

AGREEMENT BY AND BETWEEN
Peoples National Bank
Monument, Colorado
and
The Office of the Comptroller of the Currency

Peoples National Bank, Monument, Colorado (“Bank”) and the Acting Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through her National Bank Examiner, has examined the Bank, and concluded that the Bank has engaged in unsafe or unsound practices and/or violations of law with respect to capital, assets, management and compliance.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through her authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans that the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Denver Field Office
1225 17th Street, Suite 450
Denver, Colorado 80202

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than 2 shall be employees of the Bank. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the appointment of the Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

ARTICLE III

MANAGEMENT AND BOARD SUPERVISION STUDY

(1) Within one hundred twenty (120) days, the Compliance Committee, named in Article II above, shall complete a study of current management and Board supervision presently being provided to the Bank, the Bank's management structure, and its staffing requirements in light of the Bank's present condition. The findings and recommendations of the Committee shall be set forth in a written report to the Board. At a minimum, the report shall contain:

- (a) the identification of present and future management and staffing requirements of each area of the Bank, with particular emphasis given to the lending area;
- (b) an evaluation of each officer's qualifications and abilities and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of his/her officer position;
- (c) recommendations as to whether management or staffing changes should be made, including the need for additions to or deletions from the current management team; and
- (d) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities.

(2) Within thirty (30) days of completion of this study, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames, that will correct any deficiencies which are noted in the study.

(3) Copies of the Board's written plan and the Committee's study shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the study and plan and their compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the Assistant Deputy Comptroller, in writing, of specific reasons for deviating from the plan.

ARTICLE IV

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by March 31, 2005 and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) total risk-based capital at least equal to eleven percent (11%) of risk-weighted assets; and
- (b) tier 1 capital at least equal to eight percent (8%) of adjusted total assets.¹

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be "well capitalized" for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

¹ Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets. As further noted in 12 C.F.R. § 3.2(a), a bank may be required to compute and maintain its leverage ratio on the basis of actual, rather than average total assets. This language would have to be modified to reflect that change.

ARTICLE V

LENDING POLICY

(1) Within ninety (90) days, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook. The revisions shall include, but not be limited to:

- (a) definitive guidelines for credit underwriting, particularly in the land and acquisition and development portfolio including parameters for:
 - (i) maximum loan-to-value, and loan-to-cost;
 - (ii) standards for loan maturities and terms;
 - (iii) renewal or extension options, with requirements for curtailment or additional collateral; and
 - (iv) guidelines for amortization if development does not occur within the anticipated period of time/original life of the loan.
- (b) guidelines and standardized formats to ensure consistent loan presentations with narrative details supporting financial and repayment analysis, collateral values, and the borrower's strengths and weaknesses;
- (c) a requirement that current and satisfactory credit information be obtained on each borrower prior to loan approval;
- (d) procedures to correct outstanding credit and collateral exceptions, and an aggregate report of uncorrected exceptions, identified by officer responsibility;

- (e) amendments to the Bank's current loan policy to establish reasonable underwriting and credit administration standards for real estate and construction loan concentrations including:
 - (i) requirements for feasibility studies and sensitivity and risk analysis;
 - (ii) minimum equity requirements for each type of lending;
 - (iii) standards and limits for non-amortizing loans;
 - (iv) standards and limits for interest reserves;
 - (v) pre-leasing and pre-sale requirements for income producing real estate;
 - (vi) types of acceptable guaranties, and requirements for guarantor support;
 - (vii) minimum covenants for loan agreements; and
 - (viii) requirements for takeout commitments.
- (f) systems to track compliance with loan policy standards including:
 - (i) identifying all policy exceptions, both in aggregate and by officer;
 - (ii) identifying and reporting supervisory loan-to-value exceptions;
 - (iii) developing a policy exception report for the Board; and
 - (iv) developing and implementing a post-closing review of loans to ensure compliance with loan committee approval terms, and identification of any policy exception.
- (g) enhancements to loan policy to clarify when covenants are appropriate, including:

- (i) curtailment plans or expectations;
 - (ii) spec to pre-sold expectations;
 - (iii) minimum debt-to-service requirements;
 - (iv) minimum financial covenants, such as liquidity or net worth; and
 - (v) default provisions if there is evidence of discrepancies between funded and completed construction.
- (h) appraisal processes that ensure:
- (i) independent appraisal review for all 12 CFR Part 34 appraisals; and
 - (ii) appraisal review standards that require narrative comment about significant assumptions and conclusions.
- (i) guidelines and limitations on concentrations of credit;
 - (j) concentration reporting to segment geographic concentrations of risk; sub-market analyses; and reporting by type of project. For single family residential development, aggregate reports by tract development, price ranges, spec, pre-sold, and model inventory summaries.
 - (k) maximum ratio of loan to appraised value and loan to costs of collateral securing the loan by type of loan; and
 - (l) guidelines for periodic review of the Bank's adherence to the revised lending policy.

(2) Within sixty (60) days, the Board shall establish an effective and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a

written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook.

(3) Upon adoption, the revised loan policy and loan grading process shall be implemented, the Board shall thereafter ensure Bank adherence to the policy, and a copy of the policies shall be forwarded to the Assistant Deputy Comptroller for review.

