

**SUPERVISORY AGREEMENT  
BETWEEN  
HIGH COUNTRY BANK  
AND  
THE OFFICE OF THRIFT SUPERVISION**

This Supervisory Agreement (the Agreement) is made this 2nd day of December, 2004; and shall become effective upon its execution by the Office of Thrift Supervision (OTS), through its authorized representative whose name appears below (the date of such execution is the Effective Date), by and between High Country Bank (the Institution), a federally chartered stock association, having its principal office located at 7360 W. Highway 50, Salida, Colorado, and the OTS, an office within the U.S. Department of the Treasury, having its principal offices located at 1700 G Street, N.W., Washington, D.C., 20552, acting through its West Regional Director, or his designee (the Regional Director).

**WHEREAS**, the Institution is: (1) a "savings institution" within the meaning of Section 3 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C.A. § 1813(b), and Section 2 of the Home Owners' Loan Act, 12 U.S.C.A. § 1462(4); and (2) an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C.A. § 1813(c); and

**WHEREAS**, the OTS is the primary federal regulator of the Institution; and

**WHEREAS**, based on the findings of the current regular examination, the OTS is of the opinion that the Institution has engaged in acts and practices that: (a) the OTS considers to be unsafe and unsound; and (b) have resulted in violations of certain laws or regulations to which the Institution is subject; and

**WHEREAS**, the OTS is of the opinion that grounds exist for the initiation of administrative enforcement against the Institution; and

**WHEREAS**, the OTS is of the view that it is appropriate to take measures intended to ensure that the Institution will comply with applicable laws and regulations and engage in safe and sound practices; and

**WHEREAS**, the Institution, acting through its duly elected Board of Directors (Board), without admitting or denying any unsafe and unsound practices or regulatory violations, wishes to cooperate with the OTS and to evidence its intent to: (i) comply with all applicable laws, regulations, and guidance; and (ii) engage in safe and sound practices.

**NOW, THEREFORE**, in consideration of the foregoing and the mutual undertakings set forth herein, the parties agree as follows:

**I. CORRECTIVE PROVISIONS**

**A. Business Plan**

Within sixty (60) days of the Effective Date, the Board shall approve and submit to the OTS Assistant Regional Director (the ARD) for review and nonobjection a revised three-year business plan (the Business Plan) that:

1. Sets forth specific strategic goals and objectives;
2. Provides for portfolio diversification with established targets for portfolio mix and credit risk;
3. Limits the level of commercial and commercial real estate loans to levels, as a percentage of assets and capital, set by the Board;
4. Evaluates the number of personnel and skills needed for underwriting, processing, and auditing lending activities;
5. Establishes policies and procedures and internal controls appropriate for the types of loans offered;
6. Establishes guidelines regarding the payment of dividends in relation to net income and capital; and
7. Provides for maintaining at least "well-capitalized" status, with minimum tangible, core, and risk-based capital ratios that are appropriate for the risk profile of the Institution. The

Business Plan shall include the Board's supporting analysis for the tangible, core, and risk-based capital targets that it establishes in the Business Plan.

**B. Loan Policy**

Within forty-five (45) days of the Effective Date, the Board shall approve and submit to the OTS ARD for review and nonobjection a loan policy (the Loan Policy) that, at a minimum:

1. Requires lending decisions to be based primarily on the documentation and analysis of the capacity of the borrower to repay rather than reliance on the collateral;
2. Complies with the safety and soundness guidelines related to loan documentation and credit underwriting set forth in Sections II(C) and (D) of Appendix A to the Safety and Soundness Guidelines at 12 C.F.R. Part 570, with the requirements of 12 C.F.R. § 560.170, and with all other applicable statutes and regulations;
3. Requires a loan approval worksheet for all nonhomogeneous loans, signed by the loan officer, documenting the reasons for loan approval and that all required credit and collateral documentation has been obtained and analyzed and is documented in the file, including an assessment of the borrower's and any guarantor's ability to repay the debt, a detailed analysis of the borrower's and guarantor's cash flow, property cash flow (if real estate secured), collateral value validation, background information on owners of borrowing companies, and policy exceptions;
4. For all nonhomogenous loans, requires formal loan presentations to the loan committee, the Board or both, as appropriate, and documentation of their decisions.
5. Requires validation of the nature and value of any underlying collateral for all secured loans;

6. Sets forth prudent guidelines for underwriting and monitoring construction-related loans, including land development projects, which guidelines shall require detailed cost estimates and well-documented inspection reports detailing completion of work prior to allowing requested draws;

7. Provides for ongoing loan officer responsibility to maintain current documentation as required by the Loan Policy and the Appraisal Policy, established under Section I(D), below; and

