



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

February 1, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Girard National Bank
Charter Number: 13347**

**100 E. Forest
Girard, Kansas 66743**

**Comptroller of the Currency
Kansas City South Field Office
7101 College Boulevard, Suite 1600
Overland Park, Kansas 66210**

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.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The Lending Test is rated Satisfactory.

The Community Development Test is rated Outstanding.

We based the bank's CRA rating on the following primary factors:

- Girard National Bank's (GNB) average loan-to-deposit ratio reflects more than reasonable responsiveness towards meeting credit needs of the community.
- The bank originates a substantial majority of loans within its combined assessment areas.
- The bank's overall level of lending to borrowers of different incomes and to farms of different sizes reflects reasonable penetration. More weight was given to performance in the state of Kansas, particularly the non-MSA assessment areas since this is where a substantial majority of lending occurs. In the state of Kansas, farm loans carry more weight and GNB demonstrates strong satisfactory performance for these loans. The bank also demonstrates excellent agricultural loan performance in the state of Colorado.
- The overall geographic distribution of farm and consumer loans shows reasonable dispersion. As stated above, more weight is given to the non-MSA portion of the state of Kansas. The distribution of farm loans in this area is excellent.
- GNB's level of qualified investments and community development activity demonstrates excellent responsiveness to opportunities and community development needs in the bank's assessment areas. The bank provided over \$8 million bank-wide in these activities.

SCOPE OF EXAMINATION

We conducted a full scope examination of GNB's performance using Intermediate Small Bank Examination Procedures. Our objective was to assess the bank's ability to serve and meet the needs of the community within its assessment area (AA). Because GNB has branches in two states and one metropolitan statistical area (MSA), we analyzed loan data separately for the states of Kansas and Colorado. Our loan samples included loan originations from January 1, 2007 to December 20, 2009. The bank's primary lending products using originations, by number and dollar amount, are consumer and agricultural (including farmland loans) for the Kansas Non-MSA AA and Colorado AA, and agricultural (including farmland loans) for the Topeka MSA. To assess the bank's performance, we selected a random sample of 23 consumer loans and 20 agricultural loans from the Colorado AA, 20 consumer loans and 20 agricultural loans from the Kansas Non-MSA AA, and 20 agricultural loans from the Topeka MSA AA. The evaluation period for community development activities was from January 2006 to December 2009.

DESCRIPTION OF INSTITUTION

GNB is a \$498 million interstate financial institution headquartered in Girard, Kansas. G.N. Bancshares, Inc. (HC), a \$499 million one-bank holding company located in Girard, Kansas, owns 100 percent of the bank's outstanding stock. In addition to the main location in Girard, Kansas, management operates fifteen branches in Yates Center, Bucklin, Offerle, Clay Center, Horton, Hiawatha, Wetmore, and Holton, Kansas; and Lamar and Eads, Colorado. GNB has fourteen full-service facilities and two walk-up facilities located in convenience stores. Twelve branches offer drive-up facilities; and non-deposit taking ATMs are located at thirteen of the branches, including the convenience store locations. Since the last CRA examination, GNB acquired branch locations in Colorado in 2006 and has not closed any branches.

The economy of the bank's trade area is primarily comprised of agricultural and related businesses at all locations from the surrounding rural communities and some commercial operations. Strong competition exists with seven banks in Kansas and seven banks in Colorado that are similarly situated, as well as offices of larger financial institutions. As of September 30, 2009, the outstanding loan portfolio balances consisted of 32 percent commercial real estate loans, 16 percent residential real estate loans, 22 percent commercial loans, 23 percent agricultural loans, and approximately 6 percent consumer loans. GNB received a rating of "Outstanding" at its last CRA examination dated June 16, 2006. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AAs.

DESCRIPTION OF ASSESSMENT AREAS

GNB has identified separate counties located near each branch's operations as the bank's AA. These include fourteen counties located in Kansas (Atchison, Brown, Clay, Clark, Comanche, Crawford, Edwards, Ford, Hamilton, Hodgeman, Jackson, Kiowa, Nemaha, and Woodson) and four counties in Colorado (Bacca, Bent, Kiowa, and Prowers). We combined the counties into three AAs for analysis based on the similarity of the markets, as all are primarily rural agricultural communities with predominately middle-income census tracts. We labeled the AAs as the Topeka MSA, Kansas Non-MSA, and Colorado.

Topeka MSA - consists only of Jackson County with a branch located in Holton. This branch is analyzed separately as it is located in the Topeka MSA. Primary loan type by dollar volume and number is agricultural loans. The Topeka MSA has three census tracts, all of which are middle-income. This AA represents 8 percent of loan originations by dollar volume. Within the state of Kansas, loan originations in the Topeka MSA represent 10 percent.

