

HAWTHORN BANCSHARES, INC.

CORPORATE GOVERNANCE GUIDELINES

The Board of Directors (the "Board") of Hawthorn Bancshares, Inc. (the "Company") has adopted these Corporate Governance Guidelines ("Guidelines"), in order to assist the Board in the exercise of its responsibilities and to serve the best interests of the Company and its shareholders. These Guidelines are designed to assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations as needed and to make decisions that are independent of the Company's management. They also are intended to align the interests of directors and management with those of the Company's shareholders.

These Guidelines will be applied in a manner consistent with all applicable laws and stock exchange rules and the Company's Articles of Incorporation and Bylaws, each as amended and in effect from time to time. These Guidelines are not intended to interpret or modify any applicable law or stock exchange rule or the Company's Articles of Incorporation and Bylaws. These Guidelines are intended to serve as a flexible framework for the conduct of the Board's business and not as a set of legally binding obligations. The Board may modify or make exceptions to these Guidelines from time to time in its discretion as it deems appropriate.

I. ROLE OF THE BOARD.

On behalf of and for the benefit of the shareholders of the Company, the Board is to exercise its business judgment in providing governance over the Company's affairs and oversight of the Company's business conducted by its employees, managers and officers under the direction of the Chief Executive Officer (the "CEO"). The Board is elected by the shareholders to assure that the long-term interests of the shareholders are being served.

II. FUNCTIONS OF THE BOARD.

A. Management and Management Oversight. The Board has the duty to manage, or to supervise the management of, the business and affairs of the Company. In fulfilling the duty to manage, and to supervise management of, the Company, a director has a duty to spend the time and effort necessary in order to be informed about the business and affairs of the Company and to properly discharge such director's responsibilities. In fulfilling the duty to manage and to supervise management of the Company's business and affairs, a director also has a duty to act in the best interests of the Company and its shareholders.

B. Specific Functions. The Board has at least four scheduled meetings a year at which it reviews and discusses reports by management, board committees, outside auditors and other consultants. Such reports address the performance of the Company, its business plans and long-term strategy, potential opportunities, as well as challenges facing the Company. In addition to its general oversight of management, the Board also performs a number of specific functions, including:

1. Selecting, evaluating and compensating the CEO, overseeing CEO succession planning, and taking other appropriate actions, including removal, when warranted;
2. Providing counsel and oversight regarding the selection, evaluation, development and compensation of senior management;
3. Reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions;

4. Assessing major risks facing the Company and reviewing options for their mitigation;
5. Ensuring processes are in place for maintaining the integrity of the Company and its financial statements, compliance with law, high ethics and relationships with customers, suppliers, and shareholders;
6. Reviewing, and where appropriate, approving and evaluating policies for corporate conduct, including maintenance of disclosure controls and procedures, accounting, financial and other controls, and reviewing the adequacy of compliance systems and controls; and
7. Evaluating periodically the overall effectiveness of the Board.

C. Committees. The Board has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee (the "Nominating Committee"). The charters of each of the Audit Committee, the Compensation Committee and the Nominating Committee, which are fully incorporated herein, set forth, among other things, the purposes, duties and responsibilities, composition of, and qualifications of the members of, each such committee. The Board may establish new committees or remove existing committees, as it deems advisable for purposes of fulfilling its responsibilities.

D. Approve Committee Functions. The Board committees should function to review in-depth the matters that are set forth in their respective charters, and the chairperson shall report the conclusions of their review to the full Board for its final decision, as appropriate. Unless authorized in the committee charter, Bylaws or Board resolutions relating to the committee, all actions of the three committees described above require Board ratification before they become binding. This allows for full Board disclosure and assures that an in-depth analysis has been made on the relevant issues.

