

AGREEMENT BY AND BETWEEN  
The Morris County National Bank of Naples  
Naples, Texas  
and  
The Office of the Comptroller of the Currency

The Morris County National Bank of Naples, Naples, Texas (“Bank”) and the Office of the Comptroller of the Currency (“OCC”) wish to assure the safety and soundness of the Bank and its compliance with laws and regulations.

The Comptroller of the Currency (“Comptroller”) has found unsafe or unsound practices, including those relating to insider activities, internal controls and audits, books and records, and information technology systems, as well as violations of law and regulation, including those relating to insider activities and information technology systems.

Therefore, the OCC, through the duly authorized representative of the Comptroller, and the Bank, through its duly elected and acting Board of Directors (“Board”), hereby agree that the Bank must operate at all times in compliance with the following:

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)(7)(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) This Agreement shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(7)(ii), unless otherwise informed in writing by the OCC. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g) and 12 C.F.R. § 24.2(e), unless otherwise informed in writing by the OCC.

(6) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller (“ADC”) pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller  
Longview Field Office  
1800 West Loop 281, Suite 306  
Longview, TX 75604

## ARTICLE II

### COMPLIANCE COMMITTEE

(1) By October 15, 2018, the Board must appoint a Compliance Committee of at least three (3) members, none of which is an employee or officer of the Bank or any of its subsidiaries or affiliates. The Board must submit in writing to the ADC the names of the members of the Compliance Committee within ten (10) days of their appointment. In the event of a change of the membership, the Board must submit in writing to the ADC within ten (10) days the name of any new or resigning committee member. The Compliance Committee must monitor and oversee the Bank’s compliance with the provisions of this Agreement. The Compliance Committee must meet at least quarterly and maintain minutes of its meetings.

(2) By October 31, 2018, and thereafter within thirty (30) days after the end of each quarter, the Compliance Committee must submit to the Board a written progress report setting forth in detail:

- (a) a description of the corrective actions needed to achieve compliance with each Article of this Agreement;
- (b) the specific corrective actions undertaken to comply with each Article of this Agreement; and
- (c) the results and status of the corrective actions.

### ARTICLE III

#### INSIDER TRANSACTIONS

(1) Immediately, the Bank may enter into a transaction with an Insider only if the transaction is:

- (a) made on terms and under circumstances that are substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other companies or individuals who are not Insiders or related interests of Insiders;
- (b) made, in the absence of comparable transactions, on reasonable commercial terms entered into in good faith and reflecting comparable service fees payable to similarly situated service providers (for example, professional service contracts);
- (c) preceded by a finding by the Board in writing that the primary purpose of the transaction is to further the best interests of the Bank and describe in writing how the transaction furthers the best interests of the Bank; and

- (d) approved in advance by a majority of the entire Board, not merely a quorum thereof, with any interested Insider abstaining from voting and participating directly or indirectly in the deliberations regarding the approval.

(2) Immediately, the Board shall maintain adequate, centralized records of all transactions involving Insiders in a form and manner that will enable easy, independent review.

These records shall identify all Insiders and shall also:

- (a) specify the names of the parties to the transaction other than the Bank;
- (b) state the relationship of the parties to the Bank;
- (c) provide a brief description of the transaction and its terms; and
- (d) provide a notation of the approval of the transaction by the Board including the vote of each director and the bases for any dissenting or abstaining votes.

(3) For purposes of this Article, the following definitions shall apply:

- (a) “Transaction” means the transfer of money, an extension of credit, a depositor or other relationship, and excludes transfers where the Insider is receiving a salary or benefit.
- (b) “Insider,” “company,” “person,” “related interest,” and “control” shall have the same meanings as set forth in 12 C.F.R. § 215.2.

#### ARTICLE IV

##### BOARD TO ENSURE COMPETENT MANAGEMENT

(1) By January 31, 2019, the Board must ensure that the Bank has effective and qualified management in place on a full-time basis in all Officer positions to carry out the

Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner. For purposes of this Article, an "Officer" includes any Executive Officer (as the term "Executive Officer" is defined in 12 C.F.R. § 215.2(e)(1)), Chief Financial Officer ("CFO"), Senior Loan Officer, and Information Technology ("IT") Manager.

