

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

STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL INSTITUTIONS
MADISON, WISCONSIN

Written Agreement by and among

LEGACY BANCORP, INC.
Milwaukee, Wisconsin

LEGACY BANK
Milwaukee, Wisconsin

FEDERAL RESERVE BANK OF CHICAGO
Chicago, Illinois

and

STATE OF WISCONSIN
DEPARTMENT OF
FINANCIAL INSTITUTIONS
Madison, Wisconsin

Docket Nos. 10-053-WA/RB-HC
10-053-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Legacy Bancorp, Inc., Milwaukee, Wisconsin (“Bancorp”), a registered bank holding company, and its subsidiary bank, Legacy Bank, Milwaukee, Wisconsin (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 State of Wisconsin Department of Financial Institutions (the “DFI”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on April 22, 2010, the boards of directors of Bancorp and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Deloris Sims and Jose Mantilla, 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 1818(b)(3)).

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

Source of Strength

1. The board of directors of Bancorp shall take appropriate steps to fully utilize Bancorp’s financial and managerial resources, pursuant to section 225.4(a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)), to ensure that the Bank complies with this Agreement and any other supervisory action taken by the Reserve Bank or the DFI.

Board Oversight

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the DFI 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 board 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, lending, credit risk

management, loan review, capital, earnings, and liquidity (including measures to increase core deposits);

(b) the responsibility of the board of directors to monitor management's adherence to approved Bank policies and procedures, and to require management to document and report exceptions thereto; and

(c) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank's adversely classified assets, loans in excess of loan-to-value limits, allowance for loan and lease losses ("ALLL"), capital, earnings, and liquidity.

Credit Risk Management

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) The responsibility of the board of directors to establish appropriate risk tolerance guidelines and risk limits;

(b) periodic review and revision of risk exposure limits to address changes in market conditions;

(c) timely and accurate identification and quantification of credit risk within the loan portfolio;

(d) strategies to minimize credit losses and reduce the level of problem assets; and

(e) management's monitoring and controlling of problem assets.

Credit Administration

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written credit administration program that shall, at a minimum, address, consider, and include:

(a) Procedures to ensure that appraisals conform to accepted appraisal standards, as defined in the Uniform Standards of Professional Appraisal Practice, and comply with the requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart G) made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. § 208.50), and the Interagency Appraisal and Evaluation Guidelines, dated October 27, 1994 (SR 94-55);

(b) procedures for documentation of on-site inspection(s) prior to funds disbursement; and

(c) appropriate staffing of the loan work-out function.

Loan Review Program

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written program for strengthening internal review of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall, at a minimum, address, consider, and include:

(a) The scope and frequency of loan review;

(b) standards and criteria for assessing the credit quality of loans including procedures to re-evaluate loans in the event of material changes in the borrower's performance or value of the collateral;

(c) application of loan grading standards and criteria to the loan portfolio;

(d) written reports to the board of directors, at least quarterly, that identify the status of those loans that are nonperforming or adversely graded and the prospects for full collection or strengthening of the quality of any such loans; and

(e) appropriate staffing of the loan review function.

Asset Improvement

6. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination of the Bank conducted by the Reserve Bank and the DFI that commenced on June 22, 2009 (the “Report of Examination”) or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank’s risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank’s interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of

the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System ("Board of Governors") (12 C.F.R. § 215.2(n)).

7. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$200,000 including OREO, that are past due as to principal or interest more than 90 days as of the date of this Agreement, are on the Bank's problem loan list, or were adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan, relationship, or other asset in excess of \$200,000 including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank an acceptable written plan to improve the Bank's position on such loan, relationship, or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the DFI to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report.

Allowance for Loan and Lease Losses

8. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “loss” in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified “loss” unless otherwise approved in writing by the Reserve Bank and the DFI.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the DFI. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank’s loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors

on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the DFI, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

9. Within 60 days of this Agreement, Bancorp and the Bank shall jointly submit to the Reserve Bank and the DFI an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) 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);

(b) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

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

(d) 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.

