appropriate. If a Participant is promoted, demoted or transferred to a different business unit during a performance period, the Committee may determine that the selected performance measures or applicable performance period are no longer appropriate, in which case, the Committee, in its sole discretion, may: (i) adjust, change or eliminate the performance measures or change the applicable performance period; or (ii) cause to be made a cash payment to the Participant in an amount determined by the Committee.

Section 2.4 **Dividends and Dividend Equivalents.** Any award under the Plan may provide the Participant with the right to receive dividend payments or dividend equivalent payments with respect to shares of Stock subject to the award, which payments may be either made currently or credited to an account for the Participant, may be settled in cash or Stock and may be subject to restrictions similar to the underlying award.

Section 2.5 **Deferred Compensation.** If any award would be considered "deferred compensation" as defined under Code Section 409A ("**Deferred Compensation**"), the Committee reserves the absolute right (including the right to delegate such right) to unilaterally amend the Plan or the Award Agreement, without the consent of the Participant, to avoid the application of, or to maintain compliance with, Code Section 409A. Any amendment by the Committee to the Plan or an Award Agreement pursuant to this **Section 2.5** shall maintain, to the extent practicable, the original intent of the applicable provision without violating Code Section 409A. A Participant's acceptance of any award under the Plan constitutes acknowledgement and consent to such rights of the Committee, without further consideration or action. Any discretionary authority retained by the Committee pursuant to the terms of this Plan or pursuant to an Award Agreement shall not be applicable to an award which is determined to constitute Deferred Compensation, if such discretionary authority would contravene Code Section 409A.

Section 2.6 **Repricing of Awards.** Except for adjustments pursuant to **Section 3.3** (relating to the adjustment of shares), and reductions of the Exercise Price approved by the Company's stockholders, the Exercise Price for any outstanding option or SAR may not be

decreased after the date of grant nor may an outstanding option or SAR granted under the Plan be surrendered to the Company as consideration for the grant of a replacement option or SAR with a lower exercise price.

Section 2.7 **Forfeiture of Awards.** Unless specifically provided to the contrary in an Award Agreement, upon notification of Termination of Service for Cause, any outstanding award, whether vested or unvested, held by a Participant shall terminate immediately, the award shall be forfeited and the Participant shall have no further rights thereunder.

Article 3
SHARES SUBJECT TO PLAN

Section 3.1 **Available Shares.** The shares of Stock with respect to which awards may be made under the Plan shall be shares currently authorized but unissued, currently held or, to the extent permitted by applicable law, subsequently acquired by the Company, including shares purchased in the open market or in private transactions.

Section 3.2 **Share Limitations.**

(a) *Share Reserve*. Subject to the following provisions of this **Section 3.2**, the maximum number of shares of Stock that may be delivered to Participants and their beneficiaries in the aggregate under the Plan shall be 1,500,000 shares of Stock (all of which may be granted as ISOs to the extent that such shares are granted under the Plan) (the "**Share Reserve**"). As of the date of stockholder approval, no further awards shall be granted pursuant to the Prior Plans. The aggregate number of shares available for grant under this Plan (including the number that may be granted as ISOs and as awards other than options and SARs) and the number of shares of Stock subject to outstanding awards shall be subject to adjustment as provided in **Section 3.3**. Notwithstanding the foregoing, the Share Reserve shall automatically be reduced by up to 500,000 shares of Stock (the "**Offering Share Reserve**") if by December 31, 2011 the Company has not had an Offering. Prior to the occurrence of an Offering, the Committee may grant awards under the Plan with respect to Offering Shares Reserve, provided that such awards are contingent upon an Offering occurring on or before December 31, 2011 and that such award cannot become vested prior to the date of such Offering.

(b) *Reuse of Shares.* To the extent any shares of Stock covered by an award (including stock awards), under the Plan are forfeited or are not delivered to a Participant or beneficiary for any reason, including because the award is forfeited, canceled or settled in cash, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan and shall again become eligible for issuance under the Plan. Any shares of Stock that are covered under the terms of a Prior Plan award which would otherwise become available for reuse under the terms of a Prior Plan shall instead become available for issuance under the Plan and shall be subject to adjustment as provided in **Section 3.3**. With respect to SARs that are settled in Stock, only actual shares delivered shall be counted for purposes of these limitations. If the Exercise Price of any option granted under the Plan is satisfied by tendering shares of Stock to the Company (whether by actual delivery or by attestation and whether or not such surrendered shares were

acquired pursuant to any award granted under the Plan), only the number of shares of Stock issued net of the shares of Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Stock available for issuance under the Plan.

Section 3.3 **Corporate Transactions.** To the extent permitted under Code Section 409A, to the extent applicable, in the event of a corporate transaction involving the Company or the shares of Stock of the Company (including any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), whether or not such event constitutes a Change in Control, all outstanding awards under the Plan and the Prior Plans, the number of shares reserved for issuance under the Plan and the Prior Plans under **Section 3.2** shall automatically be adjusted to proportionately and uniformly reflect such transaction (but only to the extent that such adjustment will not affect the status of an award intended to qualify as "performance-based compensation" under Code Section 162(m), if applicable); *provided, however,* that the Committee may otherwise adjust awards (or prevent such automatic adjustment) as it deems necessary, in its sole discretion, to preserve the benefits or potential benefits of the awards and the Plan. Action by the Committee may include: (i) adjustment of the number and kind of shares which may be delivered under the Plan; (ii) adjustment of the number and kind of shares subject to outstanding awards; (iii) adjustment of the Exercise Price of outstanding options and SARs; and (iv) any other adjustments that the Committee determines to be equitable (which may include, (A) replacement of awards with other awards which the Committee determines have comparable value and which are based on stock of a company resulting from the transaction, and (B) cancellation of the award in return for cash payment of the current value of the award, determined as though the award were fully vested at the time of payment, provided that in the case of an option or SAR, the amount of such payment shall be the excess of the value of the Stock subject to the option or SAR at the time of the transaction over the Exercise Price; provided, that no such payment shall be required in consideration of the award if the Exercise Price is greater than the value of the Stock at the time of such corporate transaction or event).

Section 3.4 **Delivery of Shares.** Delivery of shares of Stock or other amounts under the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other provision of the Plan, the Company shall have no obligation to deliver any shares of Stock or make any other distribution of benefits under the Plan unless such delivery or distribution complies with all applicable laws (including, the requirements of the Securities Act), and the applicable requirements of any securities exchange or similar entity.

(b) *Certificates.* To the extent that the Plan provides for the issuance of shares of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

Section 3.5 **Participant's Representation Statement and Stockholders Agreement.** In the event that the shares of Stock have not been registered under the Securities Act, at the time of exercise, settlement or delivery of shares pursuant to an award under the Plan, the Participant shall, if requested by the Company (i) execute and deliver to the Company his or her investment representation statement (in the form provided by the Company); and (ii) agree to execute and

become a party to a stockholders agreement, as may be in effect from time to time. Failure to execute and deliver the foregoing documents to the Company within thirty (30) days of request by the Company, shall relieve the Company of any obligations under the applicable award and the Participant shall forfeit any and all interest under such award as of such thirtieth day.

Section 3.6 **Lock-Up Period.** The Participant hereby agrees that, if so requested by the Company or any representative of the underwriters (the "**Managing Underwriter**") in connection with any registration of the offering of any securities of the Company under the Securities Act, the Participant shall not sell or otherwise transfer any shares or other securities of the Company during the 180-day period, or such other period as may be requested in writing by the Managing Underwriter and agreed to in writing by the Company (the "**Market Standoff Period**") following the effective date of a registration statement of the Company filed under the Securities Act. Such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act that includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

Article 4
CHANGE IN CONTROL

Section 4.1 **Consequence of a Change in Control**. Subject to the provisions of **Section 3.3** (relating to the adjustment of shares), and except as otherwise provided in the Plan or in the terms of any Award Agreement:

(a) At the time of a Change in Control, all options and SARs then held by the Participant shall become fully exercisable immediately upon the Change in Control (subject to the expiration provisions otherwise applicable to the option or SAR).

(b) At the time of a Change in Control, all stock awards described in **Section 2.1(c)** or cash incentive awards described in **Section 2.1(d)** shall be fully earned and vested immediately upon the Change in Control.

Section 4.2 **Definition of Change in Control.** For purposes of the Plan, "**Change in Control**" shall mean the first to occur of the following:

(a) Any person (as defined in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of Stock of the Company, is or becomes the beneficial owner (within the meaning of Rule 13d-3 of the Exchange Act), directly or indirectly, of securities representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding Voting Securities; or

(b) During any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board and any new member of the Board whose election by the Board or nomination for election by the Company's stockholders was approved

by a vote of at least two-thirds (2/3) of the members of the Board then still in office who either were members of the Board at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(c) Consummation of: (i) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (ii) a complete liquidation of the Company or Midland States Bank or an agreement for the sale or disposition by the Company of all or substantially all the Company's or Midland States Bank's assets.

However, in no event shall a Change in Control be deemed to have occurred, with respect to the Participant if the Participant is part of a purchasing group which consummates the Change-in-Control transaction. The Participant shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Participant is an equity participant in the purchase company or group (except for (i) passive ownership of less than two percent (2%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change in Control by a majority of the non-employee continuing members of the Board).

In the event that any award under the Plan constitutes Deferred Compensation, and the settlement of, or distribution of benefits under such award is to be triggered by a Change in Control, then such settlement or distribution shall be subject to the event constituting the Change in Control also constituting a "change in the ownership" or "change in the effective control" of the Company, as permitted under Code Section 409A.

Article 5
COMMITTEE

Section 5.1 **Administration.** The authority to control and manage the operation and administration of the Plan shall be vested in the Committee in accordance with this **Article 5**. The Committee shall be selected by the Board, provided that the Committee shall consist of two (2) or more members of the Board, each of whom are (each as may be applicable to the Company) (i) a "non-employee director" (within the meaning of Rule 16b-3 promulgated under the Exchange Act), (ii) an "outside director" (within the meaning of Code Section 162(m)) and (iii) an "independent director" (within the meaning of the applicable principal stock exchange of the Company). Subject to applicable stock exchange rules, if the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

Section 5.2 **Powers of Committee.** The Committee's administration of the Plan shall be subject to the following:

(a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Company's and any Subsidiary's employees, Directors and service providers those persons who shall receive awards, to determine the time or times of receipt, to determine the types of awards and the number of shares covered by the awards, to establish the terms, conditions, performance criteria, restrictions, and other provisions of such awards, (subject to the restrictions imposed by **Article 6**) to cancel or suspend awards and to reduce or eliminate any restrictions or vesting requirements applicable to an award at any time after the grant of the award.

(b) The Committee will have the authority and discretion to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(c) The Committee will have the authority to define terms not otherwise defined herein.

(d) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons.

(e) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the articles and bylaws of the Company and applicable state corporate law.

Section 5.3 **Delegation by Committee.** Except to the extent prohibited by applicable law, the applicable rules of a stock exchange or the Plan, or as necessary to comply with the exemptive provisions of Rule 16b-3 promulgated under the Exchange Act, if applicable, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it, including: (a) delegating to a committee of one or more members of the Board who are not "outside directors" within the meaning of Code Section 162(m), the authority to grant awards under the Plan to eligible persons who are either: (i) not then "covered employees," within the meaning of Code Section 162(m) and are not expected to be "covered employees" at the time of recognition of income resulting from such award; or (ii) not persons with respect to whom the Company wishes to comply with Code Section 162(m); and/or (b) delegating to a committee of one or more members of the Board who are not "non-employee directors," within the meaning of Rule 16b-3, the authority to grant awards under the Plan to eligible persons who are not then subject to Section 16 of the Exchange Act. The acts of such delegates shall be treated hereunder as acts of the Committee and such delegates shall report regularly to the Committee regarding the delegated duties and responsibilities and any awards so granted. Any such allocation or delegation may be revoked by the Committee at any time.

Section 5.4 **Information to be Furnished to Committee.** As may be permitted by applicable law, the Company and any Subsidiary shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and any Subsidiary as to an employee's or Participant's employment, termination of employment, leave of absence, reemployment and compensation shall be conclusive on all persons unless determined by the Committee to be manifestly incorrect. Subject to applicable

law, Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

Section 5.5 **Expenses and Liabilities.** All expenses and liabilities incurred by the Committee in the administration and interpretation of the Plan or any Award Agreement shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration and interpretation of the Plan. The Company, and its officers and Directors, shall be entitled to rely upon the advice, opinions or valuations of any such persons.

Article 6
AMENDMENT AND TERMINATION

Section 6.1 **General.** The Board may, as permitted by law, at any time, amend or terminate the Plan, and may amend any Award Agreement, provided that no amendment or termination (except as provided in **Section 2.5**, **Section 3.3** and **Section 6.2**) may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), impair the rights of any Participant or beneficiary under any award granted which was granted under the Plan prior to the date such amendment is adopted by the Board; *provided, however*, that, no amendment may (a) materially increase the benefits accruing to Participants under the Plan, (b) materially increase the aggregate number of securities which may be issued under the Plan, other than pursuant to **Section 3.3**, or (c) materially modify the requirements for participation in the Plan, unless the amendment under (a), (b) or (c) above is approved by the Company's stockholders.

Section 6.2 **Amendment to Conform to Law.** Notwithstanding any provision in this Plan or any Award Agreement to the contrary, the Committee may amend the Plan or an Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or the Award Agreement to any present or future law relating to plans of this or similar nature (including, but not limited to, Code Section 409A). By accepting an award under this Plan, each Participant agrees and consents to any amendment made pursuant to this **Section 6.2** or **Section 2.5** to any award granted under this Plan without further consideration or action.

Article 7
GENERAL TERMS

Section 7.1 **No Implied Rights.**

(a) *No Rights to Specific Assets.* Neither a Participant nor any other person shall by reason of participation in the Plan acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including any specific funds, assets, or other property which the Company or any Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the Stock or amounts, if any, payable or distributable under the Plan, unsecured by any assets of the

Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person.

(b) *No Contractual Right to Employment or Future Awards.* The Plan does not constitute a contract of employment, and selection as a Participant will not give any participating employee the right to be retained in the employ of the Company or any Subsidiary or any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. No individual shall have the right to be selected to receive an award under this Plan, or, having been so selected, to receive a future award under this Plan.

(c) *No Rights as a Stockholder*. Except as otherwise provided in the Plan, no award under the Plan shall confer upon the holder thereof any rights as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

Section 7.2 **Transferability.** Except as otherwise provided by the Committee, awards under the Plan are not transferable except as designated by the Participant by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order, as defined in the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended. The Committee shall have the discretion to permit the transfer of awards under the plan; *provided, however,* that such transfers shall be limited to immediate family members of Participants, trusts and partnerships established for the primary benefit of such family members or to charitable organizations, and; *provided, further,* that such transfers are not made for consideration to the Participant.

Section 7.3 **Designation of Beneficiaries.** A Participant hereunder may file with the Company a written designation of a beneficiary or beneficiaries under this Plan and may from time to time revoke or amend any such designation ("**Beneficiary Designation**"). Any designation of beneficiary under this Plan shall be controlling over any other disposition, testamentary or otherwise; *provided, however,* that if the Committee is in doubt as to the entitlement of any such beneficiary to any award, the Committee may determine to recognize only the legal representative of the Participant in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone.

Section 7.4 **Non-Exclusivity.** Neither the adoption of this Plan by the Board nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as either may deem desirable, including, without limitation, the granting of restricted stock, stock options or other equity awards otherwise than under the Plan or an arrangement that is or is not intended to qualify under Code Section 162(m), and such arrangements may be either generally applicable or applicable only in specific cases.

Section 7.5 **Award Agreement.** Each award granted under the Plan shall be evidenced by an Award Agreement. A copy of the Award Agreement, in any medium chosen by the Committee, shall be provided (or made available electronically) to the Participant, and the Committee may but need not require that the Participant sign a copy of the Award Agreement.

Section 7.6 **Form and Time of Elections.** Unless otherwise specified herein, each election required or permitted to be made by any Participant or other person entitled to benefits under the Plan, and any permitted modification, or revocation thereof, shall be filed with the Company at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require.

Section 7.7 **Evidence.** Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

Section 7.8 **Tax Withholding.** All distributions under the Plan are subject to withholding of all applicable taxes and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. Except as otherwise provided by the Committee, such withholding obligations may be satisfied: (a) through cash payment by the Participant; (b) through the surrender of shares of Stock which the Participant already owns; or (c) through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan; *provided, however,* that except as otherwise specifically provided by the Committee, such shares under clause (c) may not be used to satisfy more than the Company's minimum statutory withholding obligation.

Section 7.9 **Action by Company or Subsidiary.** Any action required or permitted to be taken by the Company or any Subsidiary shall be by resolution of its board of directors, or by action of one or more members of the board (including a committee of the board) who are duly authorized to act for the board, or (except to the extent prohibited by applicable law or applicable rules of any stock exchange) by a duly authorized officer of the Company or such Subsidiary.

Section 7.10 **Successors.** All obligations of the Company under this Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business, Stock, and/or assets of the Company.

Section 7.11 **Indemnification.** To the fullest extent permitted by law, each person who is or shall have been a member of the Committee, or of the Board, or an officer of the Company to whom authority was delegated in accordance with **Section 5.3**, or an employee of the Company shall be indemnified and held harmless by the Company against and from any loss (including amounts paid in settlement), cost, liability or expense (including reasonable attorneys' fees) that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability, or expense is a result of his or her own willful misconduct or except as expressly provided by statute. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such

persons may be entitled under the Company's charter or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Section 7.12 **No Fractional Shares.** Unless otherwise permitted by the Committee, no fractional shares of Stock shall be issued or delivered pursuant to the Plan or any award. The Committee shall determine whether cash, Stock or other property shall be issued or paid in lieu of fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

Section 7.13 **Governing Law.** The Plan, all awards granted hereunder, and all actions taken in connection herewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 7.14 **Benefits Under Other Plans.** Except as otherwise provided by the Committee, awards to a Participant (including the grant and the receipt of benefits) under the Plan shall be disregarded for purposes of determining the Participant's benefits under, or contributions to, any Qualified Retirement Plan, non-qualified plan and any other benefit plans maintained by the Participant's employer. The term "**Qualified Retirement Plan**" means any plan of the Company or a Subsidiary that is intended to be qualified under Code Section 401(a).

Section 7.15 **Validity.** If any provision of this Plan is determined to be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been included herein.

Section 7.16 **Notice.** Unless otherwise provided in an Award Agreement, all written notices and all other written communications to the Company provided for in the Plan, or any Award Agreement, shall be delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid (provided that international mail shall be sent via overnight or two-day delivery), or sent by facsimile or prepaid overnight courier to the Company at the address set forth below:

Midland States Bancorp, Inc.
133 West Jefferson Avenue
Effingham, Illinois 62401
Fax: (217) 342-7397

Such notices, demands, claims and other communications shall be deemed given:

(a) in the case of delivery by overnight service with guaranteed next day delivery, the next day or the day designated for delivery;

(b) in the case of certified or registered U.S. mail, five (5) days after deposit in the U.S. mail; or

(c) in the case of facsimile, the date upon which the transmitting party received confirmation of receipt by facsimile, telephone or otherwise;

provided, however, that in no event shall any such communications be deemed to be given later than the date they are actually received, provided they are actually received. In the event a communication is not received, it shall only be deemed received upon the showing of an original of the applicable receipt, registration or confirmation from the applicable delivery service provider. Communications that are to be delivered by the U.S. mail or by overnight service to the Company shall be directed to the attention of the Company's senior human resource officer and Corporate Secretary.

Article 8
DEFINED TERMS; CONSTRUCTION

Section 8.1 In addition to the other definitions contained herein, unless otherwise specifically provided in an Award Agreement, the following definitions shall apply:

(a) "**10% Stockholder**" means an individual who, at the time of grant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company.

(b) "**Award Agreement**" means the document (in whatever medium prescribed by the Committee) which evidences the terms and conditions of an award under the Plan. Such document is referred to as an agreement regardless of whether Participant signature is required.

(c) "**Board**" means the Board of Directors of the Company.

(d) If the Participant is subject to an employment agreement (or other similar agreement) with the Company or a Subsidiary that provides a definition of termination for "cause," then, for purposes of this Plan, the term "**Cause**" shall have meaning set forth in such agreement. In the absence of such a definition, "Cause" means (1) any act of (A) fraud or intentional misrepresentation, or (B) embezzlement, misappropriation or conversion of assets or opportunities of the Company or Subsidiary, or (2) willful violation of any law, rule or regulation in connection with the performance of a Participant's duties (other than traffic violations or similar offenses), or (3) with respect to any employee of the Company or Subsidiary, commission of any act of moral turpitude or conviction of a felony, or (4) the willful or negligent failure of the Participant to perform his duties in any material respect.

(e) "**Change in Control**" has the meaning ascribed to it in **Section 4.2**.

(f) "**Code**" means the Internal Revenue Code of 1986, as amended, and any rules, regulations and guidance promulgated thereunder, as modified from time to time.

(g) **"Code Section 409A"** means the provisions of Section 409A of the Code and any rules, regulations and guidance promulgated thereunder.

(h) "**Committee**" means the Committee acting under **Article 5**.

(i) "**Director**" means a member of the board of directors of the Company or a Subsidiary.

(j) "**EESA**" means the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009, and any rules and regulations promulgated thereunder.

(k) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended from time to time.

(l) "**Exercise Price**" means the price established with respect to an option or SAR pursuant to **Section 2.2**.

(m) **"Fair Market Value"** shall, on any date, mean the officially-quoted closing selling price of the shares on such date on the principal national securities exchange on which such shares are listed or admitted to trading (including the New York Stock Exchange, Nasdaq Stock Market, Inc. or such other market or exchange in which such prices are regularly quoted) or, if there have been no sales with respect to shares on such date, or if the shares are not so listed or admitted to trading, the Fair Market Value shall be the value established by the Board in good faith and in accordance with Code Sections 422 and 409A.

(n) "**ISO**" has the meaning ascribed to it in **Section 2.1(a)**.

(o) "**Offering**" means one or more public or private placement(s) of newly issued shares of Stock, which in the aggregate equals or exceeds 5,000,000 shares. In the event that as of December 31, 2011 the aggregate of such newly issued shares is less than 5,000,000 shares, then the term "**Offering Share Reserve**" shall automatically be reduced proportionately to reflect the aggregate of new shares issued as of December 31, 2011, divided by 5,000,000.

(p) "**Participant**" means any individual who has received, and currently holds, an outstanding award under the Plan.

(q) "**Prior Plans**" means collectively the Midland States Bancorp, Inc. Omnibus Stock Ownership and Long-Term Incentive Plan and the Midland States Bancorp, Inc. 1999 Stock Option Plan, Second Amendment and Restatement.

(r) "**Securities Act**" means the Securities Act of 1933, as amended from time to time.

(s) "**SAR**" has the meaning ascribed to it in **Section 2.1(b)**.

(t) "**Stock**" means the common stock of the Company, $00.01 par value per share which the Company is authorized to issue, or any securities into which or for which the common stock of the Company may be converted or exchanged, as the case may be, pursuant to the terms of this Plan.

(u) "**Subsidiary**" means any corporation, affiliate or other entity which would be a subsidiary corporation with respect to the Company as defined in Code Section 424(f) and,

other than with respect to an ISO, shall also mean any partnership or joint venture in which the Company and/or other Subsidiary owns more than fifty percent (50%) of the capital or profits interests.

(v) **"Termination of Service"** means the first day occurring on or after a grant date on which the Participant ceases to be an employee of, or service provider to (which, for purposes of this definition, includes Directors), the Company or any Subsidiary, regardless of the reason for such cessation, subject to the following:

(i) The Participant's cessation as an employee or service provider shall not be deemed to occur by reason of the transfer of the Participant between the Company and a Subsidiary or between two Subsidiaries.

(ii) The Participant's cessation as an employee or service provider shall not be deemed to occur by reason of the Participant's being on a leave of absence from the Company or a Subsidiary approved by the Company or Subsidiary otherwise receiving the Participant's services.

(iii) If, as a result of a sale or other transaction, the Subsidiary for whom Participant is employed (or to whom the Participant is providing services) ceases to be a Subsidiary, and the Participant is not, following the transaction, an Employee of or service provider to the Company or an entity that is then a Subsidiary, then the occurrence of such transaction shall be treated as the Participant's Termination of Service caused by the Participant being discharged by the entity for whom the Participant is employed or to whom the Participant is providing services.

(iv) A service provider whose services to the Company or a Subsidiary are governed by a written agreement with the service provider will cease to be a service provider at the time the term of such written agreement ends (without renewal); and a service provider whose services to the Company or a Subsidiary are not governed by a written agreement with the service provider will cease to be a service provider on the date that is ninety (90) days after the date the service provider last provides services requested by the Company or any Subsidiary (as determined by the Committee).

(v) Unless otherwise provided by the Committee, an employee who ceases to be an employee, but becomes or remains a Director, or a Director who ceases to be a Director, but becomes or remains an employee, shall not be deemed to have incurred a Termination of Service.

(vi) Notwithstanding the forgoing, in the event that any award under the Plan constitutes Deferred Compensation, the term Termination of Service shall be interpreted by the Committee in a manner not to be inconsistent with the definition of "Separation from Service" as defined under Code Section 409A.

(w) "**Voting Securities**" means any securities which ordinarily possess the power to vote in the election of directors without the happening of any pre-condition or contingency.

Section 8.2 In this Plan, unless otherwise stated or the context otherwise requires, the following uses apply:

(a) actions permitted under this Plan may be taken at any time and from time to time in the actor's reasonable discretion;

(b) references to a statute shall refer to the statute and any successor statute, and to all regulations promulgated under or implementing the statute or its successor, as in effect at the relevant time;

(c) in computing periods from a specified date to a later specified date, the words "from" and "commencing on" (and the like) mean "from and including," and the words "to," "until" and "ending on" (and the like) mean "to, but excluding";

(d) references to a governmental or quasi-governmental agency, authority or instrumentality shall also refer to a regulatory body that succeeds to the functions of the agency, authority or instrumentality;

(e) indications of time of day shall be based upon the time applicable to the location of the principal headquarters of the Company;

(f) "including" means "including, but not limited to";

(g) all references to sections, schedules and exhibits are to sections, schedules and exhibits in or to this Plan unless otherwise specified;

(h) all words used in this Plan will be construed to be of such gender or number as the circumstances and context require;

(i) the captions and headings of articles, sections, schedules and exhibits appearing in or attached to this Plan have been inserted solely for convenience of reference and shall not be considered a part of this Plan nor shall any of them affect the meaning or interpretation of this Plan or any of its provisions;

(j) any reference to a document or set of documents in this Plan, and the rights and obligations of the parties under any such documents, shall mean such document or documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof; and

(k) all accounting terms not specifically defined herein shall be construed in accordance with GAAP.

Exhibit 10.11

THE AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN
OF MIDLAND STATES BANCORP, INC.

R E C I T A L S

WHEREAS, Midland States Bancorp, Inc. (the "Company") desires to assist its directors and certain employees in their ability to better provide for their own financial future by permitting such directors and certain employees to defer all or a portion of their current director fees and a portion of their annual salary and any bonus compensation;

WHEREAS, the Company desires that such deferrals are to be made without restrictions imposed by those provisions of the Code which apply to tax-qualified retirement plans.

WHEREAS, The Company previously adopted the Deferred Compensation Plan For Directors and Executives of Midland States Bancorp, Inc. to allow for certain directors and employees to make such deferrals of director fees, salary and bonus compensation; and

WHEREAS, the Company desires to amend, restate and rename the Plan to best reflect the eligibility and participation by certain selected employees by modifying the name of the Plan and modifying descriptive provisions of the Plan.

SECTION 1
DEFINITIONS

1.1 **"Applicable Interest Rate"** shall mean with respect to each calendar quarterly period, the average during the then most recently completed calendar quarter of the monthly averages for 20-year U.S. Treasury securities, adjusted to a constant maturity, as published by the Board of Governors of the Federal Reserve System in its "Federal Reserve Statistical Release."

1.2 **"Applicable Interest Rate Fund"** shall mean a Measurement Fund in which earnings are calculated based on the Applicable Interest Rate.

1.3 **"Bank"** shall mean Midland States Bank, a wholly owned banking subsidiary of the Company.

1.4 **"Beneficiary"** shall mean the person or persons Participant has designated in writing to the Company to receive benefits under this Plan in the event of the Participant's death. If the Participant has not specifically designated any Beneficiary for purposes of the Agreement, then the Beneficiary shall become the Participant's estate. In the case of the death of the Beneficiary before completion of payments under the

Agreement to the Beneficiary, then the Beneficiary's estate shall become entitled to any remaining payments.

1.5 **"Board"** means the Board of Directors of the Company, or the Board of Directors of any member of the Controlled Group.

1.6 **"Bonus"** shall mean any special and/or discretionary compensation amounts in excess of Salary determined by the Company to be payable to a Participant with respect to services rendered.

1.7 **"Change in Capital Stock"** shall mean any increase or decrease in the number of shares of issued Stock resulting from a subdivision or consolidation of shares, whether through reorganization, recapitalization, stock split-up, stock distribution or combination of shares, or the payment of a share dividend or other increase or decrease in the number of such shares outstanding effected without receipt of consideration by the Company.

1.8 **"Change Of Control"** shall mean the occurrence of the earliest of any of the following events:

A. The acquisition by any entity, person or group, excluding any entity, person or group owning Voting Stock at the effective date of this Plan, of beneficial ownership, as that term is defined in Rule 13d-3 of the Securities Exchange Act of 1934, of twenty-five percent (50%) or more of the Voting Stock of the Company; or

B. The commencement and consummation by any entity, person, or group (other than the Company) of a tender offer or an exchange offer for more than twenty-five percent (50%) or more of the Voting Stock of the Company; or

C. The effective date of a (i) merger or consolidation of the Company with one or more other corporations, the result of which is that the holders of the Voting Stock of the Company immediately prior to such merger or consolidation hold less than fifty percent (50%) of the Voting Stock of the surviving or resulting corporation, or (ii) a sale or transfer of a majority of the property of the Company, other than to an entity of which the Company controls fifty percent (50%) or more of the Voting Stock.

An event or transaction described in paragraph A., B., or C. shall be a "Change of Control" only if such event or transaction is a "change in ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation," within the meaning of Section 409A(a)(2)(A)(v) of the Code, to the extent provided by the Secretary of the Treasury.

1.9 **"Code"** shall mean the Internal Revenue Code of 1986, as amended.

1.10 **"Committee"** shall mean, initially, the Compensation and Benefits Committee, as designated by the Executive Committee of the Board and thereafter, any

other committee designated from time to time by the Board with the oversight of this Plan.

1.11 **"Common Stock"** shall mean the common stock of the Company.

1.12 **"Company"** shall mean Midland States Bancorp, Inc.

1.13 **"Controlled Group"** shall mean any and all entities which share common ownership with the Company resulting in a "parent-subsidiary controlled group", as that term is defined by Code Section 1563(a)(1), or "brother-sister controlled group", as that term is defined by Code Section 1563(a)(2), or any "combined group", as that term is defined by Code Section 1563(a)(3).

1.14 **"Deferred Compensation"** shall mean (i) with respect to eligible employees (excluding Inside Directors), the sum of his or her Salary and/or Bonus that is the subject of an elective deferral under Section 4.1 of the Plan, (ii) with respect to Inside Directors the sum of his or her Salary, Bonus and/or Director Fees that is the subject of an elective deferral under Section 4.1 of the Plan, and (iii) with respect to a Director, his or her Director Fees that are the subject of an elective deferred under Section 4.1 of the Plan.

1.15 **"Deferred Compensation Election Form"** shall mean the form which Participants use to defer Salary and/or Bonus and to elect distribution options.

1.16 **"Deferred Compensation Subaccount"** shall mean the bookkeeping account established for a Participant under the Plan to which Deferred Compensation amounts with respect to such Participant are credited from time to time, as provided in Section 5.2 of the Plan. For purposes of this definition, unless otherwise indicated by the Plan, a Deferred Compensation Subaccount shall refer to both the Cash Subpart Account and Stock Subpart Account thereof.

1.17 "**Director"** shall mean any person duly elected or appointed and serving as a director of the Company, the Bank or any other member of the Controlled Group and who is not a current employee of the Company, the Bank or any other member of the Controlled Group and has not been an employee of the Company, the Bank or any other member of the Controlled Group for at least one year.

1.18 **"Director Fees"** shall mean with respect to a Director the sum of his or her retainer and fees paid to such Director for services rendered in the capacity of a Director.

1.19 **"Disability"** shall mean with respect to a Participant, that the Participant: (1) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (2) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less

than three months under an accident or health plan covering employees of such Participant's Employer, as determined in accordance with Section 409A(a)(2)(C) of the Code and the Treasury Regulations thereunder.

1.20 "**Distributable Amount**" of a Participant's subaccounts with respect to a Plan Year shall mean the sum of the vested balance of the subaccount in a Participant's Deferred Compensation Subaccount with respect to such PlanYear subject to the rules of Article 7 of the Plan.

1.21 **"Dividend Payment Date"** shall mean the date upon which cash dividends are paid to holders of the Common Stock of the Company.

1.22 "**Election Period**" with respect to a Plan Year shall mean the period designated by the Committee; provided, however, that such period shall be no less than ten business days. The Election Period with respect to a Plan Year shall end not later than the last day of the prior Plan Year; provided, however, that, in the case of a Participant who first becomes eligible to participate in the Plan during a Plan Year, the Election Period may be the thirty (30) day period commencing on the date such Participant first becomes eligible to participate in accordance with Section 409A(a)(4)(B)(ii) of the Code and the Treasury Regulations thereunder.

1.23 **"Eligible Employee"** shall mean any Employee who is selected to participate in the Plan in accordance with Section 2 of the Plan, including any Eligible Employee who is also an Inside Director.

1.24 **"Employee"** shall mean any officer or other employee of the Company, the Bank or any other member of the Controlled Group whom the Committee in its own discretion, or its designee, determines in his own discretion, is a member of a select group of management or highly compensated employees.

