PUBLIC DISCLOSURE

JANUARY 25, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

THE BANK OF HOLYROOD
RSSD# 871358

100 SOUTH MAIN STREET
HOLYROOD, KANSAS 67450

Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

NOTE: **This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING: *This institution is rated **Satisfactory**.*

The Bank of Holyrood (the bank) has a satisfactory record of helping to meet the credit needs of its assessment area (AA), consistent with its resources and operating philosophy. The average net loan-to-deposit (NLTD) ratio is reasonable considering the characteristics of the bank, performance of local competitors, and credit needs of the community. The majority of loans were originated inside the AA. Lending reflects a reasonable penetration through the AA based on the income level of geographies. Lending further reflects reasonable penetration among borrowers of different income levels and to businesses and farms of different revenue sizes.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Small Institution Examination Procedures*. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geographies
- Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Revenue Sizes

The fifth criterion, the bank's responsiveness to complaints under the CRA, was not evaluated as neither the bank nor the Federal Reserve Bank of Kansas City (Reserve Bank) has received any complaints concerning CRA since the previous evaluation.

The examination evaluated the bank's performance in the above criteria in the context of demographic information for the area in which the bank operates. The designated AA includes all tracts in Ellsworth and Barton Counties, along with one tract in the northern portion of Rice County, Kansas. Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines, which included residential real estate, agricultural, and commercial loans. The major product lines were determined through discussions with management, a review of the Reports of Condition and Income (Call Report), and a review of the number of outstanding loan originations since the bank's last CRA examination on October 31, 2011.

The examination reviewed a statistical sample of 52 small farm loans, 47 residential real estate loans, and 43 small business loans originated between January 1, 2014 and December 31, 2014.

The evaluation of lending was based on various source data specific to the institution's AA.

The NLTD ratio was based on a 16-quarter average and compared to similarly situated financial institutions that operate within the bank's AA. The geographic distribution analysis was based on the bank's penetration within the different geographies of the AA by income level, in which geographies were classified based on the FFIEC's census tract designations for 2014. The borrower distribution analysis was based on the bank's penetration to borrowers of different income levels and to businesses and farms of different revenue sizes, in which borrower income levels were calculated using the FFIEC's Estimated Median Family Income (MFI) listing for 2014. For evaluative purposes, the bank's residential real estate lending was compared to the U.S. Census 2006-2010, five-year estimated American Community Survey (2010 ACS) data, while the bank's small business and small farm lending was compared to 2014 Dun & Bradstreet (D&B) data.

To ascertain the local market and economic conditions within the bank's AA and to evaluate the bank's responsiveness in helping to meet area credit needs, two interviews with community members were conducted and relied upon for additional performance context.

DESCRIPTION OF INSTITUTION

The bank is a $62.5 million (MM) institution, headquartered in Holyrood, Kansas. The bank is a wholly owned subsidiary of Holyrood Bancshares, Inc., a shell-bank holding company. Holyrood is a rural community located in the central portion of Kansas, approximately 113 miles northwest of Wichita, Kansas. The bank does not operate any other branch offices and does not have automated teller machines or Internet banking services.

The bank reported total loans of $42.2MM and total deposits of $53.0MM on its September 30, 2015 Call Report. According to the Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report as of June 30, 2015, the bank has a small presence in the AA, with 3.8 percent of the market share. Additionally, the bank ranked 12th out of 17 other FDIC-insured institutions with locations in Ellsworth, Barton, and Rice Counties. There are numerous other financial institutions in the surrounding cities; however, the bank is the only bank in the city of Holyrood. The bank focuses on consumer, real estate, agricultural, and commercial lending; however, it offers a variety of products to meet the credit needs of the AA. Table 1 illustrates the distribution of the bank's loan portfolio as of September 30, 2015.

