

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

COMMUNITY BANKSHARES, INC.
Greenwood Village, Colorado

COMMUNITY BANKS OF COLORADO
Greenwood Village, Colorado

FEDERAL RESERVE BANK OF KANSAS CITY
Kansas City, Missouri

and

COLORADO DIVISION OF BANKING
Denver, Colorado

Docket Nos. 09-028-WA/RB-HC
09-028-WA/RB-SM

WHEREAS, Community Bankshares, Inc., Greenwood Village, Colorado (“Bankshares”), is a registered bank holding company, that owns and controls Community Banks of Colorado, Greenwood Village, Colorado (the “Bank”), Community Banks of Northern California, Tracy, California, and The Citizens State Bank of Cortez, Cortez, Colorado, each a state chartered bank that is a member of the Federal Reserve System, and various nonbank subsidiaries, including, CB Holdings, Inc.

WHEREAS, Community Banks of Northern California entered into a Written Agreement with the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the California

Department of Financial Institutions on September 12, 2008, which agreement remains in full force and effect (the “California Written Agreement”).

WHEREAS, Bankshares, the Bank, 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 March 25th, 2009 the boards of directors of Bankshares and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Donald McG. Woods to enter into this Agreement on behalf of Bankshares and the Bank, and consenting to compliance by Bankshares and its nonbank subsidiaries, 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)), with each and every applicable provision of this Agreement.

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

Risk Management

1. Within 90 days of this Agreement, the board of directors of Bankshares shall submit to the Reserve Bank an acceptable written risk management plan that addresses the findings and recommendations of the inspection of Bankshares that was commenced on November 10, 2008 (the “Report of Inspection”). The plan shall describe the specific actions that the board of directors proposes to take to enhance Bankshares’ overall risk management practices for its subsidiary banks and nonbank subsidiaries (collectively the “Consolidated Organization”). The plan shall, at a minimum, address, consider, and include:

(a) Establishing a risk management program that adequately identifies, measures, monitors, and controls the risks of the Consolidated Organization;

(b) policies and procedures to strengthen risk monitoring practices and management information systems that identify and measure all material risk exposures of the Consolidated Organization and report accurate and timely information to management and the board of directors regarding: concentrations of credit; level of adversely classified assets; timely problem loan identification and accurate classification; past due loans and trends; status of collection of payments on past due loans; loan work outs; the adequacy of the allowance for loan and lease losses (“ALLL”); capital adequacy; liquidity; and earnings; and

(c) a description of the information and reports that will be regularly reviewed by the boards of directors in their oversight of the operations and management of the Consolidated Organization, including information regarding: concentrations of credit; level of adversely classified assets; timely problem loan identification and accurate classification; past due loans and trends; status of collection of payments on past due loans; loan work outs; the adequacy of the ALLL; capital adequacy; liquidity; and earnings.

Board Oversight

2. 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, ALLL, capital, and liquidity; and

(b) 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 adversely classified assets, status of collection of payments on past due loans, ALLL, capital, liquidity, and earnings.

Credit Risk Management

3. 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;

(b) enhanced procedures for the prompt and accurate identification of credit risk in the loan portfolio;

(c) enhancements to the internal loan grading system to accurately classify individual problem credits;

(d) enhanced management information systems to provide accurate and timely information to the Bank's management and board of directors, including but not limited to,

updated problem loan reports and the status of collection of payments on past due loans;

(e) policies and procedures for the appropriate use of interest reserves and enhanced monitoring of loans with interest reserves; and

(f) measures to address the deficiencies in credit administration that were noted in the report of examination of the Bank conducted jointly by the Division and the Reserve Bank that commenced on October 27, 2008 (the "Report of Examination").

Asset Improvement

4. (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 or any affiliate of the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or any affiliate of the Bank or classified, in whole or in part, "loss" in the Report of Examination or Report of Inspection, or in any subsequent report of examination or report of inspection, 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 as "doubtful" or "substandard" in the Report of Examination or Report of Inspection or in any subsequent report of examination or report of inspection, 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 of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 215.2(n)).

5. (a) Within 90 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 \$1,000,000, 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 \$1,000,000, 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, extension report, and past due/non-accrual report.

6. (a) Within 60 days of this Agreement, Bankshares shall submit to the Reserve Bank an acceptable written plan designed to improve its position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$500,000, including OREO, that was adversely classified in the Report of Inspection.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$500,000, including OREO, is adversely classified in any subsequent report of inspection, Bankshares shall submit to the Reserve Bank an acceptable written plan to improve its position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, Bankshares shall submit a written progress report to the Reserve Bank to update each asset improvement plan.

