

AGREEMENT BY AND BETWEEN
The City National Bank of Colorado City
Colorado City, Texas
and
The Office of the Comptroller of the Currency

AA-SO-2021-13

The City National Bank of Colorado City, Colorado City, 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 practice(s), including those relating to board oversight, staffing, credit administration, and liquidity management, as well as violations of law and regulation, including those relating to the Bank’s audit of its fiduciary activities, as well as appraisals and evaluations for real estate related financial transactions;

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 shall operate at all times in compliance with the following:

ARTICLE I

JURISDICTION

(1) The Bank is an “insured depository institution” as that term is defined in 12 U.S.C. § 1813(c)(2).

(2) The Bank is a national banking association within the meaning of 12 U.S.C. § 1813(q)(1)(A), and is chartered and examined by the OCC. *See* 12 U.S.C. § 1 *et seq.*

(3) The OCC is the “appropriate Federal banking agency” as that term is defined in 12 U.S.C. § 1813(q).

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within ten (10) days of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) members of which a majority shall be directors who are not employees or officers of the Bank or any of its affiliates. The Board shall submit in writing to the Assistant Deputy Comptroller (“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 shall submit in writing to the ADC within ten (10) days the name of any new or resigning committee member. The Compliance Committee shall monitor and oversee the Bank’s compliance with the provisions of this Agreement. The Compliance Committee shall meet at least quarterly and maintain minutes of its meetings.

(2) Within thirty (30) days of this Agreement, and thereafter within thirty (30) days after the end of each calendar quarter, the Compliance Committee shall 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.

(3) Upon receiving each written progress report, the Board shall forward a copy of the report, with any additional comments by the Board, to the ADC within ten (10) days of the first Board meeting following the Board’s receipt of such report.

ARTICLE III

DIVIDEND RESTRICTIONS

- (1) Effective immediately, the Bank shall only declare dividends when:
 - (a) the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (b) the Bank has received a prior written determination of no supervisory objection from the ADC.

ARTICLE IV

BOARD OVERSIGHT & STAFFING

(1) The Board shall ensure that it receives and reviews sufficient information from management (including scope, frequency, timing and content), regarding the operation of the Bank and the Bank's compliance with this Agreement, to enable the Board to provide effective oversight and Board members to fulfill their fiduciary duties and other responsibilities under law. Refer to (i) the OCC's "The Director's Book: The Role of Directors for National Banks and Federal Savings Associations;" and (ii) the "Corporate and Risk Governance" booklet of the Comptroller's Handbook (July 2019).

(2) The Board shall ensure that the Bank has competent management and staff in place on a full-time basis to carry out the Bank'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.

(3) Within ninety (90) days of this Agreement, the Board shall complete or obtain an independent staffing assessment that:

- (a) identifies the skills and expertise needed to execute and sustain a safe and sound system of internal controls and risk management for key functions

of the Bank and identify any gaps in those skills and/or expertise within the Bank's current management and staff;

- (b) evaluates current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
- (c) provides for the development of a written strategy which would outline plans for how the Bank could address any gaps or deficiencies identified pursuant to Subparagraphs (3)(a) or (3)(b) of this Article;
- (d) concludes on the appropriateness of each individual's compensation, including salary, bonus, and incentive income;
- (e) includes an organization chart that clearly reflects areas of responsibility and lines of authority for all officers;
- (f) includes detailed written job descriptions for all officers, and objectives by which management's effectiveness will be measured; and

(4) Within one hundred twenty (120) days of this Agreement, the Board shall develop a formal, written management employment and succession plan designed to promote adequate staffing and continuity of capable management.

(5) Within one hundred twenty (120) days of this Agreement, the Board and management shall complete an enterprise-wide review of the Bank's various plans, policies, and strategies, including but not limited to the Bank's management employment and succession plan, liquidity plan, capital plan, and credit policies, and shall ensure the various plans align with and support the overall, Board-approved strategic plan. As part of this review, the Board

and management shall also finalize the strategy for the Bank's trust department and shall develop an action plan and timeline to address outstanding items.