1.25 **"Fair Market Value"** means with respect to the Common Stock at any date shall be the share value determined by the Board, in good faith, taking into account the per share book value thereof and any other factor deemed appropriate by the Board.

1.26 **"Inside Director"** means a Director of the Company, the Bank or any other member of the Controlled Group who is an employee of the Company, the Bank or any other member of the Controlled Group and is also an Eligible Employee.

1.27 **"Matching Contributions Subaccount"** shall mean the bookkeeping account established for a Participant under Section 5.4 of the Plan to which the Company's Matching Contributions under Section 4.2 of the Plan are credited from time to time.

1.28 **"Measurement Fund"** shall mean one or more of the investment funds selected by the Committee or its designee.

1.29 **"Participant"** shall mean a Director, an Inside Director or an Eligible Employee who has been selected by the Committee to participate in the Plan, and who has elected to participate in the Plan.

1.30 **"Participation Certificate"** shall mean that Agreement entered into by a Participant (as set forth in Exhibit A to the Plan) prior to participation in the Plan

1.31 "**Payment Date** " shall mean the time as soon as practicable after one of the following dates as designated by the Participant in his distribution form election with respect to a Plan Year: (1) the last day of the calendar month following the date of the Participant's Separation from Service, or (2) the last day of the calendar month specified by the Participant that is no earlier than the year after the year in which the Compensation would have been paid but for the Participant's election to defer such Compensation, or (3) the earlier of: (i) the last day of the calendar month following the date of the Participant's Separation from Service, or (ii) the last day of the calendar month specified by the Participant that is no earlier than the year after the year in which the Compensation would have been paid but for the Participant's election to defer such Compensation.

1.32 **"Plan"** shall mean the Amended and Restated Deferred Compensation Plan of Midland States Bancorp, Inc., as set forth herein and as amended from time to time.

1.33 "**Plan Year**" shall mean the twelve (12) consecutive month period beginning on each January 1 and ending on each December 31.

1.34 **"Retirement"** shall mean the cessation of the services of a Director for any reason other than death or Disability if, and provided that, such Director is at least 70 years of age.

1.35 **"Rule 701"** means Rule 701 promulgated under the Securities Act of 1933, as amended.

1.36 **"Salary"** shall mean the regular annual base compensation paid by a member of the Controlled Group to an Eligible Employee (without regard to any reduction thereof pursuant to the Plan, any 401(k) plan or Code Section 125 flexible benefits plan maintained by the Company), exclusive of Bonus and any other incentive payments made by the Company to such Participant.

1.37 "**Separation from Service**" shall mean with respect to a Participant, such Participant's Termination, if such Termination is a "separation from service," within the meaning of Section 409A(a)(2)(A)(i) of the Code, as determined by the Secretary of the Treasury (or such Participant's other "separation from service," as so defined).

1.38 **"Stock Units"** shall mean the number of shares of Common Stock (carried to four decimal places) credited to a Participant's Deferred Compensation or Matching Contribution Subaccount in accordance with the provisions of Sections 5.2 and 5.3 of the Plan; provided, however, that in the event of a Change in Capital Stock, the Stock Units then credited to a Participant's Deferred Compensation and Matching

Contribution Subaccounts shall be appropriately adjusted, based on the Committee's directions, to account for the change in number of issued and outstanding shares of Common Stock.

1.39 **"Stock Unit Election"** shall mean the election by a Director with respect to Director Fees or an Inside Director, with respect to such Inside Director's Director Fees (but not with respect to such Inside Director's Salary or Bonus), to designate all or any portion of such Participant's Director Fees to constitute Stock Units to be allocated to the Stock Subpart portion of his or her Deferred Compensation Subaccount.

1.40 **"Subaccount"** means the accounts established for each Participant pursuant to Section 5.1, consisting of a Deferred Compensation Subaccount (comprised of a Cash Subpart and a Stock Subpart) and a Matching Contribution Subaccount.

1.41 **"Subsidiary"** means any bank or corporation or other entity in which the Company owns a majority of and class of voting securities entitled to vote for the directors (or persons to serve in a similar capacity) of such bank, corporation or other entity.

1.42 "**Termination**" shall mean for any Participant who is an employee, ceasing to be an employee of the Company or any member of the Controlled Group for reasons other than death or Disability. If a Participant is both an employee of the Company and a Director, he shall not have a Termination until he resigns from both positions.

1.43 **"Unforeseeable Emergency"** shall mean a severe financial hardship to the Participant resulting from (a) an illness or accident of the Participant, or the Participant's spouse, Beneficiary, or dependent (as defined in Section 152 of the Code, without regard to Sections 152(b)(1), (b)(2), and (d)(1)(B) of the Code), (b) loss of the Participant's property due to casualty, or (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control, as determined by the Committee based on the relevant facts and circumstances and as provided for in Treasury Regulations §1.409A-3(i)(3) or any successor provision.

1.44 **"Voting Stock"** shall mean that class (or classes) of common stock of the Company entitled to vote in the election of the Company's directors.

SECTION 2
ELIGIBILITY AND PARTICIPATION

2.1 Eligibility. Individuals eligible to participate in the Plan shall consist of the Directors and Certain Employees within the Controlled Group.

2.2 Participation. Participation in the Plan by Eligible Employees shall be determined by the Committee in its sole discretion, the President & CEO of the Company, or, as set forth in Section 3.1 of the Plan, a designee of the Committee, in his or her sole discretion, and shall be subject to the terms and conditions of the Plan;

provided, however, that all Directors shall be eligible to participate in the Plan without discretion on the part of the Committee, the President & CEO, or the Committee's designee. All Participants in the Plan shall, prior to participation, execute a Participation Certificate in the form of Exhibit A to the Plan.

Once becoming a Participant in the Plan, a Participant shall continue to participate in the Plan until such time as (i) the Participant ceases to be a Director or an Eligible Employee, as the case may be, or (ii) the Committee or its designee takes action to terminate the Eligible Employee's right to continued participation in the Plan. Should an individual cease to be a Participant under the provisions of (i) or (ii) above while still employed by or serving as a Director of the Company, any payment to Participant will be made in accordance with the provisions of Section 7.1 upon the termination of employment by the individual with the Company.

SECTION 3
ADMINISTRATION

3.1 General Powers of Administration. The Plan shall be administered by the Committee. The Committee is authorized to construe and interpret the Plan and promulgate, amend and rescind rules and regulations relating to the implementation, administration and maintenance of the Plan. Subject to the terms and conditions of the Plan, the Committee shall make all determinations necessary or advisable for the implementation, administration and maintenance of the Plan including, without limitation, determining the Eligible Employees and correcting any technical defect(s) or technical omission(s), or reconciling any technical inconsistencies, in the Plan.

The Committee may designate persons other than members of the Committee to carry out the day-to-day ministerial administration of the Plan under such conditions and limitations as it may prescribe; provided, however, that the Committee shall only delegate its authority with regard to the determination of Eligible Employees to certain officers of the Company and may only delegate such authority in writing. The Committee's determinations under the Plan need not be uniform and may be made selectively among Eligible Employees (but not Directors), whether or not such Eligible Employees are similarly situated.

Any determination, decision or action of the Committee in connection with the construction, interpretation, administration, implementation or maintenance of the Plan shall be final, conclusive and binding upon all Participants and any person(s) claiming any Plan benefits under or through any Participants.

3.2 The Company As Fiduciary. The Company is hereby designated as a fiduciary under the Plan. Any decision by the Company or the Committee denying a claim by Participant or a Beneficiary for benefits under the Agreement shall be stated in writing and shall be delivered or mailed to the Participant or Beneficiary. Such statement shall set forth the specific reasons for the denial, written to the best of the Company's ability in a manner that may be understood without legal counsel. In addition, the

Company shall afford a reasonable opportunity to the Participant or Beneficiary for a full and fair review of the decision denying such claim.

Notwithstanding the above provisions of Section 3.2, to the extent that the Employee Retirement Income Security Act ("ERISA") may require specific procedures to be followed in the event of a denial of a claim, such provisions of ERISA will be followed.

3.3 Indemnification. The Company will indemnify and hold harmless the Committee and each member thereof against any cost or expense (including, without limitation, attorneys' fees) or liability (including, without limitation, any sum paid with the approval of the Company in settlement of a claim) arising out of any act or omission to act, except in the case of willful gross misconduct or gross negligence.

SECTION 4
DEFERRAL AND MATCHING CONTRIBUTIONS

4.1 Deferred Compensation. Participants may defer all or a portion of their Salary and/or Bonus, in the case of Eligible Employees (including Inside Directors), or Director Fees, in the case of Directors (including Inside Directors), earned during any calendar year, in accordance with the following provisions.

A. *Deferral Election*. To defer compensation during any particular year, those Directors or Eligible Employees participating in the Plan must execute a Deferred Compensation Election Form ("Form") and file such Form with the Committee (or its designee).

B. *Timing of Election*. In the year in which the Plan is first implemented, those Directors and Eligible Employees must make an election to defer Director Fees or Salary and/or Bonus, respectively, within 30 days after the later of (i) in the case of an Eligible Employee, the date such Eligible Employee is selected by the Committee to participate in the Plan, or (ii) the effective date of the Plan. Such election will only be effective for Director Fees or Salary and/or Bonus earned subsequent to such election.

Once participating in the Plan, deferral elections by Participants during subsequent years shall be completed and filed with the Committee (or its designee) during the Election Period.

C. *Content of Deferral Elections*. The following shall apply to all deferral elections:

(i) All deferral elections shall contain a statement that the Participant elects to defer all or a portion of such Participant's Director Fees or Salary and/or Bonus, as the case may be, for a specified calendar year, that is earned and becomes payable to the Participant after the filing

of such deferral election and, with respect to a Director, including an Inside Director, that portion of such Participant's Deferred Compensation to constitute Stock Units;

(ii) Except for the provisions of subsection (iii) below, any deferral election shall only apply to the Director Fees or Salary and/or Bonus, as the case may be, that is attributable to the Participant's services rendered to the Company during the calendar year for which such election is made (whether or not such compensation is actually paid and received in such calendar year);

(iii) If a Participant is currently deferring Director Fees or Salary and/or Bonus and fails to complete and return a Form prior to the January 1 of the calendar year to which such Form is to be effective, then the deferral election made by the Participant on the most recently filed Form shall be considered effective for the new calendar year; and

(iv) A Participant may terminate a deferral election for any calendar year by filing with the Committee (or its designee) written notice of such termination prior to January 1 of the calendar year in which such termination is to become effective, whereupon a Participant shall not be entitled to participate in the Plan for such calendar year. Such a participant may, however, participate in the Plan effective for the calendar year following the calendar year in which such termination becomes effective in the same manner as prescribed in the Plan.

4.2 Matching Contributions. Provided the Participant is then serving as a Director or Inside Director and has elected to defer all (but not less than all) of his or her Director Fees relative to service for a particular Board in the form of Stock Units pursuant to Section 4.1C(i), on the first business day of each month the Company shall credit to the Participant's Matching Contribution Subaccount, pursuant to Section 5.3, a contribution equal to 25% of such Participant's Director Fees deferred under the Plan by the Participant during the preceding month. No matching contributions shall be made with respect to Salary or Bonus.

SECTION 5
DEFERRAL PLAN ACCOUNTS

5.1 Establishment of Deferral Plan Accounts. The Company shall establish a Deferral Plan Account ("DPA") for each Participant. Each Participant's DPA shall be comprised of (i) a Deferred Compensation Subaccount, consisting of a Cash Subpart Account and, in the case of Directors and Inside Directors who so elect, a Stock Subpart Account, and (ii) a Matching Contribution Subaccount.

5.2 Election of Measurement Funds in Cash Subpart Account. In the manner designated by the Committee or its designee, Participants may elect one or more Measurement Funds to be used to determine the additional amounts to be credited to their

Cash Subpart Account. The Committee or its designee shall select from time to time, in the Committee's or its designee's sole discretion, the Measurement Funds to be available under the Plan.

Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his Cash Subpart Account thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Cash Subpart Account shall not be considered or construed in any manner as an actual investment of his Cash Subpart Account in any such Measurement Fund. In the event that the Company, in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Cash Subpart Account shall at all times be a bookkeeping entry only and shall not represent any investment made on a Participant's behalf by the Company. The Participant shall at all times remain an unsecured creditor of the Company.

A. *Investment Elections.* Participants may designate how their Cash Subpart Accounts, if any, shall be deemed to be invested under the Plan.

(i) Such Participants may make separate investment elections for their future deferrals, and the existing balances of their Cash Subpart Accounts.

(ii) Such Participants may make and change their investment elections by choosing from the Measurement Funds designated by the Committee or its designee in accordance with the procedures established by the Committee or its designee.

(iii) Except as otherwise designated by the Committee or its designee, the available Measurement Funds under this Section 5.2 shall generally be the investment funds found in the Plan's summary plan description.

(iv) If a Participant fails to elect a Measurement Fund under this Section, he shall be deemed to have elected a default Measurement Fund as selected by the Compensation and Benefits Committee for his Cash Subpart Account.

B. *Continuing Investment Elections*. Participants who have had a Termination but not yet commenced distributions under the Plan or Participants who are receiving installment payments may continue to make investment elections pursuant to subsection A. above, as applicable, except as otherwise determined by the Committee.

5.3 Credit to Deferred Compensation Subaccount. A Deferred Compensation Subpart shall be created for each Participant, to which all Deferred Compensation

amounts deferred by a Participant in accordance with Section 4.1 of the Plan shall be credited.

A. *Initial Credit To Subaccount*. Each Participant's Deferred Compensation Subaccount, Cash Subpart, shall be credited no less frequently than the last day of each valuation period which will generally be the last day of each calendar quarter, unless otherwise designated by the Compensation and Benefits Committee, an amount equal to the sum of the Deferred Compensation deferred by the Participant during the valuation period, in accordance with Section 4.1 of the Plan. Each Participant's Deferred Compensation Subaccount, Stock Subpart, shall be credited no less frequently than the first day of the month following the month of the deferral.

(i) Credit To Cash Subpart. The actual dollar amount of Deferred Compensation as to which no Stock Unit Election has been deferred shall initially be credited as cash to the Participant's Cash Subpart.

(ii) Credit To Stock Subpart. The dollar amount of the Deferred Compensation as to which (and to the extent that) a Stock Unit Election has been made shall be credited as Stock Units, the number of which shall be calculated by dividing the dollar amount deferred by the Fair Market Value of the Common Stock as of the date such Deferred Compensation is credited to the Participant's Stock Subpart.

B. *Earnings Credit To Subaccount*. The Cash Subpart and Stock Subpart (if any) of Participant's Deferred Compensation Subaccount shall be credited with earnings amounts equal to the following.

(i) Earnings Credit To Stock Subpart. On each Dividend Payment Date, an amount equal to the sum of the cash dividends that would have been payable on all Stock Units then allocated to the Participant's Stock Subpart had such Stock Units then been converted to shares of Common Stock and distributed to the Participant immediately prior to such Dividend Payment Date, shall be credited to such Participant's Stock Subpart, whereupon the dollar amount of such cash dividends shall be converted into Stock Units by dividing such dollar amount by the Fair Market Value of the Common Stock as of such Dividend Payment Date.

(ii) Earnings Credit To Cash Subpart. Each such subaccount shall be further divided into separate investment fund subaccounts, each of which corresponds to a Measurement Fund elected by the Participant. The performance of each elected Measurement Fund (either positive or negative) shall be determined by the Committee or its designee and will be determined at the Committee or designee's discretion, based on the performance of the Measurement Funds during the applicable valuation period.

A Participant's Cash Subpart Account shall be credited or debited on the earlier of the last day of each valuation period or each December 31st (the "Applicable Period"), based on the performance of each Measurement Fund selected by the Participant, as though (a) a Participant's Cash Subpart Account and the underlying separate investment fund subaccounts of amounts deferred in periods prior to the present Applicable Period, were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such Cash Subpart Account, on the first day of the present Applicable Period; (b) fifty-percent (50%) of the portion of the Participant's Deferred Compensation that was actually deferred during such Applicable Period, if any, were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such period, no later than the close of business on the first business day of such Applicable Period; (c) any withdrawal or distribution made to a Participant, if any, that decreases such Participant's Cash Subpart Account ceased being invested in the Measurement Fund(s), in the percentages applicable to such period, no earlier than one business day prior to the distribution; and, (d) any transfers into or out of a Measurement Fund will be credited or debited, as applicable, as of the first business day of the Applicable Period which contains the effective date of the transfer.

The Committee shall establish and maintain, with respect to a Participant's Cash Subpart Account, an additional subaccount with respect to each Plan Year, to which shall be credited the amount equal to the portion of the Participant's Deferred Compensation for such Plan Year, debited by amounts equal to distributions to and withdrawals made by the Participant and adjusted for investment earnings and losses as described herein.

5.4 Matching Contribution Subaccount. Each Participant's Matching Stock Subaccount shall be credited no less frequently than the first business day of each month with an amount equal to the Company's contributions made in accordance with Section 4.2 of the Plan. The dollar amount of such Company's contributions shall be converted into Stock Units by dividing such dollar amount by the Fair Market Value of the Common Stock as of the date such Deferred Compensation is credited, which shall be credited to the Participant's Stock Subpart.

SECTION 6
VESTING OF DPA SUBACCOUNTS

6.1 Vesting. A Participant's Subaccounts shall vest in accordance with the following.

A. *Deferred Compensation Subaccount*. A Participant's Deferred Compensation Subaccount shall at all times be 100% Vested.

B. *Matching Contribution Subaccount*. A Participant's Matching Contribution Subaccount shall vest in accordance with the following schedule:

At End of Year	Vested Percentage
1	25%
2	50%
3	75%
4	100%

Notwithstanding the above vesting schedule under Section 6.1 (B), upon the following events, a Participant's Matching Contribution Subaccount shall become 100% vested: (i) the death or Disability of the Participant; (ii) a Change in Control of the Company; or (iii) Retirement.

SECTION 7
PAYMENT TO PARTICIPANTS

7.1 General Rule. Each Participant shall make a separate distribution election with respect to each Plan Year for which such Participant elects to defer Salary, Bonus or Director Fees. A Participant's distribution election with respect to a Plan Year shall apply to each subaccount in his Deferred Compensation Subaccount. A Participant's distribution election with respect to a Plan Year shall elect the Payment Date and the form of distribution of his Distributable Amount with respect to such Plan Year for purposes of distributions in the event of such Participant's Separation from Service or Disability. Such Payment Date and distribution form elections shall be made on such Participant's deferral election form during the Election Period for which such Participant elects to defer Salary, Bonus or Director Fees for such Plan Year, and such Payment Date and distribution form elections with respect to such Plan Year shall be irrevocable. A Participant's distribution for his Distributable Amount with respect to a Plan Year shall be made or commence as soon as administratively practicable after such Participant's Payment Date.

The limitations under this subsection shall be applied in accordance with Section 409A(a)(4)(C) of the Code and the Treasury Regulations thereunder.

A. *Normal Form*. Except as provided in paragraph B, a Participant's Distributable Amount with respect to each Plan Year shall be paid to the Participant in a single lump sum in cash on the Participant's Payment Date.

B. *Optional Forms*. Instead of receiving his Distributable Amount with respect to each Plan Year, the Participant may elect an optional form of payment (on the form provided by Company) at the time of his deferral election for such Plan Year to receive his Distributable Amount in equal annual installments in cash over a period of from two (2) up to fifteen (15) years beginning on the Participant's Payment Date. The payment of such Participant's Distributable Amount with respect each Plan Year shall be made or commence on such Participant's Payment Date.

All installment payments made under the Plan shall be determined in accordance with the annual fractional payment method, calculated as follows: the balance of subaccounts in the Participant's Accounts with respect to a Plan Year shall be calculated as of the close of business on the last business day of the year. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects 10 year installments for the distribution of the subaccounts in his Accounts with respect to a Plan Year, the first payment shall be 1/10 of the balance of such subaccounts in his Accounts calculated as described in this definition. The following year, the payment shall be 1/9 of such subaccounts in the balance of the Participant's Accounts, calculated as described in this definition. Each annual installment shall be paid on or as soon as practicable after the last business day of the applicable year.

7.2 Death Before Payment of Benefits. Should a Participant die before the balance of the Participant's Deferred Compensation and Matching Contribution Subaccounts have been paid to the Participant, any remaining payments will be made to the Participant's Beneficiary in the same form and manner as they would have been made to the Participant under the provisions of Section 7.1 of the Plan.

7.3. Distributions in Cases of Hardship. Notwithstanding the provisions of Section 7.1 of the Plan, the Committee may, in its sole discretion, choose to permit a Participant to withdraw amounts from his or her Deferred Compensation Subaccount upon a showing by such Participant that an Unforeseeable Emergency has occurred. Such distribution shall be limited to the amount shown to be necessary to meet the Unforeseeable Emergency, and no more than one withdrawal will be permitted from a Participant's Deferred Compensation Subaccount during any calendar year.

The dollar amount of any withdrawal shall reduce the value of both the Participant's Cash and Stock Subparts. To determine the cash value of the Participant's Stock Subpart on the date of withdrawal of funds, the number of Stock Units credited on the date of withdrawal of funds shall be multiplied by the Fair Market Value of the Common Stock as of such date. To determine the value of the Participant's Cash Subpart on the date of withdrawal of funds, the cash amount credited to such Cash Subpart on such date shall be utilized.

Any amounts distributed to a Participant pursuant to a hardship withdrawal shall be considered to be taxable wages to the Participant in the calendar year of withdrawal.

7.4 Prohibition on Acceleration of Distributions. The time or schedule of payment of any withdrawal or distribution under the Plan shall not be subject to acceleration, except as provided under Treasury Regulations promulgated in accordance with Section 409A of the Code.

SECTION 8
PARTICIPANT STATEMENTS

8.1 Annual Participant Statements. Within a reasonable period of time following the end of each Plan Year each Participant shall be provided with a statement showing the balances (vested and nonvested) in the Participant's Deferred Compensation and Matching Contribution Subaccounts.

8.2 Termination of Participant's Service. Within 30 days following the date of the termination of service by a Participant (for any reason) to the Company, as a Director, employee or both (in the case of an Inside Director), such Participant shall be provided with a statement showing the vested balances of his or her Deferred Compensation and Matching Contribution Subaccounts as of the date of such termination of service.

SECTION 9
AMENDMENT OR TERMINATION OF PLAN

9.1 Amendment or Termination of Plan. Any amendment to this Plan shall be made pursuant to a duly adopted resolution of the Board; provided, however, that if such amendment directly or indirectly affects the benefits payable under the Plan, such amendment must be mutually agreed to in writing by a Participant (or, in the event that such Participant is deceased at the date of amendment, the Beneficiary).

SECTION 10
GENERAL PROVISIONS

10.1 Participant's Rights Unfunded. The Plan at all times shall be unfunded as defined under provisions of the Code. The right of any Participant or Beneficiary to receive a distribution hereunder shall be an uninsured claim against the general assets of the Company in the event of the Company's insolvency or bankruptcy. The Company shall implement a form of trust arrangement (known generally as a "rabbi trust") to hold the Company assets which will be used to make payments to the Participant (or any Beneficiary) under the terms of the Plan. Such trust arrangement will not be a "funded" arrangement under the provisions of the Code.

10.2 Independence of Other Benefit Arrangements. Participation in the Plan shall in no way restrict or otherwise impact Participant's participation in any other welfare benefit plan, employment or other contract, deferred compensation arrangement, equity participation plan or any other form of retirement benefit arrangement sponsored by the Company.

10.3 No Secured Guarantee of Benefits. In the event of the insolvency or bankruptcy of the Company, Participant shall remain a general creditor of the Company with respect to any benefits payable under the Plan, and nothing contained in the Plan shall constitute a secured guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder in the event of the Company's insolvency or bankruptcy.

10.4 No Enlargement of Rights. No Participant shall have any right to receive a distribution of any benefits under the Plan except in accordance with the terms of the Plan. Establishment of the Plan shall not be construed to give any Participant the right to be retained in the service of the Company, whether as an employee, officer or director.

10.5 Spendthrift Provision. No interest of any person or entity in, or right to receive a distribution under the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

10.6 Applicable Law. The Plan shall be construed and administered under the laws of the State of Illinois.

10.7 Severability. In the event that any of the provisions of the Plan are held to be inoperative or invalid by any court of competent jurisdiction, then: (i) insofar as is reasonable, effect will be given to the intent manifested in the provision held invalid or inoperative; and (ii) the validity and enforceability of the remaining provisions of the Plan will not be affected thereby.

10.8 Incapacity of Recipient. If any person entitled to a distribution under the Plan is deemed by the Company to be incapable (physically or mentally) of personally receiving and giving a valid receipt for any payment pursuant to the Plan, then, unless and until claim therefore shall have been made by a duly appointed guardian or other legal representative of such person, the Company may provide for such payment or any part thereof to be made to any other person or institution then contributing towards or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company and the Plan with respect to such payment.

10.9 Successors. The terms and conditions of the Plan will be binding on the Company's and Participant's successors, heirs and assigns (herein, "Participant Successors" and "the Company Successors").

10.10 Unclaimed Benefits. Participant shall keep the Company informed of his or her current address and the current address of his or her Beneficiary. The Company shall not be obligated to search for the whereabouts of any person. If the location of any Participant is not made known to the Company within a one (1) year period after the date on which payment is to be made under the provisions of Section 7.1, then payment may be made by the Company to the Beneficiary instead. If, within one (1) additional year after such initial one (1) year period, the Company is unable to locate any designated Beneficiary of the Participant, then the Company shall use its reasonable best efforts to distribute all unclaimed benefits to the estate or other representative of the Participant.

10.11 Limitations on Liability. Participant and any other person claiming benefits under the Plan shall be entitled under this Plan only to those payments provided in accordance with the provisions of the Plan ("Payment Claims"). With the exception of the provisions of Section 10.13 of the Plan, neither the Company, the Company Successor nor any individual acting as an employee or agent of the Company or the Company Successor, shall be liable to Participant or any other person for any other claim, loss, liability or expense under this Plan not directly related to a Payment Claim.

10.12 Forfeiture of Benefits. Notwithstanding any other provision of the Plan, should Participant engage in theft, fraud or embezzlement causing significant property damage to the Company, then any benefits payable to such Participant under the Plan will automatically be forfeited. The determination of theft or embezzlement will be made by the Board in good faith, but such determination does not require an actual criminal indictment or conviction prior to or after such decision. In any determination of forfeiture pursuant to this Section 10.12, the Participant will be given the opportunity to refute any such decision by the Board, but the Board's decision on the matter will be considered final and binding on Participant and all other parties.

10.13 Payment of Attorneys' Fees, Court Costs, and Interest on Loss of Benefits. Should either the Company or the Company Successor (for these purposes, "the Company") or Participant bring an action at law (or through arbitration) in order that the Plan's terms be enforced, then the party prevailing in the action at law (or through arbitration) shall be entitled to reimbursement from the losing party for reasonable attorneys' fees, court costs and other similar amounts expended in the enforcement of the terms of the Plan. In addition, should the prevailing party be Participant, he or she shall also be entitled to interest on any delayed payments, with such interest computed at the Applicable Rate.

10.14 Payment of Taxes. Should the payment of any benefits under this Plan be classified as payment of an excess parachute payment under the provisions of Code Sections 280G and 4999, then an additional payment will be made to the Participant based on the amount of excise tax or penalty payable by the Participant because of such

classification. Such payment will be made within two (2) months following Participant's termination of employment, once a good faith determination is made by either the Company or Participant that the payment of any benefit under the Plan will constitute an excess parachute payment. The amount payable to the Participant will be determined by the Committee, in its reasonable judgment, as to the amount required to meet the intent of this Section 10.14.

10.15 Withholding. There shall be deducted from all payments under the Plan the amount of any taxes required to be withheld by any federal, state or local government. The Participants, any Beneficiaries and personal representatives shall bear any and all federal, foreign, state, local, income or other taxes imposed on amounts paid under the Plan.

10.16 Participants Bound By Terms of the Plan. Each Participant shall be deemed conclusively to have accepted and consented to all terms of the Plan and all actions or decisions made by the Company with regard to the Plan. Such terms and consent shall also apply to and be binding upon any Beneficiaries, personal representatives and other Participant Successors of each Participant. Each Participant shall receive a copy of the Plan.

10.17 Rule 701. It is the intent of the Board in establishing the Plan that the offering and sale of any securities to a Participant hereunder be exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Rule 701. Accordingly, notwithstanding anything to the contrary contained herein, any offer or sale of securities hereunder shall be subject to the limitations set forth in Rule 701, and any and all constructions of this Plan by the Committee shall be consistent with the requirements of Rule 701.

10.18 No Distribution of Fractional Shares. Notwithstanding the credit of fractional interest in Stock Units in a Participant's Stock Subpart, no fractional shares or interests shall be distributed to a Participant. Rather, such Participant shall be entitled to receive cash for such fractional shares or interest in an amount equal to the value thereof, determined with reference to the then per share Fair Market Value of the common Stock.

IN WITNESS WHEREOF, this Amendment and Restatement is hereby adopted and effective by the Company on this 6th day of April, 2011.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Title: President & CEO

EXHIBIT A

PARTICIPATION CERTIFICATE

THIS PARTICIPATION CERTIFICATE certifies that the Executive Committee of the Board of Directors of Midland States Bancorp, Inc., or its designee, has selected ("Participant") as a Participant in its Amended and Restated Deferred Compensation Plan of Midland States Bancorp (the "Plan"), with all of the rights and privileges appurtenant thereto.

By signing this Certificate in the space provided below, Participant acknowledges having received a copy of the Plan and having read and reviewed the terms and provisions thereof. Participant also acknowledges that Participant must elect to participate for the Plan Year of his initial election no later than the 30th day following the date of his selection as a Participant. If Participant fails to elect to participate in the Plan for the Plan Year of his initial selection within thirty (30) days of his selection, Participant acknowledges that his deferrals into the Plan may begin only upon the first day of the Plan Year subsequent to the Plan Year of his selection as a Participant. Any deferral election for the Participant for a Plan Year other than the Plan Year of his initial selection must be made by the Participant prior to the beginning of the Plan Year for which deferrals are being elected.

Dated as of the day of , 200 .

MIDLAND STATES BANCORP, INC.

By: _____

Title: _____

Received by Participant the day of , 200 .

_____
[Name of Participant]

_____
Address

City, State and Zip Code

EXHIBIT B-1
[For Directors, with respect to Director Fees]

THE AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN
OF
MIDLAND STATES BANCORP, INC.

Deferral and Distribution Election

Pursuant to the Amended and Restated Deferred Compensation Plan of Midland States Bancorp, Inc. (the "Plan"), a copy of which I have in my possession and have read, I hereby elect the following actions in conjunction with my service as a Director. Defined terms herein shall have the same meanings as ascribed to them under the Plan.

· To defer Director Fees otherwise payable to me for calendar year 20 in the aggregate amount of o all or o $.

Of the amount deferred, shall be allocated to the Stock Subpart of my Deferred Compensation Subaccount and shall be allocated to the Cash Subpart of my Deferred Compensation Subaccount.

I understand that no Matching Contributions will be credited unless all of my Director Fees are deferred and allocated to the Stock Subpart of my Deferred Compensation Subaccount.

· Timing of Distributions:

o Date Certain Election: For all deferrals for the 20 Plan Year, I elect payment on the last day of (month) (year), or

o Separation from Service: For all For all deferrals for the 20 Plan Year, I elect payment only upon a Separation from Service, or

o I elect payment on earlier of the last day of (month) (year) or upon a Separation from Service.

· Method of Distribution (select one):

o Monthly Installments over years (maximum of 15).

o Lump-sum.

I understand that this election relates to only a single year and that I must make a new election for later years not covered by this election form.

Date: _____

_____
Signature

_____
Print Name

EXHIBIT B-2
[For Certain Employees, including Inside Directors,
with respect to Salary and/or Bonus Only]

THE AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN
OF MIDLAND STATES BANCORP, INC.

Deferral and Distribution Election

Pursuant to the Amended and Restated Deferred Compensation Plan of Midland States Bancorp, Inc. (the "Plan"), a copy of which I have in my possession and have read, I hereby elect the following actions in conjunction with my employment with . Defined terms herein shall have the same meanings as ascribed to them under the Plan.

· Deferrals:

o Salary otherwise payable to me for the Plan Year 20 in the aggregate amount of
o all, or o $, or o % thereof, and/or

o Bonus otherwise payable to me for the Plan Year 20 in the aggregate amount of
o all, or o $, or o % thereof.

· Timing of Distributions:

o Date Certain Election: For all deferrals for the 20 Plan Year, I elect payment on the last day of (month) (year), or

o Separation from Service: For all For all deferrals for the 20 Plan Year, I elect payment only upon a Separation from Service, or

o I elect payment on ealier of the last day of (month) (year) or upon a Separation from Service.

· Method of Distribution (select one):

o Monthly Installments over years (maximum of 15).

o Lump-sum.

I understand that neither my participation in the Plan nor my election deferral of all or any portion of my Bonus shall affect in any manner my right to continued employment with my employer or guarantee that I will receive a Bonus for any year. Additionally, I understand that this election relates to only a single year and that I must make a new election for later years not covered by this election form.

Date: _____

_____
Signature

_____
Print Name

EXHIBIT B-3

THE AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN
OF MIDLAND STATES BANCORP, INC.

Beneficiary Designation Form

Pursuant to the Amended and Restated Deferred Compensation Plan of Midland States Bancorp, Inc. (the "Plan"), a copy of which I have in my possession and have read, I hereby designate the following persons as my beneficiaries to receive all amounts held for me under the Plan which have not been paid to me at the date of my death:

Primary Beneficiary(ies):

Name	Relationship	Percentage
		%
		%

Secondary Beneficiary(ies)

Name	Relationship	Percentage
		%
		%

The designation of beneficiaries specified above (if any) will continue in effect for future years until revoked.

Date: _____

Signature

Print Name

EXHIBIT B-4

THE AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN
OF MIDLAND STATES BANCORP, INC.