(2) By March 31, 2019, the Board must review the capabilities of the Bank's Officers to perform present and anticipated duties.

(3) By March 31, 2019, the Board must assess the experience, other qualifications, and performance of the Bank's Officers compared to the description, duties, and responsibilities of their positions.

(4) By April 30, 2019, the Board must determine whether changes need to be made with its Officers, including the need for additions to or deletions from current Officer positions, and must implement those changes.

(5) If the Board determines that any incumbent Officer will continue in his/her position but that the Officer's depth of skills needs improvement, the Board will, within sixty (60) days, develop and implement a written program, with specific time frames, to improve the Officer's supervision and management of the Bank. At a minimum, the written program must include:

- (a) an education program designed to ensure that the Officer has the skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the Officer;
- (c) objectives by which the Officer's effectiveness will be measured; and

- (d) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

Upon completion, a copy of the written program must be submitted to the ADC.

(6) Within sixty (60) days of a vacancy in an Officer position, now or in the future, including a vacancy resulting from any Board realignment pursuant to this Agreement, the Board must appoint a capable person to the vacant position and the appointee must have sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(7) Prior to the appointment of any individual to any Officer position, the Board must submit to the ADC the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" and "Background Investigations" booklets of the Comptroller's Licensing Manual, together with a legible fingerprint card for the proposed Officer;
- (b) a written statement of the Board's reasons for selecting the proposed Officer; and
- (c) a written description of the proposed Officer's duties and responsibilities.

(8) The ADC has the power to disapprove the appointment of the proposed new Officer. However, the lack of disapproval of such individual does not constitute an approval or endorsement of the proposed Officer.

(9) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the

Comptroller or his designee to complete his/her review and act on any such information or authority within ninety (90) days.

## ARTICLE V

### REVIEW OF BOOKS AND RECORDS

(1) By October 31, 2018, the Board shall employ a qualified consultant, accountant, or other firm or individual, to perform a forensic review of the following types of activity in the past three years: Bank's loans in process, other suspense accounts, loans for which the proceeds went to any executive officer (as the term executive officer is defined in 12 C.F.R. § 215.2(e)(1)), cashier checks, cash items, due froms, any miscellaneous accounts, loan and deposit accounts where employees are signors or guarantors, the Bank's credit card accounts, and current and former officer and employee account activity conducted within the last three years. In addition, the forensic review should include a reconciliation of accounts from the prior core processor to the current core processor.

(2) Prior to the appointment or employment of any individual or firm to perform such review or entering into any contract with any such firm or individual, the Compliance Committee shall submit the name and qualifications of the proposed firm or individual and the proposed scope and terms of employment to the ADC for review.

(3) After the ADC notifies the Bank the review is complete, the Board shall immediately engage the firm or individual pursuant to the proposed terms of the engagement.

(4) The proposed scope of the review required by Paragraph (1) of this Article shall provide for a written report to be filed with the Board within ninety (90) days of the engagement that shall, at a minimum, include comments and conclusions regarding:

- (a) the identification, description, and dollar amount of any and all unauthorized insider transactions, to include any and all funds received from and paid into the loans in process account by current and former employees of the bank, any unauthorized expenses charged on any Bank credit card, and any unauthorized uses of any deposit account where an employee is a signor on the account, conducted within the last three years;
- (b) the harm caused by any and all unauthorized insider transactions conducted within the last three years;
- (c) the responsibility for any and all unauthorized insider transactions conducted within the last three years, to include a review and assessment of the Bank's system of internal controls and Board and management oversight;
- (d) recommendations for preventing any future unauthorized insider transactions, to include at a minimum, improvements to the Bank's system of internal controls and Board and management oversight; and
- (e) loans not in conformance with the Bank's lending policies.

(5) Within five (5) days of the receipt of the forensic report required by Paragraph (4) of this Article, the Board shall take the necessary steps to determine whether the firm or individual satisfied the terms of the engagement.