TABLE 1
THE BANK OF HOLYROOD LOAN PORTFOLIO
SEPTEMBER 30, 2015

Loan Type	Amount $(000)	Percent of Total
Residential Real Estate	13,094	31.0
Agricultural	11,441	27.0
Commercial	10,927	25.9
Consumer	6,578	15.6
Other	207	0.5
Gross Loans	42,247	100.0

There are no legal or financial factors impeding the institution's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its previous CRA evaluation conducted by the Reserve Bank on October 31, 2011.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA[1]

The bank has designated all tracts in Ellsworth and Barton Counties, along with one tract in Rice County as its AA. In total, the AA includes one moderate-, nine middle-, and one upper-income census tracts. The area's composition of low- and moderate-income (LMI) tracts has changed slightly since the prior examination; where the AA previously had two moderate- and nine middle-income census tracts. These changes occurred within Barton County and were a result of the decennial census, which impacted the income levels of census tract designations; these changes became effective in 2012.

Population Trends and Characteristics

According to 2014 FFIEC Census data, the AA contains a population of 36,667, which represents a 5.6 percent increase since 2000. Barton County is the largest county of the AA, which contains over 75.5 percent of the population. Barton County includes the cities of Ellinwood, Hoisington, and the county seat and most populous city of Great Bend. Rice County includes the cities of Lyons, Sterling, and Chase. Ellsworth County is the least populated of the AA and includes the cities of Wilson, Kanopolis, Holyrood, and Ellsworth. The population of the AA is older, with 17.4 percent of the residents aged 65 and over compared to the statewide figure of 13.2 percent. A local community contact concurred by stating the area has several senior care and senior living facilities. Additionally, the census data shows that 2.5 percent of the population within the AA resides in correctional institutions.

Income Characteristics

Overall, the MFI of the AA is $52,482, which is similar to other nonmetropolitan areas but lower than the statewide average of $62,424. The concentration of LMI families within the AA is 37.1 percent, compared to the statewide average of 36.0 percent. Of the three counties within the AA, Ellsworth County has a slightly higher MFI of $54,071 and a lower percentage of LMI families at 35.3 percent. However, a local community member suggested that lower paying professions have resulted in many residents working two jobs to make ends meet.

Economic and Employment Characteristics

The overall AA is primarily rural in nature with the economy largely driven by agriculture and energy production. Although the economy has been strong, the recent drop in oil and cattle prices has begun to negatively impact the area. As found in the 2012 Census of Agriculture, the overall AA experienced a 17.6 percent increase in the market value of products sold since

[1] Sources of economic and demographic data include 2010 ACS five-year average, 2012 Census of Agriculture, 2014 FFIEC's Census tract designations, and 2014 D&B data.

2007. However, Ellsworth County has experienced the majority of this growth, increasing by 56.7 percent. A community member confirmed that agriculture is the economic driver for the economy as many of the principal employers in the area support agricultural production or products. This is further evidenced by a new Orscheln Farm and Home store that opened in 2015. Other major employers in Ellsworth County include Great Plains Manufacturing, Carrico Implement, KanEquip, Walmart, Ellsworth County Medical Center, the correctional facility, and a local school district.

In Barton County, a community contact stated that agriculture, oil, oil suppliers, and cattle production are the major industries in the area. Several construction projects have been initiated in the area including a new 78-room Holiday Inn Express and a new Bartlett grain facility in 2015. Major employers include Barton Community College, Great Bend Regional Hospital, and the Unified School District (USD-28) as well as various agricultural, manufacturing, service, retail, and elder care facilities. The unemployment rate within the AA, at 5.2 percent, is lower than the statewide rate of 6.0 percent. A member of the Barton community stated that with the recent plunge in oil prices and company layoffs, oil workers are staying in the community by working in other fields until they can return to their position in the oil industry.

Housing Characteristics

The median housing value of the AA is $68,439, which is lower than the nonmetropolitan figure of $81,447 and substantially lower than the statewide figure of $122,600. The AA contains a higher concentration of owner-occupied units at 65.7 percent, compared to the statewide figure of 62.6 percent. The AA has a smaller supply of rental housing available, with 21.6 percent of the existing housing units in rental housing compared to 27.5 percent statewide. The median age of housing stock is 56 years, compared to the statewide figure of 38 years. The average affordability ratio[2] is 62.8 percent, compared with the state at 40.3 percent. Although housing costs and rent payments appear to be more affordable in the AA, many local residents are working two jobs to afford the average rent of $600 according to a community contact. Finding adequate housing is also a concern for the area, with additional homes and apartments needed to meet the demand. One barrier is that the cost to build housing outweighs the low rent potential investors could collect from tenants. This limits the housing supply and, therefore, the ability of low-income families to find affordable housing in the area.