(6) Upon completion, the Board shall submit a copy of the independent staffing assessment required by paragraph (3), the written strategy required by paragraph (3)(c), the management succession plan required by paragraph (4), and a written account of any changes made pursuant to paragraph (5) to the ADC for prior written determination of no supervisory objection. At the next Board meeting following receipt of the ADC's written determination of no supervisory objection, the Board shall adopt and Bank management, subject to Board review and ongoing monitoring, shall immediately implement and ensure adherence to the written strategy and any amendments or revisions thereto.

ARTICLE V

LIQUIDITY MANAGEMENT

(1) Within sixty (60) days of the date of this Agreement, the Board shall submit to the ADC for review and prior written determination of no supervisory objection an acceptable written Liquidity Risk Management Program ("Liquidity Program") for the Bank, covering at least a 12-month period. This Liquidity Program shall provide for the identification, measurement, monitoring, and control of the Bank's liquidity risk exposure, and shall emphasize the importance of cash flow projections, diversified funding sources, a cushion of highly liquid assets, and a formal, well-developed contingency funding plan as primary tools for measuring and managing liquidity risk. Refer to the "Liquidity" booklet of the *Comptroller's Handbook*. In addition to the general requirements set forth above, the Liquidity Program shall, at a minimum:

- (a) identify appropriate strategies, policies, procedures, and limits to manage liquidity risk (including limits for secondary liquidity metrics), commensurate with the Bank's complexity and business activities;
- (b) assess, on an ongoing basis, the Bank's current and projected funding needs, including the development of cash flow projections under both expected and adverse conditions;
- (c) ensure that sufficient funds or access to funds exist to meet those needs under both expected and adverse conditions;
- (d) assess the risks related to brokered deposit restrictions, deposit runoff, or rollovers;
- (e) detail action plans to identify and obtain sources of liquidity to meet projected shortfalls from existing sources under both expected and adverse conditions;
- (f) include a Contingency Funding Plan that incorporates, at a minimum, a quantitative projection and evaluation of expected funding needs and funding capacity based on realistic assessments of the behaviors of funding providers during stress events; a clearly understandable definition of a liquidity crisis for the Bank; an identification of early warning liquidity triggers; and provision for management processes, reporting, and internal as well as external communication throughout the stress event; and
- (g) provide for stress testing the CFP as required by the Bank's Asset/Liability Management Policy.

(2) Within thirty (30) days following receipt of the ADC's written determination of no supervisory objection to the Liquidity Program, the Board shall adopt and Bank management, subject to Board review and ongoing monitoring, shall immediately implement and adhere to the Liquidity Program and any amendments or revisions thereto.

(3) Every month, Bank management shall prepare, and the Board shall review, a report identifying current liquidity requirements and sources for the month and projecting liquidity requirements and sources for various upcoming time periods through one year ("Periodic Liquidity Report") to enable the Board and/or Asset Liability Committee to recognize longer-term liquidity needs. Each Periodic Liquidity Report must include the Bank's status of compliance with liquidity metrics identified within policy, the current liquidity scenario per policy definition, and identification of the proper action plan. Copies of each Periodic Liquidity Report, and any Board comments, shall be forwarded to the ADC as part of the quarterly Compliance Committee reporting.

(4) The Board shall review and update the Liquidity Program, at least annually, no later than January 31 of each year, and more frequently if necessary or if required by the ADC in writing.

ARTICLE VI

CREDIT ADMINISTRATION

(1) Effective as of the date of this Agreement, the Board shall ensure that all lending officers comply with all laws, rules, regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties.

(2) The Board shall take the necessary steps to ensure that current and satisfactory credit and proper collateral information is maintained on all loans. Within sixty (60) days of this

Agreement, and within thirty (30) days of any subsequent notification, the Board shall ensure that the Bank takes all reasonable steps to obtain any missing credit or collateral information described in the Report of Examination conducted as of November 16, 2020 (“ROE”), in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination. If after all reasonable efforts the Bank is unable to obtain the missing credit or collateral information, the Board must ensure the Bank fully documents the steps it took and the reason(s) it could not obtain such information

(3) Consistent with Paragraph (1) of this Article, the Board and management must adhere to loan policy requirements for the content and timing of written pre- and post-funding analyses. Each analysis must be based on current financial and collateral information, and must adequately document and assess:

- (a) the specific reason or purpose for the extension of credit;
- (b) the expected primary and secondary sources of repayment;
- (c) the current and projected financial condition of the borrower;
- (d) the value and condition of collateral by a source independent of the loan officer; and
- (e) support for risk rating and accrual.

