

**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:) Chapter 11
)
MIDWEST BANC HOLDINGS, INC.,¹) Case No. 10-37319
)
Debtor.) Judge A. Benjamin Goldgar

**DISCLOSURE STATEMENT WITH RESPECT TO JOINT PLAN OF LIQUIDATION
OF MIDWEST BANC HOLDINGS, INC.**

Aaron L. Hammer (ARDC No. 6243069)
Richard S. Lauter (ARDC No. 6182859)
FREEBORN & PETERS LLP
311 South Wacker Drive, Suite 3000
Chicago, Illinois 60606
Telephone: 312-360-6000
Facsimile: 312-360-6520
E-Mail: ahammer@freebornpeters.com
rlauter@freebornpeters.com

Thomas G. Wallrich, Esq.
Joel D. Nessel, Esq.
HINSHAW & CULBERTSON LLP
333 South Seventh Street, Suite 2000
Minneapolis, Minnesota 55402
Telephone: 612-334-2594
Facsimile: 612-334-8888
E-Mail: twallrich@hinshawlaw.com
jnessel@hinshawlaw.com

*Counsel to Official Committee
of Unsecured Creditors*

– and –

William J. Connelly (ARDC No. 6185201)
HINSHAW & CULBERTSON LLP
222 North LaSalle Street, Suite 300
Chicago, Illinois 60601
Telephone: 312-704-3000
Facsimile: 312-704-3001
E-Mail: wconnelly@hinshawlaw.com

Counsel to Debtor and Debtor-in-Possession

Dated: December 20, 2010

¹ The Debtor in this chapter 11 case, along with the last four digits of the Debtor's tax identification number is Midwest Banc Holdings, Inc. (2484). The service address for the Debtor is 54 South Washington Street, Suite 1, Hinsdale, Illinois 60521-4161.

I. INTRODUCTION

The Official Committee of Unsecured Creditors (the “*Committee*”) and Midwest Banc Holdings, Inc. (the “*Debtor*” and, together with the Committee, the “*Plan Proponents*”) submit this disclosure statement (the “*Disclosure Statement*”) to holders of Claims against and Interests in the Debtor in connection with the solicitation of acceptances of the Joint Plan of Liquidation dated December __, 2010 (as the same may be amended, the “*Plan*”). Unless otherwise defined herein, all capitalized terms contained herein have the respective meanings assigned to them in the Plan.

This Disclosure Statement describes certain aspects of the Plan, the Debtor’s chapter 11 case (the “*Case*”), the Debtor’s liquidation and wind-down and the formation and operation of a Creditor Trust that will be charged with: (i) liquidating the Debtor’s remaining assets; (ii) pursuing claims and Causes of Action on behalf of the Debtor’s unsecured Creditors; (iii) analyzing and reconciling Claims that have been filed against the Debtor’s Estate; and (iv) making distributions on account of Allowed Claims in accordance with the Plan and the Creditor Trust Agreement entered into with respect thereto. For a complete understanding of the Plan, you should read the Disclosure Statement, the Plan and the exhibits and schedules thereto, in their entireties.

The Plan Proponents believe that confirmation of the Plan is in the best interests of all parties, including the Debtor’s Creditors and Estate. Accordingly, the Plan Proponents urge each Creditor that is Impaired hereunder, and entitled to vote with respect to the Plan, to vote to accept the Plan. Detailed voting instructions are set forth in Section III.A. of this Disclosure Statement. To be counted, ballots must be filed with the Clerk of Court by no later than 5:00 p.m. (Central Time) on _____, 2011.

The Plan provides for the liquidation of the Debtor's assets in a manner designed to maximize recoveries to all Creditors. The Plan contemplates the formation of a Creditor Trust that will take title to and liquidate substantially all of the Debtor's property other than rights with respect to tax refunds as of the Effective Date of the Plan, including, but not limited to, Cash, real estate, furniture, fixtures, investments, accounts, equipment, any other tangible or intangible personal property, Causes of Action, and any and all proceeds of the foregoing. The Creditor Trust will be charged with liquidating such assets and paying Allowed Claims pursuant to the Plan. The Debtor's existing Equity Securities will be cancelled under the Plan, and the Debtor's Equity Security Holders will receive no distributions on account of their existing Interests in the Debtor.

NO REPRESENTATIONS CONCERNING THE DEBTOR ARE AUTHORIZED BY THE PLAN PROPONENTS OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE THAT ARE OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION. ANY NON-COMMITTEE OR NON-DEBTOR REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE COMMITTEE OR THE DEBTOR, WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY AN INDEPENDENT REGISTERED PUBLIC ACCOUNTANT. HOWEVER, THE DATA IN THE PLAN PROPONENTS' POSSESSION WAS OBTAINED FROM SOURCES

CONTAINED IN THE BOOKS AND RECORDS OF THE DEBTOR, WHICH THE DEBTOR STIPULATES HAVE BEEN MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, AS APPLIED TO INTERIM FINANCIAL STATEMENTS, IN ALL MATERIAL RESPECTS.

THE PLAN PROPONENTS ARE UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY, ALTHOUGH DUE CARE HAS BEEN TAKEN TO PRESENT FAIRLY THE CURRENT FINANCIAL POSITION OF THE DEBTOR.

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN, BUT THE PLAN ITSELF QUALIFIES ALL SUMMARIES. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE, AND ARE SUBJECT TO AND QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FULL TEXT OF THE APPLICABLE AGREEMENTS.

THIS DISCLOSURE STATEMENT IS PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE SO AS TO PROVIDE "ADEQUATE INFORMATION" TO THE CREDITORS IN THIS PROCEEDING. ANY PLAN WILL BE COMPLEX, ESPECIALLY SINCE IT REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT, AND ANY INTELLIGENT JUDGMENT CONCERNING ANY PROPOSED PLAN CANNOT BE MADE WITHOUT FULLY UNDERSTANDING

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND THE SPECIFIC TERMS OF THE PLAN PROPOSED HEREIN. THIS DISCLOSURE STATEMENT IS NOT INTENDED TO TAKE THE PLACE OF THE PLAN. EACH CREDITOR IS URGED TO STUDY THE PLAN IN FULL AND TO CONSULT WITH THEIR COUNSEL WITH RESPECT TO THE PLAN, ITS TAX IMPLICATION(S) AND ITS EFFECT ON HIS, HER OR ITS RIGHTS.

Any Creditor having questions regarding the Plan or the Disclosure Statement may contact counsel for either of the Plan Proponents:

Aaron L. Hammer (ARDC No. 6243069)
Richard S. Lauter (ARDC No. 6182859)
FREEBORN & PETERS LLP
311 South Wacker Drive, Suite 3000
Chicago, Illinois 60606
Telephone: 312-360-6000
Facsimile: 312-360-6520
E-Mail: ahammer@freebornpeters.com
rlauter@freebornpeters.com

Thomas G. Wallrich, Esq.
Joel D. Nessel, Esq.
HINSHAW & CULBERTSON LLP
333 South Seventh Street, Suite 2000
Minneapolis, Minnesota 55402
Telephone: 612-334-2594
Facsimile: 612-334-8888
E-Mail: twallrich@hinshawlaw.com
jnessel@hinshawlaw.com

*Counsel to Official Committee
of Unsecured Creditors*

– and –

William J. Connelly (ARDC No. 6185201)
HINSHAW & CULBERTSON LLP
222 North LaSalle Street, Suite 300
Chicago, Illinois 60601
Telephone: 312-704-3000
Facsimile: 312-704-3001
E-Mail: wconnelly@hinshawlaw.com

Counsel to Debtor and Debtor-in-Possession

The cost of distributing the Plan and Disclosure Statement as well as the costs, if any, of soliciting acceptances, will be paid from property of the Estate, as defined in the Plan and as allowed by the Bankruptcy Court. The Professional Fees of the Debtor's counsel and the

Committee’s counsel are not contingent upon the acceptance of the Plan, and are payable as a cost of administration, upon Bankruptcy Court approval.

Local Bankruptcy Rule 3016-1 requires the Plan Proponents to file a summary of the Plan (the “*Summary*”) that sets forth the nature of the Plan and provides a description of the proposed treatment of each class, showing total dollar amounts and timing of payments to be made under the Plan and all sources and amounts of funding thereof. The Summary must also plainly identify all classes, the composition of each class (as to number and type of creditors), the amount of claims (specifying any that are known to be disputed and how they will be treated under the plan) and the amount (dollar and/or percentages) to go to each class. The Plan Proponents therefore, submit the following Summary.

II. SUMMARY OF THE PLAN

<u>General Overview of the Plan</u>	
Plan	Joint Plan of Liquidation Dated December 20, 2010
Plan Proponents	The Committee and the Debtor. The Committee consists of the following holders of General Unsecured Claims: (i) Bowne & Co., Inc.; (ii) Daniel R. Kadolph; (iii) MBHI Capital Trust IV; and (iv) David Peck.
General Purpose	The Plan contemplates the transfer of all of the Debtor’s remaining assets to the Creditor Trust for the benefit of holders of Claims. The holders of Allowed Class 3 and 4 Claims shall share in the assets of the Creditor Trust, but only to the extent provided in the Plan. The provisions of the Creditor Trust and the Plan shall be implemented under the direction of the Creditor Trustee, who shall be designated prior to the Joint Hearing.
<u>Summary of Claims</u>	
Administrative Claims	Administrative Claims consist of two subcategories: (i) Allowed Professional Fee Claims; and (ii) Allowed Other Administrative Expense Claims. Allowed Professional Fee Claims consist of the Allowed

	<p>Administrative Expenses of Professional Persons, including attorneys, accountants, financial advisors and claims and noticing agents retained by the Debtor or the Committee, or to be compensated pursuant to sections 327, 328, 330, 331, 363, 503 or 1103 of the Bankruptcy Code.</p> <p>Allowed Other Administrative Expense Claims consist of expenses which are or become allowed under section 503(b) of the Bankruptcy Code, other than Allowed Professional Fee Claims, which are entitled to priority under section 507(a)(2) of the Bankruptcy Code, and shall include: (i) any actual and necessary costs and expenses of preserving the Estate; and (ii) all fees and charges properly assessed against the Estate pursuant to 28 U.S.C. § 1930.</p> <p>The holders of Allowed Professional Fee Claims will be paid in full within ten (10) days of such Claims becoming Allowed Professional Fee Claims.</p> <p>The holders of Allowed Other Administrative Expense Claims will be paid in full on the later of: (i) as soon as practicable following the Effective Date; (ii) thirty (30) days after such Claims become Allowed Other Administrative Expense Claims; (iii) the date upon which such Allowed Other Administrative Expense Claims become due in the ordinary course of business; and (iv) such other time as may be agreed to by the Distributing Party and the holder of the Allowed Other Administrative Expense Claim.</p> <p>The Plan Proponents estimate that unpaid Allowed Professional Fee Claims will not exceed \$500,000.00 for Professionals of both the Debtor and the Committee as of the Confirmation Date.</p> <p>The Plan Proponents estimate that unpaid Allowed Other Administrative Expense Claims will not exceed \$50,000.00 as of the Confirmation Date.</p>
Priority Tax Claims	<p>Priority Tax Claims consist of Unsecured Claims of a governmental unit of the kind specified in section 507(a)(8) of the Bankruptcy Code.</p> <p>The holders of Allowed Priority Tax Claims will be paid in full on the later of: (i) as soon as practicable following the Effective Date; (ii) thirty (30) days after such Claims become Allowed Priority Tax Claims; and (iii) such other time as may be agreed to by the Distributing Party and the holder of the Allowed Priority Tax Claim, in accordance</p>

	<p>with sections 507(a)(8) and 1129(a)(9)(C) of the Bankruptcy Code.</p> <p>The Plan Proponents estimate that Allowed Priority Tax Claims will not exceed \$1,300.00 as of the Confirmation Date.</p>
<p>Priority Claims</p>	<p>Priority Claims (<u>Class 1</u>) consist of Unsecured Claims, other than Administrative Claims or Priority Tax Claims, that are entitled to priority in payment under section 507(a) of the Bankruptcy Code. With respect to the Claims of employees or former employees, such Claims shall constitute Priority Claims only to the extent permissible under sections 507(a)(4) and (a)(5) of the Bankruptcy Code or prior order of the Bankruptcy Court.</p> <p>Allowed Priority Claims are unimpaired under the Plan. The holders of Allowed Priority Claims will be paid in full on the later of: (i) as soon as practicable following the Effective Date; (ii) thirty (30) days after such Claims become Allowed Priority Claims; and (iii) such other time as may be agreed to by the Distributing Party and the holder of the Allowed Class 1 Priority Claim.</p> <p>The Plan Proponents estimate Allowed Priority Claims will be \$0.00 as of the Confirmation Date.</p>
<p>Secured Claims</p>	<p>Secured Claims of M&I (<u>Class 2</u>) consist of Claims of M&I that are secured by Liens on the Debtor's stock in its wholly-owned subsidiary bank and the RAC Tax Refund, to the extent of the value of M&I's interest in property of the Estate.</p> <p>The Secured Claims of M&I are Impaired under the Plan. M&I is entitled to elect to either: (i) receive a release of all claims that are property of the Estate, including but not limited to the right to seek avoidance of M&I's security interest in the RAC Tax Refund, in full satisfaction of its Secured Claims; or (ii) retain its Secured Claim, in which case it will be entitled to assert a Deficiency Claim to the extent that it is determined to be undersecured.</p> <p>There are no other Secured Claims against the Debtor.</p>
<p>General Unsecured Claims</p>	<p>General Unsecured Claims (<u>Class 3</u>) shall mean any Unsecured Claim, arising prior to the Petition Date, that is not a Professional Fee Claim, Other Administrative Expense Claim, Unsecured Priority Tax Claim, Class 1 Claim, Class 2 Claim, Class 4 Claim or Class 5 Interest.</p>