Allowance for Loan and Lease Losses

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

(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.

8. Within 60 days of this Agreement, Bankshares shall adopt and implement a methodology and program for the maintenance of an adequate ALLL by Bankshares as described in paragraphs 7(b) and 7(c), as applicable, of this Agreement. Bankshares shall submit a description of the methodology to the Reserve Bank upon adoption.

Capital Plan

9. Within 60 days of this Agreement, Bankshares shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at Bankshares, on a consolidated basis, and the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to maintain sufficient capital at the Bank, as a separate legal entity on a stand-alone basis. These plans shall, at a minimum, address, consider, and include:

(a) The Consolidated Organization's and the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital requirements, including 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);

(c) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(d) the source and timing of additional funds to fulfill the Consolidated Organization's and the Bank's future capital requirements;

(e) any capital plan submitted pursuant to the California Written Agreement;

(f) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Bankshares serve as a source of strength to its subsidiary banks; and

(g) procedures for Bankshares and the Bank to: (i) notify the Reserve Bank and the Division, in writing, no more than 30 days after the end of any quarter in which Bankshares' consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the plan's minimum ratios; and (ii) submit simultaneously to the Reserve Bank and Division an acceptable written plan that details the steps Bankshares or the Bank will take to increase Bankshares' or the Bank's capital ratios above the respective plan's minimums.

10. Bankshares' board of directors shall monitor and review the sufficiency of the Consolidated Organization's capital and the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors.

11. The Bank's board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors.

Liquidity and Funds Management

12. 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; and (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.

Earnings Plan and Budget

13. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written business plan for 2009 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 calendar year 2009, 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) 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 and Distributions

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

(b) Bankshares and its nonbank subsidiaries shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Bank or

any other insured depository institution subsidiary of Bankshares without the prior written approval of the Reserve Bank.

(c) Bankshares and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received by the Reserve Bank and the Division, as applicable, at least 30 days prior to the proposed dividend declaration date, proposed distribution date on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information on Bankshares' capital, earnings, and cash flow; the Bank's capital, asset quality, earnings, and ALLL; 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 that 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).

Debt and Stock Redemption

15. (a) Bankshares and any nonbank subsidiary shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. 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.

Cash Flow Projections

16. Within 60 days of this Agreement, Bankshares shall submit to the Reserve Bank a written statement of its planned sources and uses of cash for debt service, operating expenses, and other purposes (“Cash Flow Projections”) for 2009. Bankshares shall submit to the Reserve Bank Cash Flow Projections for each calendar year subsequent to 2009 at least one month prior to the beginning of that calendar year.

Compliance with Laws and Regulations

17. 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, Bankshares and 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.*).

18. Bankshares and 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

19. (a) Within 15 days of this Agreement, the boards of directors of Bankshares and the Bank shall appoint a joint compliance committee (the “Compliance Committee”) to monitor and coordinate Bankshares’ and 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 Bankshares and 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 boards of directors of Bankshares and the Bank.

(b) 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 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, and a parent company only balance sheet, income statement, and as applicable, a report of changes in stockholders' equity.

Approval and Implementation of Plans, Policies, and Procedures

20. (a) Bankshares and the Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the Division, as applicable, within the applicable time periods set forth in paragraphs 1, 3, 5(a), 5(b), 6(a), 6(b), 7(c), 9, and 12 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Division, as applicable, Bankshares and the Bank shall adopt the approved plans and program. Upon adoption, Bankshares and the Bank shall promptly implement the approved policies 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 Division, as applicable.

Communications

21. 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. Donald McG. Woods
Chairman of the Board
Community Bankshares, Inc.
Community Banks of Colorado
5690 DTC Blvd., Suite 450
Greenwood Village, Colorado 80111

Miscellaneous

22. 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 applicable provision of this Agreement.

23. Notwithstanding any provision of this Agreement, the Reserve Bank may, in its sole discretion, grant written extensions of time to Bankshares and its nonbank subsidiaries to comply with any applicable provision of this Agreement.

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

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

26. Each provision of this Agreement shall remain effective and enforceable as to Bankshares and its nonbank subsidiaries until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

27. 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 Bankshares or any of its nonbank subsidiaries, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

28. 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 25th day of March, 2009.

COMMUNITY BANKSHARES, INC.

FEDERAL RESERVE BANK
OF KANSAS CITY

By: /s/ Donald McG. Woods
Donald McG. Woods
Chairman of the Board

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

COMMUNITY BANKS OF
COLORADO

COLORADO DIVISION OF BANKING

By: /s/ Donald McG. Woods
Donald McG. Woods
Chairman of the Board

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