Request for Hardship Withdrawal

Pursuant to the Amended and Restated Deferred Compensation Plan of Midland States Bancorp, Inc. (the "Plan"), a copy of which I have in my possession and have read, I hereby request a hardship withdrawal from the balance in my Deferred Compensation Subaccount relative to the Plan Year in the amount of $ as a result of the occurrence of an Unforseeable Emergency, as more particularly described on the page attached hereto.

Date: _____

Signature

Print Name

MIDLAND STATES BANCORP, INC.

AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN

INCENTIVE STOCK OPTION AWARD TERMS

The Participant specified below has been granted this Option by **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the "**Company**"), under the terms of the **MIDLAND STATES BANCORP, INC. AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN** (the "**Plan**"). The Option shall be subject to the Plan as well as the following terms and conditions (the "**Option Terms**"):

Section 1. **Award**. In accordance with the Plan, the Company hereby grants an option (the "**Option**") for the number of Covered Shares set forth in **Section 2** to the Participant, subject to the Option Terms.

Section 2. **Terms of Option Award.** The following words and phrases relating to the grant of the Option shall have the following meanings:

(a) The "**Participant**" is **[ ]**.

(b) The "**Grant Date**" is **[ ]**.

(c) The number of "**Covered Shares**" is **[ ]** shares of Stock.

(d) The "**Exercise Price**" is **[$]** per Covered Share.

Except where the context clearly implies to the contrary, any capitalized term in this Option award shall have the meaning ascribed to that term under the Plan.

Section 3. **Incentive Stock Option.** The Option is intended to constitute an "incentive stock option" as that term is used in Code Section 422. To the extent that the aggregate fair market value (determined at the time of grant) of shares of Stock with respect to which incentive stock options are exercisable for the first time by the Participant during any calendar year under all plans of the Company and its Subsidiaries exceeds $100,000, the options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as nonstatutory stock options. It should be understood that there is no assurance that the Option will, in fact, be treated as an incentive stock option.

Section 4. **Vesting.** Subject to the limitations of the Option Terms, each installment of Covered Shares of the Option ("**Installment**") shall become vested and exercisable on and after the "**Vesting Date**" for such Installment as described in the following schedule (but only if the Participant's Termination of Service has not occurred before the Vesting Date):

INSTALLMENT	VESTING DATE APPLICABLE TO INSTALLMENT

The Option may be exercised on or after a Termination of Service only as to that portion of Covered Shares for which it was exercisable immediately prior to the Termination of Service, or became exercisable on the date of the Termination of Service.

Notwithstanding the foregoing provisions of this **Section 4**, the Option shall become fully and immediately vested upon a Change in Control that occurs on or before the Participant's Termination of Service or upon a Participant's Termination of Service due to [Retirement,] Disability or death.

For purposes of this Award Agreement: (a) ["Retirement" shall mean a Termination of Service, other than for Cause, upon or after attaining age sixty-five (65); and, (b)] "**Disability**" shall mean that a Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering the Company's employees.

Section 5. **Expiration.** The Option shall not be exercisable after the Company's close of business on the last business day that occurs prior to the Expiration Date. The "**Expiration Date**" shall be the earliest to occur of:

(a) the ten-year anniversary of the Grant Date;

(b) the date upon which a Termination of Service occurs, if the Participant's employment with, or service to, the Company or any Subsidiary is terminated for Cause;

(c) the six-month anniversary of the date upon which a Termination of Service occurs, if the Participant's employment with, or service to, the Company or any Subsidiary is terminated for any reason other than Retirement, Disability, death, or Cause (provided that the Option shall cease to constitute an "incentive stock option" on the three-month anniversary of such termination); or

(d) the one-year anniversary of the date upon which a Termination of Service occurs, if the Participant's employment with, or service to, the Company or any Subsidiary is terminated as a result of Retirement, Disability or death.

Section 6. **Option Exercise.**

(a) *Method of Exercise*. Subject to the Option Terms and the Plan, the Option may be exercised in whole or in part by filing an exercise notice with the Secretary of the Company at its corporate headquarters prior to the Company's close of business on the last business day that occurs prior to the Expiration Date. The notice requirement may only be satisfied by the method prescribed by the Committee; *provided, however,* the Committee shall retain the right to limit or expand the method of exercise to any one or more methods with respect to any individual Participant or group or class of Participants. Such notice shall specify the number of Covered Shares which the Participant elects to purchase, and shall be accompanied by payment of the Exercise Price for such Covered Shares indicated by the Participant's election.

(b) *Payment of Exercise Price*. Payment may be by cash or, subject to limitations imposed by applicable law, by such means as the Committee from time to time may permit, including, (i) by tendering, either actually or by attestation, Stock acceptable to the Committee, valued at Fair Market Value on the date of exercise; (ii) by irrevocably authorizing a third party, acceptable to the Committee, to sell Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and to remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price; (iii) by personal, certified or cashiers' check; or (iv) by payment through a net exercise such that, without the payment of any funds, the Participant may exercise the Option and receive the net number of Covered Shares equal to (1) the number of Covered Shares as to which the Option is being exercised, multiplied by (2) a fraction, the numerator of which is the Fair Market Value per Covered Share (on such date as is determined by the Company) less the Exercise Price per Covered Share, and the denominator of which is such Fair Market Value per Covered Share (the number of net Covered Shares to be received shall be rounded down to the nearest whole number of Covered Shares). If payment is made pursuant to clauses (i) or (ii) above, the Participant's election must be made on or prior to the date of exercise of the Option and must be irrevocable. The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate applicable state or federal securities laws or the rules and regulations of any securities exchange on which the Stock is traded and shall not be exercisable during any blackout period established by the Company from time to time.

Section 7. **Delivery of Shares.** Delivery of Stock or other amounts under this Award Agreement and the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other provision of this Award Agreement or the Plan, the Company shall have no obligation to deliver any Stock or make any other distribution of benefits under this Award Agreement or the Plan unless such delivery or distribution complies with all applicable laws (including, the requirements of the Securities Act), and the applicable requirements of any securities exchange or similar entity.

(b) *Certificates.* To the extent that this Award Agreement and the Plan provide for the issuance of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

Section 8. **Withholding.** The exercise of the Option, and the Company's obligation to issue shares upon exercise, is subject to withholding of all applicable taxes. Except as may otherwise provided by the Committee from time-to-time, such withholding obligations may be satisfied: (i) through cash payment by the Participant; (ii) through the surrender of shares of Stock which the Participant already owns; or (iii) through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan; *provided, however,* that except as otherwise specifically provided by the Committee, such shares under clause (iii) may not be used to satisfy more than the Company's minimum statutory withholding obligation.

Section 9. **Transferability.** The Option, or a portion thereof, may be transferable or assignable: (i) by will or the laws of descent and distribution; or (ii) pursuant to a qualified domestic relations order, as defined in the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended. Except as provided in the preceding sentence, the Option may not be assigned, transferred, pledged or hypothecated by the Participant in any way whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge or hypothecation, or other disposition of this Option contrary to the provisions hereof, and the levy of any attachment or similar process upon this option, shall be null and void and without effect.

Section 10. **Heirs and Successors.** The Option Terms shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any rights of the Participant or benefits distributable to the Participant under this Award Agreement have not been exercised or distributed, respectively, at the time of the Participant's death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be distributed to the Designated Beneficiary, in accordance with the provisions of this Award Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee on the Beneficiary Designation Form, or such other form as the Committee may require. The Beneficiary Designation Form may be amended or revoked from time to time by the Participant. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be exercised by or distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the Designated Beneficiary's exercise of all rights under this Award Agreement or before the complete distribution of benefits to the Designated Beneficiary under this Award Agreement, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

Section 11. **Administration.** The authority to manage and control the operation and administration of the Option Terms and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to the Option Terms as it has with respect to the Plan. Any interpretation of the Option Terms or the Plan by the Committee and any decision made by it with respect to the Option Terms or the Plan are final and binding on all persons.

Section 12. **Plan Governs.** Notwithstanding anything in the Option Terms to the contrary, the Option Terms shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and the Option Terms are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan.

Section 13. **Not An Employment Contract.** The Option will not confer on the Participant any right with respect to continuance of employment or other service with the Company, nor will it interfere in any way with any right the Company would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

Section 14. **No Rights As Shareholder.** The Participant shall not have any rights of a shareholder with respect to the Covered Shares, until a stock certificate has been duly issued following exercise of the Option as provided herein.

Section 15. **Amendment.** The Option Terms may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

Section 16. **Governing Law.** This Award Agreement, the Plan, and all actions taken in connection herewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 17. **Section 409A Amendment.** The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Award Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A. Participant's acceptance of this Option award constitutes acknowledgement and consent to such rights of the Committee.

(Signature Page to Follow)

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in its name and on its behalf, all as of the Grant Date and the Participant acknowledges acceptance of the terms and conditions of this Award Agreement.

MIDLAND STATES BANCORP, INC.

By: _____

Its: _____

PARTICIPANT

_____

[ ] **Date**

Exhibit 10.13

MIDLAND STATES BANCORP, INC.

AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AWARD TERMS

The Participant specified below has been granted this Non-Qualified Stock Option (the "**Option**") by **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the "**Company**"), under the terms of the **MIDLAND STATES BANCORP, INC. AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN** (the "**Plan**"). The Option shall be subject to the Plan as well as the following terms and conditions (the "**Option Agreement**"):

Section 1. **Award**. In accordance with the Plan, the Company hereby grants this Option for the number of Covered Shares set forth in **Section 2** to the Participant, subject to the Option Agreement.

Section 2. **Terms of Option Award.** The following words and phrases relating to the grant of the Option shall have the following meanings:

(a) The "**Participant**" is **[ ]**.

(b) The "**Grant Date**" is **[ ]**.

(c) The number of "**Covered Shares**" is **[ ]** shares of Stock.

(d) The "**Exercise Price**" is $**[ ]** per Covered Share.

Except where the context clearly implies to the contrary, any capitalized term in this Option award shall have the meaning ascribed to that term under the Plan.

Section 3. **Non-Qualified Stock Option.** The Option is not intended to constitute an "incentive stock option" as that term is used in Code Section 422.

Section 4. **Vesting.** Subject to the limitations of the Option Agreement, each installment of Covered Shares of the Option ("**Installment**") shall become vested and exercisable on and after the "**Vesting Date**" for such Installment as described in the following schedule (but only if the Participant's Termination of Service has not occurred before the Vesting Date):

INSTALLMENT	VESTING DATE APPLICABLE TO INSTALLMENT

The Option may be exercised on or after a Termination of Service only as to that portion of Covered Shares for which it was exercisable immediately prior to the Termination of Service, or became exercisable on the date of the Termination of Service.

Notwithstanding the foregoing provisions of this **Section 4**, the Option shall become fully and immediately vested upon a Change in Control that occurs on or before the Participant's Termination of Service or upon a Participant's Termination of Service due to [Retirement], Disability or death.

For purposes of this Option Agreement: [(a) "Retirement" shall mean a Termination of Service, other than for Cause, upon or after attaining age sixty-five (65); and, (b)] "**Disability**" shall mean that a Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering the Company's employees.

Section 5. **Expiration.** The Option shall not be exercisable after the Company's close of business on the last business day that occurs prior to the Expiration Date. The "**Expiration Date**" shall be the earliest to occur of:

(a) the ten-year anniversary of the Grant Date;

(b) the date upon which a Termination of Service occurs, if the Participant's employment with, or service to, the Company or any Subsidiary is terminated for Cause;

(c) the six-month anniversary of the date upon which a Termination of Service occurs, if the Participant's employment with, or service to, the Company or any Subsidiary is terminated for any reason other than Retirement, Disability, death or Cause; or

(d) the one-year anniversary of the date upon which a Termination of Service occurs, if the Participant's employment with, or service to, the Company or any Subsidiary is terminated as a result of Retirement, Disability or death.

Section 6. **Option Exercise.**

(a) *Method of Exercise*. Subject to the Option Agreement and the Plan, the Option may be exercised in whole or in part by filing an exercise notice with the Secretary of the Company (or other party established by the Committee) at its corporate headquarters prior to the Company's close of

business on the last business day that occurs prior to the Expiration Date. The notice requirement may only be satisfied by the method prescribed by the Committee; *provided, however,* the Committee shall retain the right to limit or expand the method of exercise to any one or more methods with respect to any individual Participant or group or class of Participants. Such notice shall specify the number of Covered Shares which the Participant elects to purchase, and shall be accompanied by payment of the Exercise Price for such Covered Shares indicated by the Participant's election.

(b) *Payment of Exercise Price*. Payment may be by cash or, subject to limitations imposed by applicable law, by such means as the Committee from time to time may permit, including, (i) by tendering, either actually or by attestation, Stock acceptable to the Committee, valued at Fair Market Value on the date of exercise; (ii) by irrevocably authorizing a third party, acceptable to the Committee, to sell Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and to remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price; (iii) by personal, certified or cashiers' check; (iv) by payment through a net exercise such that, without the payment of any funds, the Participant may exercise the Option and receive the net number of Covered Shares equal to (1) the number of Covered Shares as to which the Option is being exercised, multiplied by (2) a fraction, the numerator of which is the Fair Market Value per Covered Share (on such date as is determined by the Company) less the Exercise Price per Covered Share, and the denominator of which is such Fair Market Value per Covered Share (the number of net Covered Shares to be received shall be rounded down to the nearest whole number of Covered Shares); (v) by other property deemed acceptable by the Committee; or (vi) any combination of the above. If payment is made pursuant to clauses (i) or (ii) above, the Participant's election must be made on or prior to the date of exercise of the Option and must be irrevocable. The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate applicable state or federal securities laws or the rules and regulations of any securities exchange on which the Stock is traded and shall not be exercisable during any blackout period established by the Company from time to time.

Section 7. **Delivery of Shares.** Delivery of Stock or other amounts under this Option Agreement and the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other provision of this Option Agreement or the Plan, the Company shall have no obligation to deliver any Stock or make any other distribution of benefits under this Option Agreement or the Plan unless such delivery or distribution complies with all applicable laws (including, the requirements of the Securities Act), and the applicable requirements of any securities exchange or similar entity.

(b) *Certificates.* To the extent that this Option Agreement and the Plan provide for the issuance of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

Section 8. **Withholding.** The exercise of the Option, and the Company's obligation to issue shares upon exercise, is subject to withholding of all applicable taxes. Except as may otherwise provided by the Committee from time-to-time, such withholding obligations may be satisfied: (i) through cash payment by the Participant; (ii) through the surrender of shares of Stock which the Participant already owns; or (iii) through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan; *provided, however,* that except as otherwise specifically provided by the Committee, such shares under clause (iii) may not be used to satisfy more than the Company's minimum statutory withholding obligation.

Section 9. **Transferability.** The Option, or a portion thereof, may be transferable or assignable: (i) by will or the laws of descent and distribution; or (ii) pursuant to a qualified domestic relations order, as defined in the Code or Title I of the Employee Retirement Income

Security Act of 1974, as amended. Except as provided in the preceding sentence, the Option may not be assigned, transferred, pledged or hypothecated by the Participant in any way whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Any attempt at assignment, transfer, pledge or hypothecation, or other disposition of this Option contrary to the provisions hereof, and the levy of any attachment or similar process upon this option, shall be null and void and without effect.

Section 10. **Heirs and Successors.** The Option Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any rights of the Participant or benefits distributable to the Participant under this Option Agreement have not been exercised or distributed, respectively, at the time of the Participant's death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be distributed to the Designated Beneficiary, in accordance with the provisions of this Option Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee on the Beneficiary Designation Form, or such other form as the Committee may require. The Beneficiary Designation Form may be amended or revoked from time to time by the Participant. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be exercised by or distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the Designated Beneficiary's exercise of all rights under this Option Agreement or before the complete distribution of benefits to the Designated Beneficiary under this Option Agreement, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

Section 11. **Administration.** The authority to manage and control the operation and administration of the Option Agreement and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to the Option Agreement as it has with respect to the Plan. Any interpretation of the Option Agreement or the Plan by the Committee and any decision made by it with respect to the Option Agreement or the Plan are final and binding on all persons.

Section 12. **Plan Governs.** Notwithstanding anything in the Option Agreement to the contrary, the Option Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and the Option Agreement are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan.

Section 13. **Not An Employment Contract.** The Option will not confer on the Participant any right with respect to continuance of employment or other service with the Company, nor will it interfere in any way with any right the Company would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

Section 14. **No Rights As Shareholder.** The Participant shall not have any rights of a shareholder with respect to the Covered Shares, until a stock certificate has been duly issued following exercise of the Option as provided herein.

Section 15. **Amendment.** The Option Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

Section 16. **Governing Law.** This Option Agreement, the Plan, and all actions taken in connection herewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 17. **Section 409A Amendment.** The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Option Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A. Participant's acceptance of this Option award constitutes acknowledgement and consent to such rights of the Committee.

IN WITNESS WHEREOF, the Company has caused this Option Agreement to be executed in its name and on its behalf, all as of the Grant Date and the Participant acknowledges acceptance of the terms and conditions of this Option Agreement.

MIDLAND STATES BANCORP, INC.

By: _____
Its: _____

PARTICIPANT

_____
[ ] Date

Exhibit 10.14

MIDLAND STATES BANCORP, INC.

AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD TERMS

The Participant specified below has been granted this Restricted Stock Unit Award ("**Award**") by **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the "**Company**"), under the terms of the **MIDLAND STATES BANCORP, INC. AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN** (the "**Plan**"). The Award shall be subject to the Plan as well as the following terms and conditions (the "**Award Agreement**"):

Section 1. **Award**. In accordance with the Plan, the Company hereby grants to the Participant this Award of Restricted Stock Units (each, an "**RSU**") where each RSU represents the right to receive one share of Stock in the future as set forth in **Section 2**. This Award is in all respects limited and conditioned as provided herein.

Section 2. **Terms of Restricted Stock Award.** The following words and phrases relating to the grant of the Award shall have the following meanings:

(a) The "**Participant**" is **[ ]**.

(b) The "**Grant Date**" is **[ ]**.

(c) The number of "**RSUs**" is **[ ]**.

Except where the context clearly implies to the contrary, any capitalized term in this Award shall have the meaning ascribed to that term under the Plan.

Section 3. **Restricted Period**. This Award Agreement evidences the Company's grant to the Participant as of the Grant Date, on the terms and conditions described in this Award Agreement and in the Plan, a number of RSUs, each of which represents the right of the Participant to receive a share of Stock free of restrictions once the Restricted Period ends.

(a) Subject to the limitations of this Award Agreement, the "**Restricted Period**" for each installment of such RSUs ("**Installment**") shall begin on the Grant Date and end as described in the following schedule (but only if the Participant has not had a Termination of Service before the end of the Restricted Period):

INSTALLMENT	RESTRICTED PERIOD WILL END ON:

(b) Notwithstanding the foregoing provisions of this **Section 3**, the Restricted Period for the RSUs shall cease immediately, and the RSUs shall become immediately and fully

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vested, upon (i) a Change in Control that occurs on or before the Participant's Termination of Service or (ii) upon the Participant's Termination of Service due to Disability or death.

(c) In the event the Participant's Termination of Service, other than as provided in **subsection (b)** above, occurs prior to the expiration of one or more Restricted Periods, the Participant shall forfeit all rights, title and interest in and to any Installment(s) of RSUs still subject to a Restricted Period as of the Participant's Termination of Service date.

For purposes of this Award Agreement: "**Disability**" shall mean that a Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering the Company's employees.

Section 4. **Settlement of Units.** Delivery of Stock or other amounts under this Award Agreement and the Plan shall be subject to the following:

(a) *Delivery of Stock.* As soon as administratively practicable following the end of a Restricted Period or upon immediate vesting as described in **Section 3,** the Company shall deliver to the Participant one share of the Company's Stock free and clear of any restrictions in settlement of each of the unrestricted units.

(b) *Compliance with Applicable Laws.* Notwithstanding any other provision of this Award Agreement or the Plan, the Company shall have no obligation to deliver any Stock or make any other distribution of benefits under this Award Agreement or the Plan unless such delivery or distribution complies with all applicable laws (including, the requirements of the Securities Act), and the applicable requirements of any securities exchange or similar entity.

(c) *Certificates.* To the extent that this Award Agreement and the Plan provide for the issuance of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

Section 5. **Withholding.** All deliveries of shares of Stock pursuant to this Award Agreement shall be subject to withholding of all applicable taxes. The Company shall have the right to require the Participant (or if applicable, permitted assigns, heirs or Designated Beneficiaries) to remit to the Company an amount sufficient to satisfy any tax requirements prior to the delivery date of any shares of Stock under this Award Agreement. At the election of the Participant, subject to the rules and limitations as may be established by the Committee, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which Participant is otherwise entitled under the Plan.

Section 6. **Non-Transferability of Award.** Prior to settlement, the Participant shall not sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of any RSUs awarded under this Award.

Section 7. **Dividends**. The Participant shall [not] be entitled to receive a payment of additional RSUs equal in value to any cash dividends and property distributions paid with respect to the RSUs (other than dividends or distributions of securities of the Company which may be issued with respect to its shares by virtue of any stock split, combination, stock dividend or recapitalization — to the extent covered in **Section 3.3 of the Plan**) that become payable during the Restricted Period ("**Dividend Equivalents**"); *provided*, *however*, that no Dividend Equivalents shall be payable to or for the benefit of the Participant with respect to record dates for such dividends or distributions occurring prior to the Grant Date, or with respect to record dates for such dividends or distributions occurring on or after the date, if any, on which the Participant has forfeited the RSUs. Dividend Equivalents shall be paid at such times as the Committee shall determine in its discretion and shall be subject to the same restrictions applicable to the underlying RSUs. [Dividend Equivalents may also be paid in cash when dividends are paid to shareholders.]

Section 8. **Voting Rights**. The Participant shall not be a shareholder of record with respect to the RSUs during the Restricted Period and shall have no voting rights with respect to the RSUs during the Restricted Period.

Section 9. **Heirs and Successors.** This Award Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any rights of the Participant or benefits distributable to the Participant under this Award Agreement have not been settled or distributed, respectively, at the time of the Participant's death, such rights shall be settled and payable to the Designated Beneficiary, and such benefits shall be distributed to the Designated Beneficiary, in accordance with the provisions of this Award Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form as the Committee may require. The designation of beneficiary form may be amended or revoked from time to time by the Participant. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been payable to the Participant and shall be payable to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the settlement of Designated Beneficiary's rights under this Award Agreement, then any rights that would have been payable to the Designated Beneficiary shall be payable to the legal representative of the estate of the Designated Beneficiary.

Section 10. **Administration.** The authority to manage and control the operation and administration of this Award Agreement and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to this Award Agreement as it has with respect to the Plan. Any interpretation of this Award Agreement or the Plan by the Committee and any decision made by it with respect to this Award Agreement or the Plan are final and binding on all persons.

Section 11. **Plan Governs.** Notwithstanding anything in this Award Agreement to the contrary, this Award Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and this Award

Agreement are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, in the event of any discrepancies between the corporate records and this Award Agreement, the corporate records shall control.

Section 12. **Not an Employment Contract.** The Award will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

Section 13. **No Rights As Shareholder.** The Participant shall not have any rights of a shareholder with respect to the RSUs, until a stock certificate has been duly issued as provided herein.

Section 14. **Amendment.** This Award Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written Award Agreement of the Participant and the Company without the consent of any other person.

Section 15. **Governing Law.** This Award Agreement, the Plan, and all actions taken in connection herewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 16. **Section 409A Amendment.** The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Award Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A. Participant's acceptance of this Option award constitutes acknowledgement and consent to such rights of the Committee.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in its name and on its behalf, all as of the Grant Date and the Participant acknowledges acceptance of the terms and conditions of this Award Agreement.

MIDLAND STATES BANCORP, INC.

By: _____
Its: _____

PARTICIPANT

_____
[ ] Date

Exhibit 10.15

MIDLAND STATES BANCORP, INC.

AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN

RESTRICTED STOCK AWARD TERMS

The Participant specified below has been granted this Restricted Stock Award ("**Award**") by **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the "**Company**"), under the terms of the **MIDLAND STATES BANCORP, INC. AMENDED AND RESTATED 2010 LONG-TERM INCENTIVE PLAN** (the "**Plan**"). The Award shall be subject to the Plan as well as the following terms and conditions (the "**Award Agreement**"):

Section 1. **Award**. In accordance with the Plan, the Company hereby grants to the Participant this Award which represents the right to receive Stock (the "**Covered Shares**") as set forth in **Section 2**. This Award is in all respects limited and conditioned as provided herein.

Section 2. **Terms of Restricted Stock Award.** The following words and phrases relating to the grant of the Award shall have the following meanings:

(a) The "**Participant**" is **[ ]**.

(b) The "**Grant Date**" is **[ ]**.

(c) The number of "**Covered Shares**" is **[ ]** shares of Stock.

Except where the context clearly implies to the contrary, any capitalized term in this Award Agreement shall have the meaning ascribed to that term under the Plan.

Section 3. **Restricted Period**. This Award Agreement evidences the Company's grant to the Participant as of the Grant Date, on the terms and conditions described in this Award Agreement and in the Plan, the right of the Participant to receive stock free of restrictions once the Restricted Period ends.

(a) Subject to the limitations of this Award Agreement, the "**Restricted Period**" for each installment of such Covered Shares ("**Installment**") shall begin on the Grant Date and end as described in the following schedule (but only if the Participant has not had a Termination of Service before the end of the Restricted Period):

INSTALLMENT	RESTRICTED PERIOD WILL END ON:

(b) Notwithstanding the foregoing provisions of this **Section 3**, the Restricted Period for the Restricted Stock shall cease immediately, and the Restricted Stock shall become immediately and fully vested, upon (i) a Change in Control that occurs on or before the Participant's Termination of Service or (ii) upon the Participant's Termination of Service due to Disability or death.

(c) In the event the Participant's Termination of Service, other than as provided in **subsection (b)** above, occurs prior to the expiration of one or more Restricted Periods, the Participant shall forfeit all rights, title and interest in and to any Installment(s) of Covered Shares still subject to a Restricted Period as of the Participant's Termination of Service date.

For purposes of this Award Agreement "**Disability**" shall mean that a Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering the Company's employees.

Section 4. **Delivery of Shares.** Delivery of Stock or other amounts under this Award Agreement and the Plan shall be subject to the following:

(a) *Compliance with Applicable Laws.* Notwithstanding any other provision of this Award Agreement or the Plan, the Company shall have no obligation to deliver any Stock or make any other distribution of benefits under this Award Agreement or the Plan unless such delivery or distribution complies with all applicable laws (including, the requirements of the Securities Act), and the applicable requirements of any securities exchange or similar entity.

(b) *Certificates.* To the extent that this Award Agreement and the Plan provide for the issuance of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

Section 5. **Withholding.** All deliveries of Covered Shares pursuant to this Award Agreement shall be subject to withholding of all applicable taxes. The Company shall have the right to require the Participant (or if applicable, permitted assigns, heirs or Designated Beneficiaries) to remit to the Company an amount sufficient to satisfy any tax requirements prior to the delivery date of any certificate or certificates for Stock under this Award Agreement. At the election of the Participant, subject to the rules and limitations as may be established by the Committee, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which Participant is otherwise entitled under the Plan.

Section 6. **Non-Transferability of Award.** During the Restricted Period, the Participant shall not sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of any Covered Shares awarded under this Award.

Section 7. **Dividends**. The Participant shall be [not] entitled to receive dividends and distributions paid on the Covered Shares during the Restricted Period [; *provided, however*, that no dividends or distributions shall be payable to or for the benefit of the Participant with respect to record dates for such dividends or distributions occurring before or prior to the Grant Date, or with respect to record dates for such dividends or distributions occurring on or after the date, if any, on which the Participant has forfeited those Covered Shares].

Section 8. **Voting Rights**. The Participant shall be entitled to vote the Covered Shares during the Restricted Period; *provided, however*, that the Participant shall not be entitled to vote Covered Shares with respect to record dates for any Covered Shares occurring on or after the date, if any, on which the Participant has forfeited those Covered Shares.

Section 9. **Deposit of Restricted Stock Award.** Each certificate issued with respect to Covered Shares awarded under this Award Agreement and subject to the restrictions contained herein, shall be registered in the name of the Participant and shall be retained by the Company, or an agent of the Company, until the end of the Restricted Period with respect to such Covered Shares.

Section 10. **Heirs and Successors.** This Award Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business. If any rights of the Participant or benefits distributable to the Participant under this Award Agreement have not been settled or distributed, respectively, at the time of the Participant's death, such rights shall be settled and payable to the Designated Beneficiary, and such benefits shall be distributed to the Designated Beneficiary, in accordance with the provisions of this Award Agreement and the Plan. The "**Designated Beneficiary**" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form as the Committee may require. The designation of beneficiary form may be amended or revoked from time to time by the Participant. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been payable to the Participant and shall be payable to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the settlement of Designated Beneficiary's rights under this Award Agreement, then any rights that would have been payable to the Designated Beneficiary shall be payable to the legal representative of the estate of the Designated Beneficiary.

Section 11. **Administration.** The authority to manage and control the operation and administration of this Award Agreement and the Plan shall be vested in the Committee, and the Committee shall have all powers with respect to this Award Agreement as it has with respect to the Plan. Any interpretation of this Award Agreement or the Plan by the Committee and any decision made by it with respect to this Award Agreement or the Plan are final and binding on all persons.

Section 12. **Plan Governs.** Notwithstanding anything in this Award Agreement the contrary, this Award Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company; and this Award

Agreement are subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan. Notwithstanding anything in this Award Agreement to the contrary, in the event of any discrepancies between the corporate records and this Award Agreement, the corporate records shall control.

Section 13. **Not an Employment Contract.** The Award will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

Section 14. **No Rights As Shareholder.** Except as otherwise provided herein, the Participant shall not have any rights of a shareholder with respect to the Covered Shares, until Stock has been duly issued and delivered to Participant.

Section 15. **Amendment.** This Award Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written Award Agreement of the Participant and the Company without the consent of any other person.

Section 16. **Governing Law.** This Award Agreement, the Plan, and all actions taken in connection herewith shall be governed by and construed in accordance with the laws of the State of Illinois without reference to principles of conflict of laws, except as superseded by applicable federal law.

Section 17. **Section 409A Amendment.** The Committee reserves the right (including the right to delegate such right) to unilaterally amend this Award Agreement without the consent of the Participant in order to maintain an exclusion from the application of, or to maintain compliance with, Code Section 409A. Participant's acceptance of this Award constitutes acknowledgement and consent to such rights of the Committee.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be executed in its name and on its behalf, all as of the Grant Date and the Participant acknowledges acceptance of the terms and conditions of this Award Agreement.

MIDLAND STATES BANCORP, INC.

By: _____

Its: _____

PARTICIPANT

[ ] Date

Exhibit 10.16

Midland States Bancorp, Inc. Management Incentive Program

Compensation Philosophy

It is the desire of the Compensation Committee of Midland States Bancorp, Inc. (the "Company") to provide the Executive Management Team of the Company and Midland States Bank (the "Bank") a compensation plan that aligns with the overall performance and health of the Company and the Bank. The Compensation Committee has developed an overall compensation plan based on a total reward strategy including base salaries and short term and long term rewards that it believes are in the best interests of the shareholders . That plan is designed using independent third party compensation information, is Compensation Committee driven and includes relevant risk management metrics. This Management Incentive Plan is designed to specify certain aspects of that overall compensation plan.

Total Rewards Strategy

Base Salary is established using a third party Executive Compensation Survey of selected peer group companies representative of the Company's and the Bank's size, growth and complexity. The Compensation Committee believes that upper market performance should translate into upper market base salary.

Short Term and Long Term Bonus plans are built using qualifying metrics that incentivize the Executives for managing the Company's and the Bank's growth balanced with the assumption of reasonable risk. One element of our bonus program is the annual performance based bonus, which is intended to be based on specific performance measures subject to achievement of certain risk based metrics.

Annual Performance Based Bonus Payment Calculations

Each Executive is assigned a target bonus based on their roles and responsibilities within the Company and/or the Bank.

Having evaluated other options as well as published peer group metrics, the Compensation Committee will annually select one or more of the performance metrics, including adjustments, described in Section 2.3 of the Company's 2010 Long-Term Incentive Plan, as the most applicable metric for increasing shareholder value , and such metric(s) will be the major driver in the annual bonus payments for that year. Each year, the Company's Compensation Committee will also establish a target level of performance with respect to such performance metric(s) which takes into consideration: previous performance, budgeted performance, and peer performance. This target will be commensurate with the strategic direction established at the annual planning session of the Company's Board of Directors (the "Board") and may incorporate metrics and adjustments different from those used by the Board for

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planning purposes. At such times as the Company is subject to the reporting requirements of the Securities Exchange Act of 1934, the Compensation Committee shall take such steps as it believes appropriate, with the advice of counsel, to seek to insure that publicly filed documents disclose that the Compensation Committee's chosen metrics or performance thresholds do not necessarily reflect the Board's or management's forecasts, budgets, or projections for the Company or the Bank.

Qualifying Metrics

The Board believes that having appropriate risk metrics within the bonus plan encourages management to remain focused on the long term performance of the Bank and, therefore, Company shareholder value. The Board has identified two qualifying metrics that will be used in determining the level of bonus paid to the Executives: Capital Quality and Asset Quality; and believes that the failure to meet specified targets of capital and asset quality should result in a partial or complete reduction of a performance bonus for such year, subject to certain restoration opportunities if corrective measures are successfully executed within specified time periods.

Capital Quality. Maintaining sufficient capital is critical to the continued success and growth of the Bank. In order for a full bonus to be earned with respect to any year, the Bank must maintain a Tier 1 Leverage Capital Ratio of 7.25%. Partial bonuses will be paid if the Capital Ratio is between 7.25% and 6.75%. No bonus will be paid if the Tier 1 Leverage Ratio is below 6.75%. The foregoing notwithstanding, in any case the Compensation Committee shall be entitled to take into consideration strategic or other events which, while believed to be in the long term interests of the Company and shareholder value, had a short term downward effect on the Tier 1 Leverage Capital Ratio as of the end of any fiscal year, and to partially or fully restore bonuses based on such factors.