	<p>General Unsecured Claims shall include M&I's Deficiency Claim with respect to the M&I Notes. M&I's Deficiency Claim would be waived in its entirety by agreement between M&I and the Plan Proponents.</p> <p>General Unsecured Claims are Impaired under the Plan. The holders of Allowed General Unsecured Claims will receive their Pro Rata share of Creditor Trust Assets in accordance with the Plan and the Creditor Trust Agreement.</p> <p>At this time, the Plan Proponents are unable to determine the amounts that will be distributed to holders of General Unsecured Claims with certainty. As of December 15, 2010, Claims in the amount of approximately \$7.7 million had been filed by Creditors and the Debtor had scheduled known, undisputed Claims in the approximate amount of \$330,000.00. Of the filed Claims, the Plan Proponents have determined that claims in the face amount of approximately \$400,000.00 were filed on account of equity interests, \$1.2 million were filed by employees asserting Claims by reason of an alleged and potentially disputed change in control of the Debtor's subsidiary; and there was a duplicate claim in an amount in excess of \$1.7 million. Certain of the Claims filed with respect to otherwise allowable Claims may state claims in an amount in excess of that which the Plan Proponents believe may be allowable.</p>
<p>Class 4 Claims</p>	<p>Class 4 Claims shall mean the: (i) Allowed Claims of the RCT Trustee with respect to the RCT Debt Securities; (ii) the Allowed Claims of the NST Trustee with respect to the NST Debt Securities; (iii) the Allowed Claims of the MBHI III Trustee with respect to the MBHI III Notes; (iv) the Allowed Claims of the MBHI IV Trustee with respect to the MBHI IV Securities; (v) the Allowed Claims of the MBHI V Trustee with respect to the MBHI V Debentures; and (vi) the Allowed Claims of M&I with respect to the M&I Subordinated Note.</p> <p>Class 4 Claims are Impaired under the Plan. The holders of Allowed Class 4 Claims will receive their Pro Rata share of Creditor Trust Assets in accordance with the Plan and the Creditor Trust Agreement.</p> <p>The Plan Proponents estimate Allowed Class 4 Claims will not exceed \$78,567,309 as of the Confirmation Date.</p>

<p>Equity Securities</p>	<p>Equity Securities (<u>Class 5</u>) consist of Interests held by Equity Security Holders, which include:</p> <p>(i) Series A Preferred. As of the Petition Date, there were 310,059 depositary shares outstanding, each representing 1/100th of a Share of Series A Noncumulative Redeemable Convertible Preferred Stock. The depositary shares have a \$25.00 liquidation preference, for an aggregate of approximately \$7.8 million, and were registered under Section 12(b) of the Securities Exchange Act of 1934 (the “Act”).</p> <p>(ii) Series G Preferred. On March 8, 2010, the U.S. Treasury exchanged the 84,784 shares of Series T preferred stock, having an aggregate approximate liquidation preference of \$84.8 million, plus approximately \$4.6 million in cumulative dividends not declared or paid on such preferred stock, for a new series of fixed rate cumulative mandatorily convertible preferred stock, Series G, with the same liquidation preference. The U.S. Treasury also holds a warrant to purchase 4,282,020 shares of common stock.</p> <p>(iii) Common. The Debtor has approximately 38 million shares of common stock issued and outstanding, together with all related rights, including, but not limited to rights under options and warrants not otherwise classified. The Debtor’s common stock was registered under Section 12(g) of the Act.</p> <p>Equity Security Holders will neither receive nor retain any property under the Plan, and all Equity Securities will be cancelled on the Effective Date. Equity Security Holders, therefore, are an Impaired class of Interests.</p>
<p><u>Implementation of Plan</u></p>	
<p>Funding</p>	<p>The Plan will be funded by the orderly liquidation of all remaining property of the Estate. Distributions will be made by the Distributing Party on the Effective Date or as soon as reasonably practicable thereafter pursuant to the terms of the Plan and the Creditor Trust Agreement.</p>
<p>Effective Date</p>	<p>The Effective Date will be a date after the occurrence of: (i) the Court entering the Confirmation Order, which shall be in full force and effect and shall not have been vacated, amended, modified or stayed, and if it is the subject of any appeal, reconsideration or other review, no stay of the Confirmation Order shall be in effect; (ii) the Creditor Trust</p>

	<p>Agreement, in form and substance satisfactory to the Plan Proponents, being executed and delivered, and all conditions precedent to the effectiveness thereof being satisfied; (iii) the delivery or effectuation of all other documents or agreements necessary to consummate the Plan; and (iv) the appointment of the Creditor Trustee by the Plan Proponents upon notice to the Bankruptcy Court. The Plan Proponents or the Creditor Trustee, as the case may be, may waive any of these conditions to the occurrence of the Effective Date.</p> <p>The Effective Date will be a date not more than forty-five (45) days after the Confirmation Date, unless extended by the Creditor Trustee in his or her sole discretion; provided, however, that if a stay of the Confirmation Order is in effect on such day, then the Effective Date shall be the first day thereafter on which, if the Confirmation Order has not been vacated, no stay of the Confirmation Order is in effect and all other conditions precedent, as stated above, have occurred.</p>
--	---

The Plan Proponents submit that the above Summary meets the requirements of Local Bankruptcy Rule 3016-1.

III. VOTING AND CONFIRMATION PROCEDURES

Under the Bankruptcy Code, classes of claims that are unimpaired under a chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims and interests that are not entitled to receive any distribution on account of their claims or interests are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan.

Under the terms of the Plan, the holders of Claims in Class 2, Class 3 and Class 4 are Impaired and are entitled to vote to accept or reject the Plan.

Votes on the Plan are not being solicited from holders of Priority Claims (Class 1), which are unimpaired and deemed to have accepted the Plan. Votes on the Plan are also not being solicited from holders of Interests in Class 5. Holders of Interests in Class 5 will not receive or

retain any property under the Plan and, therefore, are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan.

A. Voting Procedures

A ballot is enclosed for the purpose of voting on the Plan. Parties entitled to vote should carefully follow the instructions set forth herein and on the ballot and vote and return your ballot(s), by first class mail, hand or overnight courier, to:

Clerk of Bankruptcy Court
Everett McKinley Dirksen United States Courthouse
219 South Dearborn Street
Chicago, Illinois 60604

TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED NO LATER THAN 5:00 P.M. (CENTRAL TIME) ON _____, 2011 (THE “VOTING DEADLINE”).

ANY BALLOT WHICH IS EXECUTED BUT DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN, OR ON WHICH BOTH THE ACCEPTANCE AND REJECTION BOX IS CHECKED, WILL BE DEEMED TO BE AN ACCEPTANCE OF THE PLAN. ANY BALLOT THAT IS EITHER UNRETURNED BY THE VOTING DEADLINE OR IS RETURNED BUT NOT EXECUTED WILL BE CONSIDERED NULL AND VOID AND WILL NOT BE COUNTED.

If you are a holder of a Claim entitled to vote on the Plan and did not receive a ballot, received a damaged ballot or lost your ballot, or if you have any questions concerning the Disclosure Statement, the Plan or the procedures for voting on the Plan, please call counsel for the Committee, Freeborn & Peters LLP, Attention: Richard S. Lauter, Esq., 312-360-6641, or counsel for the Debtor, Hinshaw & Culbertson LLP, Attention: Thomas G. Wallrich, Esq., 612-334-2594.

B. Joint Hearing on Sufficiency of Disclosure Statement and Plan Confirmation

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing to determine whether the Disclosure Statement meets the adequacy requirements of section 1125 of the Bankruptcy Code and whether the Plan meets the requirements for confirmation established by section 1129 of the Bankruptcy Code. Any party-in-interest may object to the adequacy of the Disclosure Statement or confirmation of the Plan. The Bankruptcy Court has scheduled a joint hearing with respect to the sufficiency of this Disclosure Statement and confirmation of the Plan for _____, 2011 (the "*Joint Hearing*"). Notice of the Joint Hearing has been, or will be, provided to all holders of Claims and Interests and other parties-in-interest (the "*Confirmation Notice*").

Objections, if any, to the adequacy of the Disclosure Statement or confirmation of the Plan must: (i) be in writing; (ii) state the name and address of the objecting party and the nature of the Claim or Interest of such party; (iii) state with particularity the basis and nature of any objection; and (iv) in accordance with Bankruptcy Rule 3020(b)(1), be filed, together with proof of service, with the Bankruptcy Court and served on the following parties so that they are received no later than 5:00 p.m. (Central Time) on _____, 2011 (the "*Objection Deadline*"), or such other date established by the Plan Proponents: (a) the Debtor, Midwest Banc Holdings, Inc., 54 South Washington Street, Suite 1, Hinsdale, Illinois 60521-4161 (Attn: Roberto R. Herencia); (b) counsel to the Debtor, HINSHAW & CULBERTSON LLP, 333 South Seventh Street, Suite 2000, Minneapolis, Minnesota 55402 (Attn: Thomas G. Wallrich, Esq.) and HINSHAW & CULBERTSON LLP, 222 North LaSalle Street, Suite 300, Chicago, Illinois 60601 (Attn: William J. Connelly, Esq.); (c) counsel to the Committee, FREEBORN & PETERS LLP, 311 S. Wacker Drive, Suite 3000, Chicago, Illinois 60606-6677 (Attn: Richard S. Lauter, Esq.); (d) OFFICE OF THE UNITED STATES TRUSTEE, 219 South Dearborn Street,

Suite 873, Chicago, Illinois 60604 (Attn: M. Gretchen Silver, Esq.); (e) counsel to M&I, MICHAEL BEST & FRIEDRICH LLP, One South Pinckney Street, Suite 700, Madison, Wisconsin 53703 (Attn: Mary C. Turke, Esq.); and (f) SECURITIES AND EXCHANGE COMMISSION, 175 West Jackson Boulevard, Suite 900, Chicago, Illinois 60604 (Attn: Jolene M. Wise). **UNLESS AN OBJECTION TO THE SUFFICIENCY OF THE DISCLOSURE STATEMENT AND/OR PLAN CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

IV. OVERVIEW OF THE PLAN

The following is an overview of certain material provisions of the Plan, which is attached hereto as **Exhibit A**. The following summaries of the material provisions of the Plan do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Plan, including all exhibits thereto. *Any capitalized terms referenced herein shall have the definitions ascribed to them in the Plan.*

A. General Information Concerning Treatment of Claims and Interests

The Plan provides for satisfaction in full of Priority Claims (Class 1), which are unimpaired and deemed to have accepted the Plan. Votes on the Plan are not being solicited from holders of Interests in Class 5. Holders of these Interests will neither receive nor retain any property under the Plan or on account of the Interests and, therefore, are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan. Only those Creditors holding Claims in Classes 2, 3 and 4 shall be entitled to vote to accept or reject the Plan.

The Plan Proponents believe that the Plan provides distributions to all Classes of Claims and Interests that reflect an appropriate resolution of the Claims and Interests, taking into account the differing nature and priority of such Claims and Interests under the Bankruptcy Code and applicable law.

B. Summary of Estimated Distributions

The following table describes the treatment of Claims and Interests under the Plan.

Class	Treatment	Impairment	Estimated Allowed Amounts Due	Estimated Percentage Recovery
Professional Fee Claims (Unclassified)	100% payment within ten (10) days of becoming an Allowed Claim	N/A	\$700,000.00	100%
Other Administrative Expense Claims (Unclassified)	100% payment on the later of: (i) the Effective Date; (ii) thirty (30) days after becoming an Allowed Claim; (iii) the date upon which such Claim becomes due in the ordinary course of business; and (iv) such other time as may be agreed to by the parties	N/A	\$50,000.00	100%
Priority Tax Claims (Unclassified)	100% payment on the later of: (i) the Effective Date; (ii) thirty (30) days after becoming an Allowed Claim; and (iii) such other time as may be agreed to by the parties	N/A	\$1,300.00	100%
Class 1 Priority Claims	100% payment on the later of: (i) the Effective Date; (ii) thirty (30) days after becoming an Allowed Claim; and (iii) such other time as may be agreed to by the parties	Unimpaired Not entitled to vote and deemed to accept the Plan	\$0.00	100%
Class 2 Secured Claims of M&I	All of the Estate's rights to and interests in any refund of local, state, or federal taxes and a general release of claims of the Estate	Impaired Entitled to vote	\$65,847,224.00	TBD
Class 3 General Unsecured Claims	Pro Rata pursuant to the Creditor Trust Agreement	Impaired Entitled to vote	\$4,000,000.00	TBD

Class	Treatment	Impairment	Estimated Allowed Amounts Due	Estimated Percentage Recovery
Class 4 Claims	Pro Rata pursuant to the Creditor Trust Agreement	Impaired Entitled to vote	\$78,567,309	TBD
Class 5 Equity Security Interests	Holders of these Interests will not receive a distribution under the Plan	Impaired Not entitled to vote and deemed to reject the Plan	N/A	0%

V. GENERAL INFORMATION

A. Description and History of the Debtor’s Business

The Debtor is a Delaware corporation founded in 1983, and has operated as a community-based bank holding company headquartered in Melrose Park, Illinois.

Until May 14, 2010, the Debtor’s principal operating subsidiary had been Midwest Bank and Trust Company (“*MBTC*”). *MBTC* was an Illinois state bank that operated twenty-six (26) branches in the Chicago metropolitan area, primarily serving markets in Cook, DuPage, Kane, Lake and McHenry Counties.

MBTC was established in 1959 in Elmwood Park, Illinois to provide community and commercial banking services to individuals and businesses in the neighboring western suburbs of Chicago.

During the period before the economic downturn, the Debtor had expanded significantly through a number of mergers and acquisitions, the most recent of which were: (i) the October 2007 acquisition of Northwest Suburban Bancorp, Inc. (“*NSB*”); and (ii) the July 2006 merger with Royal American Corporation (“*RAC*”).

MBTC has three (3) non-bank subsidiaries that were established to support and supplement its retail and commercial banking operations: (i) in August 2002, *MBTC* established

MBTC Investment Company to manage the Debtor's investment securities; (ii) in May 2006, MBTC Investment Company established Midwest Funding, L.L.C., which is a real estate holding company; and (iii) in July 2006, MBTC acquired Midwest Financial and Investment Services, Inc. ("*Midwest Financial*") through the acquisition of RAC. Midwest Financial is a registered bank-affiliated securities broker-dealer and registered investment advisor. It is registered with the Securities and Exchange Commission (the "*SEC*") as a broker-dealer and operates a general securities business as an introducing broker-dealer.

B. The Pre-Petition Secured Indebtedness

Prior to the Petition Date, the Debtor incurred secured obligations to M&I pursuant to the M&I Notes. The M&I Term Note, dated September 28, 2007, was in the original principal amount of \$75,000,000 and the M&I Revolving Note, dated March 24, 2006, was in the original principal amount of \$50,000,000. As of the Petition Date, the total indebtedness owed to M&I pursuant to the M&I Notes was \$65,847,224 (consisting of \$56,801,548 with respect to the M&I Term Note and \$9,045,676 with respect to the M&I Revolving Note).

The Debtor's obligations under the M&I Notes were secured by the grant of a security interest in one hundred percent (100%) of the Debtor's stock in MBTC. On or about March 24, 2006, M&I's security interest in the MBTC stock was perfected by the Debtor's delivery of the stock certificates.