(6) After the Board has determined that the firm or individual has satisfied the terms of the forensic review engagement, it shall immediately provide a copy of the report, along with a written statement regarding the engagement's sufficiency and any additional comments, conclusions, proposed or actual remedial actions, to the ADC.



(7) Effective immediately, the Board shall ensure that no original Bank documents, books, or records are destroyed, altered or removed from the Bank's premises. Any original Bank documents, books, or records necessary for the completion of the forensic report required by Paragraph (4) of this Article that have been destroyed, altered, or removed from the Bank's premises must be recreated or obtained and returned to the Bank's premises. For purposes of this paragraph, "documents, books and records" shall be construed broadly, and shall include, but not be limited to, paper and electronic records of all kinds, reports, notes, calendars, phone logs, e-mails, voice-mails, financial instruments and tapes.

(8) Within thirty (30) days after the Board reviews and accepts the forensic auditor's report, the Board shall make reasonable efforts to collect any monies due to the bank by misuse or abuse of Insiders as included in the forensic auditor's report.

## ARTICLE VI

### BOOKS AND RECORDS

(1) Immediately, the Board must take all necessary action to ensure that the Bank's books, records and internal management information systems ("MIS") are complete and accurate.

(2) By November 30, 2018, the Board must develop an action plan, including a timetable for implementing the action plan by January 31, 2019, detailing how the Board and management will restore the Bank's books, records, and MIS to a complete and accurate condition, and thereafter ensure that the books, records, and internal MIS will be maintained in a complete and accurate condition. The program must address, at a minimum, the following:

- (a) procedures to identify and correct any existing inaccuracies and deficiencies in the Bank's books, records, and MIS;

- (b) procedures to ensure internal reports, Consolidated Reports of Condition and Income (“call reports”), and other regulatory reports are accurate;
- (c) timing and frequency of auditing and transaction testing of reports presented to the Board by management;
- (d) procedures to ensure MIS is accurate; and
- (e) standards for which Bank personnel will be held accountable to ensure compliance with the requirements of this Article.

(3) A copy of all written policies, procedures, and programs developed as a result of this Agreement, and all reports from auditors, consultants, contractors, and loan review must be maintained in a readily accessible manner at the Bank for review by the OCC.

## ARTICLE VII

### INFORMATION TECHNOLOGY

(1) Immediately, the Board must take all steps necessary to improve the management of the Bank’s IT activities and correct identified deficiencies.

(2) By December 31, 2018, the Board must develop, implement, and thereafter adhere to a written, well-documented, risk-based, internal information technology audit program. At a minimum, the IT audit program must be performed by an independent and qualified party, and must include fundamental elements of a sound audit program. Refer to the “Audit” booklet of the FFIEC’s Information Technology Examination Handbook for guidance on IT audit programs.

(3) By November 30, 2018, the Board must develop, implement, and thereafter ensure adherence to a comprehensive, written information security program to ensure the safety and soundness of its operations and to support the Bank’s efforts to comply with 12 C.F.R. Part

30, Appendix B, Safeguarding Customer Information. The information security program must include administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information. Refer to the “Information Security” booklet of the FFIEC’s Information Technology Examination Handbook for sound information security principles. At a minimum, the information security program must include a corporate-wide assessment of the risks to the Bank’s customer information or customer information systems and a written report evidencing such assessment. The assessment must include:

- (a) the identification of reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems;
- (b) an assessment of the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information;
- (c) an assessment of the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks;
- (d) a process to monitor and control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of bank activities; and
- (e) a test plan that provides for regular testing of key controls, systems and procedures of its information security program. The frequency and nature of such tests must be determined by the risk assessment. Such tests must be conducted or reviewed by independent third parties or staff independent of those who develop or maintain the information security program.

(4) By November 30, 2018, the Board must develop, implement, and thereafter adhere to, a written program to oversee and manage risks associated with outsourcing technology services to third party servicers, including technology service providers and vendors. Refer to OCC Bulletin 2013-29, “Third Party Relationships” for sound third-party risk management principles.

(5) The Board must ensure that the IT function has processes, personnel and control systems sufficient to ensure implementation of and adherence to the procedures and programs developed pursuant to this Article.