Kansas Non-MSA - consists of Atchison, Brown, Clark, Clay, Comanche, Crawford, Edwards, Ford, Hodgeman, Kiowa, Nemaha, and Woodson counties, with branches located in Bucklin, Clay Center, Girard, Horton, Hiawatha, Offerle, Wetmore, and Yates Center. While not all of the counties are contiguous, the branches serve communities with similar markets and offer similar primary products. Primary loan types by number consist of consumer installment (by number) and agricultural loans (by dollar volume).

The Kansas Non-MSA has 37 census tracts with a designation of 5 moderate-income, 29

middle-income, and 3 upper-income. There are no low-income tracts in the AA. This AA represents 75 percent of loan originations by dollar volume. Within the state of Kansas, loan originations represent 90 percent.

Colorado - consists of Baca, Bent, Kiowa and Prowers counties in Colorado and Hamilton county in Kansas, with branches located in Eads and Lamar, Colorado. For analysis purposes, Hamilton county was included with the Kansas non-MSA AA. The branches serve communities with similar markets and offer similar primary products. Primary loan types by dollar volume and number consist of agricultural loans and consumer installment loans. The Colorado AA has 11 census tracts with a designation of 5 moderate-income and 6 middle-income. There are no low-income tracts in the AA. This AA represents 16 percent of loan originations by dollar volume.

We conducted two community contacts, one in Kansas and one in Colorado, during this examination. Both contacts indicated the local communities are experiencing some economic decline along with the loss of jobs similar to the rest of the country due to the recent recession. The population is declining as the community ages and members of the younger generations leave. There are no major community development or credit-related projects at this time. The local markets are highly competitive with a number of full service banks, credit unions, and branches of other larger financial institutions located in the area. Both contacts report the banks in the area are working to meet the credit needs of the community, as well as making donations for community events.

SELECTION OF AREAS FOR FULL-SCOPE REVIEW

As described, GNB has branches in Colorado, non-MSA communities in Kansas, and the Topeka, Kansas MSA. We performed a full-scope review for each of these AAs.

RATINGS

The bank's overall rating is a blend of the state ratings. Among other factors, we weighed performance based on the number of loan originations in the applicable AAs and the volume of deposit production. We gave more emphasis on performance in the state of Kansas given the number of loan originations and deposit volume. For the evaluation period, 84 percent of the total number of loan originations was generated in the Kansas AA. As of June 30, 2009, 77.3 percent of the bank's deposits were from locations in Kansas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The following conclusions represent the bank's performance in all AAs based on a review of reported and loan information maintained during the evaluation period.

Loan-to-Deposit Ratio (LTD)

GNB's LTD is excellent and shows more than reasonable responsiveness towards meeting the credit needs of the community. The bank's average LTD ratio over the past 15 quarters since the last CRA evaluation is 89.93 percent. The ratio is near the top of the thirteen similarly situated independent banks in the AA, and is well above the 78.37 percent average LTD ratio of the similarly situated banks. The average loan-to-deposit ratios ranged from 44.63 percent to 98.43 percent.

Lending in Assessment Area

The bank's record for lending to borrowers within its AAs is excellent. Bank staff extended a substantial majority of its loans inside the bank's AAs. Of the loans in the evaluation period, management originated 87.40 percent by number and 84.35 percent by dollar within its AAs. See Table 1 for details.

Table 1 - Lending in GNB's AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000's)
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Consumer	46	92.00%	4	8.00%	50	\$265	94.78%	\$15	5.22%	\$280
Agriculture	65	84.42%	12	15.58%	77	\$3,846	83.71%	\$748	16.29%	\$4,594
Totals	111	87.40%	16	12.60%	127	\$4,111	84.35%	\$763	15.65%	\$4,874

Source: Loan sample

Responses to Complaints

GNB did not receive any written complaints about its CRA performance in its AAs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community's credit needs.

STATE RATING

State of Kansas

CRA Rating for Kansas is Outstanding.

The Lending test is rated Satisfactory.

The Community Development test is rated Outstanding.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

GNB's level of lending to borrowers of different incomes and to farms of different sizes is reasonable. More weight is given to performance in the non-MSA AA since it represents over 80 percent of loans in the state of Kansas. Overall lending to farms of different sizes is excellent in the state of Kansas.

Topeka MSA

GNB exhibits excellent penetration in lending to farms of different sizes in Topeka MSA. The agricultural loan sample had 95 percent of the number and 98 percent by dollar amount of loans granted in the AA to farms with revenues less than \$1 million. None of the agricultural loans included in the sample had revenues in excess of \$1 million. Demographics indicate that 99.50 percent of the farms in the AA have gross annual revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Farms in Topeka MSA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	99.50%	0%	0.05%	100%
% of Bank Loans in AA by #	95.00%	0%	5.00%	100%
% of Bank Loans in AA by \$	98.00%	0%	2.00%	100%

Source: Loan sample; 2009 Business Geodemographic data.

