

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

STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS
RICHMOND, VIRGINIA

Written Agreement by and among

VIRGINIA COMMUNITY BANKSHARES, INC.
Louisa, Virginia

VIRGINIA COMMUNITY BANK
Louisa, Virginia

FEDERAL RESERVE BANK OF RICHMOND
Richmond, Virginia

and

STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS
Richmond, Virginia

Docket Nos. 11-064-WA/RB-HC
11-064-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Virginia Community Bankshares, Inc., Louisa, Virginia (“Bankshares”), a registered bank holding company, and its subsidiary bank, Virginia Community Bank, Louisa, Virginia (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, Bankshares, the Bank, the Federal Reserve Bank of Richmond (the “Reserve Bank”), and the State Corporation Commission Bureau of Financial Institutions (the “Bureau”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on June 21, 2011, the boards of directors of Bankshares and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing A. Pierce Stone to enter into this Agreement on behalf of Bankshares and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by Bankshares and the Bank, and their 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, Bankshares, the Bank, the Reserve Bank, and the Bureau agree as follows:

Source of Strength

1. The board of directors of Bankshares shall take appropriate steps to fully utilize Bankshares’ financial and managerial resources, pursuant to section 225.4(a) of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure the Bank complies with this Agreement, and any other supervisory action taken by the Bank’s federal or state regulator.

Board Oversight

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Bureau 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 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 major operations

and activities, including but not limited to, credit risk management, lending, credit administration, capital, earnings, asset quality, and information technology;

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

(c) steps to improve the information and reports that will be regularly reviewed by the Bank's board of directors in its oversight of the operations and management of the Bank, including information on the Bank's loan portfolio, adversely classified assets, concentrations of credit, allowance for loan and lease losses ("ALLL"), capital, liquidity, earnings, and information technology, and the status of measures taken by management to address supervisory findings.

Management Review

3. Within 60 days of this Agreement, the board of directors shall submit a written management plan to the Reserve Bank and the Bureau that addresses the findings and conclusions of the recently completed independent management review and describes the specific actions the board of directors will take to strengthen the Bank's management and to hire, as necessary, additional or replacement personnel.

Credit Risk Management

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Strategies to minimize credit losses and reduce the level of problem assets;
- (b) enhanced portfolio monitoring and problem loan watch list reporting;

- (c) timely and accurate identification and quantification of credit risk within the loan portfolio;
- (d) procedures to limit and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1);
- (e) a schedule for reducing and the means by which the Bank will reduce the level of commercial real estate concentrations, and timeframes for achieving the reduced levels; and
- (f) enhanced stress testing of loan and portfolio segments.

Lending and Credit Administration

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written lending and credit administration program that shall, at a minimum, address, consider, and include:

- (a) Underwriting standards that require documented analysis of: (i) the borrower's global cash flow, and overall debt service ability; and (ii) the value of any collateral, including, but not limited to, the time the loan is originated, renewed, material changes occur, or market conditions change;
- (b) policies and procedures to minimize financial and document exceptions;
- (c) appropriate controls on acquisition, development and construction loans draws, including, but not limited to, a description of the documents necessary to support disbursements, ongoing assessment, inspection, and reporting of real estate development project status; and aggregate portfolio status;

(d) written standards for when reappraisals and reevaluations must be conducted, including, but not limited to, the timely incorporation of information obtained in credit quality analyses;

(e) monitoring adherence to the Bank's lending policy and compliance with laws, rules, and regulations pertaining to the Bank's lending function; and

(f) enhancements to the loan workout process to ensure that workout plans for problem loans are consistent with the Interagency Guidance on Prudent Commercial Real Estate Loan Workouts, dated October 30, 2009 (SR 09-7).

Loan Grading

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau a report on progress in implementing the credit evaluation standards adopted by the Bank's board of directors of April 18, 2011. In addition to general progress, the report should address:

(a) Controls to ensure staff's consistent application and adherence to the loan grading system; and

(b) improvements to the Bank's management information systems to ensure that senior management and the board of directors obtain timely and accurate information regarding the condition of the Bank's loan portfolio, including, but not limited to reports that summarize the Bank's loan grades; describes trends in asset quality; identifies the loans that are nonperforming, adversely graded, or identified as needing special attention, describes the status of those loans, and describes the actions taken, or to be taken, by management for strengthening of the quality of any such loans.

