

#2000-39

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

Anahuac National Bank, Anahuac, 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 National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated September 30, 1999 (“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 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).

ARTICLE II

BOARD OVERSIGHT OF SENIOR MANAGEMENT

(1) Within thirty (30) days, the Board shall adopt a written, comprehensive conflict of interest policy applicable to the Bank’s directors, executive officers, employees (“Insiders”), and related interests (as defined in 12 C.F.R. § 215.2(n)) of such Insiders. The policy shall define conflict of interest and shall:

- (a) prohibit conflicts of interest and breaches of fiduciary duty;
- (b) discourage the appearance of conflicts of interest;
- (c) require that for extensions of credit to Insiders approval must be obtained from the Board, and such approval may only be granted by a majority of the directors;
- (d) require full disclosure by Insiders of actual and potential conflicts of interest in any loan or investment transactions with the Bank;
- (e) require centralized recordkeeping of all Insider credit transactions with the Bank that exceed ten thousand dollars (\$10,000), including information such as:
 - (i) the names of all Insiders who are involved in the transaction in any capacity;
 - (ii) the names of all parties to the transaction other than the Bank;
 - (iii) the relationship of the parties to the Bank, if any;
 - (iv) a brief description of the transaction and its terms;

- (v) the identity of the Bank officials who renewed and/or approved the transaction; and
- (vi) where Board approval of the transaction is necessary, a record of each director's vote, and the basis for any dissenting or abstaining votes.

(2) Within thirty (30) days, the Bank shall retain the services of a qualified and independent Certified Public Accountant ("Accountant"). The Bank's retention of an Accountant shall be consistent with the following requirements:

- (a) A copy of the Bank's proposed "Engagement Letter" with the Accountant, and any amendments thereto, shall be submitted to the Assistant Deputy Comptroller for prompt review and approval prior to commencement of the audit.
- (b) The Bank shall instruct the Accountant to conduct an audit of:
 - (i) all loan transactions, originated or renewed by the Bank since January 1998 in which the principal amount exceeds ten thousand dollars (\$10,000), to determine whether any Insider has been involved in the loan approval process who may benefit directly or indirectly from the decision to grant credit; and
 - (ii) all loan transactions originated or renewed by the Bank since January 1998 in which the principal amount exceeds ten thousand dollars (\$10,000), to determine whether the actual disbursement of funds was made in accordance with the stated purpose of the loan.

- (c) The external audit report compiled by the Accountant shall be completed within 90 days of approval of the Engagement Letter and shall be submitted directly to the Board.
- (d) Within thirty (30) days of the Board's receipt of the external audit report, the Board shall adopt a resolution that responds to, and where appropriate, remedies each material criticism noted by the report.

(3) Within thirty (30) days, the Board shall establish guidelines governing the reporting responsibilities of management to the Board. These guidelines, at a minimum, shall:

- (a) require the Bank's Compliance Officer/ Internal Auditor to submit internal audit reports directly to the Board;
- (b) require measures to ensure the correction of any material problems revealed by audit findings;
- (c) prohibit the Secretary of the Board from active participation in substantive discussions or decisions which pertain to the Secretary reached during Board meetings;
- (d) require the Board to review Board meeting minutes prior to approving them.

(4) Within fifteen (15) days, the Board shall establish guidelines for the use of Bank's credit cards by Insiders. The guidelines shall include provisions addressing which Insiders are authorized to use the cards, which charges shall be reimbursable by the Bank, and which charges shall require prior approval by the Board.

(5) Within thirty (30) days, the Board shall adopt a policy to ensure that Other Real Estate Owned (“OREO”) is managed in accordance with 12 U.S.C. § 29 and 12 C.F.R. § 34.

The policy, at a minimum, shall:

- (a) define Bank’s management’s responsibility and authority regarding repossessed collateral and OREO properties; and
- (b) require monthly reporting regarding the status of OREO to the Board.

ARTICLE III

LENDING POLICIES

(1) Within thirty (30) days, the Board shall review and revise the Bank’s written loan policy. The Board shall ensure that the policy conforms with the Loan Portfolio Management booklet, A-LPM, of the Comptroller’s Handbook. This policy, at a minimum, shall:

- (a) require detailed documentation of the particular purpose(s) of all loans;
- (b) require measures to ensure that current financial data regarding each borrower and any collateral is collected, analyzed and documented prior to the extension of credit to the borrower;
- (c) require that loans to insiders conform to the requirements contained in 12 C.F.R. § 215 in that the policy shall:
 - (i) require that loans to Insiders shall not be granted beyond the applicable lending limit for loans to Insiders;

- (ii) require that loans to Insiders shall not be made unless they are made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions by the Bank with other persons who are not Insiders of the Bank;
 - (iii) require that loans to Insiders shall not be granted unless they meet credit underwriting standards that are not less stringent than those prevailing at the time for comparable transactions by the Bank with other persons who are not Insiders of the Bank;
 - (iv) require the disclosure of the recipient of the loan proceeds and the names of any Insiders benefiting from the proceeds;
- (d) limit the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board for this purpose;
- (e) provide guidelines, consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved;
- and
- (f) provide guidelines for periodic review of the Bank's adherence to the revised lending policy.

ARTICLE IV

APPROVAL OF PLANS

(1) Upon completion of the plans, policies, procedures, guidelines and resolutions (“Plans”) adopted pursuant to the Agreement, the Bank shall submit the Plans to the Assistant Deputy Comptroller for review and approval. The Board shall establish appropriate procedures for the implementation of the Plans.

(2) In the event that the Assistant Deputy Comptroller recommends changes to any Plan, the Board shall incorporate those changes into such Plan.

(3) Each Plan shall be implemented pursuant to the time frames set forth within each such Plan unless events dictate modifications to the Plan. Where the Board considers modifications appropriate, those modifications shall be submitted to the Assistant Deputy Comptroller for approval.

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

ARTICLE V

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 by 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 limitations 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.

WITNESS, my signature on behalf of the Office of the Comptroller of the Currency,
given at Houston, Texas, this 4th day of April, 2000.

-signed-

4/4/00

James F. DeVane, Jr.
Assistant Deputy Comptroller
Houston East Field Office

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-

4-4-00

Sherwood Blair

Date

-signed-

4-4-00

John Jenkins

Date

Kenneth D. Moore

Date

-signed-

4-4-00

C. H. Wilcox

Date

-signed-

4-4-00

Dave Wilcox

Date

-signed-

4-4-00

Everett Williams

Date

Date

Date

Date

Date