

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

_____)	
Written Agreement by and between)	
_____)	
KENCO BANCSHARES, INC.)	Docket No. 04-013-WA/RB-HC
Jayton, Texas)	
_____)	
and)	
_____)	
FEDERAL RESERVE BANK)	
OF DALLAS)	
Dallas, Texas)	
_____)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Kenco Bancshares, Inc., Jayton, Texas (“Kenco”), a registered bank holding company that owns and controls the Kent County State Bank, Jayton, Texas (the “Bank”), a state chartered bank that is not a member of the Federal Reserve System, Kenco and the Federal Reserve Bank of Dallas (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”);

WHEREAS, in December 2001, the Reserve Bank, acting under authority delegated by the Board of Governors of the Federal Reserve System (the “Board of Governors”), notified Thomas C. Darden (“Darden”), William J. Collier, and Jesse L. Reese (collectively, the “Notificants”) that the Reserve Bank did not intend to disapprove the Notificants’ proposed acquisition of Kenco pursuant to the Change in Bank Control Act (12 U.S.C. 1817(j)) subject to conditions imposed in writing, including a condition that Darden not be appointed as a

director, officer, employee or have any other duties or responsibilities with respect to Kenco without the prior approval of the Reserve Bank (the "Condition");

WHEREAS, in January 2004, in violation of the Condition, Darden was elected as a director of Kenco; and

WHEREAS, on June 16, 2004, the board of directors of Kenco, at a duly constituted meeting, adopted a resolution authorizing and directing Bob E. Hamilton to enter into this Agreement on behalf of Kenco, and consenting to compliance with each and every applicable provision of this Agreement by Kenco and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and 1818(b)(3)) (the "FDI Act).

NOW, THEREFORE, Kenco and the Reserve Bank agree as follows:

Violation of Law

1. Kenco shall not engage or participate, directly or indirectly, in any violation of section 23A of the Federal Reserve Act (12 U.S.C. 371c).

Compliance with Condition

2. It is understood and agreed that Kenco shall take all actions necessary to ensure compliance with the Condition.

Debt and Stock Redemption

3. (a) Kenco shall not, directly or indirectly, increase its debt, including subordinated debt, without the prior written approval of the Reserve Bank. All requests for prior written approval shall be received by the Reserve Bank at least 30 days prior to the proposed transaction date and shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Kenco shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Dividends

4. Kenco shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors. All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on consolidated earnings, Kenco and the Bank's capital levels and cash flow, and the asset quality and loan loss reserve needs of the Bank.

Tax Allocation

5. (a) Within 60 days of this Agreement, Kenco shall submit to the Reserve Bank an acceptable proposed written tax allocation agreement between Kenco and the Bank and shall take such other actions as are necessary to execute the tax allocation agreement with the Bank within 15 days of receipt of the Reserve Bank's approval. The tax allocation agreement shall, at a minimum, comply with the Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure, dated November 23, 1998.

(b) In no event shall the tax allocation agreement require the Bank to incur a greater liability because of its affiliation with Kenco than it would as a separate taxable entity.

Other Matters

6. (a) In appointing any senior executive officer or director, Kenco 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.

(b) Kenco shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. 1828) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Approval of Tax Agreement

7. The tax allocation agreement required by paragraph 5(a) of this Agreement shall be submitted to the Reserve Bank for review and approval. An acceptable tax allocation agreement shall be submitted within the time period set forth in paragraph 5(a). During the term of this Agreement, the approved tax allocation agreement shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Communications

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

(a) Mr. W. Arthur Tribble
Vice President
Federal Reserve Bank of Dallas
P. O. Box 655906
Dallas, Texas 75265

(b) Mr. Robert G. Hall
President
Kenco Bancshares, Inc.
P.O. Box 130
Jayton, Texas 79528

Miscellaneous

9. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to Kenco to comply with any provision of this Agreement.

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

11. The provisions of this Agreement shall be binding upon Kenco and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

12. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency or department from taking any other action affecting Kenco, the Bank or any of their current or former institution-affiliated parties.

13. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued 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 16th day of June, 2004.

Kenco Bancshares, Inc.

By: *D. P. Hamilton*

Federal Reserve Bank of Dallas

By: *E. Amworthy*