III. COMPOSITION OF THE BOARD.

A. Board Leadership. The Board shall periodically assess the Board's leadership structure, including whether the offices of Chairman of the Board and Chief Executive Officer should be separate, whether the Company should have an independent "Lead Independent Director", and why the Board's leadership structure is appropriate given the specific characteristics or circumstances of the Company. In the event that the Chairman of the Board is not an independent director, or if a majority of the independent members of the Board of Directors otherwise determine, a majority of the independent members may elect an independent director as Lead Independent Director. The Lead Independent Director may be removed by vote of a majority of the independent directors.

The Lead Independent Director, if one is appointed, shall:

- preside over Board meetings when the Chairman of the Board is not present;
- chair any meeting of the non-management or independent directors in executive session;
- have the authority to call meetings of the independent directors;
- serve as liaison between the Chairman of the Board and the independent directors; however, each director is free to communicate directly with the Chairman of the Board;
- review and approve meeting agendas for the Board, information sent to the Board, and meeting schedules to assure that there is sufficient time for discussion of all agenda items;

- consult with the Chairman of the Board on such other matters as may be pertinent to the Company and the Board; and
- perform such other duties as the Board may prescribe from time to time.

If a Lead Independent Director is not appointed, the independent Chairman of the Board shall, in addition to exercising the powers and performing the duties specified in the bylaws and in these Guidelines, (a) chair any meeting of the non-management or independent directors in executive session; (b) have the authority to call meetings of the independent directors; and (c) ensure that he or she is available for consultation and direct communication if requested by major stockholders.

B. Size of the Board. As of the date of the Board's approval of these Guidelines, the Board is comprised of 11 members. In accordance with the Company's Articles of Incorporation and Bylaws, the size of the Board is subject to change as determined by the Board. The Nominating Committee develops policies regarding the size and composition of the Board and makes recommendations to the Board regarding changes to the size and composition of the Board.

C. Independent Directors. The Board shall be comprised of at least a majority of directors who, upon the determination of the Board, are independent of the Company and its management, in accordance with the listing standards of the Nasdaq Stock Market¹ and any other applicable laws and regulations. The Nominating Committee and the Board shall review, on an annual basis, the independence of members of the Board. In order to be considered independent, a potential member of the Board must be free of any relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), or the management of the Company, that, in the judgment of the Board, would interfere with the potential member's exercise of independent judgment as a member of the Board. Directors who are not considered independent also make valuable contributions to the Board and to the Company by reason of their experience and wisdom.

D. Qualifications.

The Nominating Committee works with the Board as a whole on an annual basis to determine the appropriate characteristics, skills and experience for the Board as a whole and its individual members. In evaluating the suitability of individual Board members, many factors will be taken into account, including, but not limited to, the following:

- general understanding of management, marketing, accounting, finance and other elements relevant to the Company's success in today's business environment;
- an understanding of the principal operational, financial and other plans, strategies and objectives of the Company;
- the results of operations and the financial condition of the corporation and its significant business segments for recent periods;
- an understanding of the relative standing of the corporation's significant business segments vis-à-vis competitors; and
- educational and professional background.

¹ Nasdaq Rule 5605(b)(1).

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board and its Committees for an extended period of time. Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as an outstanding director. Directors should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities. The Board, and specifically the Nominating Committee, would then evaluate whether the Board should accept the resignation based on a review of whether the individual continues to satisfy the Board's membership criteria in light of his or her new occupational status.

Service on boards and/or committees of other organizations should be consistent with the Company's conflict of interest policies and permit sufficient time to be spent on fulfilling duties and responsibilities to the Company.

E. Nominations for Election to the Board of Directors. The Nominating Committee shall recommend to the Board, and the Board shall recommend to the shareholders, on an annual basis, and as otherwise needed, nominees for election as directors at the annual meetings of shareholders.

IV. CONFLICTS OF INTEREST.

The Board expects its members, as well as officers and employees of the Company, to act ethically at all times and to acknowledge their adherence to the Company's Code of Business Conduct and Ethics (the "Code of Ethics") and any policies of the Company concerning related person transactions.

The Board shall resolve any conflict of interest question involving the CEO or any executive officer, and the CEO shall resolve any conflict of interest issue involving any other officer or employee of the Company.