Asset Quality. Maintaining Asset Quality is critical to the health of the Bank and the shareholders' investment in the Company. The Company will benchmark its performance with respect to Non-Performing Assets to Total Assets against the selected peer group as part of the Executive Compensation Survey. The Company must either achieve (i) a ratio of Non-Performing Assets to Total Assets not greater than 120% of Peer performance, or (ii) a ratio below 2% for full bonuses to be paid, as set forth below:

↑. . . . . progressive reduction in earned bonus;

120% of Peer. . . . . full bonus earned (but in any event , at or below 2% the full bonus will be earned);

↓. . . . . full bonus earned.

In order to be eligible to receive an annual bonus for an applicable year under this program, an Executive must be employed by the Company or the Bank at the end of the year in which such bonus is earned, subject to any provision in an employment or other written agreement between the Executive and the Company or Bank. The Compensation Committee intends that earned bonuses shall be paid within 2½ months following the end of the year in which they are earned, but in the event the information it deems to be relevant for making such awards is not available prior to such date, the Committee reserves the right to delay making such award and/or authorizing such payment.

Restoration Bonuses

To the extent either the Qualifying Capital or Asset Quality Metric results in a reduction or an elimination of the bonus that would have been earned for a given year (Year 1), each Executive affected by such reduction or elimination shall be eligible to earn a Restoration Bonus payment for the following fiscal year (Year 2) if at the end of Year 2 the Bank's capital and/or the Company's asset quality, as the case may be, has returned to the level that would have been required for a full or partial bonus to have been earned for the applicable Year 1. The amount of the Restoration Bonus shall be equal to (i) the amount the Year 1 bonus which would have been earned if the Qualifying Capital or Asset Quality Metric had been measured at the end of Year 2 instead of Year 1, minus (ii) the actual bonus paid to such Executive in Year 1.

In order to be eligible to receive a Restoration Bonus for an applicable year, an Executive must be employed by the Company or the Bank at the end of the year in which such Restoration Bonus is earned (Year 2). Earned Restoration Bonuses shall be paid within 2½ months following the end of the year in which they are earned (Year 2).

Form of Payment

The Compensation Committee believes it is appropriate for annual bonuses above a certain level to be paid in the form of Company equity. However, the Compensation Committee also believes that in determining the appropriate split between cash and equity, it is appropriate to take into consideration the current level of equity ownership by the respective Executive and the overall mix of after-tax cash and equity. Based on the current significant level of equity ownership levels and current tax rates, the Compensation Committee believes that the following is an appropriate mix of cash and equity, until such time as it shall determine otherwise:

Title	Bonus Target	Maximum	Form of Payout
CEO	50% of Base Salary	200% of Base Salary	Target – 125% of Base = Cash Payment 126% - 200% = Equity Payment
CFO	40% of Base Salary	200% of Base Salary	Target – 125% of Base = Cash Payment 126% - 200% = Equity Payment
Others	% of Base Salary per Empl. Agrmt.	200% of Base Salary	Target – 150% of Base = Cash Payment 151% - 200% = Equity Payment

The Compensation Committee reserves the discretion to include other of the Company's or the Bank's senior Executives in this Program.

The selected performance metric (if not reduced by the Qualifying Metrics of Capital Quality or Asset Quality) will provide for a potential incentive payout up to two times the Executive's annual salary. The Compensation Committee maintains discretionary authority for eliminating the payment of bonuses as deemed appropriate for underperformance in any area that would place the Bank, the Company or its shareholders at risk.

2010 Long-Term Incentive Plan

All cash and equity payments made as a result of this Management Incentive Program shall be paid pursuant to the Midland States Bancorp, Inc. 2010 Long-Term Incentive Plan.

Other Performance Awards

This MIP is designed to outline the metrics, risk based metrics and form of payment provisions for our Executive's annual performance bonus. The Compensation Committee expressly reserves the right to award cash or equity bonuses, including other short and long-term awards, based on other metrics deemed to be appropriate by the Compensation Committee for any given year.

Officers Hired Pursuant to Acquisitions

The Compensation Committee shall have the right, on a case by case basis following a recommendation to the Compensation Committee by the Company's CEO, to exempt any officer whose employment with the Company or the Bank (or any subsidiary of either entity) arises as a result of an acquisition transaction (whether by merger, stock purchase, asset purchase or otherwise) from any portion of this plan, including the applicability of any qualifying metric, for such period as the Compensation Committee in its sole discretion shall determine.

THE AMENDED AND RESTATED

MIDLAND STATES BANCORP, INC.

EMPLOYEE STOCK PURCHASE PLAN

(Amended July 2013)

1. PURPOSE OF PLAN.

The purpose of the Amended and Restated Midland States Bancorp, Inc. Employee Stock Purchase Plan (the "**Plan**") is to provide eligible employees of Midland States Bancorp, Inc. (the "**Company**") and its Subsidiaries (defined below) with an opportunity to purchase shares of the Company's common stock, par value $00.01 per share ("**Common Stock**"), through after-tax payroll deductions at a discount from the then Fair Market Value of the Common Stock. It is believed that employee participation in ownership of the Company on this basis will be to the mutual benefit of both the employees and the Company. It is intended that the Plan constitute a broadly based employee stock purchase plan, but the Plan is not intended to constitute an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the "**Code**"). The effective date of the Plan is the first business day after adoption by the Board of Directors of the Company (the "**Board**") (with the actual date to be reflected in the final Plan document attached to the resolutions as presented in the corporate record).

2. EMPLOYEES ELIGIBLE TO PARTICIPATE.

Any employee of the Company or of any wholly-owned subsidiary of the Company (a "**Subsidiary**") who is employed by the Company or any Subsidiary is eligible to participate in the Plan (an "**Eligible Employee**") without a waiting period. The Compensation Committee of the Board shall be the administrator of the Plan (the "**Committee**"), and shall, in its sole discretion, for each employee, determine the completion of the service requirement for purposes of eligibility to participate in the Plan.

After-tax payroll deductions may begin with respect to the first payroll period for which it is administratively feasible under the payroll system in place from time to time, if the employee completes the enrollment procedure outlined in Section 4(b) hereof by the applicable payroll cutoff date.

3. ELIGIBLE COMPENSATION.

Compensation eligible for after-tax payroll deductions ("**Compensation**") shall be only base salary, commissions, bonuses and overtime paid for employment by the Company or any Subsidiary employing such employee (each an "**Employing Corporation**"). Compensation does not include severance pay, post-termination of employment salary continuation, pay in lieu of vacation, imputed income for income tax purposes, patent and award fees, awards and prizes, back pay awards, reimbursement of expenses and living allowances, educational allowances, expense allowances and reimbursements, disability benefits, fringe benefits, deferred compensation, compensation under a Company stock plan, amounts paid for services as an

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independent contractor, any cash or benefits pursuant to the Plan, or any other compensation excluded by the Committee, in its discretion, applied in a uniform manner. The preceding sentence notwithstanding, Compensation shall be determined before giving effect to any salary reduction agreement pursuant to a qualified cash or deferred arrangement (within the meaning of Section 401(k) of the Code) or to any similar salary reduction agreement pursuant to any cafeteria plan (within the meaning of Section 125 of the Code) or any qualified transportation plan or arrangement (within the meaning of Section 132(f) of the Code).

4. TERMS OF OFFERS.

(a) **Offer Dates**. The Company shall make an offer or offers (an "**Offer**" or "**Offers**") to purchase Common Stock under the Plan. The Committee shall determine the date or dates on which an Offer shall commence and the term of each Offer. Unless otherwise specified by the Committee in advance of an Offer, each Offer shall be made on a quarterly basis on the first business day of each calendar quarter (*e.g.*, January, April, July and October) and shall last until the business day prior to the day the next quarterly Offer is scheduled to be made (the "**Offering Period**"). The Committee may, at any time, determine that an Offer may be longer or shorter than one (1) quarterly period and shall determine the date or dates upon which one (1) or more subsequent Offers, if any, may be made under the Plan.

(b) **Elections to Participate**. In order to participate in an Offer, an Eligible Employee must sign and forward to the Committee an enrollment/payroll deduction authorization form, or complete such other procedures as the Committee may require or permit. Such form shall authorize after-tax payroll deductions from the Compensation of each Eligible Employee who has elected to participate in the Offer (a "**Participating Employee**") and authorize the "**Plan Service Provider**," which shall initially be Midland States Bank, to establish an employee stock purchase plan account for such Participating Employee (the "**ESPP Account**"). The Participating Employee must authorize regular after-tax payroll deductions in any full percentage of Compensation of not less than one percent (1%) or more than the then applicable maximum percentage of such employee's Compensation per pay period. Such deductions shall be applied toward the purchase of Common Stock pursuant to the Offer. The "maximum percentage" means the percent of Compensation available for payroll deductions which shall be specified by the Committee at the beginning of the term of an Offer, and which shall not exceed one-hundred percent (100%). Payroll deductions for an Offer may begin with respect to the first payroll period which is administratively feasible under the payroll system in place from time to time if the signed enrollment/payroll deduction authorization form is submitted to the Committee, or such other procedure as may be required or permitted by the Committee is completed by the applicable payroll cutoff date.

The amount of Compensation to be deducted shall be determined for each payroll period on a basis of the percentage of Compensation authorized for deduction by each Participating Employee, which amount shall be increased or decreased (as applicable) on a prospective basis to reflect changes in such Compensation during the term of the Offer.

5. PARTICIPATION.

(a) **In General**. On the effective date of an Offer, each Participating Employee shall be granted an option to purchase, during the term of the Offer, up to the maximum number of shares of Common Stock provided in Section 6(b) hereof. The number of shares of Common Stock purchased by each Participating Employee during the term of the Offer shall be determined by the employee's payroll deduction elections made in accordance with the terms of the Plan. Once an Eligible Employee has elected to participate in an Offer, such employee's election with respect to participation shall continue in effect with respect to subsequent Offers unless and until changed in accordance with Section 5(c) hereof, or the Participating Employee is no longer eligible to continue participation pursuant to Section 12 or 16 below, or the person is otherwise no longer in the class of employees eligible to participate pursuant to Section 2 hereof.

(b) **Newly Eligible Employees**. Only Eligible Employees on the commencement date of a particular Offer may participate in that Offer. The number of shares of Common Stock purchased by the Participating Employee during the term of the Offer shall be determined by the payroll deduction elections made in accordance with the terms of the Plan. In such cases, payroll deductions may begin with respect to the first Offering Period following the employee's date of eligibility for which it is administratively feasible under the payroll system in place from time to time, if the employee's signed enrollment/payroll deduction authorization form is submitted to the Committee, or such other procedure as may be required or permitted by the Committee is completed prior to the applicable payroll cutoff date for the subsequent Offering Period.

(c) **Changes in Payroll Deduction Authorization**. Participating Employees are permitted to increase or decrease their rate of payroll deduction with respect to an Offer or Offers, subject to the terms and limitations of the Plan and such rules as the Committee may adopt. Any such change shall be effective for the entire Offering Period then in effect provided that the employee's signed enrollment/payroll deduction authorization form has been submitted to the Committee, or such other procedure as may be required or permitted by the Committee has been completed prior to the applicable payroll cutoff date. The Committee shall rely on the most recent effective election submitted for the applicable payroll period. A reduction of the payroll deduction percentage to zero (0) shall be treated as a request to discontinue participation in the Offer; however, unless such action results in the termination (rather than the suspension) of such person's participation in the Plan, such employee may resume participation in any subsequent Offer. To resume participation under the Plan, such employee must reinstate payroll deductions with respect to the first payroll period after the election to resume participation for which it is administratively feasible under the payroll system in place from time to time, by submitting a new enrollment/payroll deduction authorization form or completing such other procedure as may be required or permitted by the Committee prior to the appropriate payroll cutoff date for the subsequent Offering Period.

(d) **Dividend Reinvestment**. Cash dividends, if any, paid with respect to the Common Stock held in each ESPP Account under the Plan shall be automatically reinvested in Common Stock, and shall continue to be held in the respective ESPP Account.

6. PARTICIPATION LIMITATIONS.

(a) **Five Percent Owners**. Notwithstanding anything herein to the contrary, no employee otherwise eligible to participate shall be entitled to participate in the Plan, and no employee shall be granted an option to purchase any shares of Common Stock under the Plan pursuant to any Offer if the employee, immediately after the option is granted, owns or would own shares (including all shares which may be purchased under outstanding options under the Plan) possessing five percent (5%) or more of the total combined voting power or value of all classes of shares of Common Stock of the Company, the Employing Corporation or any Subsidiary. For purposes of the foregoing limitation, the rules of Section 424(d) of the Code (relating to attribution of stock ownership) shall apply in determining share ownership, and Common Stock which the employee may purchase under outstanding options shall be treated as stock owned by such employee.

(b) **Contribution Limitation**. No Eligible Employee shall be granted any option or other right to purchase Common Stock under this Plan to the extent that the Option Price (defined below) for such option (the "**Subject Option**"), when added to the total Option Price of all other options to purchase Common Stock under the Plan for such Participating Employee granted since the beginning of the calendar year in which the Subject Option would otherwise be granted, exceeds twenty-five thousand dollars ($25,000).

(c) **Fair Market Value**. "**Fair Market Value**" means, on any date, the officially-quoted closing selling price of the shares on such date on the principal national securities exchange on which such shares are listed or admitted to trading (including the New York Stock Exchange, Nasdaq Stock Market, Inc. or such other market or exchange in which such prices are regularly quoted) or, if there have been no sales with respect to shares on such date, or if the shares are not so listed or admitted to trading, the Fair Market Value shall be the value established by the Committee in good faith and in accordance with Sections 422 and 409A of the Code. Additionally, the Committee will adjust the Fair Market Value as it deems necessary upon the occurrence of an equity event or transaction that it deems to be material.

7. OPTION PRICE.

The price at which shares of Common Stock may be purchased with respect to any Offer made under the Plan shall be the Fair Market Value on the first day of the Offering Period, subject to any discount as may be determined by the Committee. In the absence of any such determination by the Committee, the price shall be ninety percent (90%) of the Fair Market Value of a share of Common Stock, determined as of the first day of each Offering Period (the "**Option Price**").

8. EXERCISE OF OPTIONS.

(a) **Purchase of Common Stock**. At the end of each payroll period, each Participating Employee shall have deducted from his/her after-tax pay the amount authorized pursuant to Sections 4 or 5 hereof, as applicable. This amount shall be held for the credit of such Participating Employee by the Company as part of its general funds and shall not accrue any interest. On the last business day of each Offering Period (each, a "**Purchase Date**") (*e.g.*,

March 31, June 30, September 30 and December 31 of each year), an Eligible Employee shall be deemed to have exercised the option to purchase, at the Option Price, that number of shares of Common Stock which may be purchased from the Company by the Plan Service Provider, to be held of record by the Plan Service Provider for the benefit of the Eligible Employees, with the amount deducted from such participant's Compensation during that Offer. Notwithstanding the foregoing, if the Fair Market Value of the Common Stock on the Purchase Date is less than the Option Price, then each Eligible Employee shall be deemed to have purchased from the Company the number of shares of Common Stock, at the Fair Market Value as of the Purchase Date, that may be purchased with the amount deducted from such participant's Compensation during that Offering Period. No fractional shares of Common Stock shall be issued and any unused funds remaining in the account of a Participating Employee as of the last Purchase Date of the calendar year shall be returned without interest to the Participating Employee as of that date.

(b) **Plan Service Provider**. A Plan Service Provider shall be designated by the Committee and shall serve at the pleasure of the Committee. On each Purchase Date, the Plan Service Provider shall receive from the Company, at the Option Price, as many full shares of Common Stock as may be purchased with the funds received from the Participating Employees during the Offering Period. Upon receipt of the Common Stock so purchased, the Plan Service Provider shall allocate to the credit of each Participating Employee the number of full shares of Common Stock to which such Participating Employee is entitled. Subject to Sections 12 and 16 hereof, certificates shall not be issued with respect to any shares until the employment of the beneficial owner thereof with any and all Employing Corporations shall have ceased for any reason whatsoever, or the Plan is terminated. Common Stock purchased under the Plan shall be held by and in the name of, or in the name of a nominee of, the Plan Service Provider for the benefit of each participant, who shall thereafter be a beneficial stockholder of the Company.

(c) **Rights as a Stockholder**. A Participating Employee's rights as a stockholder of the Company shall begin when the Plan Service Provider receives the shares of Common Stock from the Company on behalf of such Participating Employee with respect to the participant's purchase of such shares pursuant to the Plan. As such, a Participating Employee shall have the right to vote full shares of Common Stock held in such participant's ESPP Account and the right to receive annual reports, proxy statements and other documents sent to stockholders of the Company generally; provided, however, that so long as such shares are held for such participant by the Plan Service Provider, if the participant fails to respond in a timely manner to requests for instructions with respect to voting, the Plan Service Provider shall have the authority to vote the shares with respect to which no specific voting instructions are given in accordance with the recommendations of the Board.

(d) **Restrictions on Transfer of Common Stock**. Subject to the provisions of Section 13 hereunder, a Participating Employee shall have no right to sell, encumber, or otherwise transfer Common Stock being held in his or her ESPP Account so long as such participant is employed by an Employing Corporation, unless the Committee, in its sole discretion, waives or modifies such restriction. Any attempt to sell, encumber or otherwise transfer Common Stock in violation hereof shall be null and void. The foregoing provisions of this Section 8(d) shall not apply at any time the Common Stock is publicly traded on an established securities market.

(e) **Enforcement of Restrictions**. The Committee shall enforce the restriction on transfer of Common Stock provided in Section 8(d) hereof by requiring that any and all certificates representing the Common Stock purchased pursuant to the Plan be held in the custody of the Company or the Plan Service Provider while the restriction remains in effect. The Committee may, in its sole discretion, enforce this restriction through different or additional means as it shall deem necessary or appropriate, including without limitation, by including such legends on certificates representing shares of Common Stock subject to such restrictions as the Committee may deem necessary or desirable.

9. NUMBER OF SHARES TO BE OFFERED.

The maximum number of shares of Common Stock that may be purchased under the Plan is one hundred thousand (100,000) shares, subject to adjustment pursuant to Section 15 hereof. The Common Stock that may be delivered under this Plan may be treasury shares, or authorized and unissued shares, as the Committee may determine in its sole discretion.

10. ADMINISTRATION AND INTERPRETATION OF THE PLAN.

(a) **Administration**. The authority to control and manage the operation and administration of the Plan shall be vested in the Committee in accordance with this Section 10. The Committee shall be selected by the Board, provided that the Committee shall consist of two (2) or more members of the Board, each of whom are (each as may be applicable to the Company) (i) a "non-employee director" (within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), (ii) an "outside director" (within the meaning of Section 162(m) of the Code) and (iii) an "independent director" (within the meaning of the applicable principal stock exchange of the Company). Subject to applicable stock exchange rules, if the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

(b) **Powers of Committee**. The Committee's administration of the Plan shall be subject to the following:

(i) The Committee shall have the authority and discretion to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(ii) The Committee shall have the authority to define terms not otherwise defined herein.

(iii) Any interpretation of the Plan by the Committee and any decision made by it under the Plan shall be final and binding on all persons.

(iv) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the articles and bylaws of the Company and applicable state corporate law.

(c) **Delegation by Committee**. Except to the extent prohibited by applicable law, the applicable rules of a stock exchange or the Plan, or as necessary to comply with the exemptive provisions of Rule 16b-3 of the Exchange Act, if applicable, the Committee may allocate all or any portion of its responsibilities and powers to any one (1) or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. The acts of such delegates shall be treated hereunder as acts of the Committee and such delegates shall report regularly to the Committee regarding the delegated duties and responsibilities and any awards so granted. Any such allocation or delegation may be revoked by the Committee at any time.

(d) **Information to be Furnished to Committee**. As may be permitted by applicable law, the Company and any Subsidiary shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and any Subsidiary as to an employee's employment, termination of employment, leave of absence, reemployment and compensation shall be conclusive on all persons unless determined by the Committee to be manifestly incorrect. Subject to applicable law, Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

(e) **Expenses and Liabilities**. All expenses and liabilities incurred by the Committee in the administration and interpretation of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration and interpretation of the Plan. The Company, and its officers and directors, shall be entitled to rely upon the advice, opinions or valuations of any such persons.

11. RIGHTS NOT TRANSFERABLE.

Options granted under the Plan shall not be transferable by a participant other than by will or the laws of descent and distribution, and shall be exercisable during a participant's lifetime only by the participant.

12. SUSPENSION OR TERMINATION OF PARTICIPATION.

(a) A Participating Employee may elect at any time, in the manner prescribed by the Committee, to suspend his or her participation in the Plan, provided that such election is received by the Committee prior to the date specified for suspension of participation during the Offering Period for which such suspension is to be effective. Upon any such suspension of participation, the Participating Employee's payroll deductions shall cease, and such employee who elects to suspend his or her participation in the Plan shall be permitted to resume participation in the Plan by making a new request at the time and in the manner described and subject to the limitations set forth in Section 5 hereof.

(b) A Participating Employee's participation in the Plan shall terminate upon the Participating Employee's: (i) ceasing to be employed by the Company or any Subsidiary, whether by reason of death or otherwise, (ii) ceasing to meet the eligibility requirements set forth in Section 2 hereof, or (iii) becoming an independent contractor.

(c) For purposes of the Plan, if a participating Subsidiary ceases to be a Subsidiary, each person employed by that Subsidiary will be deemed to have terminated employment for purposes of the Plan and will no longer be an Eligible Employee, unless the person continues as an Eligible Employee of another Employing Corporation. A former Participating Employee who is re-employed shall not resume participation in the Plan unless he or she is otherwise eligible and again enrolls for participation pursuant to Section 4(b) hereof.

13. REDEMPTION AND DISTRIBUTION OF PARTICIPANT'S ESPP ACCOUNT

(a) Upon request for redemption by a Participating Employee for whom shares of Common Stock have been credited to his or her ESPP Account under the Plan, such Participating Employee shall be entitled to sell to the Company any number of whole shares so beneficially held on his or her behalf under the Plan. Such redemption shall occur as soon as practicable but in no event more than thirty (30) days following such participant's election and the consideration to be received by the Participating Employee shall be the value of the shares of Common Stock to be redeemed using the Fair Market Value determination on the date of redemption. The number of elections by a Participating Employee to redeem shares of Common Stock credited to his or her ESPP Account shall be limited to two (2) times per calendar year. The foregoing provisions of this Section 13(a) shall not apply at any time the Common Stock is publicly traded on an established securities market.

(b) Should any Participating Employee cease to be employed by the Company or any Subsidiary, pursuant to Sections 12(b) or 12(c) hereof (a "**Terminated Participant**"), and the number of shares of Common Stock credited to such Terminated Participant's ESPP Account at the time of such termination is less than ten thousand (10,000), then the Company may, at its option, satisfy its requirements hereunder by delivering to such Terminated Participant cash in the amount equal to the then Fair Market Value of such shares in lieu of the shares of Common Stock being held under the Plan for the benefit of such Terminating Participant.

(c) Notwithstanding the foregoing, should any Participating Employee become a Terminated Participant, and the number of shares of Common Stock credited to such Terminated Participant's ESPP Account at the time of such termination is ten thousand (10,000) or more shares of Common Stock, such Terminating Participant shall be entitled to receive a distribution of the number of whole shares so beneficially held on his or her behalf under the Plan; provided, however, that the Company, at its sole discretion, is granted the right to purchase all or any part of such Common Stock upon the termination of such Terminated Participant's employment. Such right, if exercised by the Company, shall be at the then-prevailing Fair Market Value price of the Common Stock.

14. LEAVES OF ABSENCE AND PERIODS OF INACTIVE EMPLOYMENT.

A participant may elect to continue to make payroll deductions under the Plan for the first ninety (90) days of any period of inactive employment or leave of absence if the participant continues to receive Compensation from the Company as defined in Section 3 hereof. If a participant does not receive Compensation from the Company during a period of inactive employment or leave of absence, the participant's payroll deductions shall immediately cease; however, such deductions shall resume automatically if the participant returns to active

employment from inactive status or a leave of absence within ninety (90) days. In either case, the amount previously contributed by the participant (together with any additional amounts contributed pursuant to the first sentence of this Section 14) shall be used to purchase shares under the Plan in the applicable Offer(s) pursuant to Section 8 hereof. A participant on inactive employment or leave of absence status for more than ninety (90) days who returns to active employment must again, if otherwise eligible, enroll pursuant to Section 4(b) hereof to again participate in the Plan.

15. REORGANIZATION.

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, offering of rights, or any other change in the structure of Common Stock, the Committee shall make such adjustments, if any, as it may deem appropriate in the number, kind, and price of shares available for purchase under the Plan, and in the minimum and maximum number of shares which a participant is entitled to purchase.

16. TERMINATION OF PLAN.

The Plan and all rights of Participating Employees hereunder shall terminate upon the earlier occurrence of (i) the date as of which Participating Employees have exercised options to purchase a number of shares equal to or greater than the number of shares then subject to the Plan, (ii) the date as of which the Board terminates the Plan, or (iii) October 15, 2019. Upon termination, all payroll deductions shall cease and all amounts then credited to participants' accounts and not previously used for the purchase of shares shall, in the Committee's or Board's discretion, be refunded in cash (without interest) or be equitably applied to the purchase of full shares of Common Stock then available under the Plan. In either case, the participants shall be issued checks for any amounts contributed that were insufficient to purchase whole shares.

17. AMENDMENTS.

The Board may review and modify the operation and administration of the Plan from time to time and may amend the terms of the Plan at any time without obtaining the approval of the stockholders of the Company unless stockholder approval is required by applicable law, regulation or rule. The Board may not amend the Plan in any manner which would materially and adversely affect an option previously granted to a participant without the consent of such participant. Adjustments contemplated by Section 15 hereof shall not constitute Plan amendments for such purposes.

18. REQUIRED GOVERNMENTAL APPROVALS.

The Plan, all options granted under the Plan and all other rights inherent in the Plan are subject to receipt by the Company of all necessary approvals or consents of governmental agencies which the Company, in its sole discretion, shall deem necessary or advisable. Notwithstanding any other provision of the Plan, all options granted under the Plan and all other rights inherent in the Plan are subject to such termination and/or modification as may be required or advisable in order to obtain any such approval or consent, or which, as a result of consequences attaching to any such approval or consent, may be required or advisable in the

judgment of the Committee in order to avoid adverse impact on the Company's overall wage and salary policy.

19. TAX WITHHOLDING.

To the extent any grant of an option to purchase shares hereunder or the purchase of shares hereunder gives rise to any tax withholding obligation, the Company may implement appropriate procedures to ensure that such tax withholding obligations are met.

20. NO EMPLOYMENT RIGHTS.

The Plan does not, directly or indirectly, create in any employee or class of employees any right with respect to continuation of employment by any Employing Corporation, and it shall not be deemed to interfere in any way with the Company's or any Employing Corporation's right to terminate, or otherwise modify, an employee's employment at any time with or without cause.

21. GENDER.

Pronouns shall be deemed to include both the masculine and feminine gender, and words used in the singular shall be deemed to include both the singular and the plural, unless the context indicates otherwise.

22. EXPENSES.

Expenses of administering the Plan, including any expenses incurred in connection with the purchase by the Company of shares for sale to participating employees, shall be paid by the Employing Corporations. Each participant shall be responsible for all expenses associated with certificating and selling shares purchased by the participant under the Plan, expenses related to requests for cash settlements of fractional shares acquired under the Plan, and for the tax consequences of participation in the Plan.

23. GOVERNING LAW.

All rights and obligations under the Plan shall be construed and interpreted in accordance with the laws of the State of Illinois, without giving effect to principles of conflict of laws.

IN WITNESS WHEREOF, the Board of Directors of the Company has adopted the standards and guidelines set forth in this Plan as of July 1, 2013.

Exhibit 10.18

FINAL VERSION

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**"), dated as of April 7, 2014, is entered into among **MIDLAND STATES BANCORP, INC.**, an Illinois corporation (the "**Company**"), and the Persons whose signatures appear on the signature page to this Agreement (collectively, the "**Initial Holders**," and individually, an "**Initial Holder**"). References to "**Holders**" include the Initial Holders and any Person who subsequently becomes a transferee of Registrable Securities and a party to this Agreement in accordance with **Section 12**.

RECITALS

A. The Company, HB Acquisition LLC, an Illinois limited liability company and wholly-owned subsidiary of the Company ("**Merger Sub**"), and Love Savings Holding Company, a Missouri corporation ("**LSHC**"), are executing an Agreement and Plan of Merger, dated of even date herewith (including the exhibits, schedules and annexes thereto, the "**Merger Agreement**"), providing for, among other things, the merger of LSHC with and into Merger Sub (the "**Merger**").

B. Each Initial Holder owns shares of preferred stock and/or common stock of LSHC and, pursuant to the Merger Agreement, may receive shares of Common Stock (as defined below), as partial or full consideration for such Initial Holder's shares of preferred stock and/or common stock of LSHC.

C. In connection with the consummation of the Merger, and as an inducement to each Initial Holder to enter into the Voting Agreement and a Shareholders' Agreement, which are conditions to the consummation of the Merger, the parties desire to enter into this Agreement to grant certain registration rights to the Holders as set forth below.

AGREEMENTS

In consideration of the foregoing premises, which are incorporated herein by this reference, and the covenants and agreements of the parties herein contained, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. Definitions. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

(a) **"Affiliate"** means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract or otherwise. The grantor of a revocable trust shall be deemed to control such revocable trust.

(b) "**Agreement**" has the meaning set forth in the preamble.

(c) "**Business Day**" means any day other than a Saturday, Sunday, legal holiday or other day on which banks in the State of Illinois are closed.

(d) **"Common Stock**" means the voting common stock of the Company, $0.01 par value per share, or the common equity securities of any successor company to the Company into which the Common Stock is converted or for which it is exchanged as a result of a merger, reincorporation or other transaction in which the Company is not the surviving entity.

(e) "**Company**" has the meaning set forth in the introductory paragraph of this Agreement and shall include any successor of the Company.

(f) "**Electing LSHC Senior Preferred Holder**" means a holder of LSHC Senior Preferred Stock who satisfies all of the following criteria: (i) elects to receive solely shares of Common Stock (and no cash) pursuant to Section 3.1(b) of the Merger Agreement; (ii) is issued at least 20,000 shares of Common Stock by the Company upon consummation of the Merger; (iii) is a U.S. resident; and (iv) is identified by LSHC to the Company by listing such Person, together with his, her or its notice information and number of shares of Common Stock received in the Merger, on a completed **ANNEX A** hereto delivered to the Company at the closing of the Merger.

(g) "**Exchange Act**" means the Securities Exchange Act of 1934 and the rules and regulations of the SEC thereunder, as amended and in effect from time to time.

(h) "**Holders**" has the meaning set forth in the Preamble.

(i) "**Initial Holder**" and "**Initial Holders**" have the meanings set forth in the Preamble.

(j) "**Initial Public Offering**" means the first firm commitment Underwritten Offering of Common Stock to the public pursuant to an effective registration statement under the Securities Act.

(k) "**LSHC Senior Preferred Stock**" means the Preferred Stock, $1.00 par value per share, of LSHC.

(l) "**Merger Agreement**" has the meaning set forth in the recitals.

(m) "**Person**" any individual, sole proprietorship, general partnership, limited partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, a governmental or political subdivision thereof or a governmental agency.

(n) "**Registrable Securities**" means: (i) any of the shares of Common Stock issued by the Company to an Initial Holder pursuant to the terms of the Merger Agreement; and (ii) any shares of Common Stock issued or issuable with respect to any shares described in the immediately preceding clause (i) by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization (it being understood that for purposes of this Agreement, a Person shall be deemed to be a holder of Registrable Securities whenever such Person has the right to then acquire or obtain from the Company any Registrable Securities, whether or not such acquisition has actually been effected). In addition, solely for purposes of **Section 3**, the term "Registrable

Securities" shall include: (x) any of the shares of Common Stock issued by the Company to an Electing LSHC Senior Preferred Holder pursuant to the terms of the Merger Agreement; and (y) any shares of Common Stock issued or issuable with respect to any shares described in the immediately preceding clause (x) by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization. As to any particular Registrable Securities, such securities shall cease to be Registrable Securities when: (A) a registration statement covering such securities has been declared effective by the SEC and such securities have been disposed of pursuant to such effective registration statement; (B) such securities are otherwise transferred in compliance with the Securities Act; (C) such securities are freely saleable under the Securities Act without any restriction, including volume limitations; or (D) such securities shall have ceased to be outstanding.

(o) **"Registration Expenses"** means all expenses incident to the Company's performance of or compliance with its obligations under **Section 2(a)**, **Section 2(j)** and **Section 3(a)**, including all SEC and any stock exchange registration, listing, filing or Financial Industry Regulatory Authority, Inc. fees; all fees and expenses of complying with securities or blue sky laws (including reasonable fees and disbursements of counsel for the underwriters in connection with blue sky qualifications); all messenger and delivery expenses; the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits or "comfort" letters required by or incident to such performance and compliance; any fees and disbursements of underwriters customarily paid by issuers or sellers of securities and the reasonable fees and expenses of any special experts retained in connection with the requested registration; and the fees and disbursements of one counsel for the Holders, chosen by the Holders of a majority of the Registrable Securities included in any registration under **Section 2(a)**, **Section 3(a)**, or by the Holder or Holders requesting a registration under **Section 2(j)**, but excluding underwriting discounts and commissions and fees and disbursements of any additional counsel employed by any such Holder.

(p) **"Rule 144"** means Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(q) **"Rule 415"** means Rule 415 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

(r) **"SEC"** means the Securities and Exchange Commission or any other Federal agency that subsequently administers the Securities Act.

(s) **"Securities Act"** means the Securities Act of 1933, and the rules and regulations of the SEC thereunder, as amended and in effect from time to time.

(t) "**Shelf Registration Statement**" has the meaning set forth in **Section 13**.

(u) **"Underwritten Offering"** means an offering and sale of Common Stock pursuant to an effective registration statement under the Securities Act in which the Common Stock is sold to an underwriter for offering and sale to the public.