Kansas Non-MSA

Overall, consumer lending performance is reasonable. GNB has demonstrated excellent penetration of lending for consumer purpose loans to low-income consumers. The bank granted 30 percent of the number of loans in the sample to low-income households; a group that represents 24.20 percent of the total households in the AA. The volume of consumer purpose lending to moderate-income consumers is poor, as the bank granted 10 percent of the number of loans to these borrowers compared to demographics of 17.60 percent. However, this is mitigated by the fact that the bank did not collect income data on 40 percent of consumer loans. The following table illustrates the bank's distribution of consumer loans based on the income level of the borrower.

Table 2B - Borrower Distribution of Consumer Loans in Kansas Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	24.20%	30%	17.60%	10%	19.70%	15%	38.50%	5%

Source: Loan sample and 2000 U.S. Census Data.

The volume of lending to farms of different sizes in the AA is reasonable. The agricultural loan sample had 90 percent of the number and 85 percent by dollar amount of loans granted in the AA to farms with revenues less than \$1 million. Only one of the twenty agricultural loans included in the sample had revenues in excess of \$1 million. Demographics indicate that 97 percent of the farms in the AA have gross annual revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Farms in Kansas Non-MSA AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	97.00%	2.10%	0.90%	100%
% of Bank Loans in AA by #	90.00%	5.00%	5.00%	100%
% of Bank Loans in AA by \$	85.00%	13.00%	2.00%	100%

Source: Loan sample; 2009 Business Geodemographic Data

Geographic Distribution of Loans

Topeka MSA

An analysis of the distribution of credit within the Topeka MSA would not be meaningful, as the AA does not have any low- or moderate-income tracts.

Kansas Non-MSA

GNB's overall geographic distribution of lending to borrowers of different incomes and to farms of different sizes is reasonable. There are no low-income tracts in the AA.

The geographic dispersion of farm loans in the AA is excellent. Thirty percent of the loans in the agricultural loan sample were granted to borrowers in the moderate-income tract. This considerably exceeds the demographic level as shown in the following table.

Table 3A - Geographic Distribution of Loans to Farms in Kansas Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Agriculture	0%	0%	8.60%	30%	84.60%	70%	6.80%	0%

Source: Loan sample; 2009 Business Geodemographic Data

GNB's consumer lending is poor in moderate-income census tracts in the AA. Five percent of the loans in the consumer loan sample were granted to borrowers in these tracts compared to demographics of 13.50 percent. Per bank management, performance is mitigated by the fact that a majority of moderate-income tracts are located in larger cities, which are several miles away from GNB branches.

Table 3B - Geographic Distribution of Consumer Loans in Kansas Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	0%	0%	13.50%	5%	75.60%	95%	10.90%	0%

Source: Loan sample; or data collected by bank; U.S. Census data.

COMMUNITY DEVELOPMENT TEST

Community development performance in the state of Kansas is excellent and represents \$6.7 million.

Topeka MSA

GNB’s community development (CD) performance for the Topeka MSA AA demonstrates excellent responsiveness to CD needs in its AA. Management originated loans to facilitate affordable housing that meet the regulatory definition of “community development”.

Number and Amount of CD Loans

Holton, the only branch located in this AA, generated five CD loans for affordable housing totaling \$1,083,091 since the last CRA examination. These loans were made to purchase, restore, and operate a low-income multi-unit apartment complex in Topeka that qualifies under the Federal Home Loan Bank Community Housing Program.

Number and Amount of Qualified Investments

The bank reported no direct qualifying CD investment security during the evaluation period. Since 2006, the Holton branch continues to donate to various community and non-profit organizations with \$315 to local economic development and services directed toward low-moderate income households in the AA.

Extent to Which the Bank Provides CD Services

Bank staff members participate in several organizations in their communities that focus on providing community services to low-moderate income individuals and that promote economic development. Bank employees provide their financial expertise by serving in various capacities with organizations such as the Northeast Kansas Enterprise Facilitation Board, Jackson County MicroLoan Review Committee, Holton Mainstreet Economic Restructuring Committee, Jackson County Development Council, and the Kansas Bankers Association Agriculture and Rural Development Committee.

Kansas Non-MSA

GNB’s CD performance for the Kansas Non-MSA AA demonstrates excellent responsiveness to CD needs in its AA through loans, qualified investments, and services that meet the regulatory definition of “community development”.