ARTICLE VI

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the Report of Examination dated November 29, 2004 ("ROE"), in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and

(d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the criticized asset report (in a format similar to Appendix A, attached hereto) for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds one-hundred thousand dollars (\$100,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed one-hundred thousand (\$100,000), only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior

to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and

- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) A copy of the approval of the Board or of the designated committee pursuant to paragraph (6) above shall be maintained in the file of the affected borrower.

ARTICLE VII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("Allowance") and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in accordance with the guidance for maintaining a proper Allowance found in the Comptroller's Handbook for the Allowance for Loan and Lease Losses and OCC 2001-37, and in addition, shall focus particular attention on the following factors:

- (a) segmenting the portfolio;
- (b) determining and measuring impairment under FAS 114; and
- (c) determining and measuring impairment under FAS 5.

(2) Upon completion, the Board shall submit a copy of the policy to the Assistant Deputy Comptroller for review.

ARTICLE VIII

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent Report of Examination. The quarterly progress reports required by Article XII of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

ARTICLE IX

SUSPICIOUS ACTIVITY REPORTS

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to establish a system of internal controls and processes to ensure compliance with the requirements to file Suspicious Activity Reports set forth in 12 C.F.R. § 21.11, as amended. At a minimum, this written program shall establish procedures for identifying and reporting known or suspected violations of Federal law, violations of the Bank Secrecy Act, or suspicious transactions related to money laundering activity, including suspicious activity relating to the opening of new accounts, the monitoring of current accounts, and the transfer of funds through the Bank.

(2) Upon completion, a copy of this program shall be submitted to the Assistant Deputy Comptroller for review. In the event the Assistant Deputy Comptroller recommends changes to the program, the Board shall immediately incorporate those changes into the program.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE X

BANK OWNED LIFE INSURANCE

(1) Within sixty (60) days, the Board shall develop policies and procedures governing its Bank Owned Life Insurance (“BOLI”) holdings, including guidelines that limit the aggregate cash surrender value (“CSV”) of policies from any one insurance company as well as the aggregate CSV of policies from all insurance companies.

(2) When establishing these internal CSV limits, the Board should consider;

- (a) the Bank’s legal lending limit;
- (b) the capital concentration threshold;
- (c) any applicable state restrictions on BOLI holdings; and
- (d) the guidelines contained in OCC Bulletin 95-7.

(3) Within one hundred twenty (120) days, the board shall ensure the balance of its BOLI is maintained at a reasonable level by either;

- (a) reallocation of the assets between the banks under the holding company commensurate with an individual bank’s employee benefit obligation; or
- (b) divestiture of the assets.

(4) The Board must be able to support, with objective evidence, the reasonableness of all of the assumptions used in determining the appropriate amount of insurance coverage needed by the institution, including the rationale for its discount rates and cost projections.

ARTICLE XI

RETAIL NONDEPOSIT INVESTMENT SALES

(1) Within sixty (60) days, the Board shall develop a written program for the oversight of retail nondeposit investment sales that incorporates all the expectations outlined in OCC Bulletin 2001-47, Third Party Relationships Risk Management Principals, and the Retail Nondeposit Investment Sales booklet of the Comptroller's Handbook. This program shall incorporate, but not necessarily be limited to, the following:

- (a) identification of an officer responsible for day-to-day oversight;
- (b) processes to review third-party activity including a review of written contracts that outline duties, obligations, and responsibilities of the parties involved, and adherence thereto;
- (c) ongoing oversight of retail nondeposit investment sales and vendor activities; and
- (d) regular board reporting, including audit findings and the results of ongoing monitoring.

(2) Upon completion, the Board shall submit a copy of the policy to the Assistant Deputy Comptroller for review.

ARTICLE XII

PROGRESS REPORTING - QUARTERLY

(1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller, Denver Field Office, 1225 17th Street, Suite 450, Denver, Colorado 80202. These reports shall set forth in detail:

- (a) actions taken since the prior progress report to comply with each Article of the Agreement;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the Report of Examination or in any future Report of Examination.

(3) The first progress report shall be submitted for the period ending March 31, 2005, and shall be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the quarter end.

ARTICLE XIII

ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) If the Bank determines that an exception to any provision of this Agreement is in the best interests of the Bank, or requires an extension of any time frame within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief.

(2) Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with any provision, that require the Assistant Deputy Comptroller to exempt the Bank from any provision, or that require an extension of any timeframe within this Agreement. All such requests shall be accompanied by relevant supporting documentation.

(3) The Assistant Deputy Comptroller's decision in granting the request is final and not subject to further review.

ARTICLE XIV

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) This Agreement is intended to be, and shall be construed to be, a supervisory "written agreement entered into with the agency" as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of

consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under her supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of her supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set her hand on behalf of the Comptroller.

/s/ Karen M. Boehler

Karen M. Boehler
Assistant Deputy Comptroller
Denver Field Office

2/22/05

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Signed _____
Stephanie Nauert

2/22/05 _____
Date

Steve Stingley

Date

Mary Winter-Stingley

Date

Signed _____
Winton A. Winter

2/22/05 _____
Date

Signed _____
Adam Y. Winter

2/22/05 _____
Date

Date

Date

Date

Date