Table 2 summarizes the income-related demographic and economic characteristics of the bank's AA based on 2014 FFIEC's Census data.

[2] The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio reflects less affordable housing.

TABLE 2
THE BANK OF HOLYROOD 2014
ASSESSMENT AREA DEMOGRAPHICS

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,734	17.4
Moderate	1	9.1	684	6.8	94	13.7	1,971	19.7
Middle	9	81.8	8,167	81.8	676	8.3	2,322	23.2
Upper	1	9.1	1,138	11.4	67	5.9	3,962	39.7
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**11**	**100.0**	**9,989**	**100.0**	**837**	**8.4**	**9,989**	**100.0**

	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	1,278	713	6.3	55.8	402	31.5	163	12.8
Middle	14,230	9,555	84.3	67.1	2,769	19.5	1,906	13.4
Upper	1,764	1,071	9.4	60.7	566	32.1	127	7.2
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	**17,272**	**11,339**	**100.0**	**65.6**	**3,737**	**21.6**	**2,196**	**12.7**

	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	89	4.9	79	5.0	8	5.3	2	2.4
Middle	1,560	85.3	1,353	85.0	129	85.4	78	91.8
Upper	179	9.8	160	10.1	14	9.3	5	5.9
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**1,828**	**100.0**	**1,592**	**100.0**	**151**	**100.0**	**85**	**100.0**
Percentage of Total Businesses:				**87.1**		**8.3**		**4.6**

	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	2	0.4	2	0.5	0	0.0	0	0.0
Middle	427	95.7	422	95.7	5	100.0	0	0.0
Upper	17	3.8	17	3.9	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**446**	**100.0**	**441**	**100.0**	**5**	**100.0**	**0**	**0.0**
Percentage of Total Farms:				**98.9**		**1.1**		**0.0**

Based on 2010 ACS five-year estimate data, 2014 FFIEC's Census tract designations, and 2014 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's record of meeting the credit needs of its AA is considered satisfactory. The overall rating is based on performance with respect to the lending test. The 16-quarter NLTD ratio was reasonable. The majority of loans were originated inside the AA. Lending reflects reasonable dispersion throughout the AA based on the income level of geographies. Lending further reflects reasonable penetration among borrowers of different income levels and businesses and farms of different revenue sizes.

Net Loan-to-Deposit Ratio

This performance criterion utilizes the bank's average NLTD ratio to evaluate the reasonableness of lending in light of performance context information regarding the bank's capacity to lend, availability of lending opportunities, and demographic and economic factors present in the AA.

The bank's NLTD ratio is considered reasonable given the bank's size, financial condition, and current local economic conditions. The bank's NLTD ratio averaged 62.6 percent in the 16 quarters since the bank's previous CRA evaluation. The bank's average NLTD ratio was comparable to the average of four similarly situated competitor banks, with average NLTD ratios ranging from 58.1 percent to 86.8 percent.

Assessment Area Concentration

This performance criterion evaluates the bank's overall lending by comparing the concentration of credit extended inside and outside the AA. As illustrated in Table 3, a majority of the loans were originated within the bank's designated AA. Of the 142 loans reviewed, the bank originated 84.5 percent of loans by number and 89.6 percent by dollar inside the AA, indicating the bank is satisfactorily serving the credit needs of its community.

The remaining conclusions of the bank's lending performance are based only on the loans originated inside the bank's AA.