Under the terms of that certain Forbearance Agreement dated July 3, 2009, the Debtor agreed to a number of terms under which M&I would forbear from exercising its rights arising out of the Debtor's default under the terms of the various agreements related to the M&I Notes. Among other things, the Debtor agreed to enter into a Tax Refund Security Agreement, pursuant to which it would grant M&I a security interest in the RAC Tax Refund. On May 24, 2010, M&I

filed a UCC-1 financing statement with the Delaware Secretary of State to perfect its security interest in the RAC Tax Refund.

C. M&I Subordinated Indebtedness

The Debtor entered into a Subordinated Term Note dated March 31, 2008, in favor of M&I in the original principal amount of \$15,000,000. M&I's rights under the M&I Subordinated Note are expressly subordinated to "Senior Indebtedness" as defined in the M&I Subordinated Note. In relevant part, the M&I Subordinated Note provides that M&I's rights are subordinate to claims with respect to:

(a) borrowed and purchased money; (b) similar obligations arising from off-balance-sheet guaranties and direct-credit substitutes; and (c) obligations associated with derivative products such as interest-rate and foreign exchange-rate contracts, commodity contracts, and similar arrangements (clauses (a), (b) and (c) expressly exclude trade accounts payable and accrued liabilities under Trust Preferred Indebtedness of [the Debtor] . . . with respect to which the rights of [M&I] are not subordinate). Upon dissolution or liquidation of [the Debtor], no payment of principal, interest or premium (including post-default interest) shall be due and payable under the terms of this Note until all Senior Indebtedness (which expressly exclude trade accounts payable and accrued liabilities of Borrower) shall have been paid in full.

D. Trust-Preferred Indebtedness

The Debtor formed four statutory trusts between October 2002 and June 2005 to issue \$54.0 million in trust preferred securities. Through the Royal American merger in July 2006, the Debtor assumed obligations to a statutory trust that had issued \$10.0 million in trust preferred securities. Through the Northwest Suburban merger in October 2007, the Company assumed obligations to a statutory trust that issued \$10.0 million in trust preferred securities in May 2004. In November 2007, the Debtor redeemed \$15.0 million in trust preferred securities. The Debtor's obligations with respect to the statutory trusts are expressly subordinated to all "Senior Indebtedness," which is broadly defined in the governing instruments. Under the Debtor's reading of the subordination provisions, the obligations owing to the statutory trusts are junior to,

among other claims, M&I's claims other than that under the Subordinated Note. Because M&I will not be paid in full, but for the M&I Settlement and consent to the Plan, no payments could be made on account of the claims of the statutory trusts. In the event that M&I does not elect to enter into the M&I Settlement, no distributions will be made on account of Claims with respect to the statutory trusts unless and until M&I has received distributions in an aggregate amount equal to its Allowed Claim.

1. RCT Trustee Indebtedness

Pursuant to the RAC Indenture dated April 30, 2004, RAC issued the RCT Debt Securities in the face amount of \$10,310,000. The indebtedness under the RCT Debt Securities is subordinated to all "Senior Indebtedness" as defined in the RAC Indenture. In relevant part, the RAC Indenture provides that the RCT Trustee's rights are subordinate to claims with respect to:

(i) the principal, premium, if any, and interest in respect of (A) indebtedness of the [Debtor] for money borrowed and (B) indebtedness evidenced by securities, debentures, notes, bonds or other similar instruments issued by the [Debtor]; (ii) all capital lease obligations of the [Debtor]; (iii) all obligations of the [Debtor] issued or assumed as the deferred purchase price of property, all conditional sale obligations of the [Debtor] and all obligations of the [Debtor] under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business); (iv) all obligations of the [Debtor] for the reimbursement of any letter of credit, any banker's acceptance, any security purchase facility, any repurchase agreement or similar arrangement, any interest rate swap, any other hedging arrangement, any obligation under options or any similar credit or other transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other Persons for the payment of which the [Debtor] is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other Persons secured by any lien on any property or asset of the [Debtor] (whether or not such obligation is assumed by the [Debtor]), whether incurred on or prior to the date of this Indenture or thereafter incurred, unless, with the prior approval of the Federal Reserve if not otherwise generally approved, it is provided in the instrument creating or evidencing the same or pursuant to which the same is outstanding, that such obligations are not superior or are pari passu in right of payment to the [RAC Debt Securities]; provided, however, that Senior Indebtedness shall not include

(A) any debt securities issued to any trust other than the Trust (or a trustee of such trust) that is a financing vehicle of the [Debtor] (a “financing entity”), in connection with the issuance by such financing entity of equity or other securities in transactions substantially similar in structure to the transactions contemplated hereunder and in the Declaration or (B) any guarantees of the [Debtor] in respect of the equity or other securities of any financing entity referred to in clause (A) above.

Payments on account of the RAC Debt Securities are to be applied primarily to payment of dividends payable on account of preferred interests in RCT. Under the terms of that certain Guarantee Agreement dated April 30, 2004 (the “*RCT Guarantee*”), RAC guaranteed substantially all rights to payment associated with or appurtenant to the preferred interests in RCT. The Debtor’s obligations under the RCT Guarantee are subordinated to the same extent as, and are co-extensive with, those under the RCT Debt Securities.

In connection with the RAC Merger, the Debtor and the RCT Trustee entered into that certain Supplemental Indenture dated June 30, 2006, pursuant to which the Debtor assumed substantially all of RAC’s obligations to the RCT Trustee.

Pursuant to the terms of the RAC Indenture, so long as no event of default had occurred and was continuing, RAC was permitted to defer payments of interest on the RCT Debt Securities for up to twenty consecutive quarterly periods, during which interest continued to accrue. In the second quarter of 2009, the Debtor exercised its right to defer payments on the RCT Debt Securities, and no further payments had been made as of the Petition Date. According to the Debtor’s books and records, as of the Petition Date, the balance owing under the RCT Debt Securities is \$10,792,725.

2. NST Trustee Indebtedness

Pursuant to the NST Indenture dated May 18, 2004, NSB issued the NST Debt Securities in the face amount of \$10,310,000. The indebtedness under the NST Debt Securities is

subordinated to all “Senior Indebtedness” as defined in the NST Indenture. In relevant part, the NST Indenture provides that the NST Trustee’s rights are subordinate to claims with respect to:

(i) the principal, premium, if any, and interest in respect of (A) indebtedness of the [Debtor] for money borrowed and (B) indebtedness evidenced by securities, debentures, notes, bonds or other similar instruments issued by the [Debtor]; (ii) all capital lease obligations of the [Debtor]; (iii) all obligations of the [Debtor] issued or assumed as the deferred purchase price of property, all conditional sale obligations of the [Debtor] and all obligations of the [Debtor] under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business); (iv) all obligations of the [Debtor] for the reimbursement of any letter of credit, any banker’s acceptance, any security purchase facility, any repurchase agreement or similar arrangement, any interest rate swap, any other hedging arrangement, any obligation under options or any similar credit or other transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other Persons for the payment of which the [Debtor] is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other Persons secured by any lien on any property or asset of the [Debtor] (whether or not such obligations is assumed by the [Debtor]), whether incurred on or prior to the date of this Indenture or thereafter incurred, unless, with the prior approval of the Federal Reserve if not otherwise generally approved, it is provided in the instrument creating or evidencing the same or pursuant to which the same is outstanding, that such obligations are not superior or are *pari passu* in right of payment to the [NST Debt Securities]; provided, however, that Senior Indebtedness shall not include (A) any debt securities issued to any trust other than the Trust (or a trustee of such trust) that is a financing vehicle of the [Debtor] (a “financing entity”), in connection with the issuance by such financing entity of equity or other securities in transactions substantially similar in structure to the transactions contemplated hereunder and in the Declaration or (B) any guarantees of the [Debtor] in respect of the equity or other securities of any financing entity referred to in clause (A) above.

Payments on account of the NST Debt Securities are to be applied primarily to payment of dividends payable on account of preferred interests in NST. Under the terms of that certain Guarantee Agreement dated May 18, 2004 (the “*NST Guarantee*”), NSB guaranteed substantially all rights to payment associated with or appurtenant to the preferred interests in NST. The Debtor’s obligations under the NST Guarantee are subordinated to the same extent as, and are co-extensive with, those under the NST Debt Securities.

In connection with the NSB Merger, the Debtor and the NST Trustee entered into that certain First Supplemental Indenture dated October 1, 2007, pursuant to which the Debtor assumed substantially all of NSB's obligations to the NST Trustee.

Pursuant to the terms of the NST Indenture, so long as no event of default had occurred and was continuing, the Debtor was permitted to defer payments of interest on the NST Debt Securities for up to twenty consecutive quarterly periods, during which interest continues to accrue. In the second quarter of 2009, the Debtor exercised its right to defer payments on the NST Debt Securities, and no further payments had been made as of the Petition Date. According to the Debtor's books and records, the balance owing under the NST Debt Securities as of the Petition Date was \$10,711,272.

3. MBHI III Trustee Indebtedness

Pursuant to the MBHI III Indenture dated December 19, 2003, the Debtor issued the MBHI III Notes in the face amount of \$9,279,000. The indebtedness under the MBHI III Notes is subordinated to all "Senior Debt" as defined in the MBHI III Indenture. In relevant part, the MBHI III Indenture provides that the MBHI III Trustee's rights are subordinate to claims with respect to:

the principal of and any premium and interest on (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the [Debtor], whether or not such claim for post-petition interest is allowed in such proceeding) all Debt of the [Debtor], whether incurred on or prior to the date of this Indenture or thereafter incurred, unless it is provided in the instrument creating or evidencing the same or pursuant to which the same is outstanding, that such obligations are not superior in right of payment to the Preferred Securities; *provided, however*, that if the [Debtor] is subject to the regulation and supervision of an "appropriate Federal banking agency" within the meaning of 12 U.S.C. 1813(q), the [Debtor] shall have received the approval of such appropriate Federal banking agency prior to issuing any such obligation; *provided further*, that Senior Debt shall not include any other debt securities, and guarantees in respect of such debt securities, issued to any trust other than the Trust (or a trustee of such trust), partnership or other entity affiliated with the [Debtor] that is a financing vehicle

of the [Debtor] (a “financing entity”), in connection with the issuance by such financing entity of equity securities or other securities that are treated as equity capital for regulatory capital purposes guaranteed by the [Debtor] pursuant to an instrument that ranks pari passu with or junior in right of payment to the Indenture, including, without limitation, the debt securities of the [Debtor] issued under the Indenture, dated June 8, 2000, between the [Debtor] and Wilmington Trust Company, as trustee, and the debt securities of the [Debtor] issued under the Indenture, dated October 29, 2002, between the [Debtor] and Wilmington Trust Company.

In turn, the MBHI III Indenture defines “Debt” as follows:

with respect to any Person, whether recourse is to all or a portion of the assets of such Person, whether currently existing or hereafter incurred and whether or not contingent and without duplication, (i) every obligation of such Person for money borrowed; (ii) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses; (iii) every reimbursement obligation of such Person with respect to letters of credit, bankers’ acceptances or similar facilities issued for the account of such Person; (iv) every obligation of such Person issued or assumed as the deferred purchase price of property or services (but excluding trade accounts payable or other accrued liabilities arising in the ordinary course of business); (v) every capital lease obligation of such Person; (vi) all indebtedness of such Person, whether incurred on or prior to the date of this Indenture or thereafter incurred, for claims in respect of derivative products, including interest rate, foreign exchange rate and commodity forward contracts, options and swaps and similar arrangements; (vii) every obligation of the type referred to in clauses (i) through (vi) of another Person and all dividends of another Person the payment of which, in either case, such Person has guaranteed or is responsible or liable for, directly or indirectly, as obligor or otherwise; and (viii) any renewals, extensions, refundings, amendments or modifications of any obligation of the type referred to in clauses (i) through (vii).

Payments on account of the MBHI III Notes are to be applied primarily to payment of dividends payable on account of preferred interests in MBHI III. Under the terms of that certain Guarantee Agreement dated December 19, 2003 (the “*MBHI III Guarantee*”), the Debtor guaranteed substantially all rights to payment associated with or appurtenant to the preferred interest in MBHI III. The Debtor’s obligations under the MBHI III Guarantee are subordinated to the same extent as, and are co-extensive with, those under the MBHI III Notes.

Pursuant to the terms of the MBHI III Indenture, so long as no event of default had occurred and was continuing, the Debtor was permitted to defer payments of interest on the MBHI III Notes for up to twenty consecutive quarterly periods, during which interest continues to accrue. In the second quarter of 2009, the Debtor exercised its right to defer payments on the MBHI III Notes, and no further payments have been made as of the Petition Date. According to the Debtor's books and records, the balance owing under the MBHI III Notes as of the Petition Date was \$9,700,752.

4. MBHI IV Trustee Indebtedness

Pursuant to the MBHI IV Indenture dated December 19, 2003, the Debtor issued the MBHI IV Securities in the face amount of \$10,310,000. The indebtedness under the MBHI IV Securities is subordinated to all "Senior Indebtedness" as defined in the MBHI IV Indenture. In relevant part, the MBHI IV Indenture provides that the MBHI IV Trustee's rights are subordinate to claims with respect to:

(i) the principal, premium, if any, and interest in respect of (A) indebtedness of the [Debtor] for money borrowed and (B) indebtedness evidenced by securities, debentures, notes, bonds or other similar instruments issued by the [Debtor], (ii) all capital lease obligations of the [Debtor], (iii) all obligations of the [Debtor] issued or assumed as the deferred purchase price of property, all conditional sale obligations of the [Debtor] and all obligations of the [Debtor] under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business), (iv) all obligations of the [Debtor] for the reimbursement of any letter of credit, any banker's acceptance, any security purchase facility, any repurchase agreement or similar arrangement, any interest rate swap, any other hedging arrangement, any obligation under options or any similar credit or other transaction, (v) all obligations of the type referred to in clauses (i) through (v) above of other Persons for the payment of which the [Debtor] is responsible or liable as obligor, guarantor or otherwise and (vi) all obligations of the type referred to in clauses (i) through (v) above of other Persons secured by any lien on any property or asset of the [Debtor] (whether or not such obligation is assumed by the [Debtor]), whether incurred on or prior to the date of this Indenture or thereafter incurred, unless, with the prior approval of the Federal Reserve if not otherwise generally approved, it is provided in the instrument creating or evidencing the same or pursuant to which the same is outstanding that such

obligations are not superior or are *pari passu* in right of payment to the [MBHI IV Securities]; provided, however, that Senior Indebtedness shall not include (A) any debt securities issued to any trust other than the Trust (or a trustee of such trust) that is a financing vehicle of the [Debtor] (a “financing entity”), in connection with the issuance by such financing entity of equity or other securities in transactions substantially similar in structure to the transactions contemplated hereunder and in the Declaration or (B) any guarantees of the [Debtor] in respect of the equity or other securities of any financing entity referred to in clause (A) above.

