



Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429

Division of Supervision

July 14, 2000

VIA FACSIMILE AND BY CERTIFIED RETURN RECEIPT REQUESTED

Board of Directors
Union Savings Bank
223 West Stephenson Street
P. O. Box 540
Freeport, Illinois 61032

Dear Board of Directors:

The notice of intent to convert from mutual to stock form filed on behalf of Union Savings Bank, Freeport, Illinois, has been reviewed by the Federal Deposit Insurance Corporation ("FDIC") pursuant to the FDIC's regulations at 12 C.F.R. Sections 303.163 and 333.4. Based on the information and representations presented, the FDIC **poses no objection** to the proposed conversion transaction.

Please notify our Chicago Regional Office in writing when the proposed transaction has been consummated.

Sincerely,

/s/

John M. Lane
Associate Director

cc: Timothy M. Sullivan
Hinshaw & Culbertson
222 North LaSalle Street, Suite 300
Chicago, Illinois 60601-1081

FEDERAL DEPOSIT INSURANCE CORPORATION

IN RE: Union Savings Bank
Freeport, Illinois

Application for Consent to Merge

ORDER AND BASIS FOR CORPORATION APPROVAL

Pursuant to Section 18(c) and other provisions of the Federal Deposit Insurance Act ("FDI Act"), an application has been filed on behalf of Union Savings Bank, Freeport, Illinois ("Savings Bank"), an Illinois chartered mutual savings bank for the FDIC's consent to merge with an interim Illinois-chartered stock savings bank ("Stock Bank"). Savings Bank is a Bank Insurance Fund ("BIF") member, with total assets of \$121,705,000 and total deposits of \$110,010,000 as of December 31, 1999.

These filings were made in connection with the "Union Savings Bank Plan of Reorganization to a Mutual Holding Company and Stock Issuance Plan" (the "Plan"). Pursuant to the Plan, Savings Bank will: (1) The Mutual Bank will charter Union Bancshares, MHC (the "Mutual Holding Company"), (2) The Mutual Holding Company will incorporate USB Bankshares, Inc., a Delaware corporation (the "Stock Holding Company"), (3) The Stock Holding Company will charter an Illinois stock savings bank to be named Union Savings Bank (the "Stock Bank"), (4) Once formed, the Stock Bank will acquire substantially all of the Mutual Bank's assets (except for \$100,000 in cash) and all of its liabilities, including insured deposits, in exchange for all of the Common Stock of the Stock Bank. At this point, the Mutual Bank will be left with \$100,000 in cash and all of the Common Stock of the Stock Bank, (5) The Stock Holding Company will acquire all of the Stock Bank's Common Stock from the Mutual Bank in exchange for all of the Common Stock of the Stock Holding Company. At this point, the Mutual Bank will be left with \$100,000 in cash and all of the Common Stock of the Stock Holding Company, (6) The Mutual Bank will then exchange its own mutual bank charter for the charter of the Mutual Holding Company. At this point the Mutual Bank will cease to exist. The Mutual Holding Company will have \$100,000 in cash and sole ownership of the Stock Holding Company. The Stock Holding Company will have sole ownership of the Stock Bank.

Upon consummation of the Reorganization, the deposits of the Mutual Bank will continue to be insured under SAIF. On the effective date of the Reorganization, the Stock Bank will be the wholly-owned subsidiary of the Stock Holding Company, which will be the wholly-owned subsidiary of the Mutual Holding Company. Presently there are no plans to offer for sale any portion of its stock. The proposed transaction per se will not alter the competitive structure of banking in the market currently served by Savings Bank. Savings Bank's principal office will remain at 223 Stephenson Street, Freeport, Illinois. Notice of the proposed transaction, in a form approved by the FDIC, has been published pursuant to the FDI Act.

A review of available information, including the Community Reinvestment Act ("CRA") Statement of Savings Bank discloses no inconsistencies with the purposes of the CRA. The bank is expected to continue to meet the credit needs of its entire community, consistent with safe and sound operation of the institution.

In connection with the application the FDIC has taken into consideration the financial and managerial resources and future prospects of the resultant Bank, and the convenience and needs of the community to be served. Having found favorably on these statutory factors and having considered other relevant information, including any reports on the competitive factors furnished by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, or the Attorney General of the United States, it is the FDIC's judgement that the application should be and hereby is approved, subject to the following conditions:

- (1) That the proposed transaction may not be consummated unless and until the FDIC issues a non-objection letter to the Notice filed on behalf of the applicant pursuant to section 303.161 of the FDIC's Rules and Regulations concerning the mutual-to-stock conversion portion of this transaction;
- (2) That prior to a sale, transfer, or disposition of any shares of Savings Bank by the MHC to any person (including any Employee Stock Ownership Plan), or a conversion of the mutual holding company to stock form, MHC will provide written notification to the FDIC and provide the FDIC with copies of all documents filed with state and Federal banking and/or securities regulators in connection with any such sale, transfer, disposition, or conversion;
- (3) That, should any shares of the stock of Savings Bank or the Stock Bank be issued to persons other than MHC, any dividends waived by MHC must be retained by Savings Bank or the Stock Bank and segregated, earmarked, or otherwise identified on the books and records of Savings Bank or the Stock Bank; such amounts must be taken into account in any valuation of the institution and factored into the calculation used in establishing a fair and reasonable basis for exchanging shares in any subsequent conversion of MHC to stock form; such amounts shall not be available for payment to or the value thereof transferred to minority shareholders, by means including through dividend payments or at liquidation;
- (4) That any changes in proposed management, including the board of directors or proposed ownership (10 percent or more of the stock and new acquisitions of or subscriptions to 10 percent or more of the stock), will render this approval null and void unless such proposal is approved by the Regional Director (Supervision) of the FDIC's Chicago Regional Office prior to the consummation of the proposed transaction;

- (5) The transaction being consummated not less than fifteen calendar days after the date of this Order or later than six months after the date of the Order, unless such period is extended for good cause by the FDIC;
- (6) That the application by the mutual holding company to become a bank holding company is approved by appropriate state and Federal regulatory authorities;
- (7) Until the proposed transaction is consummated, the FDIC has the right to alter, suspend, or withdraw its approval should any interim development be deemed to warrant such action.

By Order of the Deputy Director of the Division of Supervision pursuant to the delegated authority of the Board of Directors.

Dated at Washington, D.C., this day of , 2000.

/s/

Michael Zamorski
Deputy Director