(4) Failure to obtain the information required pursuant to Paragraph (3) of this Article shall require a majority of the full Board (or a delegated committee consisting of at least two external directors) to certify in writing that it was in the best interests of the Bank to nevertheless provide the extension of credit. The Board or its delegated committee shall also provide the specific reason(s) that the non-complying extension of credit is in the best interests of the Bank.

(5) The Board must ensure any grant, extension, renewal, alteration or restructuring of any loan or other extension of credit complies with the Bank's loan policy and its underwriting and documentation standards.

(6) Within ninety (90) days of this Agreement, the Board must develop and implement policies and procedures that require documentation of risk mitigants when creating commercial or retail loan exceptions.

(7) Within sixty (60) days of this Agreement, the Board and management must develop and implement an expanded exception tracking report that identifies and tracks all exceptions and efforts to mitigate or cure exceptions, including but not limited to financial exceptions, collateral exceptions, policy exceptions, and underwriting exceptions. The number of loans with exceptions, and their aggregate dollar value by loan officer and relative to capital, shall be reported to the Board on a monthly basis. The Board shall establish aggregate exception level limits. The Bank shall consider each loan officer's exceptions in conducting periodic performance reviews and compensation decisions.

(8) Consistent with Paragraph (1) of this Article, the Board and management must ensure all lending officers adhere to the Board-established limits concerning the maximum debt-to-income ("DTI") ratio that a retail borrower may have, or that the lending officers document reasonable mitigations for exceptions. The Board shall require lending officers to receive and document approval by the Chief Executive Officer or Market President for DTI exceptions that exceed the Board-established maximum.

(9) Within sixty (60) days of this Agreement, the Board and management must provide for all lending officers to receive training on calculating accurate and consistent retail DTI ratios, as well as on policy requirements for real estate valuation requirements, proper

construction controls, and accurate commercial cashflow analysis; and the Board and management must implement a formal review process to ensure accuracy of DTI calculations and adherence to regulatory requirements, including appraisal and evaluation requirements.

(10) Within sixty (60) days of this Agreement, the Board shall review its concentration limits and shall establish safe and sound, formal limits and sub-limits for all concentrations of credit based on a percentage of Tier 1 capital plus the allowance for loan and lease losses, stratified by loan type, locality of the borrower and/or collateral, and other meaningful measures, including specifically the limit for construction and development lending. For purposes of this Article, a concentration of credit is as defined in the “Concentrations of Credit” booklet of the Comptroller’s Handbook.

(11) Within sixty (60) days of this Agreement, the Board shall review and revise the Bank’s real estate lending policy to adequately address the Bank’s requirements for loan curtailments for residential construction borrowers seeking renewals and to establish prudent term limits for loans secured by raw land.

(12) Within sixty (60) days of this Agreement, the Board and management shall increase the coverage of the next annual or more frequent independent loan review to an adequate amount relative to the Bank’s loan growth and risk profile. In no event should the coverage be less than 50 percent of the committed amount of the Bank’s nonretail loan portfolio plus a sufficient sample of retail loans to opine on the quality of underwriting and policy adherence.

ARTICLE VII

GENERAL BOARD RESPONSIBILITIES

(1) The Board shall ensure that the Bank has timely adopted and implemented all corrective actions required by this Agreement, and shall verify that the Bank adheres to the corrective actions and they are effective in addressing the Bank's deficiencies that resulted in this Agreement.

(2) In each instance in which this Agreement imposes responsibilities upon the Board, it is intended to mean that the Board shall:

- (a) authorize, direct, and adopt corrective actions on behalf of the Bank as may be necessary to perform the obligations and undertakings imposed on the Board by this Agreement;
- (b) ensure that the Bank has sufficient processes, management, personnel, control systems, and corporate and risk governance to implement and adhere to all provisions of this Agreement;
- (c) require that Bank management and personnel have sufficient training and authority to execute their duties and responsibilities pertaining to or resulting from this Agreement;
- (d) hold Bank management and personnel accountable for executing their duties and responsibilities pertaining to or resulting from this Agreement;
- (e) require appropriate, adequate, and timely reporting to the Board by Bank management of corrective actions directed by the Board to be taken under the terms of this Agreement; and

- (f) address any noncompliance with corrective actions in a timely and appropriate manner.

