

**AGREEMENT BY AND BETWEEN  
First National Bank  
George West, Texas  
and  
The Office of the Comptroller of the Currency**

First National Bank, George West, Texas (Bank) and the 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 his/her National Bank Examiner, has examined the Bank, and his/her findings are contained in the Report of Examination (ROE), dated June 30, 2001 (June 30, 2001 ROE).

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 his/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, plans, or other information which the Bank or Board has agreed to submit, or should submit, to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Gerry B. Hagar  
Assistant Deputy Comptroller for Bank Supervision  
Office of the Comptroller of the Currency  
San Antonio South Field Office  
10101 Reunion Place Blvd., Suite 402  
San Antonio, Texas 78216

## ARTICLE II

### COMPLIANCE COMMITTEE

(1) Within ten (10) days from the effective date of this Agreement, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than one (1) shall be an employee of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. 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 Compliance Committee and monthly 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;
- (b) the results of those actions; and

(c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(4) The progress reports generated by the Compliance Committee shall also include any actions initiated by the Board and the Bank in response to the criticisms and comments found in the June 30, 2001 ROE, or in any future ROE.

(5) Not later than five (5) days after the Compliance Committee's monthly progress report is submitted to the Board, the Board shall forward a copy of the Compliance Committee's report, along with any additional comments made by the Board in response to that report, to the Assistant Deputy Comptroller.

### ARTICLE III

#### EVALUATION OF EXISTING LINES OF AUTHORITY, REPORTING RESPONSIBILITIES, AND DELEGATION OF DUTIES

(1) Within thirty (30) days from the effective date of this Agreement, the Board shall complete a written evaluation of the Bank's current lines of authority, existing reporting responsibilities, and, where appropriate, determine whether specific duties have been appropriately delegated to the Bank's officers. This evaluation will further address whether the existing authorizations given to each of the Bank's officers to commit the Bank in terms of loans, investments, and/or interest rates are appropriate in light of the criticisms and comments detailed in the June 30, 2001 ROE.

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

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

(4) A copy of the Board's written evaluation and the Board's written plan shall be forwarded to the Assistant Deputy Comptroller for his review and written determination of no supervisory objection.

#### ARTICLE IV

##### RISK MANAGEMENT

(1) Within thirty (30) days from the effective date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a written risk management program to include, at a minimum, the following:

- (a) identification of existing interest rate, liquidity, and strategic risks, and a written analysis of those risks;
- (b) policies, procedures, or standards, which limit the degree of risk the Board is willing to incur, consistent with the strategic plan to be developed pursuant to Article V of this Agreement and the Bank's financial condition. This includes analyzing and limiting the risks associated with any new lines of business which the Board undertakes. The procedures shall ensure that strategic direction and risk tolerances are effectively communicated and followed throughout the Bank and should describe the actions to be taken where noncompliance with risk policies is identified;

- (c) systems to measure and control risks within the Bank. Measurement systems should provide timely and accurate risk reports by customer, by department or division, and bankwide as appropriate; and
- (d) procedures to ensure that Bank employees have the necessary skills to supervise effectively the current and the new business risks within the Bank, and procedures to describe the actions to be taken to address deficiencies in staff levels and skills.

The risk management program shall be consistent with the Bank Supervision Process booklet of the Comptroller's Handbook.

(2) 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 V

### STRATEGIC PLAN

(1) Within ninety (90) days from the effective date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, shall include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in subparagraph (c) of Paragraph (1) this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems, and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under subparagraph (c) of Paragraph (1) of this Article;
- (f) a written profit plan and detailed budget for the period covered by the strategic plan;
- (g) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (h) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (i) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (j) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) A copy of the plan shall be forwarded to the Assistant Deputy Comptroller for his review and prior written determination of no supervisory objection.

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

## ARTICLE VI

### CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by March 31, 2002 and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) A Tier 1 leverage capital to adjusted total assets ratio at least equal to eight percent (8%); and
- (b) Total risk-based capital to risk-weighted assets ratio equal to at least eleven percent (11%).

(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).

(3) Within ninety (90) days from the effective date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:

- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of Paragraph (1) of this Article;
- (b) projections of the sources and timing of additional capital to meet the Bank's current and future needs;

- (c) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (d) contingency plans that identify alternative methods should the primary source(s) under subparagraph (c) of Paragraph (3) of this Article not be available; and
- (e) a dividend policy that permits the declaration of a dividend only:
  - (i) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60;
  - (ii) when the Bank is in compliance with its approved capital plan; and
  - (iii) with prior written notice to the Assistant Deputy Comptroller.

(4) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and shall thereafter ensure adherence to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(5) 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 VII

### LIQUIDITY

(1) Effective immediately, the Board shall conduct a written review of the Bank's liquidity position on a monthly basis. Such written reviews shall consider:



- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the amount and type of loan commitments; standby letters of credit; and the impact on the Bank's liquidity due to loan growth expected as a result of the Bank's opening a new branch office in San Antonio, Texas;
- (c) an analysis of the continuing availability and volatility of present funding sources; and
- (d) geographic disbursement of and risk from brokered deposits.

(2) The Board shall take appropriate action to ensure adequate sources of liquidity in relation to the Bank's needs. Monthly reports shall set forth liquidity requirements and sources and establish a contingency plan. Copies of these reports shall be forwarded to the Assistant Deputy Comptroller in the Bank's monthly report to the Assistant Deputy Comptroller.

## ARTICLE VIII

### CONCENTRATIONS OF CREDIT

(1) Within thirty (30) days from the effective date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with OCC Banking Circular 255. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet to identify any concentrations of credit with particular emphasis on real estate loans, commercial loans, out-of-area loans, and unfunded commitments to lend;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;

- (c) policies and procedures to control and monitor concentrations of credit;  
and
- (d) a written action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the Loan Portfolio Management booklet of the Comptroller's Handbook.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (b) of Paragraph (1) of this Article, and that the analysis demonstrates that the concentration will not subject the Bank to undue credit, liquidity, or interest rate risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller immediately following the review.

(5) 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 IX

### INTEREST RATE RISK POLICY

(1) Within thirty (30) days from the effective date of this Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of timely management reports on which to base sound interest rate risk management decisions;
  - (b) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk; and
  - (c) periodic review of the Bank's adherence to the policy.
- (2) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.
- (3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

## ARTICLE X

### DEFINITIONS

- (1) As used in this Agreement, the following terms shall have the below-described meanings:
- (a) Tier 1 capital shall have that meaning as set forth at 12 C.F.R. § 3.2(c);
  - (b) any reference to the term "days" shall mean calendar days; and
  - (c) any reference to the term "effective date" shall mean the date when this Agreement is executed by the Assistant Deputy Comptroller.

## ARTICLE XI

### CLOSING

- (1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, 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 him/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 OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its 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 OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC’s exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not

subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

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

Signed

1-9-02

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Gerry B. Hagar  
Assistant Deputy Comptroller  
San Antonio South Field Office

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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	1-9-02
_____ Bernard R. Bednorz	_____ Date
Signed	1/9/02
_____ E. Ross Harris	_____ Date
Signed	1/9/02
_____ William M. Holland III	_____ Date
Signed	1/9/02
_____ Henry E. Houdmann	_____ Date
Signed	1/9/02
_____ Mike Laux	_____ Date
Signed	1/9/02
_____ T. J. Martin Jr.	_____ Date
Signed	1/9/02
_____ James Pawlik	_____ Date
Signed	1/9/02
_____ J. R. Schneider	_____ Date