Payments on account of the MBHI IV Securities are to be applied primarily to payment of dividends payable on account of preferred interests in MBHI IV. Under the terms of that certain Guarantee Agreement dated December 19, 2003 (the “*MBHI IV Guarantee*”), the Debtor guaranteed substantially all rights to payment associated with or appurtenant to the perfected interests in MBHI IV. The Debtor’s obligations under the MBHI IV Guarantee are subordinated to the same extent as, and are co-extensive with, those under the MBHI IV Securities.

Pursuant to the terms of the MBHI IV Indenture, so long as no event of default had occurred and was continuing, the Debtor was permitted to defer payments of interest on the MBHI IV Securities for up to twenty consecutive quarterly periods, during which interest continues to accrue. In the second quarter of 2009, the Debtor exercised its right to defer payments on the MBHI IV Securities, and no further payments have been made as of the Petition Date. According to the Debtor’s books and records, the balance owing under the MBHI IV Securities as of the Petition Date was \$10,729,361.

5. MBHI V Trustee Indebtedness

Pursuant to the MBHI V Indenture dated June 7, 2005, the Debtor issued the MBHI V Debentures in the face amount of \$20,620,000. The indebtedness under the MBHI V Debentures is subordinated to all “Senior Indebtedness” as defined in the MBHI V Indenture. In relevant part, the MBHI V Indenture provides that the MBHI V Trustee’s rights are subordinate to claims with respect to:

(i) the principal, premium, if any, and interest in respect of (A) indebtedness of the [Debtor] for all borrowed and purchased money and (B) indebtedness evidenced by securities, debentures, notes, bonds or other similar instruments issued by the [Debtor]; (ii) all capital lease obligations of the [Debtor]; (iii) all obligations of the [Debtor] issued or assumed as the deferred purchase price of property, all conditional sale obligations of the [Debtor] and all obligations of the [Debtor] under any title retention agreement' (iv) all obligations of the [Debtor] for the reimbursement of any letter of credit, any banker's acceptance, any security purchase facility, any repurchase agreement or similar arrangement, any interest rate swap, any other hedging arrangement, any obligation under options or any similar credit or other transaction; (v) all obligations of the [Debtor] associated with derivative products such as interest and foreign exchange rate contracts, commodity contracts, and similar arrangements; (vi) all obligations of the type referred to in clauses (i) through (v) above of other Persons for the payment of which the [Debtor] is responsible or liable as obligor, guarantor or otherwise including, without limitation, similar obligations arising from off-balance sheet guarantees and direct credit substitutes; and (vii) all obligations of the type referred to in clauses (i) through (vi) above of other Persons secured by any lien on any property or asset of the [Debtor] (whether or not such obligation is assumed by the [Debtor], whether incurred on or prior to the date of this Indenture or thereafter incurred. Notwithstanding the foregoing, "Senior Indebtedness" shall not include (1) any Additional Junior Indebtedness, (2) Debentures issued pursuant to this Indenture and guarantees in respect of such Debentures, (3) trade accounts payable of the [Debtor] arising in the ordinary course of business (such trade accounts payable being *pari passu* in right of payment to the [MBHI V Debentures]), or (4) obligations with respect to which (a) in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are *pari passu*, junior or otherwise not superior in right of payment to the [MBHI V Debentures] and (b) the [Debtor], prior to the issuance thereof, has notified (and, if then required under the applicable guidelines of the regulating entity, has received approval from) the Federal Reserve (if the [Debtor] is a bank holding company) or the OTS if the [Debtor] is a savings and loan holding company). Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the subordination provisions irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

Payments on account of the MBHI V Debentures are to be applied primarily to payment of dividends payable on account of preferred interests in MBHI V. Under the terms of that certain Guarantee Agreement dated Jun 7, 2005 (the "*MBHI V Guarantee*"), the Debtor guaranteed substantially all rights to payment associated with or appurtenant to the preferred

interest in MBHI V. The Debtor's obligations under the MBHI V Guarantee are subordinated to the same extent as, and are co-extensive with, those under the MBHI V Debentures.

Pursuant to the terms of the MBHI V Indenture, so long as no event of default had occurred and was continuing, the Debtor was permitted to defer payments of interest on the MBHI V Debentures for up to twenty consecutive quarterly periods, during which interest continues to accrue. In the second quarter of 2009, the Debtor exercised its right to defer payments on the MBHI V Debentures, and no further payments had been made as of the Petition Date. According to the Debtor's books and records, the balance owing under the MBHI V Debentures as of the Petition Date was \$21,252,929.

E. Events Leading to the Debtor's Filing for Chapter 11 Relief

1. The Effect of the Economic Downturn

The Debtor's vulnerability to the effects of the recent economic downturn was exacerbated by two major factors: (i) an \$82.1 million loss in 2008 on investments in preferred stock of Federal National Mortgage Association (commonly known as Fannie Mae) and Federal Home Loan Mortgage Corporation (commonly known as Freddie Mac), substantially reducing the Debtor's capital position; and (ii) the fact that indebtedness incurred to fund the 2007 acquisition of NSB included bank loans secured by the Debtor's stock in MBTC, subordinated debt and a convertible preferred stock issue. As a consequence, the Debtor had substantially less tangible equity and financial flexibility when it turned out to be most needed.

The impact of the financial downturn on ordinary banking operations was severe, and the Debtor incurred net losses of \$248.8 million in calendar year 2009 and \$160.0 million in calendar year 2008.

While largely caused by credit losses, the Debtor's losses were aggravated by higher FDIC insurance costs, costs associated with analysis and planning, costs associated with management of impaired loans and carrying costs of foreclosed properties.

2. The Capital Plan

By early 2009, the Debtor was taking drastic steps to ensure that it would be able to weather the downturn.

On May 6, 2009, the Debtor announced that it was suspending the dividends accruing on account of two series of preferred stock and deferring interest payments on \$60.8 million in outstanding junior subordinated debt.

On May 15, 2009, Roberto R. Herencia assumed the role of president and chief executive officer and was appointed to the Debtor's board of directors. The Debtor immediately tightened its loan underwriting and pricing criteria, began aggressive balance sheet repositioning activities and developed a comprehensive capital plan.

In July 2009, the Debtor announced the development of a detailed capital plan and timeline for execution (the "*Capital Plan*"). The Capital Plan was adopted, in part to improve the Debtor's common equity capital and raise additional capital so it would better withstand the adverse market conditions.

The first steps that were completed under the Capital Plan included: (i) conversion of a substantial portion of preferred into common stock; (ii) exchange by the U.S. Treasury of the Debtor's outstanding Series T preferred stock for a new series of fixed rate cumulative mandatorily convertible preferred stock, Series G; (iii) cost reduction initiatives, including a reduction in force of over one hundred (100) employees, salary reductions, suspension of certain benefits, elimination of discretionary projects and initiatives and an increased focus on expense

control; (iv) steps to refine cumulative credit loss projections; and (v) engaging investment banking support to assist with the efforts to raise equity investment.

After completing the first steps in the Capital Plan, the critical tasks to be completed consisted of: (i) restructuring outstanding senior debt and certain subordinated debt with its primary lender; and (ii) raising significant new equity capital.

Both elements were essential, and while the restructuring of indebtedness owing to the primary lender might have been feasible, attempts to raise equity capital were not successful.

3. Regulatory Actions

As of December 31, 2009, MBTC was deemed undercapitalized under the regulatory framework for prompt corrective action. Also around this time, the Debtor's independent registered public accounting firm raised questions about the Debtor's ability to continue as a going concern.

The Debtor continued efforts to raise new equity, but ultimately was unable to do so before MBTC became subject to FDIC receivership.

On May 14, 2010, the Office of the Illinois Division of Banking ordered MBTC to cease operations, and the FDIC was appointed as receiver of MBTC's assets. Under a Purchase and Assumption Agreement dated as of May 14, 2010, the FDIC agreed to sell the majority of MBTC's assets to FirstMerit Bank, National Association.

On May 17, 2010, the Debtor received a staff determination letter from The Nasdaq Stock Market ("*Nasdaq*") notifying the Debtor that its common stock and its depositary shares, each representing 1/100th of a Share of Series A Noncumulative Redeemable Convertible Preferred Stock ("*Depositary Shares*"), would be delisted from Nasdaq. Trading in the Debtor's common stock and Depositary Shares was stopped on May 17, 2010.

On June 8, 2010, Nasdaq announced the delisting of the Debtor's common and preferred stock effective ten (10) days following the filing of Form 25 with the SEC.

On June 9, 2010, Nasdaq filed a Form 25 regarding the Debtor's common and preferred stock.

4. Decision To File Chapter 11 Case

Since the above-described events, the Debtor worked diligently to conserve assets, efficiently manage the consequences of the closure of MBTC and maximize enterprise value for the benefit of creditors.

Management finally determined that a chapter 11 reorganization would be in the best interests of creditors, in part, because it would offer the Debtor the most flexibility in restructuring while preserving potentially valuable tax attributes.

The Debtor ceased all non-essential operations, and is incurring minimal costs in ensuring that it is able to address various parties' concerns arising out of the regulatory actions described above.

VI. THE CHAPTER 11 CASE²

As a consequence of the Debtor's commencement of the Case, all actions and proceedings against the Debtor and all acts to obtain property from the Debtor have been stayed under section 362 of the Bankruptcy Code. Throughout the Case the Debtor continued to operate its business and manage its properties as a debtor-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

² Section VI of the Disclosure Statement is only a summary of the Debtor's Case. For a full list of motions and pleadings filed, the Plan Proponents refer parties-in-interest to the docket of the Debtor's Case, which can be accessed through the Bankruptcy Court's PACER system (account required) at ecf.ilnb.uscourts.gov.

A. Relevant Chapter 11 Filings

1. Retention of Counsel. On September 13, 2010, the Debtor filed an application requesting approval by the Bankruptcy Court of the Debtor's retention of Hinshaw & Culbertson LLP ("*H&C*"), as lead bankruptcy counsel. The Bankruptcy Court entered an order approving the retention of H&C on October 6, 2010.

2. Schedules and Statements. The Debtor's Schedules of Assets and Liabilities and Statement of Financial Affairs were submitted and filed with the Bankruptcy Court on August 20, 2010 (as may be amended, the "*Schedules and Statements*"). The meeting of creditors under section 341(a) of the Bankruptcy Code was held on September 28, 2010 in Chicago, Illinois, at which representatives of the Debtor were questioned by creditors, creditors' representatives and a representative from the Office of the United States Trustee. Creditors are expressly referred to the Debtor's Schedules and Statements, as amended from time to time as necessary, on file in these proceedings for the purpose of becoming fully informed as to the assets, liabilities and financial affairs of the Debtor as of the Petition Date. The Debtor reserves the right to further amend its Schedules and Statements as appropriate and necessary.

B. Committee Participation in the Case

Pursuant to section 1102(a) of the Bankruptcy Code, on September 28, 2010, the U.S. Trustee appointed the Committee, which was initially comprised of the following Creditors: (i) Bowne & Co., Inc., (ii) Daniel R. Kadolph; (iii) MBHI Capital Trust IV; (iv) M&I; and (v) David Peck. M&I subsequently resigned from the Committee, which now consists of the following Creditors: (i) Bowne & Co., Inc., (ii) Daniel R. Kadolph; (iii) MBHI Capital Trust IV; and (iv) David Peck. The Committee retained Freeborn & Peters LLP ("*F&P*") as its counsel.

Since the appointment of the Committee, the Committee has taken an active role in the Debtor's Case. Consistent with its duties under section 1103 of the Bankruptcy Code, the

Committee: (i) consulted with the Debtor on the administration of the Case; (ii) investigated the acts, conduct, assets, liabilities and financial condition of the Debtor, the operation of its business and matters relevant to the Case; and (iii) took a key role in the negotiation, drafting and formulation of the Plan and this Disclosure Statement.

VII. FINANCIAL INFORMATION

A. Assets

The Plan Proponents believe that the following assets, each of which will be transferred to the Creditor Trust no later than seven (7) days after the Effective Date, will be available to fund distributions to Creditors in accordance with the Plan and the Creditor Trust Agreement:

1. Cash Held by the Debtor. The Debtor is currently holding Cash in the approximate amount of \$3,000,000.00.

2. Real Estate. The Debtor owns real property located at 505 North Roselle Road, Roselle, Illinois. Pursuant to the Debtor's Schedules and Statements, the current value of the North Roselle Property is \$2,940,000. There are no liens on the North Roselle Property.

3. Stock. The Debtor owns 40,000 shares of common stock in Western Illinois Bancshares, Inc., a private bank holding company. Pursuant to the Debtor's Schedules and Statements, the current value of these shares is \$740,000. Based on the anticipated commission associated with such a sale, the Debtor estimates that the Creditor Trust will be able to realize approximately \$700,000 on the sale of the stock.

4. Other Investments. The Debtor holds an interest in Stieven Financial Investors, L.P (the "*SFI Interest*"). The SFI Interest is a side pocket of a hedge fund investment. By its nature, the SFI Interest is illiquid and not susceptible of valuation with a high degree of certainty in a liquidation scenario. According to the most recent statement, the value of the SFI Interest as of November 30, 2010 was \$95,316.00, but that value does not reflect anticipated

discounts resulting from the need to liquidate the investment on an expedited basis. For purposes of this Disclosure Statement, the Plan Proponents have estimated the value of the SFI Interest to the Creditor Trust to be \$45,000.00

5. Annuity Contracts. The Debtor owns two annuity contracts providing for: (i) \$1,760.07 in monthly installments from January 1, 2005 through December 2, 2019; and (ii) \$7,470.30 in monthly installments from January 1, 2005 through December 2, 2019. These contracts were purchased to fund payments to a former executive under a settlement of all employment-related rights, including but not limited to those under the SERP. The estimated value of these contracts in liquidation is \$650,000.00.

6. Insurance Contract. Under an agreement with Robert L. Woods, the Debtor's former president and CEO, the Debtor has paid premiums on a life insurance policy held by a trust created by Mr. Woods. Upon Mr. Woods' death, the Debtor is entitled to payment of an amount equal to all of the premiums paid. As of the Petition Date, the Debtor had paid an aggregate of \$115,982.00 on account of the policy. The estimated value of these contracts in liquidation is \$70,000.00.