8. Revises the current scope of internal asset review to verify that the loan documentation and credit underwriting practices comply with Sections II(C) and (D) of Appendix A to Part 570 Guidelines, with 12 C.F.R. § 560.170, with applicable regulations, and with the revised loan documentation and credit underwriting policies required by the Loan Policy;

### **C. Asset Quality**

Within sixty (60) days of the Effective Date, the Board shall approve and submit to the OTS ARD for review and nonobjection an asset quality policy (the "AQ Policy") that, at a minimum, includes:

1. Procedures for promptly identifying problem assets and recognizing losses per SFAS 114, addressing the findings of the internal asset review department, and determining the adequacy of allowances for loan and lease losses (ALLL) in accordance with 12 C.F.R. § 560.160;

2. A plan to improve asset quality with Board-established specific targets for reductions in classified assets and nonperforming loans as a percentage of equity capital;

3. A revised method for calculating ALLL that segments the portfolio and considers all relevant factors in estimating loss exposures; and

4. Reserve policies and practices that comply with the July 2001 Interagency Policy Statement regarding "ALLL Methodologies and Documentation for Banks and Savings Institutions," SFAS 5, and SFAS 114.

**D. Appraisal Policy**

1. Within forty-five (45) days of the Effective Date, the Board shall approve and submit to the OTS ARD for review and nonobjection policies and procedures governing all aspects of the Institution's appraisal function (the Appraisal Policy). The Appraisal Policy shall conform to 12 C.F.R. Part 564. At a minimum, the Appraisal Policy shall include:

- a. Procedures to ensure appraiser qualification requirements for different types of property;
- b. Procedures to ensure the timely appraisal of real property that represents the primary collateral behind any extension or renewal of credit;
- c. Procedures to ensure new appraisals are obtained when:
  - (i) There has been material deterioration in market conditions or physical aspects of the property which would threaten the Institution's collateral protection; or
  - (ii) There has been deterioration in the borrower's financial condition or credit standing that may affect the value of the collateral;
- d. The establishment of an effective appraisal review function to ensure appraisals comply with 12 C.F.R. Part 564 and the Appraisal Policy, and that the appraisers' assumptions are reasonable and properly supported; and
- e. Regular review by the Board of all exceptions to the Appraisal Policy along with documentation to support the Board's decision to waive policy requirements, with Board-approved policy exceptions documented in the loan file of the affected borrower(s).

2. Within ninety (90) days of the Effective Date, the Institution shall conduct a file search of all real estate-related loans that exceed \$250,000. Any file not containing an appraisal that complies with the Appraisal Policy shall be reported to the ARD along with a plan to bring it into compliance. The Board shall ensure that such plans are implemented. Documentation of the plan and its implementation shall be preserved in the loan file.

**E. Board Oversight Action Plan**

Within sixty (60) days of the Effective Date, the Board shall approve and submit to the OTS ARD for review and nonobjection a written plan to enhance and strengthen the Board's oversight of the Institution (the Board Oversight Action Plan).

**F. Implementation and Adherence to Plan and Policies**

1. Within fifteen (15) days of the ARD's notice of objection, if any, to any aspect of the foregoing Plan or Policies, the Institution shall submit a revised Plan or Policy to the ARD addressing any such objections or comments of the ARD;

2. Once the Plan or Policy is submitted pursuant to this Agreement and all objections from the ARD, if any, have been satisfactorily resolved, the Institution may not amend, suspend, or revoke the Plan or Policy without the prior written nonobjection from the ARD; and

3. Within fifteen (15) days of receiving notice of the ARD's nonobjection to the Plan or Policy, the Institution shall implement the Plan or Policy and ensure that all directors, officers, employees, and agents adhere to it.

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## II. MISCELLANEOUS

### A. Director Responsibility

Notwithstanding the requirements herein that the Institution submit various matters to the Assistant Regional Director (ARD) for review, approval, or nonobjection, such regulatory oversight does not derogate or supplant an individual Board member's responsibility to exercise his or her fiduciary duties to the Institution. The Board shall continue to have the ultimate responsibility for overseeing the safe and sound operation of the Institution at all times, including compliance with the determinations of the Regional Director or the ARD, as required by this Agreement.

### B. Compliance with Agreement

1. The Board and senior management of the Institution shall cause the Institution to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Institution to continue to carry out the provisions of this Agreement.

2. Within forty-five (45) days following the end of each calendar quarter, the Board shall adopt a resolution (Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including reports of management and consultants, if any), to the best of its knowledge and belief, during the immediately preceding quarter, the Institution has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall either directly or through reference to a separately proposed report:

a. Specify in detail how compliance was achieved with each provision of this Agreement;

b. Specify in reasonable detail how, if at all, full compliance was found not to exist;  
and

c. Identify all notices of exemption or nonobjection issued by the Regional Director or the ARD that were outstanding as of the date of its adoption.