10. Bancorp and the Bank shall notify the Reserve Bank and the DFI, 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 capital plan's minimum ratios. Together with the notification, Bancorp and the Bank shall submit an acceptable written plan that details the steps Bancorp and the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

Liquidity and Funds Management

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity levels to the board of directors;
- (b) measures to diversify funding sources; and
- (c) a timetable to reduce reliance on volatile funding sources.

12. The Bank shall take steps to ensure the continued maintenance of an appropriate written contingency funding plan.

Brokered Deposits

13. (a) At all times during the term of this Agreement that the Bank is well capitalized, the Bank shall not accept any new brokered deposits. For purposes of this subparagraph, the term "brokered deposits" is defined as set forth in Section 337.6(a) of the regulations of the Federal Deposit Insurance Corporation ("FDIC") (12 C.F.R. § 337.6(a)) and includes deposits funded by third party agents or nominees for depositors; and the term "new

brokered deposits” is defined not to include contractual renewals or rollovers of brokered deposits.

(b) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan for reducing its reliance on brokered deposits. The plan shall detail the current composition of the Bank’s brokered deposits by maturity and explain the means by which such deposits will be paid at maturity.

14. The Bank shall comply with the provisions of Section 29 of the FDI Act (12 U.S.C. § 1831f) and the FDIC’s accompanying regulations at 12 C.F.R. § 337 that are applicable to the Bank. The Bank shall notify the Reserve Bank and the DFI, in writing, if the Bank requests any waiver of the restrictions imposed by Section 29 from the FDIC and shall notify the Reserve Bank of the FDIC’s disposition of any request for such a waiver.

Strategic Plan and Budget

15. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI a strategic plan to improve the Bank’s earnings and overall condition and a budget for 2010 that, at a minimum, provides for or describes:

- (i) Goals and strategies for improving the Bank’s earnings;
- (ii) the responsibilities of the board of directors regarding the definition, approval, implementation, and monitoring of the strategic plan and budget;
- (iii) an identification of the major areas in, and means by which the board of directors and management shall seek to improve the Bank’s earnings and operating performance; and
- (iv) a realistic and comprehensive budget for calendar year 2010, that

includes the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A strategic plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank and the DFI at least 30 days prior to the beginning of that calendar year.

Dividends and Distributions

16. (a) Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (“Director”), and, as to the Bank, also the DFI.

(b) Bancorp shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) 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.

(d) All requests for prior approval shall be received 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, as appropriate, on the parent’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings and loan loss reserve 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, as appropriate, 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

17. (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.

Cash Flow

18. Within 60 days of this Agreement, the Bancorp shall submit to the Reserve Bank and the DFI a written statement of its planned sources and uses of cash for debt service, operating expenses, and other purposes ("Cash Flow Projection") for 2010. Bancorp shall submit to the Reserve Bank and the DFI a Cash Flow Projection for each calendar year subsequent to 2010 at least one month prior to the beginning of that calendar year.

Compliance with Laws and Regulations

19. The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the board of directors of the Bank shall take the necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

20. 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 and 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.*).

21. 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

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

23. (a) The Bank and, as applicable, Bancorp shall submit written plans and programs that are acceptable to the Reserve Bank and the DFI within the applicable time periods set forth in paragraphs 3, 4, 5, 7(a), 7(b), 8(c), 9, 10, 11, and 13(b) of this Agreement.

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

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

Communications

24. All communications regarding this Agreement shall be sent to:
- (a) Mr. David A. Ward
Assistant Vice President
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604
 - (b) Mr. Michael J. Mach
Administrator
Division of Banking
Wisconsin Department of Financial Institutions
P.O. Box 7876
Madison, Wisconsin 53507-7876
 - (c) Mr. Jose Mantilla
President
Legacy Bank
2102 West Fond du Lac Avenue
Milwaukee, Wisconsin 53206

Miscellaneous

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

26. 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.

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

28. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the DFI, 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.

29. 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 WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 27th day of April, 2010.

LEGACY BANCORP, INC.

FEDERAL RESERVE BANK
OF CHICAGO

By: /s/ Deloris Sims
Deloris Sims
President

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

LEGACY BANK

STATE OF WISCONSIN
DEPARTMENT OF FINANCIAL
INSTITUTIONS

By: /s/ Jose Mantilla
Jose Mantilla
President & CEO

By: /s/ Michael J. Mach
Michael J. Mach
Administrator