Number and Amount of CD Loans

Branches located in the Kansas Non-MSA AA generated 35 CD loans which totaled \$4,339,833. The bank also has two grants from the Federal Home Loan Bank (FHLB) in the amount of \$850,000 that pass through GNB Mortgage Company. These grants are part of the FHLB Affordable Housing Project designed to allow institutions to address the affordable housing needs in their communities and focus on individuals meeting the low- to moderate-income thresholds. Loans were also made to purchase equipment or rebuild facilities for non-profit organizations that directly assist low and moderate-income individuals in southeast Kansas, restore housing or business development in the distressed area of surrounding Greensburg, and to operate housing and health facilities in moderate-income tracts.

Number and Amount of Qualified Investments

GNB made one qualified investment of \$80,000 to improve the health care facility located in Bucklin, Kansas, which is located in a distressed area located in the Kansas Non-MSA AA. Branches in this AA continue to donate to various community and non-profit organizations, with \$36,127 to local economic development and services directed toward low-moderate income households in the AA.

Extent to Which the Bank Provides CD Services

Bank staff members participate in several organizations in their communities that focus on providing community services to low-moderate income individuals and promote economic development, such as the Community Foundation of Southeast Kansas, Yates Center Housing Board, Clay County Economic Development Coalition, Hiawatha Economic Foundation, and the Edwards County Economic Development Committee.

STATE RATING

State of Colorado

CRA Rating for Colorado is Satisfactory.

The Lending test is rated Satisfactory.

The Community Development test is rated Satisfactory.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

GNB's level of lending to borrowers of different incomes and to farms of different sizes is excellent.

Lending to farms of different sizes is excellent. All loan originations in the Colorado AA were to farms with revenues below \$1 million. As noted in the following table, demographics indicate 96.62 percent of the farms in the Colorado AA have gross annual revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Businesses/Farms in Colorado AA				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	96.62%	2.32%	1.05%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample and 2000 U.S. Census Data.

GNB's overall level of consumer lending in the Colorado AA is excellent. From our sample of 23 consumer loans within the AA, we found the bank significantly exceeded demographics for low-income households. While lending to moderate-income borrowers is below demographics, overall lending to low- and moderate-income (LMI) consumers is excellent at 74 percent compared to demographics of 54 percent. The following table illustrates the bank's distribution of consumer loans based on the income level of the borrower.

Borrower Distribution of Consumer Loans in the Colorado AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # Bank Loans	% of AA Households	% of # Bank Loans	% of AA Households	% of # Bank Loans	% of AA Households	% of # Bank Loans
Consumer	33.04%	61%	21.11%	13%	21.04%	22%	24.82%	4%

Source: Loan sample and 2000 U.S. Census Data.

Geographic Distribution of Loans

GNB's geographic distribution of credit reflects reasonable penetration within the AA. The bank's Colorado AA does not have any low-income census tracts.

The geographic distribution of agricultural and consumer loans is reasonable. Several of the middle-income tracts in the AA and all of our sampled loans in these tracts were located in areas designated as distressed by the regulatory agencies.

Geographic Distribution of Agricultural Loans in the Colorado AA				
Census Tract Income Level	Moderate Tract		Middle Tract	
Loan Type	% Farms	% of \$ Bank Loans	% Farms	% of \$ Bank Loans
Agriculture	55.20%	43%	44.80%	57%

Source: Loan sample and 2000 U.S. Census Data.

Geographic Distribution of Consumer Loans in the Colorado AA				
Census Tract Income Level	Moderate Tract		Middle Tract	
Loan Type	% Households in AA	% of # Bank Loans	% Households in AA	% of # Bank Loans
Consumer	52%	43%	48%	57%

Source: Loan sample and 2000 U.S. Census Data.

COMMUNITY DEVELOPMENT TEST

Community development performance in the state of Colorado is reasonable and represents \$1.9 million.

Number and Amount of CD Loans

Branches located in the Colorado AA generated eight CD loans for the economic development of distressed counties totaling \$1,823,966 since the last CRA examination. These loans were made to support the economic development of the area for start-up businesses or provide support for essential services including an area hospital, local grocery store, or trash services for the entire community in the middle-income tract of a distressed county.

Number and Amount of Qualified Investments

The bank reported no direct qualifying CD investment security during the evaluation period. Since 2007, the Lamar and Eads branches continue to donate to various community and non-profit organizations, with \$60,000 donated for a tax credit for economic development in a designated distressed area.

Extent to Which the Bank Provides CD Services

Bank staff members participate in several organizations in their communities that focus on providing community services to low- to moderate-income individuals or promote economic development. Bank employees provide their financial expertise by serving in various capacities with organizations such as Victim Assistance, Lamar Area Hospice Committee, and the Kiowa County Economic Development Foundation.