

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

COLORADO DIVISION OF BANKING
DENVER, COLORADO

Written Agreement by and among

COLORADO MOUNTAIN BANK
Westcliffe, Colorado

FEDERAL RESERVE BANK OF KANSAS CITY
Kansas City, Missouri

and

COLORADO DIVISION OF BANKING
Denver, Colorado

Docket No. 09-125-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Colorado Mountain Bank, Westcliffe, Colorado (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the Colorado Division of Banking (the “Division”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on September 3, 2009, the Bank’s board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Craig J. Walker to consent to this Agreement on behalf of the Bank, and consenting to compliance with each and every applicable provision of this Agreement by the Bank, and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”)(12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, the Bank, the Reserve Bank, and the Division agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Division a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank's condition and maintain effective control over, and supervision of, the Bank's senior management and major operations and activities, including but not limited to, the Bank's credit risk management, credit administration, problem loan workout administration, capital, earnings, and liquidity;

(b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations; and

(c) a description of the information and reports that will be regularly reviewed by the board of directors in their oversight of the operations and management of the Bank, including information on the Bank's newly extended loans, adversely classified assets, concentrations of credit, allowance for loan and lease losses ("ALLL"), capital, earnings, and liquidity.

Credit Risk Management

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan that describes the specific actions that the board of directors proposes to take to strengthen credit risk management practices at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) Policies and procedures to strengthen management of commercial real estate concentrations to reduce or mitigate the risk of such concentrations in light of current market conditions. The policies and procedures shall be consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, December 12, 2006 (SR 07-1), including but not limited to, periodic review of stress testing procedures and methodology to ensure consistency with current market and economic conditions; and

(b) procedures to periodically review and adjust risk exposure limits to address changes in market conditions and strategies to minimize credit losses.

Loan Review Program

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

- (a) The scope and frequency of loan review;
- (b) standards and criteria for assessing the credit quality of loans;
- (c) application of loan grading standards and criteria to the loan portfolio; and
- (d) written reports to the board of directors, at least quarterly, that identify and report the status of those loans that are nonperforming or adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

Appraisal and Appraisal Review Program

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program for real estate appraisals and appraisal reviews that shall, at a minimum, address, consider, and include:

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

(b) written standards for when reappraisals and reevaluations must be conducted, including, but not limited to, when new funds are advanced or when changes in market conditions or the condition of the collateral or project occur; and

(c) enhanced appraisal review procedures to ensure the quality and timeliness of appraisals.

Asset Improvement

5. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the report of examination of the Bank conducted jointly by the Division and the Reserve Bank that commenced on March 9, 2009 (the

“Report of Examination”), or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower’s credit file for subsequent supervisory review. For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to improve the Bank’s position through repayment, amortization, liquidation, additional collateral, or other means on each loan

or other asset in excess of \$100,000, including other real estate owned (“OREO”), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank’s problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank’s problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve the Bank’s position on such loan or asset.

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

Allowance for Loan and Lease Losses

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

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency

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

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Division, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

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

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank.

9. The board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall: (i) notify the Reserve Bank and the Division, in writing, no more than 30 days after the end of any quarter in which the Bank's capital ratios (total risk-based, tier one risk-based, or leverage) fall below the plan's minimums; and (ii) submit simultaneously to the Reserve Bank and the Division an acceptable written plan that details the steps the Bank will take to increase its capital ratios above the plan's minimums.

Liquidity and Funds Management

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

- (a) Measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors; and
- (b) specific liquidity targets and parameters and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands.

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written contingency funding plan that includes, at a minimum: (i) analysis of additional liquidity sources; (ii) contingency funding plans to address possible liquidity events that the Bank may encounter and identify responses to the potential impact of such events on the Bank's short-term, intermediate-term, and long-term liquidity profile; and (iii) clearly defined responsibilities for liquidity and funds management.

Earnings Plan and Budget

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written business plan for the remainder of 2009 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) Goals and strategies for improving the Bank's earnings;
- (ii) a realistic and comprehensive budget for the remainder of 2009, including income statement and balance sheet projections; and
- (iii) a description of the operating assumptions that form the basis for,

and adequately support, major projected income, expense, and balance sheet components.

(b) Upon adoption, the Bank shall implement the business plan. Bank management shall report monthly to the Bank's board of directors on progress made in implementing the business plan. The written monthly reports shall compare actual financial results to those projected in the business plan. In the event that revisions to the plan are necessary, such revisions shall be forwarded to the Reserve Bank and the Division within 15 days of adoption.

(c) A business plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the Division at least 30 days prior to the beginning of that calendar year.

Dividends

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

(b) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). All requests for prior approval shall be received by the Reserve Bank and the Division at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank.

Compliance with Laws and Regulations

14. (a) The Bank shall immediately take all necessary steps to correct any violations of law or regulation cited in the Report of Examination, including any violation of Regulation O of the Board of Governors, 12 C.F.R. Part 215. In addition, the Bank shall take necessary steps to ensure future compliance with all applicable laws and regulations, including Regulation O.

(b) In appointing any new director or senior executive officer or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

(c) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the FDIC's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

15. (a) Within 15 days of this Agreement, the boards of directors of the Bank shall appoint a joint compliance committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors of the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Division, as applicable, written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Policies, and Programs

16. (a) The Bank shall submit written plans, policies, and programs that are acceptable to the Reserve Bank and the Division, as applicable, within the applicable time periods set forth in paragraphs 2, 3, 4, 6(a), 7(c), 8, 10, and 11 of this Agreement.

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

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

Communications

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

(a) Ms. Susan E. Zubradt
Vice President
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

(b) Mr. Fred J. Joseph
Acting Commissioner
Colorado Division of Banking
1560 Broadway, Suite 975
Denver, Colorado 80202

- (c) Mr. Craig J. Walker
Chairman
Colorado Mountain Bank
1000 Main Street
Westcliffe, Colorado 81252

Miscellaneous

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

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

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

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

22. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 3rd day of September, 2009.

COLORADO MOUNTAIN BANK

By: /s/ Craig J. Walker
Craig J. Walker
Chairman

FEDERAL RESERVE BANK
OF KANSAS CITY

By: /s/ Susan E. Zubradt
Susan E. Zubradt
Vice President

COLORADO DIVISION OF BANKING

By: /s/ Fred J. Joseph
Fred J. Joseph
Acting Commissioner