Asset Improvement

7. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the concurrent reports of inspection and examination conducted by the Reserve Bank and the Bureau that commenced on May 3, 2010 (collectively, the “Report of Examination”), or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying : (i) the Bank’s risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank’s interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit and 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 meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information 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)).

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$250,000, including other real estate owned ("OREO"), that are past due as to principal or interest more than 90 days as of the date of this Agreement, are on the Bank's problem loan list, or were adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan, relationship, or other asset in excess of \$250,000, 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 Bureau an acceptable written plan to improve the Bank's position on such loan, relationship, 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 Bureau to update each asset improvement plan, to 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

9. (a) 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 Bureau.

(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 Bureau. 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 collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the Bank’s 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 Bureau, 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 the ALLL for that quarter.

Capital Plan

10. Bankshares and the Bank shall notify the Reserve Bank and the Bureau, in writing, no more than 30 days after the end of any calendar quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the minimum ratios set forth in the capital plan which was approved by the Reserve Bank and the Bureau and adopted by the Bank's board of directors on January 18, 2011. Together with the notification, the Bankshares and the Bank shall submit an acceptable written plan that details the steps Bankshares and the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

Earnings Plan and Budget

11. (a) By December 1, 2011, the Bank shall submit to the Reserve Bank and the Bureau a written business plan for 2012 to improve the Bank's earnings and overall condition.

The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for 2012, including income statement and balance sheet projections; and
- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) During the term of this Agreement, a business plan and budget for each calendar year subsequent to 2012 shall be submitted to the Reserve Bank and the Bureau at least 30 days prior to the beginning of that calendar year.

Information Technology

12. Within 60 days of the Agreement, the Bank shall take all steps necessary to ensure compliance with the requirements of 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).

Dividends

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

(b) Bankshares shall not directly or indirectly take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the Bureau.

(c) All requests for prior written approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on Bankshares’ capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bankshares and the Bank, as appropriate, must also demonstrate the requested declaration or payment of dividends is 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), and the provisions of Section 6.2-869 of the Code of Virginia.

Debt and Stock Redemption

14. (a) Bankshares shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank and the Bureau. 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) Bankshares shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank and the Bureau.

Compliance with Laws and Regulations

15. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so 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.).

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

Compliance with the Agreement

16. Within 30 days after the end of each calendar quarter following the date of this Agreement, Bankshares and the Bank shall submit to the Reserve Bank and the Bureau joint

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 and Programs

17. (a) The Bank and, as applicable, Bankshares, shall submit written plans and programs that are acceptable to the Reserve Bank and the Bureau within the applicable time periods set forth in paragraphs 4, 5, 6, 8(a), and 9(c) of this Agreement.

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

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

Communications

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

- (a) Mr. Eugene W. Johnson, Jr.
Vice President
Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261-7622
- (b) Mr. John M. Crockett
Deputy Commissioner
State Corporation Commission
Bureau of Financial Institutions
P.O. Box 640
Richmond, Virginia 23218

- (c) Mr. A. Preston Moore, Jr.
President and Chief Executive Officer
Virginia Community Bankshares, Inc.
Virginia Community Bank
114 Industrial Drive
Louisa, Virginia 23093

Miscellaneous

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

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

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

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

23. 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). This Agreement is enforceable by the Bureau under Chapter 8 (§ 6.2-800 et. seq.) of the Code of Virginia.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 29th of June, 2011.

VIRGINIA COMMUNITY
BANKSHARES, INC.
VIRGINIA COMMUNITY BANK

FEDERAL RESERVE BANK
OF RICHMOND

By: /s/ A. Pierce Stone
A. Pierce Stone
Chairman

By: /s/ Eugene W. Johnson, Jr.
Eugene W. Johnson, Jr.
Vice President

STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL
INSTITUTIONS

By: /s/ John M. Crockett
John M. Crockett
Deputy Commissioner