7. Derivative and Fiduciary Claims. On October 25, 2010, the Debtor received a copy of a notice served on all former officers and directors of MBTC by which the FDIC gave notice of potential claims based on alleged "wrongful acts." The notice from the FDIC was delivered to insurers as notice of facts and circumstances that might give rise to claims that are covered under policies insuring the Debtor and MBTC against fiduciary and similar claims. On October 21, 2010, the Debtor had served notice of facts and circumstances giving rise to coverage under those same policies. The Plan Proponents have not estimated the value of claims against officers and directors. In addition to the question of whether any of the conduct

described in the notices might constitute the sort of misconduct giving rise to coverage, evaluation of claims against officers and directors involves the weighing of the FDIC's competing claims to the finite coverage under the relevant policies.

8. Avoidance Actions Against Non-Insiders. The Committee believes that the Creditor Trustee may be able to pursue Avoidance Actions against recipients of preferential transfers made in the ninety (90) days prior to the commencement of this Case under section 547(b) of the Bankruptcy Code. Pursuant to the Debtor's Schedules and Statements, the Debtor made approximately \$135,551.54 in transfers in the ninety (90) days prior to the Petition Date, certain of which may be preferential transfers. While the Plan Proponents have not fully analyzed potential preference claims that may be brought by the Creditor Trustee, the proceeds of any recoveries with respect to claims would be earmarked for Creditor distributions under the Plan and the Creditor Trust Agreement.

B. Liabilities

The Plan Proponents believe that, as of the Confirmation Date of the Plan, the Debtor will have the following liabilities:

1. Administrative Claims

a. Debtor's Professionals. As of the anticipated Confirmation Date, the Debtor's Professionals estimate that they will be owed approximately \$350,000.00 with respect to accrued but unpaid Professional Fee Claims. The Plan Proponents expect that a portion of such Debtor's Professional Fee Claims may be paid from Cash provided from retainers held by Professionals.

b. Committee's Professionals. As of the anticipated Confirmation Date, the Committee's Professionals estimate that they will be owed approximately \$350,000.00 with respect to accrued but unpaid Professional Fee Claims.

c. **Other Administrative Expense Claims.** The Debtor believes that unpaid Other Administrative Expense Claims in an amount not exceeding \$50,000.00 will ultimately be Allowed.

2. Priority Claims

a. **Claims of Governmental Unit Taxing Bodies.** The Debtors are indebted to taxing authorities in the approximate amount of not more than \$1,300.00. This figure is based on Claims filed to date or scheduled by the Debtor and is subject to further reconciliation or other adjustment by the Committee or the Creditor Trustee.

b. **Other Priority Claims.** The Debtor believes that there are no non-tax Priority Claims against the Debtor.

3. **Secured Claims.** The Plan Proponents believe that the Secured Claims of M&I are in the amount of \$65,847,224.00. The Debtor believes that there are no other Secured Claims.

4. **Unsecured Claims.** The Debtor estimates that Unsecured Claims in Class 3 total approximately \$4,000,000.00, based upon the Schedules and Statements and the proofs of claim filed so far, and the Debtor's analysis of potential claims of former officers and directors. However, Allowed General Unsecured Claims may be less than that amount, based on resolution of Avoidance Actions and Claims reconciliation by the Creditor Trustee. The Plan Proponents will be in a better position to estimate Allowed General Unsecured Claims after the occurrence of the bar date to file proofs of claim set for January 31, 2011, pursuant to the *Order and Notice Setting Time To File Claims* (Docket No. 66).

5. **Class 4 Claims.** Claims in Class 4 total approximately \$78,567,309.00. However, Allowed Class 4 Claims may be less than that amount, based on resolution of Avoidance Actions and Claims reconciliation by the Creditor Trustee.

6. **Equity Security Holders.** This class of Interests consists of the Debtor's Equity Security Holders.³

VIII. PLAN OF REORGANIZATION

A. Objectives of the Plan

The primary objectives of the Plan are to: (i) transfer the Debtor's remaining assets to a Creditor Trust charged with liquidating them, reconciling Claims, prosecuting Avoidance Actions and Miscellaneous Causes of Action for the benefit of Creditors and making distributions to Creditors; and (ii) maximize value to all Creditor groups on a fair and equitable basis under the priorities established by the Bankruptcy Code and applicable law, and through the consensual settlement of potentially costly disputes involving various parties in interest.

The Plan Proponents believe that the Plan provides holders of Allowed Claims with a substantially greater recovery than the recovery they would receive without approval of the Plan, or upon conversion of this Case to a chapter 7 liquidation.

The statements contained in this Disclosure Statement include summaries of the provisions contained in the Plan and in documents referred to therein. The statements contained in this Disclosure Statement do not purport to be precise or complete statements of all the terms and provisions of the Plan or documents referred to therein, and reference is made to the Plan and to such documents for the full and complete statements of such terms and provisions.

³ Although separate classification might be warranted in certain cases, for the sake of convenience, the Plan Proponents have included all of the Equity Interests, including common and preferred stock, in a single class. As the class of Equity Interests is a deemed rejecting class and will therefore not vote on the Plan, the manner of classification is not material.

The Plan itself and the documents referred to therein control the actual treatment of Claims against and Interests in the Debtor, and will be binding upon all holders of Claims against and Interests in the Debtor upon the Confirmation Date. In the event of any conflict between this Disclosure Statement, on the one hand, and the Plan or any other operative document, on the other hand, the terms of the Plan and such other operative documents, including, without limitation, the Creditor Trust Agreement, are controlling.

B. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, the debtor is authorized to reorganize its business for the benefit of itself, its creditors and its interest holders. Another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated interest holders with respect to the distribution of a debtor's assets.

In addition, chapter 11 may be used to effectuate an orderly liquidation of a debtor's business and assets. In contrast to a chapter 7 liquidation, in which a trustee is appointed to conduct the liquidation and wind down of the estate, in a chapter 11 liquidation, the debtor typically remains in possession of the estate.

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the filing date. The Bankruptcy Code contemplates that a debtor, through its pre-bankruptcy management, will continue to operate its business in the ordinary course and remain in possession of its property during the case and while it seeks to negotiate and implement a plan. Any activities that are not within the ordinary course of the debtor's business must be approved by the bankruptcy court before they are undertaken.

The consummation of a plan is the principal objective of a chapter 11 case. A plan sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan by the bankruptcy court makes the plan binding upon the debtor, any person or entity acquiring property under the plan and any creditor of or equity security holder in the debtor, whether or not such creditor or equity security holder: (i) is impaired under or has accepted the plan; or (ii) receives or retains any property under the plan.

C. The Division of Claims and Their Treatment Under the Plan

The Plan provides for the division of claims and interests based upon the manner in which the claim arose.

1. Allowed Administrative Claims of any Professional Person shall include Allowed Professional Fee Claims. The Distributing Party shall pay Allowed Professional Fee Claims in full and in Cash within ten (10) days of such Claims becoming Allowed Professional Fee Claims pursuant to Section 7.6 of the Plan.

2. Allowed Other Administrative Expense Claims shall include the Allowed Administrative Claims of parties other than Professional Persons. The Distributing Party shall pay Allowed Other Administrative Expense Claims in full and in Cash on the later of: (i) as soon as practicable following the Effective Date; (ii) thirty (30) days after such Claims become Allowed Other Administrative Expense Claims; (iii) the date upon which such Allowed Other Administrative Expense Claims become due in the ordinary course of business; and (iv) such other time as may be agreed to by the Distributing Party and the holder of the Allowed Other Administrative Expense Claim. Creditors seeking payment on Other Administrative Expense Claims shall have thirty (30) days from the Effective Date to file an application with the Bankruptcy Court with respect to Other Administrative Expense Claims, or such Claims will be forever barred.

3. Priority Tax Claims shall include the Allowed unsecured Priority Tax Claims. The Distributing Party shall pay Allowed Priority Tax Claims in full and in Cash on the later of: (i) as soon as practicable following the Effective Date; (ii) thirty (30) days after such Claims become Allowed Priority Tax Claims; and (iii) such other time as may be agreed to by the Distributing Party and the holder of the Allowed Priority Tax Claim, in accordance with sections 507(a)(8) and 1129(a)(9)(C) of the Bankruptcy Code.

4. Class 1 Claims shall consist of all Allowed unsecured Priority Claims (other than unsecured Priority Tax Claims). The Distributing Party shall pay Allowed Class 1 Priority Claims in full and in Cash on the later of: (i) as soon as practicable following the Effective Date; (ii) thirty (30) days after such Claims become Allowed Priority Claims; and (iii) such other time as may be agreed to by the Distributing Party and the holder of the Allowed Class 1 Priority Claim.

5. Class 2 Claims shall consist of the Allowed Secured Claims of M&I with respect to the M&I Senior Notes. The Class 2 Claims are secured to the extent of the value of M&I's interest in the Debtor's interest in the underlying collateral securing the Class 2 Claims.

a. In full and final satisfaction of the Class 2 Claim, on the Effective Date, the Debtor will deliver to M&I: (i) a general release on behalf of the Debtor, the Estate and any successor to either of all Claims and Causes of Action, including, but not limited to, Avoidance Actions. In exchange for the treatment described in Section 5.5.1 of the Plan, M&I will waive any further rights arising out of or related to the Class 2 Claim, including, but not limited to, its right to assert a Deficiency Claim. Confirmation of the Plan will operate as approval of the compromise and settlement described in the Plan (the "*M&I Settlement*") pursuant to Bankruptcy Rule 9019.

b. M&I may forego the M&I Settlement, in which case it is anticipated that the Creditor Trustee would seek avoidance of M&I's security interest in the RAC Tax Refund and investigate any potential Causes of Action and grounds for objection to M&I's Claims.

6. Class 3 Claims shall consist of all Allowed General Unsecured Claims, including M&I's Deficiency Claim with respect to the M&I Notes. In the event that M&I elects to enter into the M&I Settlement, M&I will be deemed to have waived its Deficiency Claim in its entirety by agreement between M&I and the Plan Proponents.

a. Allowed Class 3 Claims shall be paid Pro Rata in accordance with the Creditor Trust Agreement and the Plan. In accordance with the Creditor Trust Agreement, on the Effective Date, each Allowed Class 3 Claim will be converted into a Trust Interest representing such holder's Pro Rata share of the total Trust Interests. The Debtor shall transfer the Creditor Trust Assets to the Creditor Trustee no later than seven (7) days after the Effective Date. The Creditor Trustee shall liquidate the Creditor Trust Assets and distribute the Net Proceeds in accordance with the Plan and the Creditor Trust Agreement.

b. Pro Rata distributions of the Net Proceeds from the Creditor Trust shall be made by the Creditor Trustee in accordance with the Creditor Trust Agreement to the holders of Trust Interests from time to time on dates determined by the Creditor Trustee, within a reasonable time after the creation of appropriate reserves as determined by the Creditor Trustee in an amount that would be sufficient to: (i) make a Pro Rata distribution on account of Disputed Claims that will be converted into Trust Interests if Allowed; and (ii) pay the Trustee's Expenses in full.

7. **Class 4 Claims** shall consist of: (i) the Allowed Claims of the RCT Trustee with respect to the RCT Debt Securities; (ii) the Allowed Claims of the NST Trustee with respect to the NST Debt Securities; (iii) the Allowed Claims of the MBHI III Trustee with respect to the MBHI III Notes; (iv) the Allowed Claims of the MBHI IV Trustee with respect to the MBHI IV Securities; (v) the Allowed Claims of the MBHI V Trustee with respect to the MBHI V Debentures; and (vi) the Allowed Claims of M&I with respect to the M&I Subordinated Note.

a. Allowed Class 4 Claims shall be paid Pro Rata in accordance with the Creditor Trust Agreement and the Plan. In accordance with the Creditor Trust Agreement, on the Effective Date, each Allowed Class 4 Claim will be converted into a Trust Interest, representing such holder's Pro Rata share of the total Trust Interests. The Debtor shall transfer the Creditor Trust Assets to the Creditor Trustee no later than seven (7) days after the Effective Date. The Creditor Trustee shall liquidate the Creditor Trust Assets and distribute the Net Proceeds in accordance with the Plan and the Creditor Trust Agreement.

b. Pro Rata distributions of the Net Proceeds from the Creditor Trust shall be made by the Creditor Trustee in accordance with the Creditor Trust Agreement to the holders of Trust Interests from time to time on dates determined by the Creditor Trustee, within a reasonable time after the creation of appropriate reserves as determined by the Creditor Trustee in an amount that would be sufficient to: (i) make a Pro Rata distribution on account of Disputed Claims that will be converted into Trust Interests if Allowed; and (ii) pay the Trustee's Expenses in full.

8. Class 5 Interests shall consist of the Interests of Equity Security Holders. Holders of Class 5 Interests shall not receive a distribution under the Plan. Upon the Confirmation Date of the Plan, all Equity Securities in the Debtor will be retired.

D. Means of Implementation of the Plan

1. Vesting of Assets. Subject to the terms of the Plan, upon entry of the Confirmation Order, the Debtor will be restored to full ownership of all property owned by the Debtor and all property of the Estate. Upon vesting, all such property will be free and clear of all Claims, Liens, encumbrances, charges and other interests, except as otherwise provided in the Plan. Within seven (7) days of the Effective Date, all assets of the Debtor and its Estate shall then be transferred to and vest in the Creditor Trust and be deemed contributed thereto, subject to the terms of the Plan. The assets include, without limitation, all Cash in the possession of the Debtor (less any Cash paid or to be paid on account of unpaid Allowed Professional Fee Claims), the North Roselle Property, 40,000 shares of common stock in Western Illinois Bancshares, Inc., the Debtor's interest in Stieven Financial Investors, L.P., all Avoidance Actions (excluding Avoidance Actions released under Section 7.15 of the Plan) and Miscellaneous Causes of Action, all rights of the Debtor under the Plan, the Confirmation Order and all other orders entered by the Bankruptcy Court in this Case on or prior to the Effective Date, and all books and records related to the Estate. The assets shall also include all remaining personal property of the Debtor. For the avoidance of doubt, all property held for distribution pursuant to the Plan shall be held by the Creditor Trust solely in trust for the holders of Allowed Class 3 and 4 Claims and shall not be deemed property of the Debtor. Nothing in the Plan, however, shall preclude payment of: (i) statutory fees under 28 U.S.C. § 1930 to the extent unpaid on the Effective Date; and (ii) the Trustee's Expenses in accordance with the Plan and the Creditor Trust Agreement from any other assets held by the Creditor Trust. The Debtor is hereby authorized and directed

to take such steps as may be necessary or appropriate to confirm such transfer and contribution of its property to the Creditor Trust, subject to oversight from the Creditor Trustee.

