

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

Written Agreement by and among

EAST DUBUQUE BANCSHARES, INC.  
East Dubuque, Illinois

EAST DUBUQUE SAVINGS BANK  
Dubuque, Iowa

and

FEDERAL RESERVE BANK OF CHICAGO  
Chicago, Illinois

Docket Nos. 10-041-WA/RB-HC  
10-041-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of East Dubuque Bancshares, East Dubuque, Illinois (“Bancshares”), a registered bank holding company, and its subsidiary bank, East Dubuque Savings Bank, Dubuque, Iowa (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Bancshares, the Bank, and the Federal Reserve Bank of Chicago (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on March 31, 2010, the boards of directors of Bancshares and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Steven Bonnet to enter into this Agreement on behalf of Bancshares and the Bank, and consenting to compliance with each and every applicable provision of this

Agreement by Bancshares, 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, Bancshares, the Bank, and the Reserve Bank agree as follows:

### **Board Oversight**

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank 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, credit administration, capital, earnings, funds management, and compliance;

(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 exceptions thereto;

(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 problem assets, allowance for loan and lease losses (“ALLL”), capital, earnings, interest rate risk, liquidity, and compliance; and

(d) the development and implementation of formal tracking and follow-up procedures to ensure corrective actions are taken to address audit and regulatory findings.

### **Management Review**

2. Within 60 days of this Agreement, the board of directors of the Bank shall complete an assessment of the Bank's management and staffing needs (the "Management Review"). The primary purpose of the review shall be to aid in the development of a suitable management structure commensurate with the size and complexity of the Bank that is adequately staffed by qualified personnel. The Management Review shall, at a minimum, address, consider, and include:

- (a) The identification of the type and number of senior executive officers needed to manage and supervise properly the affairs of the Bank;
- (b) an evaluation of each senior officer's present and anticipated duties;
- (c) an evaluation of reporting lines within the management structure; and
- (d) the identification of present and future management and staffing needs for each area of the Bank, particularly in the areas of credit risk management, credit administration, and problem asset resolution.

3. Within 30 days of completion of the Management Review, the board of directors of the Bank shall submit a written management plan to the Reserve Bank that includes the findings and conclusions of the Management Review and describes the

specific actions that the board of directors will take to strengthen the Bank's management and to hire, as necessary, additional or replacement personnel.

### **Credit Risk Management**

4. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank 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) procedures to periodically review and revise risk exposure limits to address changes in market conditions;

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

(d) enhancements to the internal loan grading system to ensure timely and accurate risk ratings;

(e) procedures to identify, limit, and manage concentrations of credit, including, but not limited to, establishment of concentration of credit risk tolerances or limits by types of loan products, geographic locations, and other common risk characteristics, and for commercial real estate, consistency with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1); and

(f) the means by which the Bank will reduce concentrations of credit identified in the report of examination conducted by the Iowa Division of Banking that

commenced on August 31, 2009 (the “Report of Examination”), including a schedule containing timeframes for achieving reduced levels of exposure.

### **Lending and Credit Administration**

5. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable revised written credit administration policies and procedures that shall, at a minimum, address, consider, and include:

(a) Procedures and controls to ensure timely and consistent analyses of borrowers’ and guarantors’ current financial condition, global cash flow, and repayment sources;

(b) underwriting and credit administration standards for loans to highly specialized industries;

(c) procedures and controls to identify, report, and correct, loan documentation exceptions; and

(d) requirements that an employee not participate in the underwriting, approval, renewal, or disbursement of any loan, the proceeds of which are directly disbursed to, transferred to, or used for the tangible economic benefit of such employee, the employee’s immediate family members, as defined in section 225.41(a)(3) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.41(a)(3)), or any related interest thereof as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

6. (a) Within 60 days of this Agreement, the Bank shall take all steps necessary to correct the documentation and credit information deficiencies in the Bank’s loan files listed in the Report of Examination. In all cases where the Bank is unable to

obtain needed documentation or credit information, the Bank shall document the actions taken to secure the information and the reasons the information could not be obtained. The Bank shall maintain this documentation in the related credit file for supervisory review.

