

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING
SPRINGFIELD, ILLINOIS

Written Agreement by and among

BANKERS' BANCORP, INC.
Springfield, Illinois

INDEPENDENT BANKERS' BANK
Springfield, Illinois

FEDERAL RESERVE BANK OF CHICAGO
Chicago, Illinois

and

ILLINOIS DEPARTMENT OF
FINANCIAL AND PROFESSIONAL
REGULATION
DIVISION OF BANKING
Springfield, Illinois

Docket Nos. 09-082-WA/RB-HC
09-082-WA/RB-SM

2009-DB-50

WHEREAS, in recognition of their common goal to maintain the financial soundness of Bankers' Bancorp, Inc., Springfield, Illinois ("Bancorp"), a registered bank holding company, and its subsidiary bank, Independent Bankers' Bank, Springfield, Illinois (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, Bancorp, the Bank, the Federal Reserve Bank of Chicago (the "Reserve Bank"), and the Illinois Department of Financial and Professional Regulation, Division of Banking (the "Department") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, the Bank provides correspondent and certain other banking services to other banks, many of which own shares of the Bank's parent holding company; originates loans secured by bank or bank holding company stock, loans to bank directors, officers, shareholders, employees and related interests, and other loans to affiliates of banks; and purchases loan participations from banks who own shares of its parent holding company or otherwise are customers of the Bank; and

WHEREAS, on June 24, 2009, the boards of directors of Bancorp and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing David V. Nosbisch to enter into this Agreement on behalf of Bancorp and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by Bancorp, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. §§ 1813(u) and (b)(3)).

NOW, THEREFORE, Bancorp, the Bank, the Reserve Bank, and the Department agree as follows:

Board and Senior Management Oversight

1. Within 60 days of this Agreement, the boards of directors of Bancorp and the Bank shall submit to the Reserve Bank and the Department a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the boards of directors will take to improve the Bank's condition and maintain effective control over, and supervision of, the Bank's senior management

and major operations and activities, including but not limited to, management of the investment portfolio, capital, liquidity, and earnings;

(b) the responsibility of the board of directors to establish, monitor, and enforce adherence to policies and procedures that reflect appropriate risk tolerance guidelines, risk limits, and that ensure compliance with applicable laws and regulations;

(c) measures to improve the quality and content of information, including board packages, provided to the board of directors;

(d) an enhanced management succession program to promote the retention and continuity of capable management; and

(e) development of a new strategic plan that positions the Bank to achieve future activities and objectives consistent with its role as a bankers' bank.

2. Within 60 days of this Agreement, the boards of directors of Bancorp and the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to increase the number of outside directors and shall report quarterly to the Reserve Bank and the Department on efforts to secure new outside directors.

(a) For purposes of this Agreement, the term "outside director" is defined as an individual who: (i) is not an executive officer, as defined in section 215.2(e)(1) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(e)(1)), or other employee of the Bank or its affiliates; (ii) is not an executive officer, other employee, or director of a shareholder of Bancorp or a bank that has deposit accounts or otherwise uses the Bank's services (a "Respondent Bank"); (iii) is not a related interest, as defined in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)), of any of the above executive officers, other employees, directors, or shareholders; or (iv) is not an immediate family member, as defined in

section 225.41(b)(3) of Regulation Y of the Board of Governors (12 C.F.R. § 225.41(b)(3)), of any of the above executive officers, other employees, directors, or shareholders.

Management Review

3. (a) Within 30 days of this Agreement, the boards of directors of Bancorp and the Bank shall retain an independent consultant acceptable to the Reserve Bank and the Department to conduct a review of the effectiveness of the Bank's management structure (the "Review") and to prepare a written report of findings and recommendations (the "Report"). The Review shall, at a minimum, address, consider, and include:

- (i) the qualifications and performance of each of the Bank's senior executive officers to determine whether the individual possesses the ability, experience, and other qualifications to competently perform present and anticipated duties, including their ability to: adhere to applicable laws and regulations and the Bank's established policies and procedures; restore and maintain the Bank to a safe and sound condition; and comply with the requirements of this Agreement; and
- (ii) the identification of present and future management and staffing needs for each area of the Bank, particularly with respect to management of the investment portfolio.

