

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

Written Agreement by and between

HERITAGE BANK
Topeka, Kansas

and

FEDERAL RESERVE BANK OF
KANSAS CITY
Kansas City, Missouri

Docket Nos. 09-047-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Heritage Bank, Topeka, Kansas (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank and the Federal Reserve Bank of Kansas City (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on April 20, 2009, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Kevin Ulmer to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u).

NOW, THEREFORE, the Bank and the Reserve Bank 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 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, credit risk management, credit administration, processes to mitigate risks associated with credit concentrations, and earnings; and

(b) 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, concentrations of credit, status of collection on past due loans, allowance for loan and lease losses ("ALLL"), capital, liquidity, and earnings.

Management and Staffing Review

2. Within 10 days of this Agreement, the board of directors of the Bank shall retain an independent consultant acceptable to the Reserve Bank to conduct a review of all managerial and staffing needs of the Bank and the qualifications and performance of all senior Bank management and all loan officers (the "Management Review"), and to prepare a written report of findings and recommendations (the "Report"). The primary purpose of the Management Review shall be to aid in the development of a suitable management structure that is adequately staffed by qualified and trained personnel. Within 10 days of the engagement of the independent

consultant, but prior to the commencement of the Management Review, the Bank shall submit an engagement letter to the Reserve Bank for approval. The engagement letter shall require the independent consultant to submit the Report within 45 days of the approval of the engagement letter and to provide a copy of the Report to the Reserve Bank at the same time that it is provided to the Bank. The Management Review shall, at a minimum, address, consider, and include:

(a) The identification of the type and number of officers needed to manage and supervise properly the affairs of the Bank; and

(b) an evaluation of each officer to determine whether the individual possesses the ability, experience, and other qualifications required to perform competently present and anticipated duties, including the ability to comply with applicable laws and regulations, adhere to the Bank's established policies and procedures, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Agreement.

3. Within 45 days of the Bank's receipt of the Report, the board of directors of the Bank shall submit a written management plan to the Reserve Bank that fully addresses the findings and recommendations in the Report and describes the specific actions that the board of directors proposes to take in order to strengthen the Bank's management, including but not limited to, plans to hire or appoint additional or replacement personnel.

Lending and Credit Risk Management

Loan Policies and Procedures

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable revised written loan policies and procedures that shall, at a minimum, address, consider, and include:

(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) establishing internal limits on the amount of direct and indirect lending to a borrower and any "related interest." 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 of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 215.2(n));

(c) standards and approval requirements for renewing, extending, or modifying existing loans;

(d) a prohibition of the capitalization of interest; and

(e) revisions to address the criticisms of the Bank's loan policy noted in the report of the examination of the Bank conducted by the Kansas Office of the State Bank Commissioner and the Reserve Bank that commenced on November 10, 2008 ("Report of Examination").

Credit Administration

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) Procedures to periodically review and revise risk exposure limits to address changes in market conditions and strategies to minimize credit losses;

(b) procedures for timely and accurate identification of credit risk in the loan portfolio;

- (c) procedures that require the periodic submission by borrowers of current financial statements;
- (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);
- (e) procedures to improve the accuracy of management's internal credit risk rating system and timeliness of updates to the internal watch list;
- (f) enhanced management information systems to provide accurate and timely information to the Bank's management and board of directors, including updated problem loan or watch reports and the identification of borrowers who are not current with interest payments in accordance with the original loan terms;
- (g) procedures to correct all documentation and credit information deficiencies noted in the Report of Examination, including the adoption of written policies and procedures designed to minimize loan documentation exceptions and strengthen the timely gathering of loan and collateral documentation; and
- (h) establishment of an acceptable appraisal review process to ensure the quality of appraisals.

Loan Review

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written program for the ongoing review and grading of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of the loan review;

- (b) standards and criteria for assessing the credit quality of the loans;
- (c) application of loan grading standards and criteria to the loan portfolio; and
- (d) periodic written reports to the board of directors that identify the status of those loans that are adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

Asset Improvement

7. (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 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 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.

8. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank 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 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 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 shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

9. (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.

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

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital requirements, including, 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 adequacy of the Bank's capital, taking into account the volume of adversely classified assets, concentrations of credit, ALLL, current and projected planned asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements; and

(d) procedures for the Bank to notify the Reserve Bank, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the plan's minimum ratios and to submit to the Reserve Bank an acceptable written plan that details the steps the Bank will take to increase the Bank's capital ratios to or above the plan's minimums within 30 days of such calendar quarter-end date.

Earnings Plan and Budget

11. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank a written business plan for 2009 to improve the Bank's earnings and overall condition.

The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive budget for calendar year 2009, including income statement and balance sheet projections; and
- (ii) the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

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

Liquidity Management

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

- (i) Measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors;

- (ii) additional tools to measure and estimate liquidity needs on an ongoing basis; and
- (iii) specific liquidity targets and parameters and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands.

(b) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

Interest Rate Risk Management

13. Within 30 days of the Agreement, the Bank shall submit an acceptable policy to improve interest rate risk management practices. The policy shall, at a minimum, address the following parameters:

- (a) Appropriate guidelines for GAP management;
- (b) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and
- (c) appropriate parameters governing the economic risk to the Bank's capital due to changes in interest rates

Dividends

14. (a) The Bank 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.

(b) Any request to declare or pay dividends must be 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). 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, at a minimum, current and projected information on earnings, capital, asset quality, and ALLL of the Bank.

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, 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) 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. (a) Within 10 days of this Agreement, the board of directors of the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of

Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors of the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank 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, Policies and Procedures, and Programs

17. (a) The Bank shall submit written plans, policies and procedures, programs, and an engagement letter that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2, 4, 5, 6, 8(a), 8(b), 9(c), 10, 12, and 13 of this Agreement. An independent consultant acceptable to the Reserve Bank shall be retained within the time period set forth in paragraph 2.

(b) Within 10 days of approval by the Reserve Bank, the Bank shall adopt the approved plans, program, and engagement letter. Upon adoption, the Bank shall promptly implement the approved plans and program, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, program, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Communications

18. All communications regarding this Agreement 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) Mr. Kevin D. Ulmer
President and CEO
Heritage Bank
3024 S.W. Wanamaker Road
Topeka, Kansas 66614

Miscellaneous

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

20. The provisions of this Agreement shall be binding upon the Bank and its 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.

22. 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 from taking any other action affecting the Bank, 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 22nd day of April, 2009.

HERITAGE BANK

FEDERAL RESERVE BANK
OF KANSAS CITY

By: /s/ Kevin D. Ulmer
Kevin D. Ulmer
President and CEO

By: /s/ Susan E. Zubradt
Susan E. Zubradt
Vice President