2. Creditor Trust Asset Administration. The Creditor Trustee shall administer the Creditor Trust Assets pursuant to the Plan and the Creditor Trust Agreement from and after the Effective Date. The Creditor Trustee shall be responsible for liquidating the Creditor Trust Assets, analyzing and reconciling Claims (including filing and pursuing objections to the extent required), pursuing the Avoidance Actions and Miscellaneous Causes of Action, making distributions of the Net Proceeds to the beneficiaries of the Creditor Trust and all other activities typically related to trust administration.

3. Dissolution of the Debtor. Promptly following the Effective Date, the Creditor Trustee will allow the Delaware Secretary of State to involuntarily dissolve the Debtor.

4. Conditions to Confirmation. It is a condition to Confirmation that the Confirmation Order shall be reasonably acceptable in form and substance to the Plan Proponents.

5. Conditions to Effective Date. The following are conditions precedent to the occurrence of the Effective Date: (i) the Confirmation Order shall have been entered by the Bankruptcy Court and be in full force and effect and shall not have been vacated, amended, modified or stayed, and if it is the subject of any appeal, reconsideration or other review, no stay of the Confirmation Order shall be in effect; (ii) the Creditor Trust Agreement, in form and substance satisfactory to the Committee and the Debtor, shall be executed and delivered, and all conditions precedent to the effectiveness thereof shall have been satisfied; (iii) all other documents or agreements necessary to consummate the Plan shall have been delivered or effectuated; and (iv) the Creditor Trustee shall have been appointed by the Plan Proponents upon notice to the Bankruptcy Court. The Plan Proponents may, by mutual agreement, waive any of

the foregoing conditions precedent at any time.

6. Administrative Claims Bar Date. All Persons requesting payment of Administrative Claims (Professional Fee Claims or Other Administrative Expense Claims) shall file applications for payment no later than thirty (30) days after the Effective Date. Objections to such applications for payment, if any, must be written, filed with the Bankruptcy Court and served on the applicable parties within forty-five (45) days after such application is filed.

7. Termination of Committee. The Committee shall terminate automatically upon the acceptance by the Creditor Trustee of its appointment in accordance with the Plan and the Creditor Trust Agreement on the Effective Date. Upon termination of the Committee, the Committee shall be dissolved and its members shall be deemed released of their duties and responsibilities in connection with the Case or the Plan and its implementation, and the retention or employment of the Committee's counsel shall terminate, except for ministerial duties or any duties imposed pursuant to the Plan (including, without limitation, filing applications for allowance and payment of Professional Fee Claims).

8. Case Administration. From and after the Effective Date, the Creditor Trustee shall possess the rights of the Debtor for all matters arising in, arising under or related to the Case. In addition to, and without limiting the generality of the foregoing, for all matters arising in, arising under or related to the Case, the Creditor Trustee shall: (i) have the right to appear and be heard on matters brought before the Bankruptcy Court or other courts of competent jurisdiction; (ii) have the right to obtain records of, or related to, the Debtor (including, without limitation, bank statements and cancelled checks); (iii) be entitled to notice and opportunity for hearing; (iv) be entitled to participate in all matters brought before the Bankruptcy Court, including, but not limited to, adversary proceedings; (v) have exclusive

standing to commence Avoidance Actions and Miscellaneous Causes of Action; (vi) be entitled to request that the Bankruptcy Court enter a final decree closing the Case; and (vii) be entitled to receive notice of all applications, motions and other papers and pleadings set before the Bankruptcy Court in this Case.

9. Filing of Additional Documents. On or before the Effective Date of the Plan, the Plan Proponents shall file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan, including, without limitation, the final Creditor Trust Agreement.

10. Creditor Trustee's Professionals. Upon the Effective Date, the Creditor Trustee may retain such law firms, accounting firms, experts, advisors, consultants, investigators or other Professionals as it may deem necessary, in accordance with the Creditor Trust Agreement, to aid in the performance of its responsibilities pursuant to the terms of the Plan, including, without limitation, the liquidation and distribution of assets of the Creditor Trust. The Professionals retained by the Creditor Trustee are not required to be "disinterested" as that term is defined in the Bankruptcy Code and may include, without limitation, counsel and financial advisors of any party in this Case, and the Creditor Trustee shall be permitted to retain any such Professional in light of the efficiencies implicit in continuity. The Creditor Trustee's retention of any such Professionals is deemed not to pose any conflict of interest, and no conflict shall exist by virtue of the filing of applications by Professional Persons for allowance of Administrative Claims in accordance with Section 5.1 of the Plan.

11. INJUNCTION. EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, ON AND AFTER THE CONFIRMATION DATE, ALL PERSONS AND ENTITIES WHO HAVE HELD, HOLD OR MAY HOLD

LIENS, CLAIMS OR INTERESTS IN OR AGAINST THE DEBTOR ARE, WITH RESPECT TO ANY SUCH LIENS, CLAIMS OR INTERESTS, PERMANENTLY ENJOINED FROM:

(I) COMMENCING, CONDUCTING OR CONTINUING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY SUIT, ACTION OR OTHER PROCEEDING OF ANY KIND (INCLUDING, WITHOUT LIMITATION, ANY PROCEEDING IN A JUDICIAL, ARBITRAL, ADMINISTRATIVE OR OTHER FORUM) AGAINST OR AFFECTING THE DEBTOR OR THE CREDITOR TRUST OR ANY OF THEIR PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO, THE DEBTOR OR THE FOREGOING CREDITOR TRUST, OR ANY PROPERTY OF ANY SUCH TRANSFEREE OR SUCCESSOR;

(II) ENFORCING AGAINST, LEVYING UPON OR ATTACHING (INCLUDING, WITHOUT LIMITATION, ANY PRE-JUDGMENT ATTACHMENT) THE DEBTOR OR THE CREDITOR TRUST, OR ANY PROPERTY OF ANY SUCH TRANSFEREE OR SUCCESSOR;

(III) ENFORCING, LEVYING, ATTACHING (INCLUDING, WITHOUT LIMITATION, ANY PRE-JUDGMENT ATTACHMENT), COLLECTING OR OTHERWISE RECOVERING BY ANY MANNER OR MEANS WHETHER DIRECTLY OR INDIRECTLY, OF ANY JUDGMENT, AWARD, DECREE, CLAIM OR ORDER AGAINST THE DEBTOR OR THE CREDITOR TRUST, ANY OF THEIR PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO THE DEBTOR OR THE CREDITOR TRUST;

(IV) CREATING, PERFECTING OR OTHERWISE ENFORCING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY LIENS, CLAIMS OR INTERESTS OF ANY KIND AGAINST OR IN THE DEBTOR OR THE CREDITOR TRUST, ANY OF THEIR

PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO, THE DEBTOR OR THE CREDITOR TRUST; (V) OTHER THAN AS OTHERWISE EXPRESSLY PROVIDED FOR IN THE PLAN, ASSERTING ANY RIGHT OF SETOFF, SUBORDINATION OR RECOUPMENT OF ANY KIND, DIRECTLY OR INDIRECTLY, AGAINST ANY OBLIGATION DUE THE DEBTOR, THE CREDITOR TRUST, ANY OF THEIR PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR SUCCESSOR IN INTEREST TO, THE DEBTOR OR THE CREDITOR TRUST; AND (VI) TAKING ANY ACTIONS IN ANY PLACE AND IN ANY MANNER WHATSOEVER THAT DO NOT CONFORM TO OR COMPLY WITH THE PROVISIONS OF THE PLAN.

12. Term of Bankruptcy Injunction or Stays. All injunctions or stays provided for in the Case under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect through the imposition of the injunction set forth in Section 7.12 of the Plan.

13. Exculpation and Limitation of Liability. Neither the Committee, the Creditor Trustee, the Debtor nor any of their respective present members, officers, directors, shareholders, employees, advisors, attorneys or agents acting in such capacity, shall have or incur any liability to, or be subject to any right of action by, any person or entity, for any act or omission in connection with, relating to or arising out of, the Case or the pursuit of confirmation of the Plan, to the extent arising out of fraud, willful misconduct or gross negligence, and in all respects shall be entitled to rely reasonably upon the advice of counsel with respect to their duties and responsibilities under the Plan.

14. Limited Release With Respect to M&I. Provided that M&I elects to enter into the M&I Settlement, as of the Effective Date, the Debtor and Creditor Trustee shall be deemed to have released, waived and discharged M&I from any and all liabilities, obligations, actions, suits, judgments, claims, causes of action and demands, known or unknown, whatsoever at law or in equity, including, but not limited to those arising from, in connection with or related to any Avoidance Actions respecting transfers received by M&I within ninety (90) days prior to the Petition Date.

15. Quarterly Reports. The Creditor Trustee shall prepare and file with the Bankruptcy Court a report within thirty (30) days after the conclusion of every calendar quarter setting forth: (i) all distributions to Creditors during the calendar quarter; (ii) a summary of the Creditor Trust deposits and disbursements during the calendar quarter; and (iii) a summary of the Creditor Trust Assets. As used in this section, “calendar quarter” shall mean a three month period of time, and the first calendar quarter shall commence on the first day of the first month immediately following the occurrence of the Effective Date.

IX. STATUS AND EXISTENCE OF EXECUTORY CONTRACTS AND OTHER LITIGATION

A. Executory Contracts

1. Assumption and Assignment of Executory Contracts and Unexpired Leases. On the Confirmation Date, each executory contract and unexpired lease entered into by the Debtor that is listed on Exhibit B to the Plan that has not previously expired or terminated pursuant to its own terms, will be assumed by the Debtor and assigned to the Creditor Trust pursuant to section 365 of the Bankruptcy Code. Each executory contract and unexpired lease listed in Exhibit B to the Plan will include any modifications, amendments, supplements, restatements or other agreements made directly or indirectly by any agreement, instrument or

other document that in any manner affects such contract or agreement, irrespective of whether such agreement, instrument or other document is listed on Exhibit B to the Plan. Listing a contract or agreement on Exhibit B to the Plan shall not constitute an admission by the Debtor or the Creditor Trust that such agreement is an executory contract or unexpired lease or that the Debtor or the Creditor Trust has any liability under the Plan.

At present, the Plan Proponents have not designated any executory contracts or unexpired leases that will be assumed, and does not anticipate that any substantial number of such contracts or leases will be assumed. The Plan Proponents, however, reserve the right to amend Exhibit B to the Plan at any time prior to the Confirmation Date. As of the Petition Date, the Debtor was current on substantially all obligations with respect to any contract or lease that may be characterized as executory or unexpired, and has remained current on all such obligations since the Petition Date. To the extent that Exhibit B is amended to include any executory contracts or unexpired leases, the Plan Proponents do not anticipate that the cure obligations with respect to such amendment would result in a material change to the treatment of any party as contemplated under the Plan.

2. Payments Related to Assumption of Executory Contract or Unexpired Leases. Any cure obligations related to any executory contract or unexpired lease to be assumed and assigned pursuant to the Plan will be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, at the option of the Debtor or the Creditor Trust, as applicable: (i) by payment of the Cure Amount Claim in Cash on the Confirmation Date; or (ii) on such other terms as are agreed to by the parties to such executory contract or unexpired lease. If there is a dispute regarding: (i) the amount of any Cure Amount Claim; (ii) the ability of the Creditor Trust to provide “adequate assurance of future performance” (within the meaning of section 365 of the

Bankruptcy Code) under the executory contract or unexpired lease to be assumed; or (iii) any other matter pertaining to the assumption of such contract or lease, and the assumption and assignment is approved by the Bankruptcy Court, the payment of any Cure Amount Claim required by section 365(b)(1) of the Bankruptcy Code will be made within thirty (30) days following the entry of a Final Order resolving the dispute.

3. Contracts Deemed Rejected. All other executory contracts or unexpired leases of the Debtor that have not expired by their own terms or been assumed prior to the Confirmation Date shall be deemed rejected pursuant to section 365 of the Bankruptcy Code on the Confirmation Date.

4. Result of Rejection of Contracts. Claims for damages as a result of the Debtor's rejection of its executory contracts shall be forever barred if they are not filed with the Bankruptcy Court no later than thirty (30) days after the Confirmation Date.

5. Approval of Assumptions and Assignments and Rejections. The Confirmation Order will constitute an order of the Bankruptcy Court approving, pursuant to section 365 of the Bankruptcy Code, as applicable: (i) the rejection of each executory contract or unexpired lease as set forth in Section 6.2 of the Plan, as of the Confirmation Date; or (ii) the assumption and assignment of each executory contract or unexpired lease set forth in Section 6.1 of the Plan, as of the Confirmation Date.

6. Executory Contract and Unexpired Lease Notice Provisions. The

Debtor will provide:

- a. notice to each party to an executory contract or unexpired lease that is being assumed and assigned pursuant to the Plan of: (i) the contract or lease being assumed; (ii) the Cure Amount Claim, if any, that the Debtor believes it would be obligated to pay in connection with such assumption; and (iii) the right to object to the assumption of the applicable executory contract or unexpired lease in connection with Confirmation; and
- b. notice of any amendments to Exhibit B to the Plan.

B. Litigation

1. Potential Non-Insider Preference Litigation. During the ninety (90) days prior to the Petition Date, the Debtor paid approximately \$135,551.54 to their non-insider Creditors (the “*Non-Insider Preferential Transfers*”). The Creditor Trustee shall be authorized to analyze and, if appropriate, file adversary proceedings under, *inter alia*, sections 547 and 550 of the Bankruptcy Code to avoid and recover the Non-Insider Preferential Transfers.

2. Possible Unknown Claims. The Creditor Trustee may have additional Causes of Action against third parties that are unknown at this time. The Creditor Trustee shall be empowered to conduct such investigation as it deems appropriate for the purpose of evaluating potential additional litigation claims. The proceeds of any litigation against third parties, or any other beneficial result from the settlement of such litigation, would also be earmarked for Creditor distribution under the Plan and the Creditor Trust Agreement.

C. Objections to Claims

The Plan Proponents believe that objections to certain Claims will be warranted, and counsel for the Debtor (until the Effective Date) and the Creditor Trustee (after the Effective Date) will be authorized to file and pursue such objections.