(b) Within 10 days of the Reserve Bank's and the Department's approval of the independent consultant selection, the Bank shall submit an engagement letter to the Reserve Bank and the Department for approval. The engagement letter shall require the independent consultant to submit the Report within 30 days of regulatory approval of the engagement letter

and to provide a copy of the Report to the Reserve Bank and the Department at the same time that it is provided to Bancorp's and the Bank's boards of directors.

(4) Within 30 days of receipt of the Report, Bancorp's and the Bank's board of directors shall submit a written management plan to the Reserve Bank and the Department that fully addresses the findings and recommendations in the Report and describes the specific actions that the boards of directors propose to take in order to strengthen the Bank's management, and to hire, as necessary, additional or replacement officers or staff to properly manage and operate the Bank.

Risk Management

5. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written risk management plan that addresses the findings and recommendations of the report of the examination of the Bank that commenced on January 20, 2009 (the "Report of Examination"). The plan shall describe the specific actions that the Bank proposes to take to enhance the Bank's overall risk management practices for its business activities. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance the Bank's board of directors' oversight of risk management processes to ensure that risk appetite decisions and the setting of risk tolerance levels for the Bank's activities and investments are made with an identification of, and documented explanation of the risks involved, the need for diversification of income sources, and with a consideration of the additional risk management controls needed to manage the risks, and that such additional controls are properly implemented;

(b) the establishment of a risk management program that adequately identifies, measures, monitors, and manages the risks involved in the Bank's business activities on an ongoing basis, including the implementation of mitigation strategies;

(c) measures to strengthen policies, procedures, and processes regarding the Bank's business activities and to periodically review and revise risk exposure limits and adjust current activities in response to changes in market conditions, and establish controls to ensure that such policies and procedures are promptly modified in response to significant changes in business activities or business conditions; and

(d) strengthen risk monitoring systems and procedures to identify and measure all material risk exposures and to report accurate, timely, and appropriate information to management, the board of directors, and its committees so that risks are managed effectively and deficiencies are corrected in a timely manner.

Investment Portfolio Management

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to improve the management of the Bank's investment portfolio including but not limited to:

(a) A reduction in risk exposure to investment securities that were classified in the Report of Examination, or in any subsequent report of examination, or any internal or external review that identifies criticized or classified investments;

(b) systems and procedures to track investment ratings and to consider such information in the overall assessment of the investments' trends and projected quality for the entire portfolio;

(c) procedures to project and quantify any future deterioration in the investment portfolio; and

(d) ongoing monitoring of balance sheet and income statement categories to assess period-over-period changes and trends and to determine the degree of exposure and dependence on particular instruments.

7. The Bank shall submit a monthly written progress report to the board of directors detailing the progress made in improving the composition and management of the investment portfolio. The board of directors shall ensure that documentation of their review is contained in the minutes of the board of directors' meeting.

Investment Policy

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable revised written investment policy that shall, at a minimum, address, consider, and include:

(a) A description of acceptable investments within the categories of permissible investments;

(b) established standards for portfolio diversification;

(c) periodic and timely review of the credit quality of the investment portfolio;

(d) procedures to mitigate risk and control loss exposure, including exit strategies, both primary and contingent; and

(e) reporting, review, and approval procedures to and by the board of directors.

Valuation and Impairment Analysis of Investment Securities

9. (a) The Bank shall continue to retain an independent consultant acceptable to the Reserve Bank and the Department to conduct, on a quarterly basis, a review of the Bank's investment securities to assess for further impairments and to ensure that the Bank's valuation processes and impairment analyses, including recognition of Other Than Temporary Impairment, are in accordance with generally accepted accounting principles, including FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other Than Temporary Impairments*, and regulatory reporting instructions (the "Review").