Section 2. **Demand Registration Rights.**

(a) **Request**. Upon the receipt of the written request of the Holders of a majority of the Registrable Securities then outstanding**,** requesting that the Company effect the registration under the Securities Act of all or any portion of their Registrable Securities and specifying the intended method of disposition thereof and whether or not such requested registration is to be an Underwritten Offering, the Company will promptly give written notice of such requested registration to all other Holders and thereupon, subject to **Section 2(g)**, the Company will use its best efforts to effect the registration under the Securities Act of:

(i) the Registrable Securities which the Company has been so requested to register by such Holders, and

(ii) all other Registrable Securities which the Company has been requested to register by the Holders thereof by written request given to the Company within thirty (30) days after the giving of such written notice by the Company, all to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered.

(b) **Registration Statement Form**. Registrations under **Section 2(a)** shall be on such appropriate registration form of the SEC: (i) as shall be selected by the Company; and (ii) as shall permit the disposition of such Registrable Securities in accordance with the intended method or methods of disposition specified in their request for such registration.

(c) **Expenses**. The Company will pay all Registration Expenses in connection with any registration requested pursuant to **Section 2(a)** (whether or not such registration shall be effected).

(d) **Effective Registration Statement**. A registration requested pursuant to **Section 2(a)** or **Section 2(j)** shall not be deemed to have been effected: (i) unless a registration statement with respect thereto has become effective; (ii) if after it has become effective, such registration is subject to any stop order, injunction or other order or requirement of the SEC or other governmental agency or court for any reason; (iii) if the conditions to

closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied; or (iv) unless the holders of the Registrable Securities requested to be included in such registration are able to register and sell at least ninety percent (90%) of the Registrable Securities requested to be included in such registration at a price reasonably satisfactory to the Holders of a majority of the Registrable Securities requested to be included in such registration.

(e) **Selection of Underwriters**. If a requested registration pursuant to **Section 2(a)** involves an Underwritten Offering, the underwriter or underwriters thereof shall be selected by the Company, provided that such underwriter or underwriters shall be reasonably acceptable to the Holders of a majority of the Registrable Securities to be included in such registration.

(f) **Priority in Demand Registrations**. No securities, other than Common Stock, shall be included in any offering of securities by the Company effected pursuant to

Section 2(a) or **Section 2(j)** without the consent of the Holders of a majority of the Registrable Securities requested to be included in such registration. If Registrable Securities registered pursuant to **Section 2(a)** or **Section 2(j)** are to be sold in a firm commitment Underwritten Offering and the managing underwriter or underwriters shall advise the Holders in writing that, in their opinion, the total number or dollar amount of Registrable Securities and other Common Stock requested to be included in such offering (including Common Stock proposed to be included by other holders of Common Stock entitled to include Common Stock in such registration pursuant to piggyback registration rights) exceeds the number which can be sold in such offering within a price range acceptable to the Holders of a majority or more of the Registrable Securities requested to be included in such registration, then there shall be included in such firm commitment Underwritten Offering, the number or dollar amount of Registrable Securities that in the opinion of such managing underwriter can be sold without adversely affecting such offering, and such number of Registrable Securities and other Common Stock shall be allocated as follows: (i) *first*, *pro rata* among the Holders on the basis of the percentage of Registrable Securities (on an as-converted basis, if applicable) requested to be included in such registration statement by such Holders; (ii) *second*, *pro rata* among any holders of piggyback registration rights (other than the Holders) on the basis of the percentage of the number of shares of Common Stock requested to be included in such registration statement by such holders; and (iii) *third*, shares of Common Stock to be sold for the Company's account for which inclusion in such registration statement was requested by the Company. For the avoidance of doubt, if the total number or dollar amount of Registrable Securities requested to be included in the registration statement pursuant to **Section 2(a)** or **Section 2(j)** exceeds the maximum number or amount that the managing underwriter or underwriters believe can be sold without adversely affecting the success of such offering, no securities, other than Registrable Securities, shall be included among the securities covered by such registration.

(g) **Limitations**. Anything in **Section 2** to the contrary notwithstanding, the Company will not be required to file a registration pursuant to **Section 2(a)** or **Section 2(j)**: (i) prior to one hundred eighty (180) days following the effective date of the registration statement with respect to the Initial Public Offering; and (ii) within one hundred eighty (180) days after the effective date of the final prospectus for a previous registration pursuant to **Section 2(a)**, or within ninety (90) days after the effective date of the final prospectus for a previous registration pursuant to **Section 2(j)**. In addition, subject to **Section 2(i)**, the Company will not be required to effect more than two (2) registrations under **Section 2(a)**.

(h) **Company's Right to Delay Registration.** Notwithstanding any other provision of this Agreement, if the Board of Directors of the Company determines in good faith that the filing or effectiveness of a registration statement in connection with any requested registration under **Section 2(a)** or **Section 2(j)** would be reasonably likely to materially and adversely affect any material contemplated acquisition, divestiture, registered primary offering or other action as to which the Company has then taken substantial steps, or would require disclosure of facts or circumstances, which disclosure would be reasonably likely to materially and adversely affect any material contemplated acquisition, divestiture, registered primary offering or other action as to which the Company has then taken substantial steps, then the Company may delay such registration for a period of up to ninety (90) days so long as the Company is still pursuing the action that allowed such delay. If the Company postpones the filing or effectiveness of a registration statement pursuant to this **Section 2(h)**, it shall promptly

notify the Holders of Registrable Securities in writing when the events or circumstances permitting such postponement have ended.

(i) **Clean-Up Demand Registrations.** If, after a registration in compliance with **Section 2(a)** has become effective, the Holders shall not have sold all of their Registrable Securities due to proration pursuant to **Section 2(f)**, then, after each such registration, the Holders shall be entitled to an additional request under **Section 2(a)** in which the Holders then holding Registrable Securities shall not be subject to proration with any other holders of securities of the Company entitled to participate in such registration; *provided*, that such registration request complies with the requirements of **Section 2(g)**.

(j) **Registrations on Form S-3.**

(i) If: (A) a Holder or Holders request in writing (specifying that it is being made pursuant to this **Section 2(j)**) that the Company file a registration statement on Form S-3 for a public offering of shares of Registrable Securities the reasonably anticipated aggregate price to the public of which would exceed Four Million Dollars ($4,000,000); and (B) the Company is a registrant entitled to use Form S-3 to register the sale of such Registrable Securities, then the Company shall use its best efforts to cause such Registrable Securities to be registered on Form S-3; *provided, however*, that the Company shall not be required to file more than three (3) such registration statements pursuant to this **Section 2(j)**) in any calendar year and that any requests for such registration shall be made in compliance with the provisions of **Section 2(j)(iv)**. As used in this **Section 2(j)**, references to "Form S-3" shall be deemed to include and refer to any successor form to Form S-3 regardless of its designation.

(ii) All Registration Expenses incurred in connection with a registration requested pursuant to this **Section 2(j)**, including all fees and disbursements of counsel for the selling Holder or Holders and counsel for the Company, shall be borne *pro rata* by the Holder or Holders participating in the registration pursuant to this **Section 2(j)** on the basis of the amount of securities so registered.

(iii) Holders' rights to registration under this **Section 2(j)** are in addition to, and not in lieu of, their rights to registration under **Section 2(a)** through **Section 2(i)** and **Section 3**.

(iv) All rights of the individual Holders under the terms of this **Section 2(j)** shall be exercised through the action and direction of such individual, and all rights of the entity Holders shall be exercised by a duly authorized officer of such entity. The Company shall be entitled to rely on any statement (which may be given orally, unless a written notice is expressly required) or the action of (x) any individual Holder with respect to such Holder, or (y) any president, trustee, managing member or general partner (as applicable) of an entity Holder.

Section 3. Piggyback Registration.

(a) **Right to Include Registrable Securities.** Whenever the Company proposes to register any shares of its Common Stock under the Securities Act (other than a registration effected solely to implement an employee benefit plan or a transaction to which

Rule 145 of the Securities Act is applicable, or a registration statement on Form S-4, S-8 or any successor form thereto or another form not available for registering the Registrable Securities for sale to the public), whether for its own account or for the account of one or more shareholders of the Company and the form of registration statement to be used may be used for any registration of Registrable Securities, the Company shall give prompt written notice to the holders of Registrable Securities (including each Electing LSHC Senior Preferred Holder) of its intention to effect such a registration. Upon the written request of any such Holder or any Electing LSHC Senior Preferred Holder made within thirty (30) days after the receipt of any such notice (which request shall specify the Registrable Securities intended to be disposed of by such Person and the intended method of disposition thereof), the Company will use its best efforts to effect the registration under the Securities Act of all Registrable Securities which the Company has been so requested to register by the Holders thereof, or by an Electing LSHC Senior Preferred Holder (but only if the conditions set forth in **Section 3(d)** have been satisfied with such Electing LSHC Senior Preferred Holder), to the extent requisite to permit the disposition (in accordance with the intended methods thereof as aforesaid) of the Registrable Securities so to be registered, *provided* that if, at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to each Holder (and each Electing LSHC Senior Preferred Holder, if any, with respect to which the conditions set forth in **Section 3(d)** have been satisfied) and, thereupon: (i) in the case of a determination not to register, shall be relieved of its obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses in connection therewith), without prejudice, however, to the rights of any Holder or Holders entitled to do so to request that such registration be effected as a registration under **Section 2(a)**; and (ii) in the case of a determination to delay registering, shall be permitted to delay registering any Registrable Securities, for the same period as the delay in registering such other securities. No registration effected under this **Section 3(a)** shall be deemed to have been effected pursuant to **Section 2(a)** or shall relieve the Company of its obligation to effect any registration upon request under **Section 2(a)**.

(b) **Priority in Piggyback Registrations.** If: (i) a registration pursuant to **Section 3(a)** involves an Underwritten Offering of the securities so being registered, whether or not for sale for the account of the Company, to be distributed (on a firm commitment basis) by or through one or more underwriters of recognized standing under underwriting terms appropriate for such a transaction; and (ii) the managing underwriter or underwriters of such Underwritten Offering shall inform the Company and the Holders requesting such registration in writing that, in their opinion, the number or dollar amount of securities requested to be included in such registration exceeds the number or dollar amount which can be sold in (or during the time of) such offering at a price reasonably acceptable to the Company (or, if such registration involves an offering of securities pursuant to a demand by such holders under rights of such holders similar to the rights granted to the Holders under **Section 2(a)**, reasonably acceptable to the holders of such rights, as the case may be), then the Company will include in such registration, to the extent of the number or dollar amount which the Company is so advised can be sold in (or during the time of) such offering: (A) *first*, all securities proposed by the Company to be sold for its own account (or, if such registration involves an offering of securities proposed to be sold by holders of securities pursuant to a demand by such holders under rights of such holders similar to

the rights granted to the Holders under **Section 2(a)**, all securities proposed to be sold by such holders, as the case may be); (ii) *second*, such Registrable Securities requested to be included in such registration *pro rata* on the basis of the percentage of the Registrable Securities of the Company held by each Holder that has requested that Registrable Securities be included in such registration and each Electing LSHC Senior Preferred Holder with respect to which the conditions set forth in **Section 3(d)** have been satisfied; and (iii) *third*, all other securities of the Company requested to be included in such registration *pro rata* on the basis of the numbers of such securities so requested to be included. In connection with any registration as to which the provisions of this **Section 3(b)** apply with the result that not all of the Registrable Securities requested to be included in such registration are included in such registration, no securities other than securities referred to in clause "*first*," above, or Registrable Securities shall be included in such registration**.**

(c) **Expenses**. The Company will pay all Registration Expenses in connection with any registration pursuant to **Section 3(a)** (whether or not such registration shall be effected).

(d) **Conditions to Participation of an Electing LSHC Senior Preferred Holder**. An Electing LSHC Senior Preferred Holder who submits a written request to the Company to exercise piggyback registration rights pursuant to **Section 3(a)** will be eligible to be included in a Company registration only if each of the following conditions is satisfied: (i) at least one Holder that is a party to this Agreement is being included in such registration; (ii) the Electing LSHC Senior Preferred Holder provides a written acknowledgment to the Company that such Person will not have any right to negotiate the terms of the underwriting agreement or the price and number of shares to be sold in the Underwritten Offering; (iii) the Electing LSHC Senior Preferred Holder agrees to be represented by the same legal counsel representing another Holder whose Registrable Securities are being included in such registration; (iv) the Electing LSHC Senior Preferred Holder agrees to comply with **Section 4(c)** and **Section 8(a)** hereof; and (v) the Electing LSHC Senior Preferred Holder delivers all of the following documents to the Company to facilitate the registration: (1) a completed questionnaire from the Company providing the information required to be included in the registration statement with respect to such Person, (2) a completed questionnaire from the managing underwriter(s) providing the information required to be included in Financial Industry Regulatory Authority filings, (3) a customary power of attorney irrevocably authorizing attorneys-in-fact designated by the Company to sign the underwriting agreement on behalf of such Person and to take any other actions reasonably necessary to complete the sale of such Person's Registrable Securities, (4) a custody agreement, accompanied by a stock certificate for the Registrable Securities being sold and an executed stock power, authorizing a custodian to deliver the stock certificate and stock power to the managing underwriter(s) at the closing of the Underwritten Offering, and (5) an Internal Revenue Service Form W-9.

Section 4. Registration Procedures.

(a) If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the Securities Act as provided in **Section 2(a)**, **Section 2(j)** and **Section 3(a)**, the Company will as expeditiously as practicable:

(i) (A) prepare and file with the SEC a registration statement on the appropriate form which includes such Registrable Securities; (B) promptly respond to all comments received with respect to such registration statement and make and file all amendments thereto deemed necessary by the Company's legal counsel; and (C) thereafter use its reasonable efforts to cause such registration statement to become effective at the earliest practicable date;

(ii) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement accurate and effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities and other securities covered by such registration statement until the earlier of such time as all of such Registrable Securities have been disposed of by the sellers thereof set forth in such registration statement or for the longer of: (A) nine (9) months; or (B) if the Company is eligible to conduct a continuous secondary offering pursuant to Rule 415, two (2) years;

(iii) furnish to each such seller of Registrable Securities a copy of any amendment or supplement to such registration statement or prospectus;

(iv) furnish to each seller of such Registrable Securities one (1) copy of such registration statement and of each such amendment thereof and supplement thereto (in each case including all exhibits and documents filed therewith), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act, such documents, if any, incorporated by reference in such registration statement or prospectus, and such other documents as such seller may reasonably request;

(v) use its reasonable efforts to register or qualify all Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as each seller thereof shall reasonably request, unless such registration or qualification is not required, and to keep such registration or qualification in effect for so long as such registration statement remains in effect and do any and all other acts and things that may be necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of its Registrable Securities covered by such registration statement, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction wherein it would not, but for the requirements of this subdivision (v), be obligated to be so qualified, or to subject itself to taxation in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(vi) notify each seller of Registrable Securities of any stop order issued or threatened by the SEC and take all reasonable action required to prevent the entry of such stop order or to remove it if entered;

(vii) if such registration statement relates to an Underwritten Offering: (A) enter into an underwriting agreement with the underwriters for such offering containing such representations and warranties by the Company and such other terms as are generally prevailing in underwriting agreements of the same type, including indemnities to the effect and to the extent provided in **Section 6**; and (B) obtain and furnish to each seller of Registrable Securities a signed

counterpart, addressed to such seller, of the legal opinions and accountants' comfort letters which are to be delivered to the underwriters;

(viii) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other agent retained by any such seller or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement;

(ix) promptly notify each seller whose Registrable Securities are covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon discovery that, or upon the happening of any event as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and promptly prepare a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(x) otherwise use its reasonable efforts to comply with all applicable rules and regulations of the SEC, and make available to its securities holders, as soon as reasonably practicable, an earning statement covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first month of the first fiscal quarter after the effective date of such registration statement, which earning statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 promulgated thereunder;

(xi) cause all such Registrable Securities to be listed on each securities exchange on which the Common Stock is then listed;

(xii) use commercially reasonable efforts to cause its management to participate fully in the sale process relating to such offering, including the preparation of the applicable registration statement and the preparation and presentation of any domestic "road shows"; and

(xiii) take all such other commercially reasonable actions as are necessary or advisable to expedite or facilitate the disposition of the Registrable Securities covered by such registration statement.

(b) **Required Information.** The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish the Company such information regarding such seller and the intended distribution of its securities as the Company may from time to time

reasonably request in writing and as shall be required by law or by the SEC in connection with such registration.

(c) **Discontinuance of Disposition of Registrable Securities.** Each Holder agrees that upon receipt of any notice from the Company of the happening of any event of the kind described in **Section 4(a)(ix)**, such Holder will forthwith discontinue such Holder's disposition of Registrable Securities pursuant to the registration statement relating to such Registrable Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by **Section 4(a)(ix)** and, if so directed by the Company, will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in such Holder's possession of the prospectus relating to such Registrable Securities current at the time of receipt of such notice.

Section 5. **Withdrawal**. If any Holder participating in a registration hereunder disapproves of the terms of any offering, such Holder shall have the right, in its sole discretion, to withdraw such Holder's Registrable Securities from such registration by giving written notice to the Company and the managing underwriter (if any). If such registration was commenced pursuant to a request under either **Section 2(a)** or **Section 2(j)**, and if the Holders participating in such registration withdraw such number of Registrable Securities from the offering so as to decrease the amount of Registrable Securities included in the registration below the minimum threshold set forth in **Section 2(a)** or **Section 2(j)**, then the Company shall permit, to the extent reasonably possible, other Holders to increase the amount of Registrable Securities they requested be to be included in such registration; *provided*, *however*, if the aggregate amount of Registrable Securities to be included in such registration following all such increases is less than Four Million Dollars ($4,000,000), the Company may withdraw the registration, and such registration shall nevertheless be counted, for purposes of **Section 2(a)** or **Section 2(j)**, as the case may be, as a registration effected hereunder; *provided further*, *however*, that such registration shall not be so counted if the managing underwriter or underwriters advise the participating Holders that there has been a material change in market conditions, or the Company makes a public announcement that there has been a material change in the condition, business or prospects of the Company, which in either such case could reasonably be expected to materially and adversely affect the ability of the underwriters to complete the offering or materially and adversely affect the price at which the Registrable Securities may be sold.

Section 6. **Indemnification.**

(a) **Indemnification by the Company.** In the event of any registration of any securities of the Company under the Securities Act, the Company will, and hereby does, in the case of any registration statement filed pursuant to **Section 4** or **Section 13(b)**, indemnify and hold harmless the seller of any Registrable Securities covered by such registration statement, its directors and officers, each other Person who participates as an underwriter in the offering or sale of such securities and each other Person, if any, who controls such seller or any such underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such seller or any such director, officer or underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such securities were registered under the Securities Act, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, or any omission or alleged omission

to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse such seller and each such director, officer, underwriter and controlling person for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, liability, action or proceeding; *provided*, *however,* (i) that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating that it is for use in such registration statement, any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement, and (ii) that the Company shall have no obligation to indemnify any Person for such Person's gross negligence or willful misconduct. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such seller or any such director, officer, underwriter or controlling person and shall survive the transfer of such securities by such seller.

(b) **Indemnification by the Sellers.** The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to **Section 4** or **Section 13(b)**, that the Company shall have received an undertaking satisfactory to it from the prospective seller of such Registrable Securities, to indemnify and hold harmless (in the same manner and to the same extent as set forth in **Section 6(a)**) the Company, its directors and officers and each other Person, if any, who controls the Company within the meaning of the Securities Act, with respect to any statement or alleged statement in or omission or alleged omission from such registration statement, any preliminary prospectus, final prospectus or summary prospectus contained therein, or any amendment or supplement thereto, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller specifically stating that it is for use in the preparation of such registration statement, preliminary prospectus, final prospectus, summary prospectus, amendment or supplement, *provided*, *however,* that the seller(s) shall have no obligation to indemnify any Person for such Person's gross negligence or willful misconduct. Such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling Person and shall survive the transfer of such securities by such seller.

(c) **Notices of Claims; Indemnification Procedures.** Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in **Section 6(a)** or **Section 6(b)**, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action, *provided* that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under **Section 6(a)** or **Section 6(b)**, as the case may be, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, the

indemnifying party shall be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the consent of the indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

(d) **Other Indemnification.** Indemnification similar to that specified in this **Section 6** (with appropriate modifications) shall be given by the Company and each seller of Registrable Securities with respect to any required registration or other qualification of securities under any Federal or state law or regulation of any governmental authority other than the Securities Act.

(e) **Indemnification Payments.** The indemnification required by this **Section 6** shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred.

(f) **Contribution.** If the indemnification provided for in this **Section 6** from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying and indemnified party in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. In no event shall the liability of any seller of Registrable Securities hereunder be greater in amount than the net amount received by such seller from the sale of Registrable Securities pursuant to such registration statement. The parties hereto agree that it would not be just and equitable if contribution pursuant to this **Section 6(f)** were determined by *pro rata* allocation or by any other method of allocation which does not take into account the equitable considerations referred to in this **Section 6(f)**. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

Section 7. **Adjustments Affecting Registrable Securities.** The Company will not effect or permit to occur any combination or subdivision of shares which would adversely affect the ability of the holders of Registrable Securities to include such Registrable Securities in any registration of its securities or the marketability of such Registrable Securities under any such registration.

Section 8. **Holdback Agreements.**

(a) **Holders' Agreement.** If and to the extent requested by the managing underwriter in connection with any Underwritten Offering, including the Initial Public Offering, each Holder shall agree in writing that such Holder will not, without the consent of the managing underwriter for such offering (except for shares included in such offering), effect any sale or distribution of any Common Stock, or any securities convertible into, or exercisable or exchangeable for, Common Stock for a period of one hundred eighty (180) days after the effective date of the registration statement relating to such Underwritten Offering or ninety (90) days after the date of the final prospectus included in the registration statement relating to, or the closing of, any other offering, *provided, however*, that the Company's officers and directors shall have entered into similar agreements.

(b) **Company Agreement.** If and to the extent requested by the managing underwriter in connection with any Underwritten Offering at the request of the Holders pursuant to **Section 2(a)**, the Company shall agree not to effect any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, for its own account, during the seven (7) days prior to and for a period of up to one hundred eighty (180) days following the date of the final prospectus included in the registration statement relating to, or the closing of, any offering (except as part of such underwritten registration or pursuant to a registration on Form S-4 or Form S-8).

Section 9. **Rule 144.** If the Company shall have filed a registration statement pursuant to the requirements of Section 12 of the Exchange Act or a registration statement pursuant to the requirements of the Securities Act, the Company will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder and will take such further action as any Holder may reasonably request, all to the extent required from time to time, including the timely preparation and delivery of certificates representing Registrable Securities to be sold, to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144. Upon the request of any Holder, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

Section 10. **Amendments and Waivers.** This Agreement may be amended and the Company may take any action herein prohibited or omit to perform any act herein required to be performed by it, only if the Company shall have obtained the written consent to such amendment, action or omission to act, of the Holder or Holders of a majority of the Registrable Securities, provided that no such consent shall be effective if the proposed amendment, action or omission to act materially and disproportionately negatively affects a non-consenting Holder. For the avoidance of doubt, any such written consent of the Holder or Holders of a majority of the Registrable Securities shall be effective against the Electing LSHC Senior

Preferred Holders; *provided, however*, that the rights of such Electing LSHC Senior Preferred Holders are not being affected differently than the rights of the Holders. Each Holder of any Registrable Securities at the time or thereafter outstanding shall be bound by any consent authorized by this **Section 10**, whether

or not such Registrable Securities shall have been marked to indicate such consent.

Section 11. **Notices.** Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered: (a) three (3) Business Days after the date mailed, by certified or registered mail, return receipt requested, with proper postage prepaid; (b) when sent after receipt of confirmation or answerback if sent by telecopy, other similar facsimile transmission or electronic mail; (c) one (1) Business Day after deposited with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

If to the Company, to:

Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401
Attention: Douglas J. Tucker
Senior Vice President and Corporate Counsel
Telephone: (217) 342-7566
Facsimile: (217) 342-9462
Electronic mail: dtucker@midlandstatesbank.com

with a copy to:

Barack Ferrazzano Kirschbaum & Nagelberg LLP
200 W. Madison Street, Suite 3900
Chicago, Illinois 60606
Attention: Dennis R. Wendte
Telephone: (312) 984-3188
Facsimile: (312) 984-3150
Electronic mail: dennis.wendte@bfkn.com

and if to a Holder, to the address and number set forth opposite his, her or its name on ANNEX B hereto, or to such other address or number as each party designates to the other in the manner herein prescribed. Any notice to any other Holder, shall be sent to such Holder's address as set forth in the register of shareholders maintained by the Company. Any notice to any Electing LSHC Senior Preferred Holder shall be sent to the such Person's address as set forth on ANNEX A hereto.

Section 12. **Assignment.** This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns as provided in this Section. The Initial Holder may assign, at any time, any or all of its rights

hereunder with respect to any Registrable Securities held by the Initial Holder (but only with all related obligations) to any Holder to whom the Initial Holder transfers or assigns any shares of Common Stock; *provided that*: (a) the Company is, within thirty (30) Business Days after such transfer or assignment, furnished with written notice of the name and address of such transferee(s) or assignee(s) and the securities with respect to which such registration rights are being assigned; and (b) each such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement through the execution and delivery of a joinder, substantially in the form of **Exhibit A**.

Section 13. **Term; Suspension.**

(a) This Agreement shall terminate on the earlier of: (a) the fifth (5^{th}) anniversary of the effective date of the registration statement with respect to the Initial Public Offering; and (b) the date on which no Holder owns any Registrable Securities; *provided*, that, the indemnification rights and obligations pursuant to **Section 6**, as well as any party's obligations to pay Registration Expenses pursuant to this Agreement, shall survive with respect to any registration statement in which any Registrable Securities of the Holders were included; and *provided further*, that the Company shall be obligated to comply with any request for registration of Registrable Securities received under **Section 2(a)**, **Section 2(j)** or **Section 3(a)** prior to such termination date, whether or not such registration has been completed by the date on which this Agreement terminates.

(b) Notwithstanding anything contained herein to the contrary, if at any time during the term of this Agreement the Company takes all steps necessary to prepare and file with the SEC a "shelf" registration statement under SEC Rule 415 which includes any or all of the Registrable Securities (the "**Shelf Registration Statement**"), and the Shelf Registration Statement is declared effective by the SEC, then all of the Company's obligations under this Agreement to file any other registration statement pursuant to **Section 2** or **Section 3** with respect to those Registrable Securities included in the Shelf Registration Statement shall be suspended for so long as such Shelf Registration Statement remains effective.

Section 14. **Advice of Counsel.** Each party to this Agreement represents to the other parties to this Agreement that such party has been represented by counsel in connection with this Agreement, that such party has discussed this Agreement with its counsel and that any and all issues with respect to this Agreement have been resolved as set forth herein. No provision of this Agreement shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured, drafted or dictated such provision.

Section 15. **Governing Law; Submission to Jurisdiction.** This Agreement shall be governed by and construed in accordance with the internal laws of the State of Missouri without giving effect to any choice or conflict of law provision or rule (whether of the State of Missouri or any other jurisdiction) that would cause the application of laws of any jurisdiction other than those of the State of Missouri. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby shall be brought in the courts of the State of Missouri, County of St. Louis, or, if it has or can acquire jurisdiction, in the United States District Court for the Eastern District of Missouri, and each party irrevocably submits to

the jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 16. **WAIVER OF JURY TRIAL.** EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT: (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 17. **Miscellaneous.**

(a) If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

(b) This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be executed and accepted by facsimile or portable data file (pdf) signature and any such signature shall be of the same force and effect as an original signature.

(c) All words used in this Agreement will be construed to be of such gender or number as the circumstances require, all references to sections, are to sections of this Agreement unless otherwise specified, and "including" means "including, but not limited to."

(d) Each party hereto shall execute and deliver such additional documents as may be necessary or desirable to effect the transactions contemplated by this Agreement.

(e) All section headings herein are for convenience of reference only and are not part of this Agreement, and no construction or reference shall be derived therefrom, and all references to sections, schedules and exhibits are to sections, schedules and exhibits in or to this Agreement unless otherwise specified.

(f) Except as expressly set forth in **Section 3** with respect to Electing LSHC Senior Preferred Holders, nothing in this Agreement, express or implied, is intended to confer upon any Person not a party hereto any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement. An Electing LSHC Senior Preferred Holder shall not have any rights under this Agreement except as expressly set forth in **Section 3**.

(g) This Agreement shall terminate and be of no further force or effect upon the termination of the Merger Agreement prior to the Closing.

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[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be executed and delivered by their respective officers hereunto duly authorized as of the date first above written.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Title: President & CEO

SHAREHOLDERS:

LOVE GROUP, LLC

By: /s/ Andrew S. Love
Name: Andrew S. Love

LOVE INVESTMENT COMPANY

By: /s/ Laurence A. Schiffer
Name: Laurence A. Schiffer

Title: Manager

LOVE REAL ESTATE COMPANY

By: /s/ Laurence A. Schiffer
Name: Laurence A. Schiffer
Title: President

BANK OF AMERICA AND ANDREW S. LOVE, JR., AS TRUSTEES U/T/W OF ANDREW SPROULE LOVE FBO ANDREW SPROULE LOVE, JR.

Bank of America

By: /s/ Cathy S. Meeks
Name: Cathy S. Meeks
Title: SVP Bank of America, Trustee

/s/ Andrew S. Love, Jr.

Title: President

ANDREW SPROULE LOVE, JR., AS TRUSTEE OF THE LOVE FAMILY CHARITABLE TRUST

/s/ Andrew Sproule Love, Jr.

ANDREW S. LOVE, JR.

/s/ Andrew S. Love, Jr.

LAURENCE A. SCHIFFER

/s/ Laurence A. Schiffer

JAMES S. MCDONNELL III

/s/ James S. McDonnell III

JOHN F. MCDONNELL

/s/ John F. McDonnell

[SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT]

ANNEX A

ELECTING LSHC SENIOR PREFERRED HOLDERS

NAME	MAILING ADDRESS, FACSIMILE, EMAIL ADDRESS	SHARES OF COMMON STOCK

ANNEX B

NOTICE INFORMATION FOR HOLDERS

HOLDER	MAILING ADDRESS, FACSIMILE, EMAIL ADDRESS
LOVE GROUP, LLC	
LOVE INVESTMENT COMPANY	
LOVE REAL ESTATE COMPANY	
BANK OF AMERICA AND ANDREWS S. LOVE, JR., AS TRUSTEES U/T/W OF ANDREW SPROULE LOVE FBO ANDREW SPROULE LOVE, JR.	
ANDREW SPROULE LOVE, JR. AS TRUSTEE OF THE LOVE FAMILY CHARITABLE TRUST	
ANDREW S. LOVE, JR.	
LAURENCE A. SCHIFFER	
JAMES S. MCDONNELL III	
JOHN F. MCDONNELL	

EXHIBIT A

FORM OF JOINDER TO THE
REGISTRATION RIGHTS AGREEMENT

THIS JOINDER (this "**Joinder**") is made and entered into as of [ ], by and between Midland States Bancorp, Inc., an Illinois corporation (the "**Company**"), and [ ] (the "**Holder**"). This Joinder joins the Holder to the Registration Rights Agreement (the "**Agreement**"), dated as of March , 2014, by and between the Company and the Initial Holders (as defined in the Agreement). Capitalized terms used in this Joinder but not otherwise defined will have the meanings set forth in the Agreement.

WHEREAS, (i) the Holder has acquired from an Initial Holder, either directly or indirectly, shares of Common Stock (the "**Purchased Shares**"), (ii) the Company desires to grant to the Holder certain registration rights in accordance with the terms of the Agreement and (iii) it is a condition to the transfer or grant of such rights to the Holder that the Holder agrees to be bound by the terms of the Agreement;

NOW, THEREFORE, in consideration of the mutual covenants contained in this Joinder and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Joinder hereby agree as follows:

Section 1. **Agreement to be Bound.** The Holder and the Company agree that upon execution of this Joinder, the Holder will become a party to the Agreement and will be fully bound by, and subject to all of the covenants, terms and conditions of the Agreement as though an original party to the Agreement, and the Purchased Shares will be deemed Registrable Securities for all purposes of the Agreement, subject to the terms and conditions contained in the Agreement.

Section 2. **Successors and Assigns.** Except as otherwise provided in this Joinder, this Joinder will bind and inure to the benefit of and be enforceable by the Company and its successors and assigns and the Holder and any subsequent Holders of the Purchased Shares and the respective successors and assigns of each of them, so long as they hold such shares.

Section 3. **Counterparts.** This Joinder may be executed in multiple counterparts (including facsimile and electronic counterparts), each of which shall be deemed to be an original and shall be binding upon the party who executed the same, and all of which taken together shall constitute one and the same agreement.

Section 4. **Governing Law.** All issues and questions concerning the application, construction, validity, interpretation and enforcement of this Joinder shall be governed by, and construed in accordance with the laws of the State of Missouri, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Missouri or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Missouri.

Section 5. **Descriptive Headings.** The headings in this Joinder are inserted for convenience only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Joinder or any provision of this Joinder.

[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties to this Joinder have executed this Joinder as of the date first above written.

MIDLAND STATES BANCORP, INC.

By: _____
Name: _____
Title: _____

HOLDER:

_____
Signature

_____
Printed Name

Exhibit 10.19

FINAL VERSION

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "**Agreement**") is entered into as of April 7, 2014, among **MIDLAND STATES BANCORP, INC.**, an Illinois corporation ("**Acquiror**"), **HALLMARK INVESTMENT CORPORATION**, a Missouri corporation ("**Hallmark**"), each of the Persons listed on ANNEX A hereto (individually, an "**LSHC Shareholder**," and collectively, the "**LSHC Shareholders**" and together with Hallmark, the "**LSHC Parties**") and each of the Persons listed on ANNEX B hereto (collectively, the "**McDonnell Family**").