TABLE 3
LENDING INSIDE AND OUTSIDETHE ASSESSMENT AREA

Bank Loans	Inside				Outside			
	#	$(000)	#%	$%	#	$(000)	#%	$%
Residential Real Estate Loans	41	2,010	87.2	91.1	6	195	12.8	8.9
Small Business Loans	33	2,449	76.7	83.0	10	501	23.3	17.0
Small Farm Loans	46	3,737	88.5	93.5	6	258	11.5	6.5
Total Loans	120	8,196	84.5	89.6	22	955	15.5	10.4

Distribution by Income Level of Geographies

This performance criterion evaluates the bank's distribution of lending among geographies of different income levels, including LMI census tracts. The evaluation reviewed both the number of loans originated and dollar volume. The bank's lending was compared to the percent of owner-occupied units, businesses, and farms located in each geographic income category within the AA. Table 4 illustrates the results of the analysis of lending by income level of geographies.

Overall, the geographic distribution of lending is considered reasonable. The AA is primarily a rural area and does not contain any low-income census tracts.

TABLE 4
DISTRIBUTION BY INCOME LEVELS OF GEOGRAPHIES

Census Tract Income Level	Residential Real Estate Loans				% of Owner Occupied Units[1]
	#	$(000)	#%	$%	
Moderate	0	0	0.0	0.0	6.3
Middle	40	1,955	97.6	97.3	84.3
Upper	1	55	2.4	2.7	9.4
Census Tract Income Level	**Small Business Loans**				**% of Businesses[2]**
	#	**$(000)**	**#%**	**$%**	
Moderate	0	0	0.0	0.0	4.9
Middle	30	2,268	90.9	92.6	85.3
Upper	3	181	9.1	7.4	9.8
Census Tract Income Level	**Small Farm Loans**				**% of Farms[2]**
	#	**$(000)**	**#%**	**$%**	
Moderate	0	0	0.0	0.0	0.4
Middle	46	3,737	100.0	100.0	95.7
Upper	0	0	0.0	0.0	3.8

[1] Based on 2010 ACS five-year estimate data and 2014 FFIEC's Census tract designations.
[2] Based on 2014 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Residential Real Estate Loans

The geographic distribution of the bank's in-house residential real estate loans is considered reasonable. The bank did not originate any loans in the moderate-income tract. This census tract contains 6.3 percent of the owner-occupied units in the AA. The only moderate-income tract is located in Great Bend, which is over 30 miles from the bank's only branch. In addition to the geographical constraints, the city of Great Bend is where several other financial institutions are located, and competition for residential real estate loans is significant. The bank originated 97.6 percent by number and 97.3 percent by dollar of their residential real estate loans in the middle-income tract, which exceeded the percentage of owner-occupied units in middle-income tracts. Lending in the upper-income tract, at 2.4 percent, was below the demographic figure of 9.4 percent.

Small Business Loans

The bank's lending to small businesses reflects a reasonable distribution. The bank did not originate any small business loans in the moderate-income tract, compared to 4.9 percent of the businesses in the moderate-income tract. Performance in this tract is generally limited, due to the distance of the branch to the moderate-income tract. Lending in the middle-income tracts at 90.9 percent by number and 92.6 percent by dollar was better than the demographic figure of small business in the middle-income tracts at 85.3 percent. This lending performance reflects the bank is lending near its office location, which is located in a middle-income tract. The bank's lending in the upper-income tract was similar to the percent of businesses in the upper-income tract.

Small Farm Loans

The bank's distribution of small farm loans reflects reasonable dispersion throughout the AA. Although the bank did not originate any loans in the moderate-income tract, lending opportunities are limited with only 0.4 percent of the AA's total farms located in the moderate-income tract. The bank exceeded lending in the middle-income census tracts by originating 100 percent of its loans in middle-income census tracts. This lending percentage compared favorably to the 95.7 percent of farms located in those tracts. The bank did not originate any small farm loans in the upper-income tract; however, at 3.8 percent, a relatively small percent of farms are located in the tract.

Distribution by Borrower Income and Revenue Size of Businesses and Farms

This performance criterion evaluates the bank's distribution of lending to borrowers of different income levels, particularly to LMI individuals, and also focuses on the bank's level of lending to businesses and farms of different revenue sizes, primarily those with gross annual revenues of $1MM or less. Residential real estate loans were compared to the percentage of families by income level within the AA, while business and farm loans were compared to the percentage of businesses and farms by revenue size within the AA.