## ARTICLE VIII

### INTERNAL AUDIT

(1) By December 31, 2018, the Board must adopt, implement, and thereafter ensure the Bank’s adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities and weak practices in the Bank’s operations;
- (b) determine the Bank’s level of compliance with all applicable laws, rules and regulations;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting, with particular emphasis directed to carrying out changes in the Bank’s Allowance for Loan and Lease Losses (“Allowance”) methodology throughout the Bank’s reporting process and to ensuring that the Board has appropriate financial reporting information;
- (d) evaluate the Bank’s adherence to established policies and procedures;
- (e) adequately cover all areas; and

(f) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(2) As part of the Bank's internal audit program, the Board must evaluate all audit reports of any party providing services to the Bank, and must assess the impact on the Bank of any audit deficiencies cited in such reports.

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

(4) The Board must ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board must ensure that the audit program is independent. The audit staff responsible for implementing the internal audit program described above must report directly to the Board, which must have the sole power to direct their activities. All reports prepared by the audit staff must be filed directly with the Board and not through any intervening party.

(6) All audit reports must be in writing. The Board must ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(7) The audit staff must have access to any records necessary for the proper conduct of its activities. National bank examiners must have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(8) Upon adoption, a copy of the internal audit program must be promptly submitted to the ADC.

## ARTICLE IX

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) internal risk rating of loans;
- (b) results of the Bank's independent loan review;
- (c) criteria for determining which loans will be reviewed under Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 310 Receivables, how impairment will be determined, and procedures to ensure the analysis of loans complies with ASC 310 requirements;
- (d) criteria for determining loan pools under ASC 450 and an analysis of those loan pools;
- (e) recognition of non-accrual loans in conformance with generally accepted accounting principles and regulatory guidance;
- (f) loan loss experience;
- (g) trends of delinquent and nonaccrual loans;
- (h) concentrations of credit in the Bank; and
- (i) present and prospective economic and market conditions.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the call report, by additional provisions from earnings.

Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(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

### 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 most recent Report of Examination and in any subsequent Report of Examination. The quarterly progress reports required by Article II of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) By November 30, 2018, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the most recent Report of Examination and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within sixty (60) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter

ensure Bank adherence to specific procedures to prevent future violations as cited in the Report of Examination and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be promptly forwarded to the ADC.

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

## ARTICLE XI

### CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the ADC for review or prior written 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 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 ADC for good cause upon written application by the Board. Except as otherwise expressly provided herein, all references to “days” in this Agreement shall mean calendar days and the



computation of any period of time imposed by this Agreement shall not include the date of the act or event that commences the period of time.

(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) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) 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 United States, the OCC, or any officer, employee, or agent of the OCC. 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 officer, employee, or agent of the OCC 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, employee, or agent 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 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/ \_\_\_\_\_  
Colleen Welch  
Assistant Deputy Comptroller  
Longview Field Office

10/9/2018 \_\_\_\_\_  
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.

\_\_\_\_\_/s/\_\_\_\_\_  
Danny Bockmon

\_\_\_\_10-9-18\_\_\_\_\_  
Date

\_\_\_\_\_/s/\_\_\_\_\_  
Walter Cox, Sr.

\_\_\_\_10-9-18\_\_\_\_\_  
Date

\_\_\_\_\_/s/\_\_\_\_\_  
Walter Cox, Jr.

\_\_\_\_10-9-18\_\_\_\_\_  
Date

\_\_\_\_\_/s/\_\_\_\_\_  
Dale Davenport

\_\_\_\_10-9-18\_\_\_\_\_  
Date

\_\_\_\_\_/s/\_\_\_\_\_  
James Runnels

\_\_\_\_10-9-18\_\_\_\_\_  
Date

\_\_\_\_\_/s/\_\_\_\_\_  
Brenda Sartain

\_\_\_\_10-09-18\_\_\_\_\_  
Date

\_\_\_\_\_/s/\_\_\_\_\_  
James Spencer

\_\_\_\_10-11-18\_\_\_\_\_  
Date