RECITALS

A. Acquiror, HB Acquisition LLC, an Illinois limited liability company and wholly-owned subsidiary of Acquiror ("**Merger Sub**"), and **LOVE SAVINGS HOLDING COMPANY**, a Missouri corporation ("**LSHC**"), are executing an Agreement and Plan of Merger, dated of even date herewith (including the exhibits, schedules and annexes thereto, the "**Merger Agreement**"), providing for, among other things, the Merger.

B. Each LSHC Shareholder owns shares of Company Senior Preferred Stock, Company Series A Preferred Stock and/or Company Common Stock (as such terms are defined in the Merger Agreement) and, pursuant to the Merger Agreement: (i) is expected to receive the consideration set forth opposite such LSHC Shareholder's name on ANNEX A for such shares upon the consummation of the Merger; and (ii) has agreed to execute and deliver certain agreements to Acquiror and Merger Sub to facilitate the Merger. ANNEX A shall be updated at the Closing to reflect the actual consideration received by each LSHC Shareholder in the Merger.

C. Each member of the McDonnell Family owns shares of Company Senior Preferred Stock and, pursuant to the Merger Agreement: (i) is expected to receive consideration for such shares upon the consummation of the Merger; and (ii) has agreed to execute and deliver certain agreements to Acquiror and Merger Sub to facilitate the Merger.

D. As a condition to closing the Merger, LSHC must effect the Internal Restructuring, pursuant to which LSHC will contribute all of the Non-Banking Business not currently owned by Hallmark, as well as private equity investments, marketable securities and cash, to Hallmark, resulting in substantial benefit to Hallmark. Following the Internal Restructuring and the subsequent Distribution, the LSHC Shareholders will own a majority of the outstanding equity securities of Hallmark.

E. As a condition to entering into the Merger Agreement: (i) Acquiror and Merger Sub are requiring that Hallmark, each LSHC Shareholder and each member of the McDonnell Family enter into this Agreement; and (ii) LSHC is requiring that Acquiror enter into this Agreement, in each case to provide for certain indemnification rights and obligations on the terms and subject to the conditions set forth in this Agreement.

AGREEMENTS

In consideration of the foregoing premises, which are incorporated herein by this reference, and the following mutual promises, covenants and agreements, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. **Definitions**. All terms that are capitalized and used herein (and are not otherwise specifically defined herein) shall be used in this Agreement as defined in the Merger Agreement.

Section 2. **Survival**.

(a) For the purposes of this Agreement and notwithstanding anything to the contrary in the Merger Agreement, except as otherwise set forth in this **Section 2**, all representations, warranties and covenants contained in the Merger Agreement shall survive the Closing for a period of eighteen (18) months following the Closing Date and any claims to be made by the Acquiror Indemnified Parties against the LSHC Parties, or by the LSHC Indemnified Parties or the McDonnell Family Indemnified Parties against Acquiror, alleging a Breach of any such warranty, representation or covenant may be made only if, on or before the date that is eighteen (18) months after the Closing Date, the claiming party has given notice to the other party of the claim.

(b) Notwithstanding **Section 2(a)**:

(i) (A) all representations, warranties and covenants made by LSHC with respect to: (1) the Visa Ownership; (2) the HPS Relationship; (3) all of the matters described in Schedule 4.7(a) to the Merger Agreement; and (4) the tax effects of the Internal Restructuring and the Distribution to the Company and the Acquired Subsidiaries, as set forth in Section 4.9(e) of the Merger Agreement; and (B) all other covenants made by LSHC or Acquiror that, by their terms, are to be performed after the consummation of the Contemplated Transactions, shall survive the Closing; and

(ii) any claims arising out of or in connection with the matters that are referenced in clause (i) of this **Section 2(b)**, clauses (iii) and (iv) of **Section 3(a)** or **Section 3(b)** may be made at any time following the Closing through the end of all applicable statutes of limitations.

Section 3. **Indemnification by the LSHC Parties**.

(a) The LSHC Parties, jointly and severally, shall indemnify, defend and hold harmless Acquiror, its Affiliates and each of their respective Representatives (collectively, the **"Acquiror Indemnified Parties"**) from and against any and all Losses arising out of or resulting from: (i) any Breach or incorrectness of any representation or warranty made by LSHC in the Merger Agreement or in any certificate, document or other writing delivered to Acquiror by LSHC pursuant thereto; (ii) any Breach of any covenant or agreement made by LSHC in the Merger Agreement; (iii) the Visa Ownership or the HPS Relationship; and (iv) any claim arising

out of any matter described in Schedule 4.7(a) of the Merger Agreement, including the LFC Dispute.

(b) The LSHC Parties, jointly and severally, shall indemnify, defend and hold harmless the Acquiror Indemnified Parties from and against any and all Losses incurred by Acquiror or its Subsidiaries arising out of or resulting from: (i) any Tax or Tax Return matters related to LSHC from a pre-Closing period (including, for the avoidance of doubt, if the liability for Taxes resulting from the consummation of the Internal Restructuring and/or the Distribution is determined to be greater than the Taxes that are taken into account in the calculation of Adjusted Book Value); (ii) any employee-related matters against LSHC related to an employee of the Non-Banking Business; (iii) LSHC's operation of the Non-Banking Business; (iv) only if LSHC makes the 5% Dissenting Shares Election pursuant to Section 9.1(f) of the Merger Agreement, the actions taken by the Dissenting Shareholders against Acquiror as the successor to the Company (*provided* that, for the avoidance of doubt, "Losses" for this purpose shall mean only (1) the sum of the consideration paid to Dissenting Shareholders in excess of the portion of Aggregate Merger Consideration that otherwise would have been paid to such shareholders pursuant to Section 3.1(b) of the Merger Agreement plus all reasonable expenses, costs of investigation and attorneys' fees and expenses incurred by Acquiror in connection with the actions brought by the Dissenting Shareholders, *multiplied by* (2) a fraction, the numerator of which is the excess of the Dissenting Shares Amount over two percent (2.0%) and the denominator of which is the Dissenting Shares Amount); (v) any guarantees provided by the Company or an Acquired Subsidiary with respect to the indebtedness of Hallmark or any other Affiliate of the Company or the Love Family (other than the guaranty of the Company referenced in Schedule 4.24 of the Merger Agreement); or (vi) any other Loss incurred by Acquiror or its Subsidiaries as a result of its acquisition of LSHC that relate to the operation of LSHC's business prior to the Closing and would not have been incurred had the transaction structure contemplated by the Stock Purchase Agreement been effected instead of the Merger.

Section 4. **Indemnification by Acquiror**. Acquiror shall indemnify, defend and hold harmless the LSHC Shareholders, their Affiliates and each of their respective Representatives (collectively, the **"LSHC Indemnified Parties"**) and the McDonnell Family and its Affiliates and Representatives (collectively, the "**McDonnell Family Indemnified Parties**") from and against any and all Losses arising out of or resulting from: (a) any Breach or incorrectness of any representation or warranty made by Acquiror in the Merger Agreement or in any certificate, document or other writing delivered to LSHC by Acquiror pursuant thereto; or (b) any Breach of any covenant or agreement made by Acquiror in the Merger Agreement.

Section 5. **Indemnification Procedure.**

(a) *Third-Party Claims*. If a claim shall be asserted or litigation shall be commenced (such a claim or litigation being referred to herein as a "**Third-Party Claim**") for which indemnification under this Agreement shall be sought, the party entitled to indemnification hereunder **(**"**Indemnitee**") shall give notice thereof to the party required to indemnify such party hereunder **(**"**Indemnitor**") as promptly as practicable after Indemnitee's receipt of such assertion of a claim or the commencement of such litigation (it being agreed, however, that no delay on the part of the Indemnitee in notifying the Indemnitor of the Third-Party Claim will relieve the Indemnitor from any obligation under this Agreement except

to the extent that the delay materially prejudices the defense of the Third-Party Claim by the Indemnitor). Indemnitor may, at its sole cost and expense, upon written notice given to Indemnitee within twenty (20) days after its receipt of Indemnitee's notice under this **Section 5**, assume the defense, with counsel reasonably satisfactory to Indemnitee, of any such Third-Party Claim. If Indemnitor assumes the defense of any such Third-Party Claim, the obligations of Indemnitor hereunder as to such Third-Party Claim shall be limited to taking all steps necessary in the defense or settlement thereof and to holding Indemnitee harmless from, against and in respect of any and all Losses caused by or arising out of any settlement approved by Indemnitor or any judgment in connection with such Third-Party Claim. Except with the prior written consent of Indemnitee, Indemnitor shall not consent to the settlement or entry of any judgment arising from any such Third-Party Claim which in each case does not include as an unconditional term thereof the giving by the claimant or plaintiff, as the case may be, to Indemnitee of an unconditional release from all liability in respect thereof unless Indemnitor has actually paid the full amount of any such settlement or judgment. Indemnitee shall cooperate with Indemnitor as necessary to the conduct of the defense of, and shall be entitled to receive copies of all pleadings and other material papers in connection with, any Third-Party Claim. If Indemnitor does not assume the defense of any Third-Party Claim, Indemnitee may defend the same in such manner as it may deem appropriate, including but not limited to settling such Third-Party Claim, after giving reasonable notice of the same to Indemnitor, on such terms as Indemnitee may deem appropriate, and Indemnitor will promptly reimburse Indemnitee in accordance with the provisions of this **Section 5**, subject to its having liability hereunder. Anything contained in this **Section 5** to the contrary notwithstanding: (i) Indemnitor shall not be entitled to assume the defense of any Third-Party Claim if the Third-Party Claim seeks an order, injunction or other equitable relief against Indemnitee which, if successful, might materially interfere with, or adversely affect, the operation by Indemnitee of its business; and (ii) Indemnitee may defend any claim to which Indemnitee may have a defense or counterclaim which Indemnitor is not entitled to assert, to the extent necessary to assert and maintain such defense or counterclaim.

(b) *Other Claims*. If any Indemnitee believes that it has suffered or will suffer any Losses for which the Indemnitor is obligated to indemnify it hereunder (other than Losses arising out of or relating to a Third-Party Claim), it shall promptly notify the Indemnitor in writing of the claim, specifying therein the reason why it believes that the Indemnitor is or will be obligated to indemnify it, the amount claimed, and the basis on which it has calculated such amount. If the parties do not agree on the claim submitted, they shall endeavor in good faith to settle and compromise said claim for a period of thirty days after the dispute arises before commencing any legal proceedings.

Section 6. **Indemnification Limits**.

(a) The LSHC Parties shall have no liability for any claim for indemnification pursuant to **Section 3** until the Losses for which the LSHC Parties would be responsible exceed, in the aggregate, Five Hundred Thousand Dollars ($500,000), in which event the LSHC Parties shall pay or be liable for all such Losses from the first dollar. Notwithstanding the foregoing sentence, however, any indemnification claims by the Acquiror Indemnified Parties relating to the Visa Ownership, the HPS Relationship, the LFC Dispute or the matters referenced in **Section 3(b)** shall be paid from the first dollar.

(b) Notwithstanding anything set forth in this Agreement to the contrary, no LSHC Shareholder, on an individual basis, shall be required to make indemnification payments to the Acquiror Indemnified Parties pursuant to **Section 3** to the extent indemnification payments thereunder

would exceed, in the aggregate, the amount of total consideration received by such LSHC Shareholder in the Merger (such amount, the "**Individual Indemnification Cap**"), which amount is set forth opposite each LSHC Shareholder's name on ANNEX A to this Agreement.

(c) Acquiror shall have no liability for any claim for indemnification pursuant to **Section 4** until the Losses for which Acquiror would be responsible exceed, in the aggregate, Five Hundred Thousand Dollars ($500,000), in which event Acquiror shall pay or be liable for all such Losses from the first dollar.

(d) All indemnification claims shall be net of available insurance proceeds and income tax benefits accruing to the indemnified party and shall not include any amounts for exemplary or punitive damages (unless part of a Third-Party Claim).

(e) Any indemnification claim payable by an LSHC Shareholder to Acquiror may be paid, at the LSHC Shareholder's option, either in cash or through the cancellation of the appropriate number of shares of Acquiror Common Stock previously issued to the LSHC Shareholder, calculated based on the Per Share Acquiror Stock Valuation. Any indemnification claim payable by Acquiror to an LSHC Shareholder or to the McDonnell Family may be paid, at Acquiror's option, either in cash or through the issuance of the appropriate number of additional shares of Acquiror Common Stock, calculated based on the Per Share Acquiror Stock Valuation.

(f) Notwithstanding anything contained herein to the contrary, the right to indemnification, reimbursement or other remedy based upon a Breach by either LSHC or Acquiror of any of the representations, warranties or covenants made by LSHC or Acquiror, respectively, in the Merger Agreement will not be affected, and there shall not be taken into account for purposes of determining whether there has occurred such a Breach, or the amount of any Losses resulting from such Breach: (i) any limitation on such representation, warranty or covenant based upon Knowledge, materiality or Material Adverse Effect; (ii) any Knowledge acquired by Acquiror or its Representatives at any time after the execution and delivery of the Merger Agreement and this Agreement or after the Closing Date, including any information provided by LSHC to Acquiror after the date of the Merger Agreement and this Agreement pursuant to Section 6.8 of the Merger Agreement; or (iii) any Knowledge acquired by LSHC or its Representatives at any time after the execution and delivery of the Merger Agreement and this Agreement or after the Closing Date, including any information provided by Acquiror to LSHC pursuant to Section 7.3 of the Merger Agreement.

(g) Except as set forth in Article 11 of the Merger Agreement or for claims based upon fraud or willful misconduct, the indemnification rights set forth in this Agreement shall constitute the sole and exclusive remedy of the Acquiror Indemnified Parties, the LSHC Indemnified Parties and the McDonnell Family Indemnified Parties for any Breach of representations or warranties or covenants under the Merger Agreement or this Agreement.

(h) If the Loss incurred by an LSHC Indemnified Party or a McDonnell Family Indemnified Party results from a diminution in the aggregate value of Acquiror Common

Stock ("**Aggregate Diminution**"), then the amount of such Loss claimed by an LSHC Indemnified Party or McDonnell Family Indemnified Party for which Acquiror may be liable pursuant to this Agreement shall be equal to the amount of the Aggregate Diminution multiplied by the percentage ownership of Acquiror Common Stock by the applicable LSHC Indemnified Party or McDonnell Family Indemnified Party. For the avoidance of doubt, the parties acknowledge and agree that any Loss incurred by an LSHC Indemnified Party or McDonnell Family Indemnified Party resulting from a breach of any of Section 5.5 through Section 5.24 of the Merger Agreement, or of Section 5.29 of the Merger Agreement (but only to the extent that it relates to any of Section 5.5 through Section 5.24) shall be measured solely in accordance with the preceding sentence. Any other Loss from and against which Acquiror is obligated to indemnify, defend and hold harmless the LSHC Indemnified Parties or McDonnell Family Indemnified Parties pursuant to **Section 4** of this Agreement shall be measured in such other manner as shall be appropriate.

Section 7. **Update to ANNEX A.** Acquiror and the LSHC Parties agree to take all necessary actions on or prior to the Closing Date to update ANNEX A to this Agreement to set forth the actual amount of consideration to be received by each LSHC Shareholder upon consummation of the Merger. Each LSHC Shareholder agrees that, if such shareholder transfers any shares of Company Senior Preferred Stock, Company Series A Preferred Stock and/or Company Common Stock between the date of this Agreement and the Closing Date to any person who is not also an LSHC Shareholder (as listed on ANNEX A hereto), the amount set forth on the updated ANNEX A used for purposes of establishing the Individual Indemnification Cap shall be the amount of consideration that would have been received by the LSHC Shareholder upon consummation of the Merger if such transfer had not been effected.

Section 8. **Entire Agreement; No Third-Party Beneficiaries.** This Agreement, together with the Merger Agreement, supersedes all prior agreements, written or oral, and contains the entire agreement, between the parties hereto (or any of them) with respect to the subject matter hereof. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their respective successors and permitted assigns, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement; *provided* that this Agreement will inure to the benefit of each of the Acquiror Indemnified Parties, the LSHC Indemnified Parties and the McDonnell Family Indemnified Parties.

Section 9. **Amendment; Waiver.** This Agreement may not be amended or supplemented, and no provisions hereof may be modified or waived, except by an instrument in writing signed by all of the parties hereto. No waiver of any provisions hereof by any party shall be deemed a waiver of any other provisions hereof by such party, nor shall any such waiver be deemed a continuing waiver of any provision hereof by such party.

Section 10. **Notices.** All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal

business hours of the recipient; or (d) on the fifth (5^{th}) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the addresses indicated below (or at such other address for a party as shall be specified in a

notice given in accordance with this **Section 10**):

If to Acquiror, to:

Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401
Telephone: (217) 342-7331
Electronic Mail: jludwig@midlandstatesbank.com
Facsimile: (217) 342-9462
Attention: Jeffrey G. Ludwig
Executive Vice President and Chief Financial Officer

with copies to:

Barack Ferrazzano Kirschbaum & Nagelberg LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Telephone: (312) 984-3100
Electronic Mail: dennis.wendte@bfkn.com
Facsimile: (312) 984-3150
Attention: Dennis R. Wendte, Esq.

If to Hallmark, to:

Hallmark Investment Corporation
212 South Central Avenue
St. Louis, Missouri 63105-3570
Telephone: (314) 512-8606
Electronic Mail: aslove@lovesavings.net
Facsimile: (314) 512-8687
Attention: Andrew S. Love
Chairman

with copies to:

Alan A. Sachs, LLC
231 South Bemiston Avenue, Suite 800
St. Louis, Missouri 63105
Telephone: (314) 854-9194
Electronic Mail: asachs@alansachs.com
Facsimile: (314) 854-9118
Attention: Alan A. Sachs, Esq.

and

Carmody MacDonald, P.C.
120 South Central Avenue, Suite 1800
St. Louis, Missouri 63105
Telephone: (314) 854-8600
Electronic Mail: mbh@carmodymacdonald.com
Facsimile: (314) 854-8660
Attention: Mark B. Hillis, Esq.

If to any LSHC Shareholder, to the address, email address or facsimile number set forth for the LSHC Shareholder on ANNEX A. If to the McDonnell Family, to the address, email address or facsimile number set forth on ANNEX B.

Section 11. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the internal laws of the State of Missouri without giving effect to any choice or conflict of law provision that would cause the application of laws of any jurisdiction other than those of the State of Missouri, except to the extent that the federal laws of the United States apply. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in the courts of the State of Missouri located in the County of St. Louis, or, if it has or can acquire jurisdiction, in the United States District Court for the Eastern District of Missouri, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT

OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT: (I) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (II) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (III) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (IV) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

(c) If any term or provision of this Agreement is held by a final and unappealable order or judgment of a court of competent jurisdiction to be invalid, void, or unenforceable, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect, and shall not be impaired or invalidated thereby. Upon such determination that any term or other provision is invalid, void, or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the agreements contemplated herein be preserved to the greatest extent possible.

(d) This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be executed and accepted by facsimile or electronic signature and any such signature shall be of the same force and effect as an original signature.

(e) Each party hereto shall execute and deliver such additional documents as may be necessary or desirable to carry out the intent of this Agreement.

(f) All words used in this Agreement will be construed to be of such gender or number as the circumstances require, all references to sections, are to sections of this Agreement unless otherwise specified, and “including” means “including, but not limited to.”

(g) All section headings herein are for convenience of reference only and are not part of this Agreement, and no construction or reference shall be derived therefrom.

(h) Hallmark, each LSHC Shareholder and each member of the McDonnell Family acknowledges that he, she or it has had an opportunity to be advised by counsel of his, her or its choosing with regard to this Agreement and the transactions and consequences contemplated hereby.

(i) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their successors and permitted assigns. Neither this Agreement nor any rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties hereto. Each party shall cause any person acquiring all or substantially all of the assets of such party, or any surviving entity in the case of any merger, consolidation or reorganization of such party, to assume upon the consummation thereof the obligations of such party under this Agreement.

[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement individually, or have caused this Agreement to be executed by their respective officers, on the day and year first written above.

ACQUIROR:

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Title: President & CEO

HALLMARK:

HALLMARK INVESTMENT CORPORATION

By: /s/ Laurence A. Schiffer
Name: Laurence A. Schiffer
Title: President

LSHC SHAREHOLDERS:

LOVE GROUP, LLC

By: /s/ Andrew S. Love
Name: Andrew S. Love
Title: Manager

LOVE INVESTMENT COMPANY

By: /s/ Laurence A. Schiffer
Name: Laurence A. Schiffer
Title: President

LOVE REAL ESTATE COMPANY

By: /s/ Laurence A. Schiffer
Name: Laurence A. Schiffer
Title: President

ANDREW SPROULE LOVE, JR., AS TRUSTEE OF THE LOVE FAMILY CHARITABLE TRUST

/s/ Andrew Sproule Love, Jr.

BANK OF AMERICA AND ANDREW S. LOVE, JR., AS TRUSTEES U/T/W OF ANDREW SPROULE LOVE FBO ANDREW SPROULE LOVE, JR.

Bank of America

By: /s/ Cathy S. Meeks
Name: Cathy S. Meeks
Title: SVP Bank of America, Trustee

/s/ Andrew S. Love, Jr.

ANDREW S. LOVE, JR.

/s/ Andrew S. Love, Jr.

LAURENCE A. SCHIFFER

/s/ Laurence A. Schiffer

MCDONNELL FAMILY:

JAMES S. MCDONNELL III

/s/ James S. McDonnell III

JOHN F. MCDONNELL

/s/ John F. McDonnell

[SIGNATURE PAGE TO INDEMNIFICATION AGREEMENT]

ANNEX A

LSHC SHAREHOLDERS

SHAREHOLDER	MAILING ADDRESS, FACSIMILE, EMAIL ADDRESS	CONSIDERATION RECEIVED IN MERGER (ESTIMATED)*	CONSIDERATION RECEIVED IN MERGER (ACTUAL)*
Love Group, LLC			
Love Investment Company			
Love Real Estate Company			
Bank of America and Andrew S. Love, Jr., as Trustees U/T/W of Andrew Sproule Love FBO Andrew Sproule Love, Jr.			
Andrew Sproule Love, Jr. as Trustee of the Love Family Charitable Trust			
Andrew S. Love, Jr.			
Laurence A. Schiffer			

* Shares of Acquiror Common Stock received are valued based on the Per Share Acquiror Stock Valuation.

ANNEX B

MCDONNELL FAMILY

SHAREHOLDER	MAILING ADDRESS, FACSIMILE, EMAIL ADDRESS
James S. McDonnell III	
John F. McDonnell	

Exhibit 10.20

FINAL VERSION

NONCOMPETITION AGREEMENT

THIS NONCOMPETITION AGREEMENT (this "**Agreement**") is made and entered into as of April 7, 2014 (the "**Agreement Date**"), by and between **MIDLAND STATES BANCORP, INC.**, an Illinois corporation ("**Acquiror**"), and ANDREW S. LOVE, an individual resident of the State of Missouri (the "**Restricted Person**," and together with Acquiror, the "**Parties**"); *provided*, *however*, that this Agreement shall become effective only upon the date of consummation of the Merger (the "**Effective Date**"), and if the Merger Agreement is terminated prior to the Merger being consummated, this Agreement shall be null and void and the Parties shall have no further obligations hereunder.

RECITALS

A. Pursuant to an Agreement and Plan of Merger, of even date herewith (the "**Merger Agreement**"), among Acquiror, HB Acquisition LLC, a wholly-owned subsidiary of Acquiror ("**Merger Sub**"), and Love Savings Holding Company, a Missouri corporation ("**LSHC**"), Midland has agreed to acquire LSHC by means of a merger (the "**Merger**") of LSHC with and into Merger Sub.

B. The Restricted Person is a director and/or executive officer of LSHC and certain of its subsidiaries and has become familiar with the customers of and related customer information for LSHC and its subsidiaries, including Heartland Bank.

C. The Restricted Person is a principal shareholder of LSHC and will, therefore, benefit substantially from the consideration paid by Acquiror to consummate the Merger.

D. Acquiror would not have entered into the Merger Agreement and agreed to pay the cash and stock consideration to LSHC's shareholders without the Restricted Person's agreement to the terms of this Agreement, including the non-competition and non-solicitation covenants contained herein, and it is a condition to Acquiror's obligations under the Merger Agreement that this Agreement be in full force and effect on the Effective Date.

E. The Restricted Person believes it is in his best interest as well as the best interest of LSHC to consummate the Merger.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants of the Parties set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby covenant and agree as follows:

AGREEMENTS

Section 1. **Payment**. In consideration of the Restricted Person's covenants set forth in **Section 3** and **Section 4**, Acquiror shall pay the Restricted Person during the Restricted Period (as defined in **Section 3(a)**) an annual payment of Two Hundred Fifty Thousand Dollars ($250,000), payable in equal monthly installments of Twenty Thousand Eight Hundred Thirty-Three Dollars ($20,833) each, in advance, with the first installment to be paid on the first Business Day (as defined in the Merger Agreement) of the first month immediately following the

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Effective Date, together with such sum as is due for a partial month between the Effective Date and such first Business Day, with each additional installment to be paid on the first Business Day of each succeeding month through the end of the Restricted Period. The Restricted Person agrees that he shall not be entitled to receive during the Restricted Period (provided the payments required by this **Section 1** are made) any fees for any service as a director of Acquiror, *provided*, *however*, that the Restricted Person, if he is serving as a director of Acquiror, will be compensated for service, if any, on more than one (1) committee of the board of directors pursuant to the compensation policy of Acquiror for such committee service.

Section 2. **Confidentiality**. For purposes of this Agreement, "**Confidential Information**" shall mean records, files, documents, data, trade secrets and information that are not available to the public regarding Acquiror and its Affiliates, including information about LSHC and its subsidiaries that will become information regarding Acquiror after the Effective Date; *provided, however*, that such term shall not include any such records, files, documents, data, trade secrets or information that relate solely to the Non-Banking Business and other assets of LSHC that are subject to the Internal Restructuring and the Distribution (as such capitalized terms are defined in the Merger Agreement). The Restricted Person acknowledges that the nature of the Restricted Person's position with LSHC and its subsidiaries has given him access to Confidential Information. The Restricted Person shall hold in confidence and not directly or indirectly disclose any Confidential Information to third parties unless disclosure becomes reasonably necessary in connection with the performance of his duties as a member of the board of directors of Acquiror, or the Confidential Information lawfully becomes available to the public from other sources, or the Restricted Person is authorized in writing by Acquiror to disclose it or the Restricted Person is required to disclose it by law. All Confidential Information that the Restricted Person prepares shall be the sole property of Acquiror. The restrictions contained in this **Section 2** shall extend to any personal computers or other electronic devices of the Restricted Person. The Restricted Person shall promptly return all originals and copies of any Confidential Information to Acquiror if reasonably requested by Acquiror, except as retention may be required for purposes of income tax filings and as required by Applicable Law and Regulation. Nothing in this **Section 2** shall relate to information provided to, or documents or materials prepared by, the Restricted Person in his capacity as a director of Acquiror.

Section 3. **General Noncompetition and Nonsolicitation Covenants**.

(a) The primary service area of Acquiror's business extends separately to an area that encompasses a fifty (50)-mile radius from each banking and other office location of Acquiror and its Affiliates and a fifty (50)-mile radius from Acquiror's main office in Effingham, Illinois (collectively, the "**Restricted Area**"). As an essential ingredient and in consideration of this Agreement and the Merger Agreement, the Restricted Person shall not, for a period beginning with the Effective Date and ending on the third (3rd) anniversary of the Effective Date (the "**Restricted Period**"), directly or indirectly compete with the business of Acquiror, including by doing any of the following (the "**Restrictive Covenant**"):

(i) engage or invest in, own, manage, operate, control, finance, participate in the ownership, management, operation or control of, be employed by, associate with or in any manner be connected with, serve as an employee, officer or director of or consultant to, lend the

Restricted Person's name or any similar name to, lend the Restricted

Person's credit to, or render services or advice to any person, firm, partnership, corporation, trust or other entity that owns or operates a bank, savings and loan association, credit union or similar financial institution (a "**Financial Institution**") with any office located, or to be located at an address identified in a filing with any regulatory authority, within the Restricted Area;

(ii) directly or indirectly, for the Restricted Person or any Financial Institution: (A) induce or attempt to induce any employee of Acquiror or its Affiliates to leave the employ of Acquiror or its Affiliates; (B) in any way interfere with the relationship between Acquiror or its Affiliates and any such employee; (C) employ, or otherwise engage as an employee, independent contractor or otherwise, any such employee; or (D) induce or attempt to induce any customer, supplier, licensee or business relation of Acquiror or its Affiliates to cease doing business with Acquiror or its Affiliates or in any way interfere with the relationship between Acquiror or its Affiliates and any of their respective customers, suppliers, licensees or business relations; or

(iii) directly or indirectly, for the Restricted Person or any Financial Institution, solicit the business of any person or entity known to the Restricted Person to be a customer of Acquiror or its Affiliates where the Restricted Person had personal contact with such person or entity with respect to products, activities or services that compete in whole or in material part with the products, activities or services of Acquiror or its Affiliates.

(b) The foregoing Restrictive Covenant, and the the Restricted Person's obligations pursuant to **Section 4**, shall not (i) prohibit the Restricted Person from directly or indirectly owning capital stock or similar securities that are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System that do not represent more than five percent (5%) of the outstanding capital stock of any Financial Institution or any entity described in **Section 4**, and (ii) be applicable in the event of the termination of this Agreement by Acquiror.

Section 4. **Specific Noncompetition Covenant**. Notwithstanding anything contained herein to the contrary, and in addition to the Restricted Person's obligations pursuant to **Section 3**, during the Restricted Period, the Restricted Person shall not engage or invest in, own, manage, operate, control, finance, participate in the ownership, management, operation or control of, be employed by, associate with or in any manner be connected with, serve as an employee, officer or director of or consultant to, lend the Restricted Person's name or any similar name to, lend the Restricted Person's credit to, or render services or advice to any person, firm, partnership, corporation, trust or other entity that owns or operates a business anywhere in the United States of America that competes with the business operations of Love Funding Corporation, a subsidiary of Heartland Bank, or Heartland Business Credit Corporation, also a subsidiary of Heartland Bank.

Section 5. **Nondisparagement.** From the Agreement Date until the later of (i) the end of the Restricted Period or (ii) such time as the Restricted Person no longer has a designee serving on Acquiror's board of directors pursuant to Section 7.8(a) of the Merger Agreement, other than as may be necessary or appropriate in any adversarial proceeding or claim arising between LSHC and Acquiror under the Merger Agreement, between the LSHC Parties and Acquiror pursuant to the Indemnification Agreement to be delivered pursuant to Section 6.18 of

the Merger Agreement or between the D&O Indemnified Parties and Acquiror with respect to the D&O Indemnified Parties seeking to enforce their rights under Section 7.12 of the Merger Agreement, the Restricted Person shall not engage in any vilification of Acquiror or any of its Affiliates, and the Restricted Person shall refrain from making any false, negative, critical or disparaging statements, implied or expressed, concerning Acquiror or any of its Affiliates or any of their respective directors, officers, employees, shareholders or agents, including management style, methods of doing business, the quality of products and services, role in the community or treatment of employees. Neither the Restricted Person nor Acquiror shall do anything that would damage the business reputation or goodwill of the other party or any of their respective Affiliates.

Section 6. **Remedies for Breach.** The Restricted Person has reviewed the provisions of this Agreement with legal counsel, or has been given adequate opportunity to seek such counsel, and the Restricted Person acknowledges that the covenants contained herein are reasonable with respect to their duration, geographical area and scope. The Restricted Person further acknowledges that he will receive substantial benefits from the Merger, the restrictions contained in this Agreement are reasonable and necessary for the protection of the legitimate business interests of Acquiror, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to Acquiror and its interests, that Acquiror would not have agreed to enter into this Agreement or the Merger Agreement without receiving the Restricted Person's agreement to be bound by these restrictions and that such restrictions were a material inducement to Acquiror to enter into this Agreement and the Merger Agreement. During the Restricted Period, Acquiror, after advance notice to the Restricted Person of its intentions, shall have the right to communicate the existence and provisions of this Agreement to any third party with whom the Restricted Person may seek or obtain future employment or other similar arrangement. In addition, in the event of any violation or threatened violation of the restrictions contained in this Agreement, Acquiror, in addition to and not in limitation of, any other rights, remedies or damages available to Acquiror under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by the Restricted Person and any and all persons directly or indirectly acting for or with the Restricted Person, as the case may be. If the Restricted Person violates the Restrictive Covenant and Acquiror brings legal action for injunctive or other relief, Acquiror shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to have the duration specified herein computed from the date the relief is granted but reduced by the time between the period when the Restricted Period began to run and the date of the first violation of the Restrictive Covenant by the Restricted Person, as the date of such first violation is determined by judicial proceeding.

Section 7. **General Provisions**.

(a) **Indemnification.** The Restricted Person shall indemnify and hold harmless Acquiror and its directors, officers and employees from and against all taxes, losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising solely from or in connection with: (i) any reckless or intentionally wrongful act of the Restricted Person; and (ii) any material breach by the Restricted Person of any of the terms of this Agreement. Acquiror shall indemnify and hold harmless the Restricted Person from and against all taxes,

losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising solely from or in connection with (i) any reckless or intentionally wrongful act of Acquiror, its employees, directors and officers, and (ii) any material breach by Acquiror of any of the terms of this Agreement.

(b) Amendment. Except as set forth explicitly herein, this Agreement may not be amended or modified except by written agreement signed by the Restricted Person and Acquiror.

(c) Affiliate. For purposes of this Agreement, "**Affiliate**" means, with respect to Acquiror: (i) any person or entity that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with Acquiror; and (ii) each person that serves as a director, officer, partner, executor or trustee of Acquiror or any of its Affiliates (or in a similar capacity).

(d) Successors and Assigns. This Agreement is not assignable except that Acquiror's rights, duties and obligations under this Agreement may be assigned to any of its subsidiaries. The covenants, terms and provisions of this Agreement shall inure to the benefit of and be enforceable by both Parties and their respective successors, assigns and personal representatives. Any attempted assignment of this Agreement in violation of this Section shall be null and void.

