

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

OREGON DIVISION OF FINANCE AND CORPORATE SECURITIES
SALEM, OREGON

Written Agreement by and among)	
)	
PRINEVILLE BANCORPORATION)	
Prineville, Oregon)	
)	
COMMUNITY FIRST BANK)	
Prineville, Oregon)	
)	
FEDERAL RESERVE BANK)	Docket Nos. 04-029-WA/RB-HC
OF SAN FRANCISCO)	04-029-WA/RB-SM
San Francisco, California)	
)	
and)	
)	
OREGON DIVISION OF FINANCE)	
AND CORPORATE SECURITIES)	
Salem, Oregon)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Prineville Bancorporation, Prineville, Oregon (“Prineville”), a registered bank holding company, and its subsidiary bank, the Community First Bank, Prineville, Oregon (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Prineville, the Bank, the Federal Reserve Bank of San Francisco (the “Reserve Bank”), and the Oregon Division of Finance and Corporate Securities, Salem, Oregon (the “Division”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on December 20, 2004, the boards of directors of Prineville and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing John Shelk, to enter into this Agreement on behalf of Prineville and the Bank, respectively, and consenting to compliance by Prineville and the Bank and their institution-affiliated parties, as defined by sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and 1818 (b)(3)) (the "FDI Act"), with each and every applicable provision of this Agreement.

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

Board Oversight

1. Within 60 days of this Agreement, the Bank's board of directors 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 Bank's board of directors will take to improve the Bank's condition and maintain effective control over and supervision of the Bank's senior management, major operations, and activities, including, at a minimum: (i) the credit risk management program, including loan underwriting, documentation, grading, and administration; and (ii) training and compliance programs;
- (b) the responsibility of the Bank's board of directors to: (i) implement policies and procedures that are commensurate with the Bank's size and complexity; and (ii) monitor management's adherence to approved policies and procedures and applicable laws and regulations;
- (c) steps the Bank's ^{BOARD OF DIRECTORS} will take to ensure that committee meetings are held as required by the Bank's policies and procedures, and that detailed minutes of the meetings are maintained for subsequent board and supervisory review;

- (d) a description of the detailed information to be included in the periodic reports that will be reviewed by the Bank's board of directors in its oversight of the operations and management of the Bank, including, but not limited to, minutes of the Bank's loan committee meetings; and
- (e) the deficiencies related to the Bank's board of directors' oversight of management noted in the joint combined report of examination of the Bank conducted by the Reserve Bank and the Division in March 2004 (the "Report of Examination").

Audit and Internal Controls

2. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written internal audit program that shall, at a minimum, address, consider, and include:

- (a) Procedures for the periodic (at least annually) assessment of the adequacy of internal controls and compliance with the Bank's policies and procedures and with applicable laws and regulations for each audit area, including, but not limited to, loan operations and the reconciliation and certification process;
- (b) the development of a comprehensive audit plan for 2005, and the establishment of an audit schedule to ensure that all areas of the Bank's balance sheet and income and expenses are audited at least yearly;
- (c) procedures for management to review audit reports quarterly, respond in writing to criticisms in the audit report, and implement and monitor corrective actions that are responsive to the audit findings;
- (d) the submission to the Bank's board of directors' audit committee of the quarterly audit reports and management responses;
- (e) the Amended Interagency Guidance on the Internal Audit Function and its Outsourcing (SR 03-05), dated April 22, 2003; and
- (f) corrective steps to address the criticisms of the audit and internal control functions noted in the Report of Examination.

Strategic Plan and Budget

3. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written strategic business plan for 2005 for improving the overall condition of the Bank. The plan, at minimum, shall provide for or describe:

- (i) The major areas in and means by which the Bank's board of directors will seek to improve the Bank's operating performance;
- (ii) a comprehensive budget;
- (iii) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components and provisions needed to establish and maintain an adequate loan loss reserve; and
- (iv) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) As long as this Agreement is in effect, a business plan and budget for each calendar year subsequent to 2005 shall be submitted to the Reserve Bank and the Division at least one month prior to the beginning of that calendar year.