X. CONFIRMATION AND CONSUMMATION PROCEDURE

The Bankruptcy Court may confirm the Plan only if it determines that the Plan complies with the requirements of chapter 11, including, among other things, that: (i) the Plan has properly classified Claims and Interests; (ii) the Plan complies with applicable provisions of the Bankruptcy Code; (iii) the Plan Proponents have complied with applicable provisions of the Bankruptcy Code; (iv) the Plan Proponents have proposed the Plan in good faith and not by any means forbidden by law; (v) the Plan has been accepted by the requisite votes of all Classes of Creditors (except to the extent that “cramdown” is available under section 1129(b) of the Bankruptcy Code); (vi) the Plan is in the “best interests” of all holders of Claims or Interests in an Impaired Class; (vii) the Plan is “feasible” in that confirmation of the Plan is not likely to be followed by the liquidation or need for further restructuring of the Debtors, unless the Plan contemplates liquidation; and (viii) all fees and expenses payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the Joint Hearing, have been paid or the Plan provides for the payment of such fees on the Confirmation Date.

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

A. Solicitation of Votes

Under the Bankruptcy Code, only classes of claims and interests that are impaired under the plan are entitled to vote to accept or reject a plan. A class is impaired if the legal, equitable or contractual rights to which the holders of claims or interests are entitled are modified, other than by curing defaults and reinstating the debt. Pursuant to sections 1126(f) and (g) of the Bankruptcy Code, classes of claims and interests that are not impaired are conclusively presumed to have accepted the plan and are not entitled to vote on a plan, and classes of claims and interests whose holders will receive or retain no property under the plan are deemed to have

rejected a plan and are not entitled to vote on a plan. Creditors who hold disputed or disallowed claims are not entitled to vote to accept or reject the plan.

Under the Plan, the holders of Claims in Classes 2, 3 and 4 are entitled to vote to accept or reject the Plan. All other Classes of Claims or Interests are deemed under the Bankruptcy Code to have accepted or rejected the Plan. This Disclosure Statement and an appropriate ballot are being distributed to all holders of Claims who are entitled to vote on the Plan.

Under the Bankruptcy Code, a class of claims accepts a plan if holders of at least two-thirds in dollar amount and more than one-half in number of the claims properly voted in that class, voted to accept.

A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

Any ballot that is properly completed, executed and timely filed but does not indicate an acceptance or rejection of the Plan, or indicates both an acceptance and a rejection of the Plan, will be deemed to be a vote to accept the Plan. Whenever a Creditor casts more than one ballot voting the same Claim before the Voting Deadline, the last ballot received before the Voting Deadline is deemed to reflect the voter's intent and shall therefore supersede any prior ballots. Creditors must vote all of their Claims within a particular Class under the Plan either to accept or reject the Plan and may not split their vote, and thus a ballot that partially accepts and partially rejects the Plan will not be counted.

B. The Joint Hearing

The Joint Hearing is scheduled for _____, 2011 at _____ a.m. before the Bankruptcy Court at the Everett McKinley Dirksen United States Courthouse, 219 South Dearborn Street Chicago, Illinois 60604. At the Joint Hearing, the Bankruptcy Court will

consider whether the Plan satisfies the various requirements of section 1129 of the Bankruptcy Code. Prior to the Joint Hearing, the Plan Proponents will submit a report to the Bankruptcy Court reflecting the votes received with respect to the acceptance or rejection of the Plan by the parties entitled to vote thereon.

Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of the Plan. Any objection to confirmation of the Plan must be made in writing and filed with the Bankruptcy Court and served on all required parties on or before _____, 2011. Unless an objection to confirmation is timely served and filed, it may not be considered by the Bankruptcy Court.

C. Confirmation

At the Joint Hearing, the Bankruptcy Court will confirm the Plan only if all of the applicable requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of a plan are that the plan: (i) has been accepted by all impaired classes of claims and equity interests or, if rejected by an impaired class, that the plan “does not discriminate unfairly” and is “fair and equitable” as to such class; (ii) is feasible; and (iii) is in the “best interests” of creditors and stockholders that are impaired under the plan and that vote, or are deemed, to reject the plan.

1. Unfair Discrimination and Fair and Equitable Tests

To obtain confirmation of a plan over the objection of a class of claims or interests that rejects such plan, it must be demonstrated that the plan “does not discriminate unfairly” and is “fair and equitable” with respect to each such non-accepting class. In order for a plan to be found to be “fair and equitable” and thus subject to confirmation by “cramdown” under section 1129(b) of the Bankruptcy Code, the Plan Proponents must demonstrate:

a. For a Class of Unsecured Creditors: That either: (i) each impaired unsecured creditor receives or retains, under the plan, property of a value equal to the amount of its allowed claim; or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.

b. For a Class of Interests: That either: (i) each holder of an interest will receive or retain, under the plan, property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled or the value of the interest; or (ii) the holder of an interest that is junior to the non-accepting class will not receive or retain any property under the plan.

As described above, holders of Interests in Class 5 are presumed, under section 1126(g) of the Bankruptcy Code, to have rejected the Plan. The Plan Proponents request confirmation of the Plan under section 1129(b) of the Bankruptcy Code notwithstanding the deemed rejection of the Plan by Class 5. The cancellation of the Class 5 Interests satisfies the “fair and equitable” test because there are no junior classes that will receive or retain any property under the Plan. In addition, the Plan Proponents do not believe that there is any basis for an allegation that Plan unfairly discriminates against Class 5.

2. Best Interests Test

With respect to each impaired class of claims and interests, confirmation of a plan requires that each holder of a claim or interest either: (i) accept the plan; or (ii) receive or retain under the plan property of a value, as of the effective date, that is not less than the value such holder would receive or retain if the debtor was liquidated under chapter 7 of the Bankruptcy Code. The Plan Proponents believe that holders of Impaired Claims and Interests in each Impaired Class under the Plan would receive significantly less under a chapter 7 liquidation than

under the Plan. This difference is represented in the following liquidation analysis (the “*Liquidation Analysis*”). For purposes of the Liquidation Analysis, the Plan Proponents have assumed that the proceeds realized upon liquidation of the Estate’s assets would not vary materially if the liquidation were conducted under chapter 7, but the difference in creditor recoveries would be the result of increased costs of administration. Estimates of additional fees of professionals upon conversion are based on an assumption that a chapter 7 trustee’s professionals would have to conduct an investigation that would be comparable to what the Committee has conducted thus far. In fact, the Plan Proponents believe that the Liquidation Analysis may understate the difference in amounts available for distribution in that the Plan is intended to accommodate and facilitate settlement of potential disputes in an economical manner.

Asset	Estimated Value in Liquidation
Cash on deposit	\$2,200,000.00
North Roselle Property	\$2,940,000.00
WIB Stock	\$700,000.00
SFI Interest	\$45,000.00
Annuity Payments	\$650,000.00
Split Dollar Life Insurance	\$70,000.00
RAC Tax Refund	\$2,156,381.00
Other Claims and Causes of Action	unknown
Total	\$8,761,381.00

Chapter 7 Costs of Administration in Excess of Administration Under Plan:

Trustee’s Fees:	25% of first \$5,000.00 recovered = \$1,250.00
	10% of next \$45,000.00 recovered = \$4,500.00
	5% of next \$950,000.00 recovered = \$47,500.00
	<u>3% of remainder (\$7,761,381.00) = \$232,841.43</u>
Total Trustee’s Fees:	\$286,091.43
Additional Fees of Professionals Employed:	\$300,000.00
Total Additional Expense Under Chapter 7:	\$586,091.43

In sum, the Plan will provide a significantly greater recovery than under chapter 7 due to:

(i) the value the Plan Proponents believe that the Creditor Trustee will bring to the Estate in reconciling overstated and invalid Claims and from Avoidance Actions and Miscellaneous Causes of Action; (ii) the value the Plan Proponents believe that the Creditor Trustee will bring to the Estate by conducting orderly rather than forced sales of the Estate's several illiquid assets; (iii) the settlement of potential disputes under the Plan, including those related M&I and the effect of the subordination provisions applicable to certain claims against the Debtor; and (iv) by avoiding the additional expenses associated with conversion to a chapter 7 case.

The Creditor Trust – which will be created if the Plan is confirmed – will be administered by the Creditor Trustee, and it is contemplated that the Creditor Trustee will not earn fees or other compensation in that capacity. The Creditor Trustee will retain Professionals, but given the added expense of the chapter 7 trustee's Professionals to become generally familiar with the Debtor's Estate, the Plan Proponents submit that the fees of any Professionals of the Creditor Trustee should be less than the professional fees of a chapter 7 trustee. Accordingly, the Plan meets the “best interests” test.

3. Conclusion

For the foregoing reasons, the Plan Proponents submit that the Plan, as proposed, meets each of the requirements for confirmation pursuant to section 1129 of the Bankruptcy Code.

XI. TAX CONSEQUENCES

U.S. TREASURY CIRCULAR 230 DISCLOSURE: TO ENSURE COMPLIANCE WITH U.S. TREASURY CIRCULAR 230, EACH HOLDER OF A CLAIM OR AN INTEREST IS HEREBY NOTIFIED THAT: (I) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY HOLDER OF A CLAIM OR AN INTEREST FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE

IMPOSED ON A HOLDER OF A CLAIM OR AN INTEREST UNDER TITLE 26 OF THE UNITED STATES CODE (THE “*TAX CODE*”); (II) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE SOLICITATION OF VOTES ACCEPTING THE PLAN; AND (III) A HOLDER OF A CLAIM OR AN INTEREST SHOULD SEEK ADVICE BASED UPON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

A. General

The following discussion summarizes certain anticipated U.S. federal income tax consequences of the transactions proposed in the Plan for the Debtor and for the holders of Claims and Interests. The summary is provided for information purposes only and is based on the Tax Code, the Treasury regulations promulgated thereunder, judicial authority and current administrative rulings and practice, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effects that could adversely affect the federal income tax consequences described below.

The summary does not address all aspects of federal income taxation that may be relevant to a particular holder of a Claim in light of its particular facts and circumstances or to certain types of holders of Claims subject to special treatment under the Tax Code (for example, non-U.S. taxpayers, financial institutions, broker-dealers, life insurance companies and tax-exempt organizations). The summary also does not discuss any aspects of state, local or foreign tax consequences.

In addition, a substantial amount of time may elapse between the Confirmation Date of the Plan and the receipt of a final distribution under the Plan and the Creditor Trust Agreement. Events subsequent to the date of this Disclosure Statement, such as additional tax legislation, court decisions or administrative changes, could affect the federal income tax consequences of the Plan and the transactions contemplated thereunder. No ruling will be sought from the IRS

with respect to any of the tax aspects of the Plan and no opinion of counsel has heretofore been obtained by the Debtor with respect thereto. Accordingly, each holder of a Claim or Interest is strongly urged to consult with its own tax advisor regarding the federal, state, local and foreign tax consequences of the Plan to such holder.

B. Federal Income Tax Consequences to the Debtor

1. Overview of Current Tax Year Position and NOLs. In general, although the Debtor is still analyzing its results from operations, it expects to have substantial current year losses, adding to current net operating loss carryforwards (“*NOLs*”). As a result of these *NOLs* and the exclusion from taxation of any cancellation of indebtedness (“*COD*”) income in connection with a bankruptcy case, the Debtor does not expect to incur any substantial tax liability as a result of implementation of the Plan.

2. Cancellation of Indebtedness. Under the Plan, the Debtor’s outstanding indebtedness will be satisfied in exchange for Cash. The satisfaction of a debt obligation for an amount of Cash and other property having a fair market value less than the debt obligation generally gives rise to *COD* income to a debtor.

However, with the exception noted below, the Debtor will not recognize *COD* income because the debt discharge occurs in a bankruptcy case. The Debtor will instead, to the extent available, reduce its tax attributes to the extent of its *COD* income in the following order: (i) *NOLs*; (ii) general business credit carryforwards; (iii) minimum tax credit carryforwards; (iv) capital loss carryforwards; and (v) the tax basis of the Debtor’s depreciable and nondepreciable assets (but not below the amount of its liabilities immediately after the discharge).

The Debtor may elect to alter the preceding order of attribute reduction and, instead, first reduce the tax basis of their depreciable assets. The reduction in tax attributes occurs only after

the tax for the year of the debt discharge has been determined (i.e., such attributes may be available to offset taxable income that accrues between the date of discharge and the end of the Debtor's tax year). The Debtor does not recognize any COD income that exceeds the amount of available tax attributes, and such excess COD income has no other U.S. federal income tax effect.

3. Alternative Minimum Tax. The Debtor believes that current year losses will be sufficient to eliminate all or substantially all alternative minimum taxable income of the Debtor. As a result, the Debtor does not anticipate having any alternative minimum tax liability for fiscal year 2010 as a result of the transactions that occur upon confirmation of the Plan.

C. Federal Income Tax Consequences to Holders of Allowed Claims

The federal income tax consequences of the implementation of the Plan to holders of Allowed Claims will depend on, among other things, the consideration to be received by the holder, whether the holder reports income on the accrual or cash method, whether the holder receives distributions under the Plan in more than one taxable year, whether the holder's Claim is an Allowed Claim or a Disputed Claim on the Confirmation Date and whether the holder has taken a bad debt deduction or a worthless security deduction with respect to its Claim.

1. Recognition of Gain or Loss. In general, a holder of an Allowed Claim should recognize gain or loss equal to the amount realized under the Plan in respect of its Claim less the holder's tax basis in the Claim. Any gain or loss recognized in the exchange may be long-term or short-term capital gain or loss or ordinary income or loss, depending upon the nature of the Allowed Claim and the holder, the length of time the holder held the Claim and whether the Claim was acquired at a market discount. If the holder realizes a capital loss, the holder's deduction of the loss may be subject to limitation. The holder's tax basis for any property received under the Plan generally will equal the amount realized. The holder's amount

realized generally will equal the sum of the Cash and the fair market value of any other property received by the holder under the Plan on the Confirmation Date or a subsequent distribution date, less the amount (if any) treated as interest, as discussed below.

2. Post-Confirmation Date Cash Distributions. Because certain holders of Allowed Claims, including Disputed Claims that ultimately become Allowed Claims, may receive Cash distributions after the Confirmation Date, the imputed interest provisions of the Tax Code may apply and cause a portion of the subsequent distributions to be treated as interest. Additionally, because holders may receive distributions with respect to an Allowed Claim in a taxable year or years following the year of the initial distribution, any loss and a portion of any gain realized by the holder may be deferred. All holders of Allowed Claims are urged to consult their tax advisors regarding the possible application of (or ability to elect out of) the “installment method” of reporting with respect to their Claims.

