

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

TEXAS DEPARTMENT OF BANKING
AUSTIN, TEXAS

Written Agreement by and among

TRADITION BANCSHARES, INC.
Houston, Texas

TRADITION BANK
Houston, Texas

FEDERAL RESERVE BANK OF
DALLAS
Dallas, Texas

and

TEXAS DEPARTMENT OF
BANKING
Austin, Texas

Docket Nos. 09-067-WA/RB-HC
09-067-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Tradition Bancshares, Inc., Houston, Texas (“Bancshares”), a registered bank holding company, and its subsidiary bank, Tradition Bank, Houston, Texas (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Bancshares, the Bank, the Federal Reserve Bank of Dallas (the “Reserve Bank”), and the Texas Department of Banking (the “Commissioner”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on May 20, 2009, the boards of directors of Bancshares and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Edward

D. Vickery, Jr. to enter into this Agreement on behalf of Bancshares and the Bank, and consenting to compliance with each and every provision of this Agreement by Bancshares and 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 b(3)).

NOW, THEREFORE, Bancshares, the Bank, the Reserve Bank, and the Commissioner agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Commissioner 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, loan underwriting, credit administration, processes to mitigate risks associated with credit concentrations, and earnings;

(b) specific actions the board of directors will take to strengthen the Bank’s management, particularly in the areas of loan underwriting, credit administration, and loan review;

(c) the actions that the board of directors will take to address the findings and recommendations of an independent consultant’s report that reviewed the duties, responsibilities, and qualifications of the Bank’s officers;

(d) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations; and

(e) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank's adversely classified assets, allowance for loan and lease losses ("ALLL"), and earnings.

Lending and Credit Administration

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve loan underwriting and credit administration that, at a minimum, addresses, considers, and includes:

(a) Underwriting standards that are appropriate for each type of loan product offered by the Bank, and include and provide for, at a minimum, documented analysis of the borrower's repayment source, creditworthiness, and global cash flow and debt service ability;

(b) credit administration procedures that require the maintenance of credit files that adequately document project status, and the borrower's ability to repay the loan according to its terms;

(c) procedures to correct and reduce the level of loan documentation exceptions;

(d) procedures to identify, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real

Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1);
and

(e) procedures to improve the accuracy of management's internal credit risk rating system and timeliness of updates to the internal watch list.

Loan Review

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the on-going review and grading of the Bank's loan portfolio. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of loan review;
- (b) standards and criteria for assessing the credit quality of loans;
- (c) application of loan grading standards and criteria to the loan portfolio;
- (d) controls to ensure adherence to the revised loan review and grading standards; and
- (e) written reports to the board of directors, at least quarterly, that identify and report the status of those loans that are nonperforming or adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

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 in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, "loss" in the

examination of the Bank by the Commissioner that commenced on November 3, 2008 (the “Report of Examination”) or in any subsequent report of examination, 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 “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the Bank’s 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 (12 C.F.R. § 215.2(n)).

5. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner 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 \$100,000, 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. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000, 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 Commissioner 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 Commissioner 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. The board of directors shall review the

progress reports before submission to the Reserve Bank and the Commissioner and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

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

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for 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 Commissioner. 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 collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner 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 Commissioner, 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.

Capital Plan

7. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

- (a) 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);
- (b) the volume of adversely classified assets;

- (c) the adequacy of the ALLL;
- (d) any planned asset growth;
- (e) the anticipated level of retained earnings;
- (f) anticipated and contingent liquidity needs;
- (g) the source and timing of additional funds to fulfill the future capital and ALLL needs of the Bank; and
- (h) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Bancshares serve as a source of strength to the Bank.

8. The Bank shall notify the Reserve Bank and the Commissioner, in writing, no more than 30 days after the end of any quarter in which the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable capital plan that details the steps Bancshares and the Bank will take to increase the Bank's capital ratios to or above the plan's minimums.

Audit

9. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to strengthen the Bank's internal audit program. The program shall, at a minimum, address, consider, and include:

- (a) Adequate staffing of the internal audit function by qualified staff;
- (b) a written audit plan that describes the audit work to be conducted and covers the operational areas of the Bank; and

(c) procedures to ensure that the audit committee of the Bank's board of directors is properly constituted and effectively oversees the internal audit function.

Strategic Plan and Budget

10. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an updated written strategic plan to improve the Bank's earnings and overall condition, and a budget for the remainder of 2009 that shall, at a minimum, provide for or describe:

(i) identification of the major areas where, and means by which, the board of directors and management shall seek to improve the Bank's earnings and operating performance;

(ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components; and

(iii) a realistic and comprehensive budget for the remainder of 2009, including income statement and balance sheet projections.

(b) A strategic plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the Commissioner at least 30 days prior to the beginning of that calendar year.

Liquidity and Funds Management

11. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written contingency funding plan that includes, at a minimum, identification of available liquidity sources and includes adverse scenario planning.

Dividends and Distributions

12. (a) Bancshares and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”), and the Commissioner.

(b) Bancshares shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the Commissioner.

(c) Bancshares and its nonbank subsidiary 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, the Director, and the Commissioner.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on Bancshares’ capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bancshares 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

13. (a) Bancshares and any nonbank subsidiary shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank and the Commissioner. 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) Bancshares shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank and the Commissioner.

BSA/AML Compliance

14. The Bank shall immediately take steps to strengthen its policies, procedures, and controls for complying with the Suspicious Activity Report filing requirements set forth in section 208.62 of Regulation H of the Board of Governors (12 C.F.R. § 208.62).

Compliance with Laws and Regulations

15. (a) The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the board of directors of the Bank shall take the necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

(b) 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, Bancshares 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.*).

(c) Bancshares 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

16. Within 30 days after the end of each calendar quarter following the date of this Agreement, Bancshares and the Bank shall submit to the Reserve Bank and the Commissioner written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans and Programs

17. (a) The Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 2, 3, 5, 6(c), 7, 9, and 11 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Commissioner, the Bank shall adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved plans 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 Commissioner.

Communications

18. All communications regarding this Agreement shall be sent to:

- (a) Earl Anderson
Vice President
Federal Reserve Bank of Dallas
P. O. Box 655906
Dallas, Texas 75265

- (b) Mr. Charles G. Cooper
Commissioner
Texas Department of Banking
2601 North Lamar Boulevard
Austin, Texas 78705

- (c) Edward D. Vickery, Jr.
President and CEO
Tradition Bancshares, Inc. and Tradition Bank
P.O. Box 40
Bellaire, Texas 77402

Miscellaneous

19. Notwithstanding any provision of this Agreement, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to Bancshares and the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding upon Bancshares, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

21. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Commissioner.

22. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner, or any other federal or state agency from taking any other action affecting Bancshares, the Bank, any nonbank subsidiary or any of their current or former institution-affiliated parties and their successors and assigns.

23. 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 1st day of June, 2009.

TRADITION BANCSHARES, INC.

FEDERAL RESERVE BANK OF
DALLAS

By: /s/ Edward D. Vickery, Jr.
Edward D. Vickery, Jr.
President and CEO

By: /s/ E. Ann Worthy
for Earl Anderson
Vice President

TRADITION BANK

TEXAS DEPARTMENT OF BANKING

By: /s/ Edward D. Vickery, Jr.
Edward D. Vickery, Jr.
President and CEO

By: /s/ Charles G. Cooper
Charles G. Cooper
Texas Banking Commissioner