Credit Risk Management

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable revised written loan policies and procedures that are appropriate to the Bank's size, loan products, and market strategies. The revised loan policies and procedures shall, at a minimum, address, consider, and include:

- (a) Underwriting standards for commercial loans, including (i) a periodic review to be conducted at least annually of all credit relationships above \$150,000 and (ii) a requirement that records of the review will be maintained in the Bank's credit files for subsequent supervisory review;

- (b) controls to ensure uniform adherence to all loan policies and procedures and management and reporting systems and to ensure that exceptions to loan policies and procedures are promptly reported to the Bank's board of directors;
- (c) compliance with the standards for appraisals set out in the Interagency Statement on Independent Appraisal and Evaluation Functions, dated October 27, 2003, and the requirements of Subpart G of Regulation Y of 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 Board of Governors' Guidelines for Real Estate Appraisal Policies and Review;
- (d) controlling and monitoring concentrations of credits, including
 - (i) establishing concentration of credit limits for acceptable industries and types of loans, including commercial real estate loans; and
 - (ii) managing the risks associated with asset concentrations;
- (e) development, approval, and implementation of procedures to place loans on non-accrual status, to charge off problem loans, and to transfer loans to the other real estate loan category; and
- (f) the deficiencies in loan policies and procedures noted in the Report of Examination.

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written revised loan review program. The program shall provide for an independent loan review function to identify, categorize, and monitor problem credits to assess the overall quality of the Bank's loan portfolio and to address the loan review deficiencies described in the Report of Examination. The program shall, at a minimum, address, consider, and include:

- (a) A description of the risk grades to be assigned to each loan;
- (b) the designation of the individuals who will be responsible for determining loan grades;
- (c) the scope and frequency of loan review and grading; and

- (d) periodic reporting to the Bank's board of directors the status of the loan reviews and the actions taken by management to improve the Bank's position on each loan adversely graded.

Allowance for Loan and Lease Losses

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a description of the methodology used to determine the adequacy of the reserve for loan and lease losses. The methodology shall address the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001, and examiners' criticisms noted in the Report of Examination, including, but not limited to, criticism of the Bank's loan review and credit grading systems. Thereafter, at a minimum on a calendar quarterly basis, the Bank shall conduct an assessment of its loan loss reserve and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the Division the quarterly assessment, including the methodology used in determining the amount of loan loss reserve for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Information Technology

7. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve the Bank's information technology function, which shall, at a minimum, address, consider, and include:

- (a) An enterprise-wide information security risk assessment, as required by Appendix D-2 to Regulation H of the Board of Governors (12 C.F.R. Part 208, App. D-2) and Appendix F to Regulation Y of the Board of Governors (12 U.S.C. Part 225, App. F), to enable the Bank to meet all applicable requirements for protecting nonpublic customer information and to assist the Bank in making future appropriate adjustments to their information security safeguards;
- (b) revisions to current policies, procedures, and controls to address logical information security;

- (c) procedures and controls to strengthen the effectiveness and integrity of the Bank's information security program, including but not limited to segregation of duties and password security;
- (d) the Board of Governors' Guidance on the Risk Management of Outsourced Technology Services (SR 00-17), dated November 30, 2000; and
- (e) information security and technology deficiencies noted in the Report of Examination.

Business Continuity

8. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written disaster recovery and business continuity program (the "Program") describing the specific actions that will be taken to ensure the prompt resumption of business activity in the event of an emergency that affects information technology systems and operations. The Program, at a minimum, shall address, consider, and include:

- (i) A risk assessment;
- (ii) the designation of a qualified business continuity officer;
- (iii) back-up systems necessary to recover and restore facilities, hardware, software, communications, data files, customer files and services;
- (iv) written contracts with service providers and vendors;
- (v) periodic testing of the Program;
- (vi) annual board of directors' review of the Program; and
- (vii) the Federal Financial Institutions Examination Council's Guidance on Operations and Wholesale Payment Systems, issued August 26, 2004.

(b) Within 10 days after the Bank conducts its initial test of the Program, the Bank shall submit the results of the test to the Reserve Bank and the Division.

Asset/ Liability Management and Liquidity

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division acceptable written revised asset/liability management policies designed to improve management of the Bank's liquidity and sensitivity to market risk.

