

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

In the Matter of

HERITAGE BANK
Topeka, Kansas

Docket No. 09-032-PCA-SM

Prompt Corrective Action
Directive Issued Pursuant to
Section 38 of the Federal Deposit
Insurance Act, as Amended

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) has determined that, as of December 31, 2008, Heritage Bank, Topeka, Kansas (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, is significantly undercapitalized, as defined in section 208.43(b)(4) of Regulation H of the Board of Governors (12 C.F.R. § 208.43(b)(4)), for purposes of section 38 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1831*o*);

WHEREAS, the Bank submitted a capital restoration plan, dated January 26, 2009 (“Capital Restoration Plan”), which the Board of Governors deemed acceptable pursuant to section 38(e)(2) of the FDI Act (12 U.S.C. § 1831*o*(e)(2));

WHEREAS, the actions in this Prompt Corrective Action Directive (the “Directive”) are necessary to carry out the purposes of section 38 of the FDI Act; and

WHEREAS, on March 18, 2009, the board of directors of the Bank, at a duly constituted meeting, adopted resolutions authorizing and directing Carol A. Pecis, to enter into this Directive on behalf of the Bank, and consenting to compliance with each and

every provision of this Directive by the Bank and its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)).

NOW THEREFORE, pursuant to section 38 of the FDI Act and section 208.45 of Regulation H of the Board of Governors (12 C.F.R. § 208.45), the Board of Governors immediately directs that:

1. The Bank shall no later than May 31, 2009 (or such additional time as the Board of Governors may permit), in conjunction with the Bank's parent bank holding company, Heritage Bancshares, Inc., Topeka, Kansas:

(a) Increase its equity, consistent with the Capital Restoration Plan, through the sale of shares or contributions to surplus in an amount sufficient to make the Bank adequately capitalized as defined in section 208.43(b)(2) of Regulation H of the Board of Governors (12 C.F.R. § 208.43(b)(2)); or

(b) take other necessary measures to make the Bank adequately capitalized.

2. The Bank shall comply fully with the provisions of section 38(d)(1) of the FDI Act (12 U.S.C. § 1831o(d)(1)) restricting the making of any capital distributions, including, but not limited to, the payment of dividends.

3. The Bank shall not, without the prior written approval of the Federal Reserve Bank of Kansas City (the "Reserve Bank") and the fulfillment of one of the requirements set forth in paragraph 1, accept, renew, or rollover deposits bearing an interest rate that exceeds the prevailing effective yields on insured deposits of comparable maturity in the Bank's market area.

4. The Bank shall maintain an adequate allowance for loan and lease losses. The Bank shall not, without the prior written approval of the Reserve Bank, reverse provision expenses.

5. (a) The Bank shall comply fully with the provisions of section 38(f)(2)(B)(i) of the FDI Act (12 U.S.C. § 1831o(f)(2)(B)(i)) requiring that all transactions between the Bank and any affiliate comply with section 23A of the Federal Reserve Act (12 U.S.C. § 371c).

(b) For the purposes of this Directive, the terms (i) “transaction” shall include, but not be limited to, the transfer, sale or purchase of any asset, including cash, or the direct or indirect payment of any expense or obligation of, the payment of a management or service fee of any nature to, or any extension of credit to an affiliate; (ii) “extension of credit” shall be defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. § 215.3); and (iii) “affiliate” shall be defined as set forth in subparagraph (b)(1) of section 23A of the Federal Reserve Act (12 U.S.C. § 371c(b)(1)) and section 223.2 of Regulation W of the Board of Governors (12 C.F.R. § 223.2).

6. The Bank shall comply fully with the provisions of sections 38(f)(4)(A)(i) and (ii) of the FDI Act (12 U.S.C. §§ 1831o(f)(4)(A)(i) and (ii)) restricting the payment of bonuses to senior executive officers and increases in compensation of such officers.

7. The Bank shall comply fully with the provisions of sections 38(e)(3) and (4) of the FDI Act (12 U.S.C. §§ 1831o(e)(3) and (4)) restricting asset growth, acquisitions, branching, and new lines of business.

8. Thirty days after the date of this Directive and monthly thereafter, the Bank shall submit to the Reserve Bank written progress reports detailing the steps taken to comply with the Bank's capital restoration plan, dated January 26, 2009.

9. Notwithstanding any provision of this Directive, the Bank shall comply with any other supervisory action issued by the Board of Governors, the Reserve Bank, or the Kansas Office of the State Commissioner.

10. All communications regarding this Directive shall be sent to:

(a) Ms. Susan E. Zubradt
Vice President
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

(b) Kevin Ulmer
Heritage Bank
3024 SW Wannamaker Road
Topeka, Kansas 66667

11. Notwithstanding any provision of this Directive, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank to comply with any provision of this Directive.

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

13. Each provision of this Directive shall remain effective and enforceable until stayed, modified, terminated or suspended in writing by the Board of Governors.

14. The provisions of this Directive shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state department or agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors or assigns.

15. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Directive is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

By order of the Board of Governors of the Federal Reserve System, effective this 26th day of March, 2009.

HERITAGE BANK

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/Carol A. Pecis
Carol A. Pecis
Chairman

By: /s/Jennifer J. Johnson
Jennifer J. Johnson
Secretary of the Board