(e) Entire Agreement. This Agreement constitutes the entire agreement between the Parties concerning the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral.

(f) Severability. The various covenants and provisions of this Agreement are intended to be severable and to constitute independent and distinct binding obligations. If any covenant or provision of this Agreement is determined to be void or unenforceable, in whole or in part, it shall not be deemed to affect or impair the validity of any other covenant or provision or part thereof, and such covenant or provision or part thereof shall be deemed modified to the extent required to permit enforcement. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and such scope may be judicially modified accordingly.

(g) Survival. The provisions of **Section 2** through **Section 7** shall survive the expiration or termination of this Agreement for any reason.

(h) Governing Law; Choice of Venue and Consent to Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Missouri without giving effect to any choice or conflict of law provision that would cause the application of laws of any jurisdiction other than those of the State of Missouri, except to the extent that the federal laws of the United States apply. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in the courts of the State of Missouri located in the County of St. Louis, or, if it has or can acquire jurisdiction, in the United States District Court serving the City of St. Louis,

Missouri, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The Parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(i) WAIVER OF JURY TRIAL. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT: (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

(j) Other Waivers. The waiver by an aggrieved party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by the other party or any of the aggrieved party's rights hereunder with respect to other breaches by the other party.

(k) Notices. Notices pursuant to this Agreement shall be in writing and shall be deemed given when received; and, if mailed, shall be mailed by United States registered or certified mail, return receipt requested, postage prepaid; and if to Acquiror, addressed to the principal headquarters of Acquiror, attention: Chief Executive Officer; and if to the Restricted Person, to the address for the Restricted Person as most currently reflected in the corporate records or to such other address as the Restricted Person has most recently provided to Acquiror.

(l) Construction. This Agreement shall be deemed drafted equally by the Parties. Any presumption or principle that the language of this Agreement is to be construed against any Party shall not apply. Furthermore, in this Agreement, unless otherwise stated or the context otherwise requires, the following uses apply: (i) actions permitted under this Agreement may be taken at any time and from time to time in the actor's reasonable discretion; (ii) references to a statute shall refer to the statute and any successor statute, and to all regulations promulgated under or implementing the statute or its successor, as in effect at the relevant time; (iii) "including" means "including, but not limited to"; (iv) all references to sections are to sections of this Agreement unless otherwise specified; (v) all words used in this Agreement will be construed to be of such gender or number as the circumstances and context require; (vi) the captions and headings of sections appearing in this Agreement have been

inserted solely for convenience of reference and shall not be considered a part of this Agreement nor shall any of them affect the meaning or interpretation of this Agreement or any of its provisions; and (vii) any reference to a document or set of documents in this Agreement, and the rights and obligations of the Parties under any such documents, shall mean such document or documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof.

(m) Acknowledgments. The Restricted Person is executing this Agreement voluntarily and without any duress or undue influence by Acquiror or anyone else. The Restricted Person has carefully read this Agreement and has asked any questions needed for the Restricted Person to understand the terms, consequences and binding effect of this Agreement and fully understands them. The Restricted Person has had the opportunity to seek the advice of an attorney of the Restricted Person's choice before signing this Agreement.

[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Agreement Date.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Title: Presdient & CEO

/s/ Andrew S. Love, Jr.
ANDREW S. LOVE, JR.

[*SIGNATURE PAGE TO NONCOMPETITION AGREEMENT*]

Exhibit 10.21

FINAL VERSION

NONCOMPETITION AGREEMENT

THIS NONCOMPETITION AGREEMENT (this "**Agreement**") is made and entered into as of April 7, 2014 (the "**Agreement Date**"), by and between **MIDLAND STATES BANCORP, INC.**, an Illinois corporation ("**Acquiror**"), and LAURENCE A. SCHIFFER, an individual resident of the State of Missouri (the "**Restricted Person**," and together with Acquiror, the "**Parties**"); *provided*, *however*, that this Agreement shall become effective only upon the date of consummation of the Merger (the "**Effective Date**"), and if the Merger Agreement is terminated prior to the Merger being consummated, this Agreement shall be null and void and the Parties shall have no further obligations hereunder.

RECITALS

A. Pursuant to an Agreement and Plan of Merger, of even date herewith (the "**Merger Agreement**"), among Acquiror, HB Acquisition LLC, a wholly-owned subsidiary of Acquiror ("**Merger Sub**"), and Love Savings Holding Company, a Missouri corporation ("**LSHC**"), Midland has agreed to acquire LSHC by means of a merger (the "**Merger**") of LSHC with and into Merger Sub.

B. The Restricted Person is a director and/or executive officer of LSHC and certain of its subsidiaries and has become familiar with the customers of and related customer information for LSHC and its subsidiaries, including Heartland Bank.

C. The Restricted Person is a principal shareholder of LSHC and will, therefore, benefit substantially from the consideration paid by Acquiror to consummate the Merger.

D. Acquiror would not have entered into the Merger Agreement and agreed to pay the cash and stock consideration to LSHC's shareholders without the Restricted Person's agreement to the terms of this Agreement, including the non-competition and non-solicitation covenants contained herein, and it is a condition to Acquiror's obligations under the Merger Agreement that this Agreement be in full force and effect on the Effective Date.

E. The Restricted Person believes it is in his best interest as well as the best interest of LSHC to consummate the Merger.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants of the Parties set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby covenant and agree as follows:

AGREEMENTS

Section 1. **Payment**. In consideration of the Restricted Person's covenants set forth in **Section 3** and **Section 4**, Acquiror shall pay the Restricted Person during the Restricted Period (as defined in **Section 3(a)**) an annual payment of Two Hundred Fifty Thousand Dollars ($250,000), payable in equal monthly installments of Twenty Thousand Eight Hundred Thirty-Three Dollars ($20,833) each, in advance, with the first installment to be paid on the first Business Day (as defined in the Merger Agreement) of the first month immediately following the

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Effective Date, together with such sum as is due for a partial month between the Effective Date and such first Business Day, with each additional installment to be paid on the first Business Day of each succeeding month through the end of the Restricted Period. The Restricted Person agrees that he shall not be entitled to receive during the Restricted Period (provided the payments required by this **Section 1** are made) any fees for any service as a director of Acquiror, *provided*, *however*, that the Restricted Person, if he is serving as a director of Acquiror, will be compensated for service, if any, on more than one (1) committee of the board of directors pursuant to the compensation policy of Acquiror for such committee service.

Section 2. **Confidentiality**. For purposes of this Agreement, "**Confidential Information**" shall mean records, files, documents, data, trade secrets and information that are not available to the public regarding Acquiror and its Affiliates, including information about LSHC and its subsidiaries that will become information regarding Acquiror after the Effective Date; *provided*, *however*, that such term shall not include any such records, files, documents, data, trade secrets or information that relate solely to the Non-Banking Business and other assets of LSHC that are subject to the Internal Restructuring and the Distribution (as such capitalized terms are defined in the Merger Agreement). The Restricted Person acknowledges that the nature of the Restricted Person's position with LSHC and its subsidiaries has given him access to Confidential Information. The Restricted Person shall hold in confidence and not directly or indirectly disclose any Confidential Information to third parties unless disclosure becomes reasonably necessary in connection with the performance of his duties as a member of the board of directors of Acquiror, or the Confidential Information lawfully becomes available to the public from other sources, or the Restricted Person is authorized in writing by Acquiror to disclose it or the Restricted Person is required to disclose it by law. All Confidential Information that the Restricted Person prepares shall be the sole property of Acquiror. The restrictions contained in this **Section 2** shall extend to any personal computers or other electronic devices of the Restricted Person. The Restricted Person shall promptly return all originals and copies of any Confidential Information to Acquiror if reasonably requested by Acquiror, except as retention may be required for purposes of income tax filings and as required by Applicable Law and Regulation. Nothing in this **Section 2** shall relate to information provided to, or documents or materials prepared by, the Restricted Person in his capacity as a director of Acquiror.

Section 3. **General Noncompetition and Nonsolicitation Covenants**.

(a) The primary service area of Acquiror's business extends separately to an area that encompasses a fifty (50)-mile radius from each banking and other office location of Acquiror and its Affiliates and a fifty (50)-mile radius from Acquiror's main office in Effingham, Illinois (collectively, the "**Restricted Area**"). As an essential ingredient and in consideration of this Agreement and the Merger Agreement, the Restricted Person shall not, for a period beginning with the Effective Date and ending on the third (3rd) anniversary of the Effective Date (the "**Restricted Period**"), directly or indirectly compete with the business of Acquiror, including by doing any of the following (the "**Restrictive Covenant**"):

(i) engage or invest in, own, manage, operate, control, finance, participate in the ownership, management, operation or control of, be employed by, associate with or in any manner be connected with, serve as an employee, officer or director of or consultant to, lend the

Restricted Person's name or any similar name to, lend the Restricted

Person's credit to, or render services or advice to any person, firm, partnership, corporation, trust or other entity that owns or operates a bank, savings and loan association, credit union or similar financial institution (a "**Financial Institution**") with any office located, or to be located at an address identified in a filing with any regulatory authority, within the Restricted Area;

(ii) directly or indirectly, for the Restricted Person or any Financial Institution: (A) induce or attempt to induce any employee of Acquiror or its Affiliates to leave the employ of Acquiror or its Affiliates; (B) in any way interfere with the relationship between Acquiror or its Affiliates and any such employee; (C) employ, or otherwise engage as an employee, independent contractor or otherwise, any such employee; or (D) induce or attempt to induce any customer, supplier, licensee or business relation of Acquiror or its Affiliates to cease doing business with Acquiror or its Affiliates or in any way interfere with the relationship between Acquiror or its Affiliates and any of their respective customers, suppliers, licensees or business relations; or

(iii) directly or indirectly, for the Restricted Person or any Financial Institution, solicit the business of any person or entity known to the Restricted Person to be a customer of Acquiror or its Affiliates where the Restricted Person had personal contact with such person or entity with respect to products, activities or services that compete in whole or in material part with the products, activities or services of Acquiror or its Affiliates.

(b) The foregoing Restrictive Covenant, and the the Restricted Person's obligations pursuant to **Section 4**, shall not (i) prohibit the Restricted Person from directly or indirectly owning capital stock or similar securities that are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System that do not represent more than five percent (5%) of the outstanding capital stock of any Financial Institution or any entity described in **Section 4**, and (ii) be applicable in the event of the termination of this Agreement by Acquiror.

Section 4. **Specific Noncompetition Covenant**. Notwithstanding anything contained herein to the contrary, and in addition to the Restricted Person's obligations pursuant to **Section 3**, during the Restricted Period, the Restricted Person shall not engage or invest in, own, manage, operate, control, finance, participate in the ownership, management, operation or control of, be employed by, associate with or in any manner be connected with, serve as an employee, officer or director of or consultant to, lend the Restricted Person's name or any similar name to, lend the Restricted Person's credit to, or render services or advice to any person, firm, partnership, corporation, trust or other entity that owns or operates a business anywhere in the United States of America that competes with the business operations of Love Funding Corporation, a subsidiary of Heartland Bank, or Heartland Business Credit Corporation, also a subsidiary of Heartland Bank.

Section 5. **Nondisparagement.** From the Agreement Date until the later of (i) the end of the Restricted Period or (ii) such time as the Restricted Person no longer has a designee serving on Acquiror's board of directors pursuant to Section 7.8(a) of the Merger Agreement, other than as may be necessary or appropriate in any adversarial proceeding or claim arising between LSHC and Acquiror under the Merger Agreement, between the LSHC Parties and Acquiror pursuant to the Indemnification Agreement to be delivered pursuant to Section 6.18 of

the Merger Agreement or between the D&O Indemnified Parties and Acquiror with respect to the D&O Indemnified Parties seeking to enforce their rights under Section 7.12 of the Merger Agreement, the Restricted Person shall not engage in any vilification of Acquiror or any of its Affiliates, and the Restricted Person shall refrain from making any false, negative, critical or disparaging statements, implied or expressed, concerning Acquiror or any of its Affiliates or any of their respective directors, officers, employees, shareholders or agents, including management style, methods of doing business, the quality of products and services, role in the community or treatment of employees. Neither the Restricted Person nor Acquiror shall do anything that would damage the business reputation or goodwill of the other party or any of their respective Affiliates.

Section 6. **Remedies for Breach.** The Restricted Person has reviewed the provisions of this Agreement with legal counsel, or has been given adequate opportunity to seek such counsel, and the Restricted Person acknowledges that the covenants contained herein are reasonable with respect to their duration, geographical area and scope. The Restricted Person further acknowledges that he will receive substantial benefits from the Merger, the restrictions contained in this Agreement are reasonable and necessary for the protection of the legitimate business interests of Acquiror, that they create no undue hardships, that any violation of these restrictions would cause substantial injury to Acquiror and its interests, that Acquiror would not have agreed to enter into this Agreement or the Merger Agreement without receiving the Restricted Person's agreement to be bound by these restrictions and that such restrictions were a material inducement to Acquiror to enter into this Agreement and the Merger Agreement. During the Restricted Period, Acquiror, after advance notice to the Restricted Person of its intentions, shall have the right to communicate the existence and provisions of this Agreement to any third party with whom the Restricted Person may seek or obtain future employment or other similar arrangement. In addition, in the event of any violation or threatened violation of the restrictions contained in this Agreement, Acquiror, in addition to and not in limitation of, any other rights, remedies or damages available to Acquiror under this Agreement or otherwise at law or in equity, shall be entitled to preliminary and permanent injunctive relief to prevent or restrain any such violation by the Restricted Person and any and all persons directly or indirectly acting for or with the Restricted Person, as the case may be. If the Restricted Person violates the Restrictive Covenant and Acquiror brings legal action for injunctive or other relief, Acquiror shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of the full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to have the duration specified herein computed from the date the relief is granted but reduced by the time between the period when the Restricted Period began to run and the date of the first violation of the Restrictive Covenant by the Restricted Person, as the date of such first violation is determined by judicial proceeding.

Section 7. **General Provisions**.

(a) **Indemnification.** The Restricted Person shall indemnify and hold harmless Acquiror and its directors, officers and employees from and against all taxes, losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising solely from or in connection with: (i) any reckless or intentionally wrongful act of the Restricted Person; and (ii) any material breach by the Restricted Person of any of the terms of this Agreement. Acquiror shall indemnify and hold harmless the Restricted Person from and against all taxes,

losses, damages, liabilities, costs and expenses, including attorneys' fees and other legal expenses, arising solely from or in connection with (i) any reckless or intentionally wrongful act of Acquiror, its employees, directors and officers, and (ii) any material breach by Acquiror of any of the terms of this Agreement.

(b) Amendment. Except as set forth explicitly herein, this Agreement may not be amended or modified except by written agreement signed by the Restricted Person and Acquiror.

(c) Affiliate. For purposes of this Agreement, "**Affiliate**" means, with respect to Acquiror: (i) any person or entity that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with Acquiror; and (ii) each person that serves as a director, officer, partner, executor or trustee of Acquiror or any of its Affiliates (or in a similar capacity).

(d) Successors and Assigns. This Agreement is not assignable except that Acquiror's rights, duties and obligations under this Agreement may be assigned to any of its subsidiaries. The covenants, terms and provisions of this Agreement shall inure to the benefit of and be enforceable by both Parties and their respective successors, assigns and personal representatives. Any attempted assignment of this Agreement in violation of this Section shall be null and void.

(e) Entire Agreement. This Agreement constitutes the entire agreement between the Parties concerning the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral.

(f) Severability. The various covenants and provisions of this Agreement are intended to be severable and to constitute independent and distinct binding obligations. If any covenant or provision of this Agreement is determined to be void or unenforceable, in whole or in part, it shall not be deemed to affect or impair the validity of any other covenant or provision or part thereof, and such covenant or provision or part thereof shall be deemed modified to the extent required to permit enforcement. Without limiting the generality of the foregoing, if the scope of any covenant contained in this Agreement is too broad to permit enforcement to its full extent, such covenant shall be enforced to the maximum extent permitted by law, and such scope may be judicially modified accordingly.

(g) Survival. The provisions of **Section 2** through **Section 7** shall survive the expiration or termination of this Agreement for any reason.

(h) Governing Law; Choice of Venue and Consent to Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Missouri without giving effect to any choice or conflict of law provision that would cause the application of laws of any jurisdiction other than those of the State of Missouri, except to the extent that the federal laws of the United States apply. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in the courts of the State of Missouri located in the County of St. Louis, or, if it has or can acquire jurisdiction, in the United States District Court serving the City of St. Louis,

Missouri, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The Parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(i) WAIVER OF JURY TRIAL. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT: (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (D) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

(j) Other Waivers. The waiver by an aggrieved party of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach by the other party or any of the aggrieved party's rights hereunder with respect to other breaches by the other party.

(k) Notices. Notices pursuant to this Agreement shall be in writing and shall be deemed given when received; and, if mailed, shall be mailed by United States registered or certified mail, return receipt requested, postage prepaid; and if to Acquiror, addressed to the principal headquarters of Acquiror, attention: Chief Executive Officer; and if to the Restricted Person, to the address for the Restricted Person as most currently reflected in the corporate records or to such other address as the Restricted Person has most recently provided to Acquiror.

(l) Construction. This Agreement shall be deemed drafted equally by the Parties. Any presumption or principle that the language of this Agreement is to be construed against any Party shall not apply. Furthermore, in this Agreement, unless otherwise stated or the context otherwise requires, the following uses apply: (i) actions permitted under this Agreement may be taken at any time and from time to time in the actor's reasonable discretion; (ii) references to a statute shall refer to the statute and any successor statute, and to all regulations promulgated under or implementing the statute or its successor, as in effect at the relevant time; (iii) "including" means "including, but not limited to"; (iv) all references to sections are to sections of this Agreement unless otherwise specified; (v) all words used in this Agreement will be construed to be of such gender or number as the circumstances and context require; (vi) the captions and headings of sections appearing in this Agreement have been

inserted solely for convenience of reference and shall not be considered a part of this Agreement nor shall any of them affect the meaning or interpretation of this Agreement or any of its provisions; and (vii) any reference to a document or set of documents in this Agreement, and the rights and obligations of the Parties under any such documents, shall mean such document or documents as amended from time to time, and any and all modifications, extensions, renewals, substitutions or replacements thereof.

(m) Acknowledgments. The Restricted Person is executing this Agreement voluntarily and without any duress or undue influence by Acquiror or anyone else. The Restricted Person has carefully read this Agreement and has asked any questions needed for the Restricted Person to understand the terms, consequences and binding effect of this Agreement and fully understands them. The Restricted Person has had the opportunity to seek the advice of an attorney of the Restricted Person's choice before signing this Agreement.

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[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Agreement Date.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Title: President & CEO

/s/ Laurence A. Schiffer
LAURENCE A. SCHIFFER

[*SIGNATURE PAGE TO NONCOMPETITION AGREEMENT*]

Exhibit 10.22

FINAL VERSION

SHAREHOLDERS' AGREEMENT

THIS SHAREHOLDERS' AGREEMENT (this "**Agreement**") is entered into as of April 7, 2014, among **MIDLAND STATES BANCORP, INC.**, an Illinois corporation ("**Midland**"), and those shareholders of **LOVE SAVINGS HOLDING COMPANY**, a Missouri corporation ("**LSHC**") whose names appear on the signature page of this Agreement (individually, a "**Shareholder**," and collectively, the "**Shareholders**"); *provided, however*, that this Agreement shall become effective only upon the date of consummation of the Merger (as defined below).

RECITALS

A. Contemporaneously with this Agreement, Midland has agreed to acquire LSHC by means of a merger (the "**Merger**") of LSHC with and into Merger Sub, all pursuant to an Agreement and Plan of Merger dated as of April 7, 2014 (the "**Merger Agreement**").

B. Upon the consummation of the Merger (the "**Closing**") and as a result thereof, each Shareholder may receive shares of Midland's common stock, par value $0.01 per share ("**Common Stock**"), determined pursuant to Article 3 of the Merger Agreement.

C. Set forth as **Exhibit A** is a list of the number of shares of Common Stock that each Shareholder is currently expected to own after the Closing, which **Exhibit A** shall be updated to reflect the actual number of shares of Common Stock owned by each Shareholder after the Closing.

D. To induce Midland to enter into the Merger Agreement and complete the Merger and issue shares of its Common Stock to the Shareholders, each Shareholder is willing to enter into this Agreement and be bound by its terms, and Midland and the Shareholders have agreed that it is in their mutual interests to enter into this Agreement.

AGREEMENTS

In consideration of the foregoing premises, which are incorporated herein by this reference, and the covenants and agreements of the parties herein contained, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. **Definitions**. All terms that are capitalized and used herein (and are not otherwise specifically defined herein) shall be used in this Agreement as defined in the Merger Agreement.

Section 2. **Update of Ownership**. The parties to this Agreement mutually agree to take all necessary actions within two (2) Business Day after the Closing to revise and update **Exhibit A** to this Agreement to set forth the actual number of shares of Common Stock owned by each Shareholder (collectively, the "**Original Shares**").

Section 3. **Representations and Warranties**. Each of the Shareholders represents and warrants for itself or himself to Midland that:

(a) the Shareholder has full power and authority to enter into and perform its or his respective obligations under this Agreement, and the execution and delivery of this Agreement by it or him has been duly authorized by all necessary action, and this Agreement constitutes a valid and binding obligation of it or him;

(b) it or he beneficially owns no shares of Common Stock and, immediately following the Closing, will own no shares of Common Stock other than the Original Shares;

(c) none of the execution and delivery of this Agreement by the Shareholder, or compliance by the Shareholder with any of the provisions hereof, will conflict with or result in a breach, or constitute a default (with or without notice of lapse of time or both) under any provision of, any charter, bylaws, note, bond, mortgage, indenture, lease or other agreement, instrument or law applicable to the Shareholder; and

(d) no consent, approval or authorization of, or designation, declaration or filing with, any governmental entity or other person on the part of the Shareholder is required in connection with the valid execution and delivery of this Agreement, and no consent of the Shareholder's spouse is necessary under any "community property" or other laws in order for the Shareholder to enter into and perform his obligations under this Agreement.

Section 4. **Certain Prohibited Actions.**

(a) Unless approved in advance in writing by the board of directors of Midland (the "**Board**"), each Shareholder agrees that neither it nor he, nor any of its nor his Representatives acting on behalf of or in concert with the Shareholder (or any of its or his Representatives) will, until the Expiration Date, as defined below, directly or indirectly:

(i) make any proposal to the Board, any of Midland's Representatives or any of Midland's shareholders regarding, or make any public announcement, proposal or offer (including any "solicitation" of "proxies" as such terms are defined or used in Regulation 14A of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) with respect to, or otherwise solicit, seek or offer to effect (including, for the avoidance of doubt, indirectly by means of communication with the press or media): (A) any business combination, merger, tender offer, exchange offer or similar transaction involving Midland or any of its Subsidiaries; (B) any restructuring, recapitalization, liquidation or similar transaction involving Midland or any of its Subsidiaries; (C) any acquisition of any of Midland's loans, debt securities, equity securities or assets, or rights or options to acquire interests in any of Midland's loans, debt securities, equity securities or assets; (D) except with respect to the representation described in the Merger Agreement, any proposal to seek representation on the Board or otherwise seek to control or influence the management, board of directors or policies of any of Midland or its Subsidiaries; (E) any request or proposal to waive, terminate or amend the provisions of this Agreement; or (F) any proposal, arrangement or other statement that is inconsistent with the terms of this Agreement, including this **Section 4**;

(ii) instigate, encourage or assist any third party (including forming a "group," as defined under the Exchange Act (a "**Group**"), with any such third party) to do, or

enter into any discussions or agreements with any third party with respect to, any of the actions set forth in this **Section 4**;

(iii) take any action which would reasonably be expected to require Midland or any of its Affiliates or Representatives to make a public announcement regarding any of the actions set forth in this **Section 4**; or

(iv) acquire (or propose or agree to acquire), of record or beneficially, by purchase or otherwise, any loans, debt securities, equity securities or assets of Midland or any of its Subsidiaries, or rights or options to acquire interests in any of Midland's loans, debt securities, equity securities or assets.

(b) Notwithstanding the foregoing provisions of this **Section 4**, the restrictions set forth in this **Section 4** shall terminate and be of no further force and effect if Midland enters into a definitive agreement with respect to, or publicly announces that it plans to enter into, a transaction involving all or a controlling portion of Midland's equity securities or all or substantially all of Midland's assets (whether by merger, consolidation, business combination, tender or exchange offer, recapitalization, restructuring, sale, equity issuance or otherwise).

(c) For purposes of this Agreement, the "**Expiration Date**" with respect to the obligations of the Shareholders under this Agreement shall be that first date when the Shareholders, in the aggregate, beneficially own (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than ten percent (10%) of the outstanding voting securities of Midland, *provided, however*, that for purposes of determining the number of outstanding voting securities of Midland, all shares of Common Stock then issuable upon conversion of Midland's Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock, Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock, Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock, and Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock outstanding on the date hereof (and any convertible securities issued in respect thereof pursuant to any stock dividend, stock split, recapitalization or the like of any such shares of preferred stock), shall be assumed to be outstanding even if such preferred stock has not yet been converted.

Section 5. **Acquisition of Additional Common Stock and Voting of Shares.**

(a) From the date of this Agreement through the Expiration Date, without the prior approval of Midland or except as provided in the Merger Agreement, each Shareholder covenants and agrees not to, and shall cause each of their Affiliates not to, directly or indirectly, alone or in concert with any other Affiliate, Group or other person acquire, offer or propose to acquire or agree to acquire, directly or indirectly, the beneficial ownership of, or the right to vote, any voting securities of Midland in addition to the shares of Common Stock shown on **Exhibit A**; *provided, however*, that a Shareholder shall be permitted, without the prior approval of Midland, to acquire the beneficial ownership of, or the right to vote with respect to, shares of Common Stock from another person who (i) was a shareholder of LSHC as of the date of the Merger Agreement and (ii) received such shares of Common Stock at the Closing pursuant to Article 3 of the Merger Agreement; *provided, further, however*, that a Shareholder shall not be permitted to acquire the beneficial ownership of, or the right to vote with respect to, shares of

Common Stock received by the McDonnell Family at the Closing pursuant to Article 3 of the Merger Agreement.

(b) For purposes of this **Section 5**, the following shall not be deemed acquisitions by a Shareholder of beneficial ownership of Common Stock causing it or him to violate the provisions of **Section 5(a)**:

(i) any acquisition approved in advance by, or caused by the action of, Midland's board of directors (*e.g.*, a stock dividend or a stock split);

(ii) any increase in percentage ownership of Common Stock due to a redemption or repurchase by Midland of any of its outstanding Common Stock; or

(iii) acquisitions permitted by the Agreement.

(c) Each shareholder agrees for a period of three (3) years from the date of this Agreement to cause its or his shares of voting Common Stock to be represented either in person or by proxy at all meetings of Midland's shareholders so that all shares may be counted for purposes of determining the presence of a quorum at such meeting and to vote the shares of voting Common Stock owned by it or him, and to cause any holder of record of shares of voting Common Stock under it or his control, to vote, or execute a written consent or consents if any class of shareholders of Midland is requested to vote their shares of voting Common Stock through the execution of an action by written consent in lieu of any such annual or special meeting of such class of shareholders of Midland:

(i) in favor of all of the nominees to, and proposals of, the Board as approved by the Board, *provided, however*, that the nominees to the Board shall include those persons required to be appointed to the Board pursuant to Section 7.8 of the Merger Agreement, and *provided, further*, that no Shareholder shall be obligated to vote in favor of any proposal if such proposal adversely affects the interests such Shareholder in particular (as distinct from the interests of the shareholders of Midland, as a whole); and

(ii) against any shareholder proposal not approved or recommended by the Board.

Section 6. **Additional Shares.** Each Shareholder agrees that all shares of Common Stock that such Shareholder purchases, acquires the right to vote or otherwise acquires beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) after the Closing and prior to the Expiration Date shall be subject to the terms of this Agreement.

Section 7. **Sale of Shares.** The Shareholders agree that, if at any time prior to an initial public offering by Midland of Common Stock, they sell any shares of Common Stock to a single purchaser or a Group that will own ten percent (10%) or more of the Common Stock after such sale (in either case, a "**Block Purchaser**"), the Shareholders will require as a condition to that sale that the Block Purchaser become a party to this Agreement and the Block Purchaser shall thereafter be treated under this Agreement the same as the Shareholders.

Section 8. **Specific Performance.** Each party hereto acknowledges that it will be impossible to measure in money the damage to the other party if a party hereto fails to comply with any of the obligations imposed by this Agreement, that every such obligation is material and that, in the event of any such failure, the other party will not have an adequate remedy at law or damages. Accordingly, each party hereto agrees that injunctive relief or other equitable remedy, in addition to remedies at law or damages, is the appropriate remedy for any such failure and will not oppose the seeking of such relief on the basis that the other party has an adequate remedy at law. Each party hereto agrees that it will not seek, and agrees to waive any requirement for, the securing or posting of a bond in connection with the other party's seeking or obtaining such equitable relief.

Section 9. **Entire Agreement.** This Agreement, together with the Merger Agreement and any other agreements entered into pursuant thereto, supersedes all prior agreements, written or oral, between the parties hereto with respect to the subject matter hereof and contains the entire agreement between the parties with respect to the subject matter hereof. This Agreement may not be amended or supplemented, and no provisions hereof may be modified or waived, except by an instrument in writing signed by all of the parties hereto. No waiver of any provisions hereof by any party shall be deemed a waiver of any other provisions hereof by such party, nor shall any such waiver be deemed a continuing waiver of any provision hereof by such party.

Section 10. **Notices.** All notices, requests, claims, demands, and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a portable data file (pdf) of the document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient; or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this **Section 10**):

If to Midland, to:

Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401
Telephone: (217) 342-7331
E-mail: jludwig@midlandstatesbank.com
Facsimile: (217) 342-9462
Attention: Jeffrey G. Ludwig
Executive Vice President and Chief Financial Officer

with copies to:

Barack Ferrazzano Kirschbaum & Nagelberg LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Telephone: (312) 984-3100
E-mail: dennis.wendte@bfkn.com
Facsimile: (312) 984-3150
Attention: Dennis R. Wendte, Esq.

If to any Shareholder, to the address, facsimile number or e-mail address set forth for the Shareholder on the signature page hereof.

Section 11. **Miscellaneous.**

(a) This Agreement shall be governed by and construed in accordance with the internal laws of the State of Missouri without giving effect to any choice or conflict of law provision that would cause the application of laws of any jurisdiction other than those of the State of Missouri, except to the extent that the federal laws of the United States apply. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby shall be instituted in the courts of the State of Missouri located in the County of St. Louis, or, if it has or can acquire jurisdiction, in the United States District Court for the Eastern District of Missouri, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT: (i) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (ii) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (iii) SUCH PARTY MAKES THIS WAIVER

VOLUNTARILY; AND (iv) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS AGREEMENT.

(c) If any term or provision of this Agreement is held by a final and unappealable order or judgment of a court of competent jurisdiction to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

(d) This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be executed and accepted by facsimile or portable data file (pdf) signature and any such signature shall be of the same force and effect as an original signature.

(e) All words used in this Agreement will be construed to be of such gender or number as the circumstances require, all references to sections, are to sections of this Agreement unless otherwise specified, and "including" means "including, but not limited to."

(f) Each party hereto shall execute and deliver such additional documents as may be necessary or desirable to effect the transactions contemplated by this Agreement.

(g) All section headings herein are for convenience of reference only and are not part of this Agreement, and no construction or reference shall be derived therefrom.

(h) Each Shareholder acknowledges that it or he has had an opportunity to be advised by counsel of its or his choosing with regard to this Agreement and the transactions and consequences contemplated hereby.

(i) This Agreement shall be binding upon and inure to the benefit of Midland, and its successors and permitted assigns, and the Shareholders and their respective spouses, executors, personal representatives, administrators, heirs, legatees, guardians and other legal representatives. This Agreement shall survive the death or incapacity of any Shareholder. This Agreement may be assigned only by Midland, and then only to an Affiliate of Midland.

(j) This Agreement shall terminate and be of no further force or effect upon the termination of the Merger Agreement prior to the Closing.

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[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement individually, or have caused this Agreement to be executed by their respective officers, on the day and year first written above.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Title: President & CEO

SHAREHOLDERS:

LOVE GROUP, LLC

By: /s/ Andrew S. Love
Name: Andrew S. Love
Title: Manager

LOVE INVESTMENT COMPANY

By: /s/ Laurence A. Schiffer
Name: Laurence A. Schiffer
Title: President

LOVE REAL ESTATE COMPANY

By: /s/ Laurence A. Schiffer
Name: Laurence A. Schiffer
Title: President

ANDREW SPROULE LOVE, JR., AS TRUSTEE OF THE LOVE FAMILY CHARITABLE TRUST

/s/ Andrew Sproule Love, Jr.

BANK OF AMERICA AND ANDREW S. LOVE, JR., AS TRUSTEES U/T/W OF ANDREW SPROULE LOVE FBO ANDREW SPROULE LOVE, JR.

ANDREW S. LOVE, JR.

/s/ Andrew S. Love, Jr.

Bank of America

By: Cathy S. Meeks
Name: Cathy S. Meeks
Title: SVP Bank of America, Trustee

/s/ Andrew S. Love, Jr.

[SIGNATURE PAGE TO SHAREHOLDERS' AGREEMENT]

EXHIBIT A

SHARE OWNERSHIP

SHAREHOLDER	MAILING ADDRESS, FACSIMILE, EMAIL ADDRESS	NUMBER OF SHARES OF MIDLAND COMMON STOCK
Love Group, LLC		
Love Investment Company		
Love Real Estate Company		
Bank of America and Andrew S. Love, Jr., as Trustees U/T/W of Andrew Sproule Love FBO Andrew Sproule Love, Jr.		
Andrew Sproule Love, Jr. as Trustee of the Love Family Charitable Trust		
Andrew S. Love, Jr.		