3. Receipt of Interest. Holders of Allowed Claims will recognize ordinary income to the extent that they receive Cash or property, including beneficial interests in the Creditor Trust, that is allocable to accrued but unpaid interest that the holder has not yet included in its income. If an Allowed Claim includes interest, and if the holder receives less than the amount of the Allowed Claim pursuant to the Plan, the holder must allocate the Plan consideration between principal and interest. Holders of Allowed Claims are strongly urged to consult their own tax advisors in this regard. If the Plan consideration allocable to interest with respect to an Allowed Claim is less than the amount that the holder has previously included as interest income, the previously included but unpaid interest may be deducted, generally at a loss.

4. Bad Debt or Worthless Securities Deduction. A holder who receives in respect of an Allowed Claim an amount less than the holder’s tax basis in the Claim may be

entitled in the year of receipt (or in an earlier or later year) to a bad debt deduction in some amount under section 166(a) of the Tax Code or a worthless securities deduction under section 165(g) of the Tax Code. The rules governing the character, timing and amount of bad debt and worthless securities deductions place considerable emphasis on the facts and circumstances of the holder, the obligor and the instrument with respect to which a deduction is claimed. Holders of Allowed Claims, therefore, are urged to consult their tax advisors with respect to their ability to take such a deduction.

D. Treatment of the Creditor Trust and Its Beneficial Owners

The Creditor Trust is intended to be treated for U.S. federal income tax purposes: (i) in part as a liquidating trust within the meaning of section 301.7701-4(d) of the U.S. Treasury Regulations; and (ii) in part as one or more disputed claims or other reserves taxed either as discrete trusts pursuant to section 641, *et seq.*, of the Tax Code or as disputed ownership funds pursuant to section 1.468B-9(b)(1) of the U.S. Treasury Regulations, as determined by the Creditor Trustee in the manner specified in the Creditor Trust Agreement. The remainder of this Section XI.D. assumes that this treatment is correct. If the IRS succeeds in requiring a different characterization of the Creditor Trust, the Creditor Trust could be subject to tax on all of its net income and gains, with the result that the amounts received by holders of Allowed Claims could be reduced.

1. Creditor Trust. Except as discussed in Section XI.D.2. below (Disputed Claims and Other Reserves), the Creditor Trust will not be treated as a separate entity for U.S. federal income tax purposes. Instead, the holders of “beneficial interests” in the Creditor Trust will be treated as owning their respective Pro Rata shares of the applicable Creditor Trust Assets, subject to any liabilities of the Creditor Trust itself. Holders of “beneficial interests” in the

Creditor Trust will include all holders of Allowed Claims that are entitled to receive a distribution from the Creditor Trust pursuant to the Plan.

For U.S. federal income tax purposes, the transfer of the Creditor Trust Assets (to the extent not distributed to holders of Allowed Claims as of the Confirmation Date) to the Creditor Trust will be treated as a transfer of the Creditor Trust Assets from the Debtor to the holders of Allowed Claims, subject to any liabilities of the Debtor or the Creditor Trust payable from the proceeds of such assets, followed by such holders' transfer of such assets (subject to such liabilities) to the Creditor Trust in exchange for their respective beneficial interests in the Creditor Trust. Thus, each holder of an Allowed Claim on the Confirmation Date should be treated as transferring its Claim to the Debtor in exchange for the holder's Pro Rata share of the applicable Creditor Trust Assets (subject to any liabilities of the Creditor Trust) followed by the holder's transfer of such assets (subject to applicable liabilities) to the Creditor Trust. The "applicable Creditor Trust Assets" are the Creditor Trust Assets (or the proceeds thereof) from which a holder of an Allowed Claim is entitled to a distribution under the Plan. The holder should recognize gain or loss equal to the difference between the fair market value of the applicable Creditor Trust Assets (subject to any liabilities) and the holder's adjusted basis in its Allowed Claim. The tax basis of the applicable Creditor Trust Assets deemed received in the exchange will equal the amount realized by the holder and the holding period for such assets will begin on the day following the exchange. For the avoidance of doubt, the holders of Allowed Claims are not intended to be treated for federal income tax purposes as receiving Creditor Trust Assets that are contributed to any Disputed Claims reserve until such time as such Disputed Claims reserve makes distributions, in which case (and at which time) the holders of Allowed

Claims are intended to be treated as receiving the distributions actually received from the Disputed Claims reserve, if any.

Each holder of an Allowed Claim will be required to include in its annual income, and pay tax to the extent due on, its allocable share of each item of income, gain, loss, deduction or credit recognized by the Creditor Trust (including interest or dividend income earned on bank accounts and other investments) and the Creditor Trustee will allocate such items to the holders using any reasonable allocation method. If the Creditor Trust sells or otherwise disposes of a Creditor Trust Asset in a transaction in which gain or loss is recognized, each holder of an Allowed Claim that is entitled to a distribution from such Creditor Trust Asset (or the proceeds thereof) will be required to include in income gain or loss equal to the difference between: (i) the holder's Pro Rata share of the Cash or property received in exchange for the applicable Creditor Trust Asset sold or otherwise disposed of; and (ii) the holder's adjusted basis in the holder's Pro Rata share of the applicable Creditor Trust Asset. The character and amount of any gain or loss will be determined by reference to the character of the asset sold or otherwise disposed of. Each holder of an Allowed Claim will be required to report any income or gain recognized on the sale or other disposition of any applicable Creditor Trust Asset whether or not the Creditor Trust distributes the sale proceeds currently and may, as a result, incur a tax liability before the holder receives a distribution from the Creditor Trust.

Notwithstanding the foregoing, distributions made as of the Confirmation Date to holders of Allowed Claims are intended to be treated for U.S. federal income tax purposes as directly from the Debtor to the holders of such Allowed Claims, and such holders shall include in their taxable incomes any interest earned on such distributions from the Confirmation Date to the date on which the actual distribution is made.

2. Disputed Claims and Other Reserves. Any reserves for Disputed Claims or the other similar reserves that may be established by the Creditor Trustee will be treated as one or more reserves taxed either as discrete trusts pursuant to section 641, *et seq.*, of the Tax Code or as disputed ownership funds pursuant to section 1.468B-9(b)(1) of the U.S. Treasury Regulations, as determined by the Creditor Trustee in the manner specified in the Creditor Trust Agreement. If treated as discrete trusts, income and gain recognized with respect to the Creditor Trust Assets in any Disputed Claims reserve will be subject to an entity-level tax to the extent the income or gain is not distributed to holders of Allowed Claims within the same taxable year. If treated as disputed ownership funds, income and gain recognized with respect to any Creditor Trust Assets in any Disputed Claims reserve will be subject to an entity-level tax regardless of whether income or gain is distributed to holders of Allowed Claims within the same taxable year.

E. Income Reporting and Withholding

Under the Tax Code's backup withholding rules, the holder of an Allowed Claim may be subject to backup withholding with respect to distributions or payments made pursuant to the Plan unless the holder comes within certain exempt categories (which generally include corporations) and, when required, demonstrates that fact, or provides a correct taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that the holder is not subject to backup withholding because of a failure to report all dividend and interest income. Backup withholding is not an additional tax, but merely an advance payment that may be refunded to the extent it results in an overpayment of tax. Holders of Allowed Claims may be required to establish exemption from backup withholding or to make arrangements with respect to the payment of backup withholding.

F. Federal Income Tax Consequences to Holders of Interests

Under the Plan, holders of Interests will not receive anything on account of such Interest. A holder of such Interest will recognize loss in an amount equal to such holder's adjusted tax basis in the Interest. The character of any recognized loss will depend upon several factors, including, but not limited to, the status of the holder, the nature of the Interest in the holder's hands, the purpose and circumstances of its acquisition, the holder's holding period and the extent to which the holder had previously claimed a deduction for the worthlessness of all or a portion of the Interest.

There are many factors that will determine the tax consequences to each holder of an Interest. Furthermore, the tax consequences of the Plan are complex and, in some cases, uncertain. Therefore, it is important that each holder of an Interest obtain his, her or its own professional tax advice regarding the tax consequences to such holder of an Interest as a result of the Plan.

G. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL, AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

XII. RISK FACTORS

Holders of Claims and Interests against the Debtor should read and consider carefully the information set forth below, as well as other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference), prior to voting to accept or reject the Plan. This information, however, should not be regarded as necessarily setting forth the only potential risks involved in connection with the Plan and its implementation.

A. Failure To Satisfy Vote Requirement

In the event that sufficient votes accepting the Plan are not received and, as a result, the Plan Proponents are unable to confirm the Plan as proposed, the Plan Proponents will assess the alternatives available to them, including: (i) amending the Plan; or (ii) converting these cases to chapter 7 liquidation proceedings. There is substantial risk that either of these alternatives will result in less favorable treatment of Claims and Interests than that provided in the Plan.

B. Non-Consensual Confirmation

In the event any Impaired Class of Claims does not accept the Plan, the Bankruptcy Court may nevertheless confirm such Plan at the Plan Proponents' request if at least one Impaired Class of Claims has accepted the Plan (with such acceptances being determined without including the vote of any "insider" in such Class), and, as to each Impaired Class that has not accepted the Plan, the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such dissenting Impaired Class(es). Because the Plan deems Class 5 to have rejected the Plan, these requirements must be satisfied with respect to such Class. The Plan Proponents believe that the Plan satisfies these requirements, although there can be no assurances that the Bankruptcy Court will make the findings necessary to reach this result.

C. Risk of Non-Occurrence of the Effective Date

Although the Plan Proponents believe that if the Plan is confirmed, the Effective Date will occur soon after the Confirmation Date of the Plan, there can be no assurance that all conditions to the occurrence of the Effective Date will occur. In the event the Effective Date does not occur, the Plan Proponents will assess the alternatives available to them at that time.

D. Classification and Treatment of Claims and Equity Interests

Section 1122 of the Bankruptcy Code requires that the Plan classify Claims against, and Interests in, the Debtor. The Bankruptcy Code also provides that, except for certain Claims classified for administrative convenience, the Plan may place a Claim or Interest in a particular Class only if such Claim or Interest is substantially similar to the other Claims or Interests of such Class. The Plan Proponents believe that all Claims and Interests have been appropriately classified in the Plan.

The Bankruptcy Code also requires that the Plan provide the same treatment for each Claim or Interest of a particular Class unless the holder of a particular Claim or Interest agrees to a less favorable treatment of its Claim or Interest. The Plan Proponents believe that the Plan treats each Claim or Interest in a given Class equally, thus satisfying this requirement.

To the extent that the Bankruptcy Court finds that the Plan does not satisfy these requirements, the Bankruptcy Court could deny confirmation of the Plan. Issues or disputes relating to classification and/or treatment could result in a delay in the confirmation and consummation of the Plan and could increase the risk that the Plan will not be consummated.

E. Amount of Allowed Claims

The total amount of all Claims filed in the Cases may materially exceed the estimated amounts of Allowed Claims assumed in the development of the Plan, in the valuation estimates provided above. The actual amount of all Allowed Claims in any Class may differ significantly

from the estimates provided in this Disclosure Statement. Accordingly, the amount and timing of the distributions that will ultimately be received by any particular holder of an Allowed Claim in any Class may be materially and adversely affected if the estimates are exceeded as to any Class.

XIII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Plan Proponents believe that the Plan affords holders of Claims the potential for the greatest recovery and, therefore, is in the best interests of such holders. The Plan as presented is the result of considerable negotiations between the Debtor, the Committee and M&I. If, however, the requisite acceptances are not received, or the Plan is not confirmed and/or consummated, the theoretical alternatives include: (i) formulation of an alternative plan of liquidation; or (ii) liquidation of the Debtor and its Estate under chapter 7 of the Bankruptcy Code.

A. Alternative Plan(s) of Liquidation

If the Plan is not confirmed, the Debtor, the Committee or another party may attempt to formulate and propose a different plan or plans of liquidation. The Plan Proponents have formulated the Plan with the intention of maximizing the amount available for distribution to holders of Claims and does not believe that any alternative plan formulation would result in greater recoveries. The delay associated with proposing and seeking confirmation of an alternative plan would increase administrative expense burdens, with the result that net recoveries for holders of General Unsecured Claims would diminish.

B. Chapter 7 Liquidation of the Debtor

If no plan is confirmed, the Debtor may be forced to liquidate under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be elected or appointed to liquidate the

Debtor's assets for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. The Debtor believes that in a liquidation under chapter 7, before Creditors received any distribution, additional administrative expenses related to the appointment of a trustee and the trustee's attorneys, accountants and other professionals would cause a substantial diminution in the value of the Debtor's Estate. The assets available for distribution to Creditors would be reduced by such additional expenses and by claims, some of which would be entitled to priority.

XIV. CONCLUSION


The Plan Proponents submit that, under the Plan, holders of Unsecured Claims stand to receive a meaningful recovery on their Claims, while at the same time avoiding the additional fees and expenses that would be incurred upon conversion to chapter 7. Therefore, the Plan Proponents believe that the distributions provided for in the Plan are fair and equitable, and the Plan Proponents strongly recommend acceptance of the Plan.

If you are eligible to vote on the Plan, please do so now by completing and returning the enclosed ballot.

[Remainder of Page Intentionally Blank]

Dated this 20th day of December, 2010.

MIDWEST BANC HOLDINGS, INC.

By: 
Roberto R. Herencia
Its President and CEO

OFFICIAL COMMITTEE OF
UNSECURED CREDITORS

By: _____
Its Chair

Aaron L. Hammer (ARDC No. 6243069)
Richard S. Lauter (ARDC No. 6182859)
FREEBORN & PETERS LLP
311 South Wacker Drive, Suite 3000
Chicago, Illinois 60606
Telephone: 312-360-6000
Facsimile: 312-360-6520
E-Mail: ahammer@freebornpeters.com
rlauter@freebornpeters.com

Thomas G. Wallrich, Esq.
Joel D. Nessel, Esq.
HINSHAW & CULBERTSON LLP
333 South Seventh Street, Suite 2000
Minneapolis, Minnesota 55402
Telephone: 612-334-2594
Facsimile: 612-334-8888
E-Mail: twallrich@hinshawlaw.com
jnessel@hinshawlaw.com

– and –

*Counsel to Official Committee
of Unsecured Creditors*

William J. Connelly (ARDC No. 6185201)
HINSHAW & CULBERTSON LLP
222 North LaSalle Street, Suite 300
Chicago, Illinois 60601
Telephone: 312-704-3000
Facsimile: 312-704-3001
E-Mail: wconnelly@hinshawlaw.com

Counsel to Debtor and Debtor-in-Possession

LIST OF EXHIBITS

Exhibit A.....Joint Plan of Liquidation Dated December 20, 2010

Exhibit A