V. MEETINGS OF THE BOARD OF DIRECTORS.

A. Meetings of the Board. The Board shall have a regular meeting at least four times a year, as determined by the Board, and may have special meetings as called pursuant to the Company's bylaws. A director is expected to regularly attend meetings of the Board, and of those committees of the Board on which a director may sit, with the understanding that on occasion a director may be unable to attend a meeting. A director who is unable to attend a meeting is expected to notify the Chairman or the chairperson of the appropriate committee in advance of such meeting. Each member of the Board is required to attend the annual meeting of the Board. To the extent practical, committee meetings should be held in conjunction with regularly scheduled Board meetings. Either the chairman of the committee or the CEO may call a meeting.

B. Meeting Materials. Information, data and other materials relevant to the matters to be considered at each meeting of the Board shall, to the extent practicable, be distributed in writing or electronically to the Board sufficiently prior to the meeting to permit review by members of the Board in advance of the meeting. Directors are expected to review these materials before the meeting. This will help facilitate the efficient use of time at Board meetings to deliberate and make decisions on key Company issues. In preparing this information, management should ensure that the materials being distributed are as concise as possible while giving directors sufficient information to make informed decisions. The Board acknowledges that certain items to be discussed at Board meetings are of an extremely sensitive nature and that the distribution of materials on these matters prior to Board meetings may not be appropriate.

C. Meetings of Independent Directors. The independent directors of the Company shall regularly meet in executive session, without the presence of the Company's management. These executive session discussions may include such topics as the independent directors determine.

D. Board Meeting Agenda. The Chairman or a majority of the Directors shall set the date, time, place and length of each meeting and the agenda of items to be addressed at each meeting, which agenda shall be circulated in advance of the meeting. The Board will review the Company's long-term strategic plans and the most significant financial, accounting and risk management issues facing the Company at least one Board meeting each year. The Board expects that meeting agendas will include on a regular basis a review of financial performance and a review of the Company's business strategies and practices.

E. Director Access to Employees. The Board expects that senior officers of the Company will regularly attend Board and committee meetings, present proposals and otherwise assist in the work of the Board. The Board shall have access to the Company employees for the purposes of obtaining all the information necessary for the Board to fulfill its duties. The Board may establish a procedure by which it will make inquiry of Company employees. Further, the Company's management, at the discretion of the Board, is permitted to invite any employee to any meeting of the Board at which such employee's presence and expertise would be helpful to the Board in having a full understanding of an issue under consideration.

F. Access to Independent Advisors. The Board shall also have the authority to obtain advice and seek assistance from internal and external legal, accounting and other advisors as it deems appropriate. The Board shall have sole authority to approve the fees of such consultants or advisors and other retention terms as it deems appropriate, all at the Company's expense.

G. Reliance by the Board on Others. The Board, and each member of the Board in his or her capacities as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by officers and other employees of the Company or its subsidiaries, or counsel, public accountants or other persons as to matters which the member believes to be within the professional competence of such person.

VI. COMPENSATION OF DIRECTORS.

A. Executive Officers on the Board. Executive officers of the Company who serve on the Board shall not receive any additional compensation from the Company in exchange for their services as directors.

B. Compensation of Directors on the Audit Committee. The only compensation that directors of the Company who serve on the Company's Audit Committee may receive are director's fees for service to the Board of Directors and any committee of the Board and service as a member of the board or any board committee of any subsidiary or affiliate.

C. Management Review and Report Regarding Director Compensation. The executive officers of the Company shall, at least on an annual basis, review and make a report to the Compensation Committee regarding the Company's director compensation practices in relation to other U.S. companies of comparable size and to the Company's competitors. Management review of director compensation shall include a review of both direct and indirect forms of compensation. Any change in director compensation shall require the recommendation of the Compensation Committee, with full consideration and agreement by the Board.

D. Director Fees. The director's fee for directors, including directors on the Audit Committee, may be received in the form of cash and/or stock, options, or other in-kind consideration ordinarily made available to corporate directors.