(a) The revised policy regarding liquidity shall, at a minimum, address, consider, and include: (i) appropriate measures to monitor the Bank's liquidity position; (ii) appropriate standards for volume, mix, and maturity of the Bank's loans, investments, deposits, and alternative funding sources; (iii) specific liquidity targets and parameters, and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands; (iv) a contingency funding plan to identify the sources of liquidity; and (v) the recommendations regarding liquidity in the Report of Examination.

(b) The policy regarding sensitivity to market risk shall, at a minimum, address the following parameters for interest rate risk: (i) appropriate guidelines for "GAP" management; (ii) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and (iii) appropriate parameters governing the economic risk to the Bank's capital due to changes in interest rates.

Compliance with Laws and Regulations

10. The Bank shall immediately take all necessary steps consistent with sound banking practices to correct all violations of laws and regulations set forth in the Report of Examination. In addition, the Bank's board of directors shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

Dividends and Interest

11. (a) Prineville and 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) Prineville shall not make any distribution of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Division;

(c) Prineville shall not take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the Division.

(d) 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 or distribution date and shall contain, but not be limited to, current and projected information on consolidated earnings, and cash flow, capital, asset quality, and loan loss reserve needs of the Bank.

Debt and Stock Redemption

12. (a) Prineville shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank and the Division. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Prineville shall not redeem any stock without the prior written approval of the Reserve Bank and the Division.

Management

13. (a) In appointing any new officers or directors, 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 of the Federal Reserve System (12 C.F.R. Part 215).

(b) 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) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with Agreement

14. (a) Within 15 days of this Agreement, the boards of directors of Prineville and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate Prineville's and the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall be comprised of three or more outside directors who are not executive officers or principal shareholders of Prineville or the Bank, as defined in section 215.2 (e)(1) of Regulation O of the Board of Governors (12 C.F.R. 215.2(e)(1)). At a minimum, the Compliance Committee shall keep detailed minutes of each meeting, and shall report its findings to the boards of directors on a monthly basis.

(b) Within 30 days after the end of each calendar quarter (March 31, June 30, September 30, and December 31) commencing on March 31, 2005, the boards of directors of Prineville and the Bank shall submit to the Reserve Bank and the Division written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof. Such reports may be discontinued when the corrections required by this Agreement have been accomplished and the Reserve Bank and the Division have, in writing, released Prineville and the Bank from making further reports.

Approval of Plans, Policies, and Procedures

15. The written plans, policies, procedures, and programs required by paragraphs 2, 4, 5, 7, 8, and 9 of this Agreement shall be submitted to the Reserve Bank and the Division for review and approval. The acceptable plan, policies, procedures, and programs shall be submitted within the time periods set forth in this Agreement. The Bank and, where applicable, Prineville shall adopt the approved plan, policies, procedures, and programs within 10 days of approval by the Reserve Bank and the Division and then shall fully comply with them. During the term of this Agreement, the approved plan, policies, procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

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

- (a) Mr. Philip Ryan
Director
Enforcement and Applications
Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105
- (b) Mr. Floyd Lanter
Administrator
Division of Finance and Corporate Securities
350 Winter Street, NE
Salem, Oregon 97301-3881
- (c) Mr. Stuart J. Shelk, Jr.
Chairman of the Boards of Directors
Prineville Bancorporation and Community First Bank
555 North West Third Street
Prineville, Oregon 97754-1715

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

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

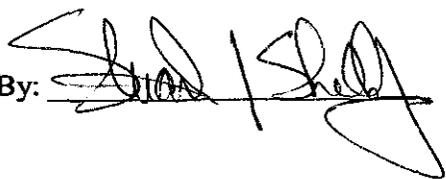
19. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank and the Division.

20. 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 Prineville, the Bank, or any of their current or former institution-affiliated parties.

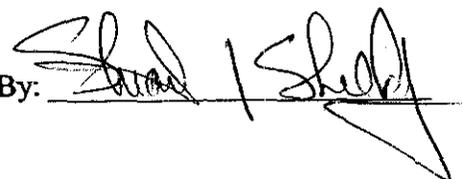
21. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of this 20th day of December 2004.

Prineville Bancorporation

By: 

Community First Bank

By: 

Federal Reserve Bank of San Francisco

By: 

Oregon Division of Finance and
Corporate Securities

By: 