ARTICLE VIII

OTHER PROVISIONS

(1) As a result of this Agreement, the Bank is 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, as a result of this Agreement, the Bank is not an “eligible bank” for purposes of 12 C.F.R. § 5.3 and 12 C.F.R. § 24.2(e), unless otherwise informed in writing by the OCC.

(2) This Agreement supersedes all prior OCC communications issued pursuant to 12 C.F.R. §§ 5.51(c)(7)(ii) and 24.2(e)(4), and pursuant to paragraph (5) of the definition of *eligible bank or eligible savings association* found at 12 C.F.R. § 5.3.

ARTICLE IX

CLOSING

(1) This Agreement is intended to be, and shall be construed to be, a “written agreement” within the meaning of 12 U.S.C. § 1818, 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.

(2) This Agreement is effective upon its issuance by the OCC, through the Comptroller's duly authorized representative. 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. The provisions of this Agreement shall remain effective and enforceable except to the extent that, and until such time as, such provisions are amended, suspended, waived, or terminated in writing by the OCC, through the Comptroller's duly authorized representative. If the Bank seeks an extension, amendment, suspension, waiver, or termination of any provision of this Agreement, or within any plan or program submitted pursuant to this Agreement, the Board or a Board-designee shall submit a written request to the ADC asking for relief. Any request submitted pursuant to this paragraph shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with the relevant provision(s) of the Agreement or plan or program submitted pursuant to this Agreement, and shall be accompanied by relevant supporting documentation. The OCC's decision concerning a request submitted pursuant to this paragraph, which will be communicated to the Board in writing, is final and not subject to further review.

(3) The Bank will not be deemed to be in compliance with this Agreement until it has adopted, implemented, and adhered to all of the corrective actions set forth in each Article of this Agreement; the corrective actions are effective in addressing the Bank's deficiencies; and the OCC has verified and validated the corrective actions. An assessment of the effectiveness of

the corrective actions requires sufficient passage of time to demonstrate the sustained effectiveness of the corrective actions.

(4) Each citation, guidance, or issuance referenced in this Agreement includes any subsequent citation, guidance, or issuance that replaces, supersedes, amends, or revises the referenced cited citation, guidance, or issuance.

(5) No separate promise or inducement of any kind has been made by the OCC, or by its officers, employees, or agents, to cause or induce the Bank to enter into this Agreement.

(6) All reports, plans, or programs submitted to the OCC pursuant to this Agreement shall be forwarded, by hand delivery, overnight mail or via email, to the following:

Assistant Deputy Comptroller
Office of the Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289, Suite 108
Lubbock, Texas 79424

(7) 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 as his duly authorized representative, has hereunto set her signature on behalf of the Comptroller.

/s/

March 24, 2021

Amy M. Klein
Assistant Deputy Comptroller
Lubbock Field Office

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of The City National Bank of Colorado City have hereunto set their signatures on behalf of the Bank.

| | |
|------------------------------|---------------|
| /s/ | 3/31/21 |
| _____ Royce Clay | _____ Date |
| /s/ | 3/24/2021 |
| _____ Gayle Houston | _____ Date |
| /s/ | 3-24-2021 |
| _____ Bobby Lemons | _____ Date |
| /s/ | 3/24/21 |
| _____ Thomas Lovell | _____ Date |
| /s/ | 3/24/21 |
| _____ Wrey Montgomery | _____ Date |
| /s/ | 3-24-21 |
| _____ Keith Moore | _____ Date |
| /s/ | 3/24/21 |
| _____ Hal Morren | _____ Date |
| /s/ | 3-24-21 |
| _____ Tommy Morris | _____ Date |
| /s/ | 3-31-21 |
| _____ John Bradley Morris | _____ Date |
| /s/ | 3-24-21 |
| _____ Dee A. Roach | _____ Date |
| /s/ | 3/24/21 |
| _____ Richy Womack | _____ Date |