(b) The engagement letter shall provide that the Review is to be completed within 20 days of each quarter's end and that a written report be provided to the Bank within 5 days of the Review's completion (the "Report"). The independent consultant shall simultaneously provide a copy of the Report to the Bank, the Reserve Bank, and the Department. Within 5 days of the receipt of Report, the Bank shall make appropriate accounting entries.

Concentrations of Risk

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to strengthen the Bank's management of concentrations in investment securities and loans, including steps to reduce the risk of concentrations. The plan shall, at a minimum, include:

(a) Revised policies that establish concentration limits for investment securities, including but not limited to, trust preferred securities and other bank holding company obligations, and loans originated or purchased on aggregate by the Bank, and by loan type, geographic location, counterparty, and borrower, or other common risk characteristics; and

(b) a schedule for reducing the outstanding dollar amount of bank stock loans and other bank holding company obligations, including but not limited to, trust preferred securities and related instruments.

Capital Plan

11. Within 60 days of this Agreement, Bancorp shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at Bancorp, on a consolidated basis, and Bancorp and the Bank shall jointly submit to the Reserve Bank and the Department an acceptable written plan to maintain sufficient capital at the Bank, as a separate legal entity on a stand-alone basis. These plans shall, at a minimum, address, consider, and include:

(a) Bancorp's current and future capital needs, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital needs, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(c) the adequacy of the Bank's capital, taking into account the volume of classified assets, risk in the investment portfolio, allowance for loan and lease losses, current and projected asset growth, and projected retained earnings;

(d) the source and timing of additional funds to fulfill the consolidated organization's and the Bank's future capital requirements; and

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Bancorp serve as a source of strength to the Bank.

12. (a) Bancorp shall notify the Reserve Bank, in writing, no more than 30 days after the end of any quarter in which any of Bancorp's consolidated capital ratios fall below the approved plan's minimum ratios. Together with the notification, Bancorp shall submit to the Reserve Bank an acceptable written plan that details the steps Bancorp will take to increase its capital ratios above the plan's minimums.

(b) The Bank shall notify the Reserve Bank and the Department in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the approved plan's minimum ratios. Together with the notification, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan that details the steps the Bank will take to increase its capital ratios above the plan's minimums.

Earnings Plan and Budget

13. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a written business plan to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for the remainder of calendar year 2009, including income statement and balance sheet projections; and
- (ii) the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the Department at least 30 days prior to the beginning of that calendar year.

Liquidity and Funds Management

14. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Banking Department an acceptable written funding plan that includes, at a minimum:

- (a) Measures to enhance the monitoring and measurement of the Bank's liquidity, including cash flow projections to assess future liquidity needs;
- (b) measures to reduce asset/liability funding mismatches;
- (c) appropriate policy limits to minimize funding mismatches by funding type and maturity;
- (d) identification of contingent liquidity sources;
- (e) appropriate risk limits for each liquidity source;
- (f) adverse scenario analyses and planning; and
- (g) measures to ensure timely reporting to the board of directors on the Bank's liquidity position.

Dividends and Distributions

15. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Department of Banking Supervision and Regulation of the Board of Governors (the "Director), and the Department.

(b) Bancorp shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director.

(c) Bancorp and its nonbank subsidiaries shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(d) Bancorp and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(e) All requests for prior written approval shall be received by the Reserve Bank and the Department at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information on Bancorp's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bancorp and the Bank must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Debt and Stock Redemption

16. (a) Bancorp and its nonbank subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancorp shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Conflicts of Interest Policy

17. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written code of ethics and conflicts of interest policy applicable to the Bank's directors, officers, and employees ("Covered Persons") to set out the fiduciary duties of all Covered Persons and the avoidance of conflicts of interest. The primary purpose of this policy shall be to aid the Bank in continuing to operate in a safe and sound manner in light of the nature of the activities and structure of a bankers' bank. The policy, at a minimum, shall address, consider, and include:

- (a) The duty of care and loyalty owed by Covered Persons to the Bank;
- (b) the avoidance of conflicts of interest and the appearance of a conflict of interest;
- (c) a prohibition on the involvement of a Covered Person in the approval or renewal of any loan to: (i) such Covered Person or related interest thereof; (ii) any respondent bank with which the Covered Person is affiliated; or (ii) any director, officer, or employee of any respondent bank with which the Covered Person is affiliated;
- (d) a prohibition on the involvement of a Covered Person in the approval of the Bank's purchase of any loan participation from a Respondent Bank with which the Covered Person is affiliated;
- (e) internal controls that monitor compliance with the code of ethics and conflicts of interest policy and report any noncompliance or exceptions to the policy to the board of directors; and

- (f) training for all Covered Persons within 60 days of approval of the policy.

Regulatory Reports

18. Bancorp and the Bank shall immediately take steps to ensure that all required regulatory reports and notices filed with the Federal Reserve and the FFIEC accurately reflect Bancorp's and the Bank's financial condition and are filed in accordance with the applicable instructions for preparation.

Compliance with Laws and Regulations

19. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Bancorp the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*) and also provide written notice to the Department. Bancorp and the Bank shall not appoint any individual to its board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Department notifies Bancorp or the Bank of disapproval within the time limits prescribed by Subpart H of Regulation Y of the Board of Governors.

(b) Bancorp and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

20. Within 30 days after the end of each calendar quarter following the date of this Agreement, Bancorp's and the Bank's board of directors shall submit to the Reserve Bank and

the Department, as applicable, written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans and a Policy

21. (a) The Bank and, as applicable, Bancorp shall submit written plans, a policy, and an engagement letter, that are acceptable to the Reserve Bank and the Department within the applicable time periods set forth in paragraphs 2, 3(b), 5, 6, 8, 10, 11, 14, and 17 of this Agreement. An independent consultant acceptable to the Reserve Bank and the Department shall be retained in the time period set forth in paragraph 3(a).

(b) Within 10 days of approval by the Reserve Bank and the Department, Bancorp and the Bank, as applicable, shall adopt the approved plans and policy. Upon adoption, Bancorp and the Bank shall promptly implement the approved plans, program, and policy, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and policy shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

Communications

22. All communications regarding this Agreement shall be sent to:

(a) Mr. Charles F. Luse
Assistant Vice President
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604

(b) Mr. Scott D. Clarke
Assistant Director
Department of Financial and Professional Regulation
Department of Banking
320 West Washington Street
Springfield, Illinois 62786

- (c) Mr. David V. Nosbisch
Chairman of the Board
Bankers' Bancorp, Inc.
Independent Bankers' Bank
3161 West White Oaks Drive, Suite 300
Springfield, Illinois 62704

Miscellaneous

23. Notwithstanding any provision of this Agreement, the Reserve Bank and the Department may, in their sole discretion, grant written extensions of time to Bancorp and the Bank, as applicable, to comply with any provision of this Agreement.

24. The provisions of this Agreement shall be binding upon Bancorp, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

25. Each provision of this Agreement, as applicable, shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Department.

26. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, or any other federal or state agency from taking any other action affecting Bancorp, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

27. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818). In addition, this Agreement is enforceable by the Department under Section 48 of the Illinois Banking Act.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 30th day of June, 2009.

BANKERS' BANCORP, INC.

FEDERAL RESERVE BANK
OF CHICAGO

By: /s/ David V. Nosbisch
David V. Nosbisch
Chairman of the Board

By: /s/ Mark H. Kawa
Mark H. Kawa
Vice President

INDEPENDENT BANKERS' BANK

ILLINOIS DEPARTMENT OF
FINANCIAL AND
PROFESSIONAL REGULATION
DIVISION OF BANKING

By: /s/ David V. Nosbisch
David V. Nosbisch
Chairman of the Board

By: /s/ Jorge A. Solis
Jorge A. Solis
Director