E. Director Ownership of Company Stock. The Board believes that, in order to align the interests of directors and shareholders, directors should be encouraged to have a financial stake in the Company.

VII. EVALUATION OF MANAGEMENT; SUCCESSION PLANNING.

A. Evaluation of Management. The Compensation Committee shall lead the Board in its annual evaluation of the management of the Company. The Compensation Committee shall solicit comments from all directors and executive officers, prepare a report to the Board with an assessment of the performance of management and make recommendations for improvement of the management of the Company. The Board will discuss the CEO's performance in an executive session of non-management Directors. The evaluation should be based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of management, etc. The Board's evaluation of the CEO's performance will be a significant factor in the Board's annual review of the CEO's compensation. The Board shall annually review and ratify corporate goals and objectives relevant to the CEO's compensation.

B. Succession Planning. The Board shall be responsible for preparing a succession plan for the position of CEO and revising the plan on an ongoing basis, as needed. Pursuant to the plan of succession, the Board will, on an ongoing basis, evaluate potential successors to the CEO. To assist the Board in making its evaluation of potential successors to the position of CEO the sitting CEO shall present to the Board, on an annual basis, or more frequently as needed, a report providing an assessment of senior managers and their respective potential to succeed the CEO, and other senior executive officers. In addition, the CEO shall include in such annual report, revising the report on an ongoing basis, as needed, a short-term emergency succession plan which sets forth the temporary delegation of authority to certain officers of the Company if the CEO or other senior executive officers, should unexpectedly become unable to perform their duties. The short-term succession plan shall provide for such a delegation of authority until the Board has an opportunity to appoint a permanent successor.

VIII. DIRECTOR ORIENTATION.

The Company shall provide each new director with a director orientation program to familiarize the director with, among other things, the Company's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, Code of Ethics, securities law compliance policies, Corporate Governance Guidelines, principal officers, and internal and independent auditors.

IX. ANNUAL PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS.

A. Annual Performance Evaluation of the Board. The Nominating Committee is responsible for conducting an annual evaluation of the performance of the full Board and shall report its conclusions to the Board. The Nominating Committee's report should generally include an assessment of the Board's compliance with the principles set forth in these guidelines, as well as identification of areas in which the Board could improve its performance and these guidelines could be improved.

B. Annual Performance Evaluation of Committees. Each Board committee is responsible for conducting an annual evaluation of its performance and shall report its conclusions to the full Board. The

Committee's report should generally include an assessment of its compliance with its charter, as well as identification of areas in which the committee could improve its performance and the related charter could be improved.

C. Annual Performance Evaluation of Directors. The Nominating Committee shall lead the Board in its annual evaluation of the skills and characteristics of individual Board members, as well as the composition of the Board as a whole. The Nominating Committee shall solicit comments from other directors and management, assess the independence of non-management directors, prepare a report to the Board and take action to effect changes in the membership of the Board where deemed appropriate.

X. REPORTING OF CONCERNS TO NON-EMPLOYEE DIRECTORS OR THE AUDIT COMMITTEE.

In accordance with the Audit Committee Financial Matters Complaint Policy, any person with a concern about the conduct of anyone at the Company or who has concerns about the Company's financial statements, disclosure, accounting, internal controls or auditing matters, may communicate, without fear of retaliation, that concern directly to any non-employee director or to any member of the Audit Committee. Complaints may be made anonymously to the Audit Committee if the person making the complaint deems it appropriate. All such concerns will be forwarded to the Audit Committee for their review and investigation as necessary. The status of all outstanding concerns addressed to the non-employee directors or the Audit Committee will be reported to the directors on a regular basis. The Audit Committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to them.

XI. BOARD INTERACTION WITH OUTSIDE INTERESTED PARTIES.

From time to time, at the request of management, individual Board members may meet or otherwise communicate with various constituencies that are involved with the Company. Where comments from the Board are appropriate, they will normally come from the Chairman.

XII. DISCLOSURE OF CORPORATE GOVERNANCE GUIDELINES.

These Guidelines shall be made available on the Company's website.

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