Overall, the borrower distribution of lending is considered reasonable considering AA demographics and local economic conditions as illustrated in Table 5 and discussed in the following section.

TABLE 5 DISTRIBUTION BY INCOME LEVEL OF BORROWER AND REVENUE SIZE OF BUSINESSES AND FARMS					
Borrower Income Level	Residential Real Estate Loans				% of Families[1]
	#	$(000)	#%	$%	
Low	8	205	19.5	10.2	17.4
Moderate	9	271	22.0	13.5	19.7
Middle	16	839	39.0	41.7	23.2
Upper	8	695	19.5	34.6	39.7
Business Revenue	Small Business Loans				% of Businesses by Revenue[2]
	#	$(000)	#%	$%	
$1MM or Less	25	1,162	75.8	47.4	87.1
Over $1MM	8	1,287	24.2	52.6	8.3
Income Not Known	0	0	0.0	0.0	4.6
Farm Revenue	Small Farm Loans				% of Farms by Revenue[2]
	#	$(000)	#%	$%	
$1MM or Less	42	3,532	91.3	94.5	98.9
Over $1MM	4	205	8.7	5.5	1.1
Income Not Known	0	0	0.0	0.0	0.0

1 Based on 2010 ACS five-year estimate data.
2 Based on 2014 D&B data.
(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Residential Real Estate Loans

The bank's distribution of residential real estate loans is considered reasonable. The bank's lending to low- and moderate-income borrowers at 19.5 percent and 22 percent by number, respectively, exceeded the percent of low- and moderate-income families in the AA. The bank's lending to middle-income borrowers at 39.0 percent also exceeded the percent of middle-income families in the AA. The bank's lending to upper-income borrowers was overall lower when compared to upper-income families in the AA. While a majority of the bank's lending by dollar volume went to middle- and upper-income borrowers, it is reasonable that loan amounts for low- and moderate-income borrowers would be lower than that of middle- and upper-income borrowers. In addition, community contacts indicated that housing stock within the AA is limited, which may result in a higher percent of LMI families renting in the AA.

Small Business Loans

Small business lending reflects reasonable penetration among businesses of different revenue sizes. The bank originated 75.8 percent by number and 47.4 percent by dollar of loans to small businesses or those with annual revenues of $1MM or less. By number of loans, the percentage is slightly below the 87.1 percent of small businesses in the AA; however the gap in dollar percentage is much larger. Further analysis determined that 81.2 percent of the bank's loans to small businesses were for loan amounts of $100,000 or less. Typically, smaller businesses do not have the need or capacity to borrow large amounts. As such, smaller loan amounts are used as a proxy to estimate the support of smaller businesses, which is considered reasonable in this case. In contrast, businesses with gross annual revenues over $1MM typically have a need for larger loans, which is evidenced by the average loan amount of $160,929 for the eight large businesses compared to a $46,457 average for the 25 small businesses. The result is that the bank's lending to businesses with revenue over $1MM exceeded the demographic figures at 24.2 percent by number and 52.6 percent by dollar.

Small Farm Loans

The bank's distribution of loans to small farms is considered reasonable and demonstrates the bank's willingness to meet the credit needs of small farms within the AA. The bank originated 91.3 percent of loans by number and 94.5 percent by dollar to small farms or those with annual revenues of $1MM or less. While this was also slightly below the demographic figure, 83.3 percent of loans to small farms were made for loan amounts of $100,000 or less, demonstrating the bank's willingness to meet the credit needs of smaller farms. For farms with revenues of over $1MM, the bank's lending exceeded the demographic figure at 8.7 percent compared to 1.1 percent.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The fair lending review performed concurrently with this evaluation identified a substantive violation of the Equal Credit Opportunity Act and Regulation B. Subsequent to this evaluation, management began taking action to address the violation and implemented controls to prevent such a violation in the future. The CRA rating was not adjusted downward from Satisfactory.