(b) Within 60 days of this Agreement and within 30 days after the end of each subsequent calendar quarter, the Bank shall submit to the Reserve Bank a report detailing the Bank's progress in correcting the loan documentation and credit information deficiencies listed in the Report of Examination.

### **Loan Review Program**

7. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for strengthening internal review and grading of the Bank's loan portfolio by a qualified independent party or by 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;
- (c) application of loan grading standards and criteria to the loan portfolio, including procedures to re-evaluate loans in the event of material changes in the borrower's performance or value of the collateral; and
- (d) procedures and controls to ensure the consistent adherence to the loan grading standards and criteria and the revised review program.

## **Asset Improvement**

8. 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 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.

9. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$100,000, including other real estate owned ("OREO"), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000, 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 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 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**

10. (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.

(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 . 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 collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank 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, 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**

11. Within 60 days of this Agreement, Bancshares and the Bank shall jointly submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) 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 Bank's future capital requirements and loan loss reserve needs; 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 Bancshares serve as a source of strength to the Bank.

12. Bancshares and the Bank shall notify the Reserve Bank, 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, Bancshares and the Bank shall submit an acceptable written plan that details the steps Bancshares and the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

### **Earnings Plan and Budget**

13. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank a written business plan for 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive revised budget for calendar year 2010, including income statement and balance sheet projections; and

(ii) a description of 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 2010 shall be submitted to the Reserve Bank 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 an acceptable written plan designed to enhance management of the Bank's liquidity position. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance the monitoring and reporting of the Bank's liquidity position;

- (b) measures to diversify funding sources;
- (c) a timetable to reduce reliance on short-term wholesale funding, including brokered deposits, and
- (d) specific liquidity targets and parameters and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands.

15. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes enhanced adverse scenario planning.

### **Dividends and Distributions**

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

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

(c) Bancshares 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.

(d) Bancshares and its nonbank subsidiary 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 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 ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bancshares 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) Bancshares and its nonbank subsidiary, 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) Bancshares shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

#### **Compliance with Laws and Regulations**

18. 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.

19. 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, Bancshares 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.*).

20. Bancshares 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**

21. (a) Within 10 days of this Agreement, Bancshares' and the Bank's boards of directors shall appoint a joint compliance committee (the "Compliance Committee") to monitor and coordinate Bancshares' and the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of Bancshares and the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the boards of directors of Bancshares and the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, Bancshares and the Bank shall submit to the Reserve Bank 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, Policies, Procedures, and Programs**

22. (a) The Bank shall submit written plans, policies, procedures, and programs that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 4, 5, 7, 9(a), 9(b), 10(c), 11, 12, 14, and 15 of this Agreement.

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

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

## **Communications**

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

- (a) Mr. Jeffrey A. Jensen  
Assistant Vice President  
Federal Reserve Bank of Chicago – Des Moines Office  
7601 Office Plaza Drive North, Suite 150  
West Des Moines, Iowa 50266
- (b) Mr. Steven J. Bonnet  
Chairman and President  
East Dubuque Bancshares, Inc.  
East Dubuque Savings Bank  
242 Wall Street  
East Dubuque, Illinois 61025

## **Miscellaneous**

24. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to Bancshares and the Bank to comply with any provision of this Agreement.

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

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

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



28. 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 19<sup>th</sup> day of April, 2010.

EAST DUBUQUE BANCSHARES, INC.

FEDERAL RESERVE BANK  
OF CHICAGO

By: /s/ Steven J. Bonnet  
Steven J. Bonnet  
Chairman and President

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

EAST DUBUQUE SAVINGS BANK

By: /s/ Steven J. Bonnet  
Steven J. Bonnet  
Chairman, President and CEO