3. The minutes of each meeting of the Board at which a Compliance Resolution is adopted shall set forth the following information with respect to the adoption of such Compliance Resolution:

a. The identity of each director voting in favor of its adoption; and

b. The identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.

4. No later than ten (10) days after the date of the monthly Board meeting at which a Compliance Resolution is adopted, the Institution shall provide to the ARD a certified true copy of the Compliance Resolution(s) adopted by the Board. The Board, by virtue of the Institution's submission of a certified true copy of each such Compliance Resolution to the ARD, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Institution.

**C. Definitions**

All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations (CFR), the Home Owners' Loan Act (HOLA), the Federal Deposit Insurance Act (FDIA), or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in the CFR, HOLA, FDIA, or OTS Memoranda shall have meanings that accord with the best custom and usage in the savings and loan industry.

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**D. Successor Statutes, Regulations, Guidance, Amendments**

References in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions that have been made as of the Effective Date of this Agreement and references to successor provisions as they become applicable.

**E. Notices**

1. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver, or other document (collectively, Notices) provided or permitted by this Agreement to be made upon, given or furnished to, delivered to, or filed with the OTS or the Institution shall be in writing and mailed, by first class mail or overnight courier, or delivered by means of electronic transmission or personal delivery, addressed as follows:

Office of Thrift Supervision  
2001 Junipero Serra Boulevard  
Suite 650  
Daly City, CA 94014  
Attn: Laura Fiene

High Country Bank  
7360 W. Highway 50  
Salida, CO 81201-2004

Attn: Board of Directors

2. Any Notice shall be deemed duly given when received by the addressee thereof. Any party to this Agreement may from time to time change its address for receiving Notices by giving written notice thereof to the other party in the manner set forth above.

**F. Duration, Amendment, Termination, or Suspension of Agreement**

1. This Agreement shall:

a. Become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and

b. Remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof). No

amendment or modification of this Agreement shall be valid or binding unless executed in writing by the Institution and the OTS, acting through the Director, Regional Director, or his or her authorized designee.

2. The Regional Director, or his or her designee, in his or her sole discretion, may, by written notice, suspend or waive (temporarily or permanently) any or all provisions of this Agreement.

**G. Time Limits**

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

**H. Effect of Headings**

The Section headings herein are for convenience only and shall not affect the construction hereof.

**I. Separability Clause**

In case any provision in this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

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**J. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted**

1. Nothing in this Agreement shall be construed to:

a. Allow or require the Institution to violate any law, rule, regulation, or policy statement to which it is subject; or

b. Restrict the OTS from taking such action(s) that is appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement, or resolution action that the OTS determines to be appropriate.

2. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to the Institution as a result of this Agreement. The Institution acknowledges that it has not received any oral or written representations to the contrary by the OTS or any of its agents or employees.

**K. Successors in Interest/Benefit**

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, and the Federal Deposit Insurance Corporation and their successors and assigns, any benefit or any legal or equitable right, remedy or claim under this Agreement.

**L. Integration Clause; Impact on Other Enforcement Documents**

This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to its subject matter.



IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Institution, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the effective date.

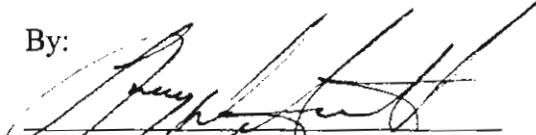
OFFICE OF THRIFT SUPERVISION

By:

  
Name: Laura M. Fiene  
Title: Assistant Regional Director

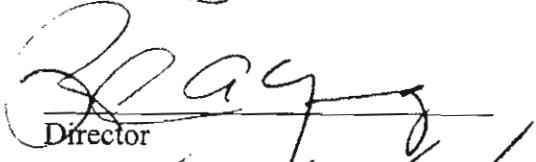
HIGH COUNTRY BANK

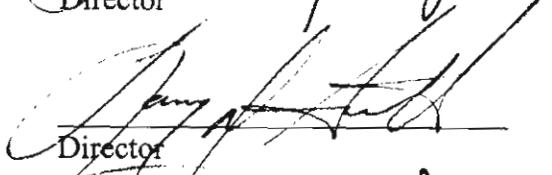
By:

  
Name: Larry D. Smith  
Title: President

DIRECTORS OF HIGH COUNTRY BANK

  
Director

  
Director

  
Director

  
Director

  
Director