Exhibit 10.23

FINAL VERSION

SHAREHOLDERS' AGREEMENT

THIS SHAREHOLDERS' AGREEMENT (this "**Agreement**") is entered into as of April 7, 2014, among **MIDLAND STATES BANCORP, INC.**, an Illinois corporation ("**Midland**"), and those shareholders of LSHC whose names appear on the signature page of this Agreement (individually, a "**Shareholder**," and collectively, the "**Shareholders**"); *provided*, *however*, that this Agreement shall become effective only upon the date of consummation of the Merger (as defined below).

RECITALS

A. Contemporaneously with this Agreement, Midland has agreed to acquire LSHC by means of a merger (the "**Merger**") of LSHC with and into Merger Sub, all pursuant to an Agreement and Plan of Merger dated as of April 7, 2014 (the "**Merger Agreement**").

B. Upon the consummation of the Merger (the "**Closing**") and as a result thereof, each Shareholder is expected to acquire shares of Midland's common stock, par value $0.01 per share ("**Common Stock**"), determined pursuant to Article 3 of the Merger Agreement.

C. Set forth as **Exhibit A** is a list of the number of shares of Common Stock that each Shareholder is expected to own after the Closing, which **Exhibit A** shall be updated to reflect the actual number of shares of Common Stock owned by each Shareholder after the Closing.

D. To induce Midland to enter into the Merger Agreement and complete the Merger and issue shares of its Common Stock to the Shareholders, each Shareholder is willing to enter into this Agreement and be bound by its terms, and Midland and the Shareholders have agreed that it is in their mutual interests to enter into this Agreement.

AGREEMENTS

In consideration of the foregoing premises, which are incorporated herein by this reference, and the covenants and agreements of the parties herein contained, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. **Definitions**. All terms that are capitalized and used herein (and are not otherwise specifically defined herein) shall be used in this Agreement as defined in the Merger Agreement.

Section 2. **Update of Ownership**. The parties to this Agreement mutually agree to take all necessary actions within two (2) Business Day after the Closing to revise and update **Exhibit A** to this Agreement to set forth the actual number of shares of Common Stock owned by each Shareholder (collectively, the "**Original Shares**").

Section 3. **Representations and Warranties**. Each of the Shareholders represents and warrants for himself to Midland that:

(a) the Shareholder has full power and authority to enter into and perform his respective obligations under this Agreement, and the execution and delivery of this Agreement by him has been duly authorized by all necessary action, and this Agreement constitutes a valid and binding obligation of him;

(b) he beneficially owns no shares of Common Stock and, immediately following the Closing, will own no shares of Common Stock other than the Original Shares;

(c) none of the execution and delivery of this Agreement by the Shareholder, or compliance by the Shareholder with any of the provisions hereof, will conflict with or result in a breach, or constitute a default (with or without notice of lapse of time or both) under any provision of, any charter, bylaws, note, bond, mortgage, indenture, lease or other agreement, instrument or law applicable to the Shareholder; and

(d) no consent, approval or authorization of, or designation, declaration or filing with, any governmental entity or other person on the part of the Shareholder is required in connection with the valid execution and delivery of this Agreement, and no consent of the Shareholder's spouse is necessary under any "community property" or other laws in order for the Shareholder to enter into and perform his obligations under this Agreement.

Section 4. **Certain Prohibited Actions.**

(a) Unless approved in advance in writing by the board of directors of Midland (the "**Board**"), each Shareholder agrees that neither he nor any of his Representatives acting on behalf of or in concert with the Shareholder (or any of his Representatives) will, until the Expiration Date, as defined below, directly or indirectly:

(i) make any proposal to the Board, any of Midland's Representatives or any of Midland's shareholders regarding, or make any public announcement, proposal or offer (including any "solicitation" of "proxies" as such terms are defined or used in Regulation 14A of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) with respect to, or otherwise solicit, seek or offer to effect (including, for the avoidance of doubt, indirectly by means of communication with the press or media): (A) any business combination, merger, tender offer, exchange offer or similar transaction involving Midland or any of its Subsidiaries; (B) any restructuring, recapitalization, liquidation or similar transaction involving Midland or any of its Subsidiaries; (C) any acquisition of any of Midland's loans, debt securities, equity securities or assets, or rights or options to acquire interests in any of Midland's loans, debt securities, equity securities or assets; (D) except with respect to the representation described in the Merger Agreement, any proposal to seek representation on the Board or otherwise seek to control or influence the management, board of directors or policies of any of Midland or its Subsidiaries; (E) any request or proposal to waive, terminate or amend the provisions of this Agreement; or (F) any proposal, arrangement or other statement that is inconsistent with the terms of this Agreement, including this **Section 4**;

(ii) instigate, encourage or assist any third party (including forming a "group," as defined under the Exchange Act (a "**Group**"), with any such third party) to do, or

enter into any discussions or agreements with any third party with respect to, any of the actions set forth in this **Section 4**;

(iii) take any action which would reasonably be expected to require Midland or any of its Affiliates or Representatives to make a public announcement regarding any of the actions set forth in this **Section 4**; or

(iv) acquire (or propose or agree to acquire), of record or beneficially, by purchase or otherwise, any loans, debt securities, equity securities or assets of Midland or any of its Subsidiaries, or rights or options to acquire interests in any of Midland's loans, debt securities, equity securities or assets.

(b) Notwithstanding the foregoing provisions of this **Section 4**, the restrictions set forth in this **Section 4** shall terminate and be of no further force and effect if Midland enters into a definitive agreement with respect to, or publicly announces that it plans to enter into, a transaction involving all or a controlling portion of Midland's equity securities or all or substantially all of Midland's assets (whether by merger, consolidation, business combination, tender or exchange offer, recapitalization, restructuring, sale, equity issuance or otherwise).

(c) For purposes of this Agreement, the "**Expiration Date**" with respect to the obligations of the Shareholders under this Agreement shall be that first date when the Shareholders, in the aggregate, beneficially own (within the meaning of Rule 13d-3 promulgated under the Exchange Act) less than ten percent (10%) of the outstanding voting securities of Midland, *provided, however*, that for purposes of determining the number of outstanding voting securities of Midland, all shares of Midland Common Stock then issuable upon conversion of Midland's Series C 9% Non-Cumulative Perpetual Convertible Preferred Stock, Series D 9% Non-Cumulative Perpetual Convertible Preferred Stock, Series E 9% Non-Cumulative Perpetual Convertible Preferred Stock, and Series F 9% Non-Cumulative Perpetual Convertible Preferred Stock outstanding on the date hereof (and any convertible securities issued in respect thereof pursuant to any stock dividend, stock split, recapitalization or the like of any such shares of preferred stock), shall be assumed to be outstanding even if such preferred stock has not yet been converted.

Section 5. **Acquisition of Additional Common Stock and Voting of Shares.**

(a) From the date of this Agreement through the Expiration Date, without the prior approval of Midland or except as provided in the Merger Agreement, each Shareholder covenants and agrees not to, and shall cause each of their Affiliates not to, directly or indirectly, alone or in concert with any other Affiliate, Group or other person acquire, offer or propose to acquire or agree to acquire, directly or indirectly, the beneficial ownership of, or the right to vote, any voting securities of Midland in addition to the shares of Common Stock shown on **Exhibit A**.

(b) For purposes of this **Section 5**, the following shall not be deemed acquisitions by a Shareholder of beneficial ownership of Common Stock causing it or him to violate the provisions of **Section 5(a)**:

(i) any acquisition approved in advance by, or caused by the action of, Midland's board of directors (*e.g.*, a stock dividend or a stock split);

(ii) any increase in percentage ownership of Common Stock due to a redemption or repurchase by Midland of any of its outstanding Common Stock; or

(iii) acquisitions permitted by the Agreement.

(c) Each shareholder agrees for a period of three (3) years from the date of this Agreement to cause its or his shares of voting Common Stock to be represented either in person or by proxy at all meetings of Midland's shareholders so that all shares may be counted for purposes of determining the presence of a quorum at such meeting and to vote the shares of voting Common Stock owned by him, and to cause any holder of record of shares of voting Common Stock under his control, to vote, or execute a written consent or consents if any class of shareholders of Midland is requested to vote their shares of voting Common Stock through the execution of an action by written consent in lieu of any such annual or special meeting of such class of shareholders of Midland:

(i) in favor of all of the nominees to, and proposals of, the Board as approved by the Board, *provided, however*, that the nominees to the Board shall include those persons required to be appointed to the Board pursuant to Section 7.8 of the Merger Agreement, and *provided, further*, that no Shareholder shall be obligated to vote in favor of any proposal if such proposal adversely affects the interests such Shareholder in particular (as distinct from the interests of the shareholders of Midland, as a whole); and

(ii) against any shareholder proposal not approved or recommended by the Board.

Section 6. **Additional Shares.** Each Shareholder agrees that all shares of Common Stock that such Shareholder purchases, acquires the right to vote or otherwise acquires beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) after the Closing and prior to the Expiration Date shall be subject to the terms of this Agreement.

Section 7. **Sale of Shares.** The Shareholders agree that, if at any time prior to an initial public offering by Midland of Common Stock, they sell any shares of Common Stock to a single purchaser or a Group that will own ten percent (10%) or more of the Common Stock after such sale (in either case, a "**Block Purchaser**"), the Shareholders will require as a condition to that sale that the Block Purchaser become a party to this Agreement and the Block Purchaser shall thereafter be treated under this Agreement the same as the Shareholders.

Section 8. **Specific Performance.** Each party hereto acknowledges that it will be impossible to measure in money the damage to the other party if a party hereto fails to comply with any of the obligations imposed by this Agreement, that every such obligation is material and that, in the event of any such failure, the other party will not have an adequate remedy at law or damages. Accordingly, each party hereto agrees that injunctive relief or other equitable remedy, in addition to remedies at law or damages, is the appropriate remedy for any such failure and will not oppose the seeking of such relief on the basis that the other party has an adequate remedy at law. Each party hereto agrees that it will not seek, and agrees to waive any requirement for, the

securing or posting of a bond in connection with the other party's seeking or obtaining such equitable relief.

Section 9. **Entire Agreement.** This Agreement, together with the Merger Agreement and any other agreements entered into pursuant thereto, supersedes all prior agreements, written or oral, between the parties hereto with respect to the subject matter hereof and contains the entire agreement between the parties with respect to the subject matter hereof. This Agreement may not be amended or supplemented, and no provisions hereof may be modified or waived, except by an instrument in writing signed by all of the parties hereto. No waiver of any provisions hereof by any party shall be deemed a waiver of any other provisions hereof by such party, nor shall any such waiver be deemed a continuing waiver of any provision hereof by such party.

Section 10. **Notices.** All notices, requests, claims, demands, and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a portable data file (pdf) of the document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient; or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this **Section 10**):

If to Midland, to:

Midland States Bancorp, Inc.
1201 Network Centre Drive
Effingham, Illinois 62401
Telephone: (217) 342-7331
E-mail: jludwig@midlandstatesbank.com
Facsimile: (217) 342-9462
Attention: Jeffrey G. Ludwig
Executive Vice President and Chief Financial Officer

with copies to:

Barack Ferrazzano Kirschbaum & Nagelberg LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Telephone: (312) 984-3100
E-mail: dennis.wendte@bfkn.com
Facsimile: (312) 984-3150
Attention: Dennis R. Wendte, Esq.

If to any Shareholder, to the address, facsimile number or e-mail address set forth for the Shareholder on the signature page hereof.

Section 11. **Miscellaneous.**

(a) This Agreement shall be governed by and construed in accordance with the internal laws of the State of Missouri without giving effect to any choice or conflict of law provision that would cause the application of laws of any jurisdiction other than those of the State of Missouri, except to the extent that the federal laws of the United States apply. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby shall be instituted in the courts of the State of Missouri located in the County of St. Louis, or, if it has or can acquire jurisdiction, in the United States District Court for the Eastern District of Missouri, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding. Service of process, summons, notice or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or any proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT: (i) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (ii) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (iii) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (iv) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS AGREEMENT.

(c) If any term or provision of this Agreement is held by a final and unappealable order or judgment of a court of competent jurisdiction to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other term or provision of this

Agreement. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

(d) This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be executed and accepted by facsimile or portable data file (pdf) signature and any such signature shall be of the same force and effect as an original signature.

(e) All words used in this Agreement will be construed to be of such gender or number as the circumstances require, all references to sections, are to sections of this Agreement unless otherwise specified, and "including" means "including, but not limited to."

(f) Each party hereto shall execute and deliver such additional documents as may be necessary or desirable to effect the transactions contemplated by this Agreement.

(g) All section headings herein are for convenience of reference only and are not part of this Agreement, and no construction or reference shall be derived therefrom.

(h) Each Shareholder acknowledges that he has had an opportunity to be advised by counsel of his choosing with regard to this Agreement and the transactions and consequences contemplated hereby.

(i) This Agreement shall be binding upon and inure to the benefit of Midland, and its successors and permitted assigns, and the Shareholders and their respective spouses, executors, personal representatives, administrators, heirs, legatees, guardians and other legal representatives. This Agreement shall survive the death or incapacity of any Shareholder. This Agreement may be assigned only by Midland, and then only to an Affiliate of Midland.

(j) This Agreement shall terminate and be of no further force or effect upon the termination of the Merger Agreement prior to the Closing.

[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK]

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement individually, or have caused this Agreement to be executed by their respective officers, on the day and year first written above.

MIDLAND STATES BANCORP, INC.

By: /s/ Leon J. Holschbach
Name: Leon J. Holschbach
Title: President & CEO

SHAREHOLDERS:

JAMES S. MCDONNELL III /s/ James S. McDonnell III

JOHN F. MCDONNELL /s/ John F. McDonnell

[SIGNATURE PAGE TO SHAREHOLDERS' AGREEMENT]

EXHIBIT A

SHARE OWNERSHIP

SHAREHOLDER	MAILING ADDRESS, FACSIMILE, EMAIL ADDRESS	NUMBER OF SHARES OF MIDLAND COMMON STOCK
James S. McDonnell III		
John F. McDonnell		

Exhibit 10.24

Execution Copy

SUPPLEMENTAL RETIREMENT BENEFIT AGREEMENT

This Supplemental Retirement Benefit Agreement (the "**Agreement**") by and between Midland States Bancorp, Inc., located in Effingham, Illinois (the "**Employer**"), and Leon J. Holschbach ("**Executive**"), effective as of the 16th day of November 2015, formalizes the agreements and understanding between the Employer and Executive.

RECITALS

A. Executive is employed by the Employer pursuant to that certain Transitional Employment Agreement, dated November 16, 2015 (the "**Employment Agreement**").

B. The Employment Agreement provides that the Employer shall provide certain additional retirement benefits to Executive in consideration for entering into the Employment Agreement.

C. The Employer recognizes the valuable services Executive has performed for the Employer and wishes to encourage Executive's continued employment through the Retirement Date (as defined in the Employment Agreement).

D. The Employer wishes to provide the terms and conditions upon which the Employer shall pay additional retirement benefits to Executive.

E. The Employer and Executive intend this Agreement shall at all times be administered and interpreted in compliance with Code Section 409A.

F. The Employer intends this Agreement shall at all times be administered and interpreted in such a manner as to constitute an unfunded nonqualified deferred compensation arrangement, maintained primarily to provide supplemental retirement benefits for Executive, a member of a select group of management or highly compensated employee of the Employer.

AGREEMENT

In consideration of the foregoing and the mutual promises and covenants of the Parties set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby expressly covenant and agree as follows:

1. **Definitions.** For the purpose of this Agreement, the following phrases or terms shall have the indicated meanings and unless otherwise defined herein, all capitalized terms shall have the meaning ascribed to them in the Employment Agreement.

(a) "**Administrator**" means the Board or its designee.

(b) "**Final Base Salary**" means the Annual Base Salary (as defined in Employment Agreement) as in effect immediately prior to the Retirement Date.

(c) "**Beneficiary**" means the person or persons designated in writing by Executive to receive benefits hereunder in the event of Executive's death.

(d) "**Code**" means the Internal Revenue Code of 1986, as amended.

(e) "**Effective Date**" means November 16, 2015.

(f) "**Employment Agreement**" means the Transitional Employment Agreement between Executive and the Employer, dated November 16, 2015.

(g) "**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended.

(h) "**Separation from Service**" means a termination of Executive's employment with the Employer and its Affiliates for reasons other than death or Disability. A Separation from Service may occur as of a specified date for purposes of the Agreement even if Executive continues to provide some services for the Employer or its Affiliates after that date, provided that the facts and circumstances indicate that the Employer and Executive reasonably anticipated at that date that either no further services would be performed after that date, or that the level of bona fide services Executive would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to less than 50 percent (50%) of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period (or the full period during which Executive performed services for the Employer, if that is less than thirty-six (36) months). A Separation from Service will not be deemed to have occurred while Executive is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six (6) months or, if longer, the period for which a statute or contract provides Executive with the right to reemployment with the Employer. If Executive's leave exceeds six (6) months but Executive is not entitled to reemployment under a statute or contract, Executive incurs a Separation of Service on the next day following the expiration of such six (6) month period. In determining whether a Separation of Service occurs the Administrator shall take into account, among other things, the definition of "service recipient" and "employer" set forth in Treasury regulation §1.409A-1(h)(3). The Administrator shall have full and final authority, to determine conclusively whether a Separation from Service occurs, and the date of such Separation from Service.

2. **Payment of Benefits.**

(a) Normal Retirement Benefit. The Employer shall pay Executive an annual benefit in the amounts set forth in the table below with the annual benefit paid in equal monthly installments commencing on the first day of the month of each applicable year, with such payments commencing regardless of Executive's employment status.

Year	Normal Retirement Benefit Amount
2019	50% of Final Base Salary
2020	40% of Final Base Salary
2021	30% of Final Base Salary

(b) Early Termination Benefit. If a Termination occurs during the Employment Period, the Employer shall pay Executive the full Normal Retirement Benefit in the same manner and the same times as provided for the Normal Retirement Benefits.

(c) Voluntary Resignation. In the event that Executive voluntarily resigns without Good Reason during the Employment Period, the Employer shall pay Executive the vested portion of the Normal Retirement Benefit based upon the vesting schedule below, and all unvested amounts shall be forfeited.

Vesting Date	Percent Vested	Aggregate Vested
December 31, 2016	33%	33%
December 31, 2017	33%	66%
December 31, 2018	34%	100%

(d) Disability Benefit. In the event Executive suffers a Disability prior to the Retirement Date, the Employer shall pay Executive the full Normal Retirement Benefit in the same manner and the same times as provided for the Normal Retirement Benefits.

(e) Change of Control Benefit. If a Termination occurs during a Covered Period, the Employer shall pay Executive the full Normal Retirement Benefit in a single lump sum within five (5) business days of such Termination, without reduction or discounting.

(f) Death Prior to Commencement of Benefit Payments. In the event Executive dies prior to the Retirement Date, the Employer shall pay the Beneficiary the full Normal Retirement Benefit in a single lump sum within five (5) business days of such Termination, without reduction or discounting.

(g) Death Subsequent to Commencement of Benefit Payments. In the event Executive dies while receiving payments, but prior to receiving all payments due and owing hereunder, the Employer shall pay the Beneficiary the same amounts at the same times as the Employer would have paid Executive had Executive survived.

(h) Termination for Cause. If the Employer terminates Executive's employment in a termination for Cause, then Executive shall not be entitled to any benefits under the terms of this Agreement.

(i) Restriction on Commencement of Distributions. Notwithstanding any provision of this Agreement to the contrary, if Executive is considered a Specified Employee at the time of Separation from Service, the provisions of this Section shall govern all distributions hereunder. Distributions which would otherwise be made to Executive due to Separation from Service shall not be made during the first six (6) months following Separation from Service. Rather, any distribution which would otherwise be paid to Executive during such period shall be accumulated and paid to Executive in a lump sum on the first day of the seventh month following Separation from Service, or if earlier, upon Executive's death. All subsequent distributions shall be paid as they would have had this Section not applied.

(j) Acceleration of Payments. Except as specifically permitted herein, no acceleration of the time or schedule of any payment may be made hereunder. Notwithstanding

the foregoing, payments may be accelerated, in accordance with the provisions of Treasury Regulation §1.409A-3(j)(4) in the following circumstances: (i) as a result of certain domestic relations orders; (ii) in compliance with ethics agreements with the federal government; (iii) in compliance with the ethics laws or conflicts of interest laws; (iv) in limited cashouts (but not in excess of the limit under Code §402(g)(1)(B)); (v) to pay employment-related taxes; or (vi) to pay any taxes that may become due at any time that the Agreement fails to meet the requirements of Code Section 409A.

(k) Treatment of Payment as Made on Designated Payment Date. Solely for purposes of determining compliance with Code Section 409A, any payment under this Agreement made after the required payment date shall be deemed made on the required payment date provided that such payment is made by the latest of: (i) the end of the calendar year in which the payment is due; (ii) the 15th day of the third calendar month following the payment due date; (iii) if Employer cannot calculate the payment amount on account of administrative impracticality which is beyond Executive's control, the end of the first calendar year which payment calculation is practicable; and (iv) if Employer does not have sufficient funds to make the payment without jeopardizing the Employer's solvency, in the first calendar year in which the Employer's funds are sufficient to make the payment.

(l) Facility of Payment. If a distribution is to be made to a minor, or to a person who is otherwise incompetent, then the Administrator may make such distribution: (i) to the legal guardian, or if none, to a parent of a minor payee with whom the payee maintains his or her residence; or (ii) to the conservator or administrator or, if none, to the person having custody of an incompetent payee. Any such distribution shall fully discharge the Employer and the Administrator from further liability on account thereof.

(m) Changes in Form of Timing of Benefit Payments. The Employer and Executive may, subject to the terms hereof, amend this Agreement to delay the timing or change the form of payments. Any such amendment:

(i) must take effect not less than twelve (12) months after the amendment is made;

(ii) must, for benefits distributable due solely to the arrival of a specified date, or on account of Separation from Service or Change of Control, delay the commencement of distributions for a minimum of five (5) years from the date the first distribution was originally scheduled to be made;

(iii) must, for benefits distributable due solely to the arrival of a specified date, be made not less than twelve (12) months before distribution is scheduled to begin; and

(iv) may not accelerate the time or schedule of any distribution.

3. Beneficiaries.

(a) Designation of Beneficiaries. Executive may designate any person to receive any benefits payable under the Agreement upon Executive's death, and the designation

may be changed from time to time by Executive by filing a new designation. Each designation will revoke all prior designations by Executive, shall be in the form prescribed by the Administrator, and shall be effective only when filed in writing with the Administrator during Executive's lifetime. If Executive names someone other than Executive's spouse as a Beneficiary, the Administrator may, in its sole discretion, determine that spousal consent is required to be provided in a form designated by the Administrator, executed by Executive's spouse and returned to the Administrator. Executive's Beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases Executive or if Executive names a spouse as Beneficiary and the marriage is subsequently dissolved.

(b) Absence of Beneficiary Designation. In the absence of a valid Beneficiary designation, or if, at the time any benefit payment is due to a Beneficiary, there is no living Beneficiary validly named by Executive, the Employer shall pay the benefit payment to Executive's spouse. If the spouse is not living then the Employer shall pay the benefit payment to Executive's living descendants *per stirpes*, and if there no living descendants, to Executive's estate. In determining the existence or identity of anyone entitled to a benefit payment, the Employer may rely conclusively upon information supplied by Executive's personal representative, executor, or administrator.

4. Administration.

(a) Administrator Duties. The Administrator shall be responsible for the management, operation, and administration of the Agreement. When making a determination or calculation, the Administrator shall be entitled to rely on information furnished by the Employer, Executive or Beneficiary. No provision of this Agreement shall be construed as imposing on the Administrator any fiduciary duty under ERISA or other law, or any duty similar to any fiduciary duty under ERISA or other law.

(b) Administrator Authority. The Administrator shall enforce this Agreement in accordance with its terms, shall be charged with the general administration of this Agreement, and shall have all powers necessary to accomplish its purposes.

(c) Compensation, Expenses and Indemnity. The Administrator shall serve without compensation for services rendered hereunder. The Administrator is authorized at the expense of the Employer to employ such legal counsel and/or recordkeeper as it may deem advisable to assist in the performance of its duties hereunder. Expense and fees in connection with the administration of this Agreement shall be paid by the Employer.

(d) Employer Information. The Employer shall supply full and timely information to the Administrator on all matters relating to Executive's compensation, death, Disability or Separation from Service, and such other information as the Administrator reasonably requires.

(e) Compliance with Code Section 409A. The Employer and Executive intend that the Agreement comply with the provisions of Code Section 409A to prevent the inclusion in gross income of any amounts deferred hereunder in a taxable year prior to the year in which amounts are actually paid to Executive or Beneficiary. This Agreement shall be

construed, administered and governed in a manner that effects such intent, and the Administrator shall not take any action that would be inconsistent therewith.

5. Amendment and Termination.

(a) Agreement Amendment Generally. Except as provided in **Section 5(b)**, this Agreement may be amended only by a written agreement signed by both the Employer and Executive.

(b) Amendment to Insure Proper Characterization of Agreement. Notwithstanding anything in this Agreement to the contrary, the Agreement may be amended by the Employer at any time, if found necessary in the opinion of the Employer, (i) to ensure that the Agreement is characterized as plan of deferred compensation maintained for a select group of management or highly compensated employees as described under ERISA, (ii) to conform the Agreement to the requirements of any applicable law or iii) to comply with the written instructions of the Employer's auditors or banking regulators.

(c) Agreement Termination Generally. Except as provided in **Section 5(d)**, this Agreement may be terminated only by a written agreement signed by the Employer and Executive. Such termination shall not cause a distribution of benefits under this Agreement. Rather, upon such termination benefit distributions shall be made at the earliest distribution event permitted under **Section 2**.

(d) Effect of Complete Termination. Notwithstanding anything to the contrary in Section 5(c), and subject to the requirements of Code Section 409A and Treasury Regulations §1.409A-3(j)(4)(ix), at certain times the Employer may completely terminate and liquidate the Agreement. In the event of such a complete termination, the Employer shall pay the full Normal Retirement Benefit to Executive in a single lump sum within five (5) business days of such termination. Such complete termination of the Agreement shall occur only under the following circumstances and conditions.

(i) Change of Control. The Employer may terminate and liquidate this Agreement by taking irrevocable action to terminate and liquidate within the thirty (30) days preceding or the twelve (12) months following a Change of Control. This Agreement will then be treated as terminated only if all substantially similar arrangements sponsored by the Employer which are treated as deferred under a single plan under Treasury Regulations §1.409A-1(c)(2) are terminated and liquidated with respect to each employee who experienced the Change of Control so that Executive and any employees in any such similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the date the Employer takes the irrevocable action to terminate the arrangements.

(ii) Discretionary Termination. The Employer may terminate and liquidate this Agreement provided that: (A) the termination does not occur proximate to a downturn in the financial health of the Employer; (B) all arrangements sponsored by the Employer and Affiliates that would be aggregated with any terminated arrangements under Treasury Regulations §1.409A-1(c) are terminated; (C) no payments, other than payments that would be payable under the terms of this Agreement if the termination had not occurred, are

made within twelve (12) months of the date the Employer takes the irrevocable action to terminate this Agreement; (D) all payments are made within twenty-four (24) months following the date the Employer takes the irrevocable action to terminate and liquidate this Agreement; and (E) neither the Employer nor any of its Affiliates adopt a new arrangement that would be aggregated with any terminated arrangement under Treasury Regulations §1.409A-1(c) if Executive participated in both arrangements, at any time within three (3) years following the date the Employer takes the irrevocable action to terminate this Agreement.

6. Miscellaneous.

(a) No Effect on Other Rights. This Agreement constitutes the entire agreement between the Employer and Executive as to the subject matter hereof. No rights are granted to Executive by virtue of this Agreement other than those specifically set forth herein. Nothing contained herein will confer upon Executive the right to be retained in the service of the Employer nor limit the right of the Employer to discharge or otherwise deal with Executive without regard to the existence hereof.

(b) Governing Law. To the extent not governed by ERISA, the provisions of this Agreement shall be construed and interpreted according to the internal law of the State of Illinois without regard to its conflicts of laws principles. All questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement shall be governed by the internal laws of the State of Illinois applicable to agreements made and wholly to be performed in such state without regard to conflicts of law provisions of any jurisdiction, and any court action commenced to enforce this Agreement shall have as its sole and exclusive venue the County of Effingham, Illinois.

(c) Validity. In case any provision of this Agreement shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Agreement shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

(d) Nonassignability. Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached or encumbered in any manner.

(e) Unsecured General Creditor Status. Payment to Executive or any Beneficiary hereunder shall be made from assets which shall continue, for all purposes, to be part of the general, unrestricted assets of the Employer and no person shall have any interest in any such asset by virtue of any provision of this Agreement. The Employer's obligation hereunder shall be an unfunded and unsecured promise to pay money in the future. In the event that the Employer purchases an insurance policy insuring the life of Executive to recover the cost of providing benefits hereunder, neither Executive nor the Beneficiary shall have any rights whatsoever in said policy or the proceeds therefrom.

(f) Life Insurance. If the Employer chooses to obtain insurance on the life of Executive in connection with its obligations under this Agreement, Executive hereby agrees to take such physical examinations and to truthfully and completely supply such information as may be required by the Employer or the insurance company designated by the Employer.

(g) Suicide. No benefit shall be distributed hereunder if Executive commits suicide.

(h) Removal. Notwithstanding anything in this Agreement to the contrary, the Employer shall not distribute any benefit under this Agreement if Executive is subject to a final removal or prohibition order issued pursuant to Section 8(e) of the Federal Deposit Insurance Act. Furthermore, any payments made to Executive pursuant to this Agreement shall, if required, comply with 12 U.S.C. 1828, FDIC Regulation 12 CFR Part 359 and any other regulations or guidance promulgated thereunder.

(i) Notice. Any notice, consent or demand required or permitted to be given to the Employer or Administrator under this Agreement shall be sufficient if in writing and hand-delivered or sent by registered or certified mail to the Employer's principal business office. Any notice or filing required or permitted to be given to Executive or Beneficiary under this Agreement shall be sufficient if in writing and hand-delivered or sent by mail to the last known address of Executive or Beneficiary, as appropriate. Any notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for registration or certification.

(j) Headings and Interpretation. Headings and sub-headings in this Agreement are inserted for reference and convenience only and shall not be deemed part of this Agreement. Wherever the fulfillment of the intent and purpose of this Agreement requires and the context will permit, the use of the masculine gender includes the feminine and use of the singular includes the plural.

(k) **Alternative Action.** In the event it becomes impossible for the Employer or the Administrator to perform any act required by this Agreement due to regulatory or other constraints, the Employer or Administrator may perform such alternative act as most nearly carries out the intent and purpose of this Agreement and is in the best interests of the Employer, provided that such alternative act does not violate Code Section 409A.

(l) **Coordination with Other Benefits.** The benefits provided for Executive or the Beneficiary under this Agreement are in addition to any other benefits available to Executive under any other plan or program for employees of the Employer. This Agreement shall supplement and shall not supersede, modify, or amend any other such plan or program except as may otherwise be expressly provided herein.

(m) **Inurement.** This Agreement shall be binding upon and shall inure to the benefit of the Employer, its successors and assigns, and Executive, Executive's successors, heirs, executors, administrators, and the Beneficiary.

(n) **Tax Withholding.** The Employer may make such provisions and take such action as it deems necessary or appropriate for the withholding of any taxes which the Employer is required by any law or regulation to withhold in connection with any benefits under the Agreement. Executive shall be responsible for the payment of all individual tax liabilities relating to any benefits paid hereunder.

(o) **Aggregation of Agreement.** If the Employer offers other non-qualified deferred compensation plans, this Agreement and those plans shall be treated as a single plan to the extent required under Code Section 409A.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first stated above.

MIDLAND STATES BANCORP, INC.		**LEON J. HOLSCHBACH**
By:	/s/ John M. Schultz	/s/ Leon J. Holschbach
Name:	John M. Schultz	[Signature]
Its:	Chairman	

SUPPLEMENTAL RETIREMENT BENEFIT AGREEMENT

Beneficiary Designation

I, Leon J. Holschbach, designate the following as Beneficiary under this Agreement:

Primary		%
Contingent		%
		%
		%

I understand that I may change this Beneficiary designation by delivering a new written designation to the Administrator, which shall be effective only upon receipt by the Administrator prior to my death. I further understand that the designation shall be automatically revoked if the Beneficiary predeceases me or if I have named my spouse as Beneficiary and our marriage is subsequently dissolved.

Signature: _____ Date: _____

SPOUSAL CONSENT (Required only if Administrator requests and someone other than spouse is named as Primary Beneficiary)

I consent to the Beneficiary designation above. I also acknowledge that if I am named Beneficiary and my marriage is subsequently dissolved, the Beneficiary designation shall be automatically revoked.

Spouse Name: _____

Signature: _____ Date: _____

Received by the Administrator this day of , 20

By: _____

Title: _____

Exhibit 21.1

LIST OF SUBSIDIARIES OF MIDLAND STATES BANCORP, INC.

Subsidiary	Organized Under Laws of	Percent Owned by the Company
Midland States Bank	State of Illinois	100%
Midland States Preferred Securities Trust	State of Delaware	100% of common securities
Love Savings/Heartland Capital Trust III	State of Delaware	100% of common securities
Love Savings/Heartland Capital Trust IV	State of Delaware	100% of common securities
Grant Park Statutory Trust I	State of Delaware	100% of common securities
Heartland Business Credit Corporation	State of Missouri	100% owned by Midland States Bank
Love Funding Corporation	State of Virginia	100% owned by Midland States Bank
Heartland Premier, LLC	State of Missouri	51% owned by Midland States Bank
Heartland Preferred Mortgage Company, LLC	State of Missouri	51% owned by Midland States Bank

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Midland States Bancorp, Inc.:

We consent to the use of our report dated March 1, 2016, with respect to the consolidated balance sheets of Midland States Bancorp, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, incorporated herein and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG LLP

St. Louis, Missouri
April 11, 2016