PUBLIC DISCLOSURE

August 19, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens State Bank
Certificate Number: 15261

601 South Main Street
Hugoton, Kansas 67951

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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 RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**. An institution in this category has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Citizens State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test performance.

- The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.

- The institution made a majority of its small farm and small business loans within the assessment area.

- The distribution of borrowers reflects a reasonable penetration among farms and businesses of different sizes in the assessment area.

- The geographic distribution of small farm and small business loans was not analyzed since the assessment area consists solely of middle-income census tracts.

- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated October 28, 2013, to the current evaluation dated August 19, 2019. Examiners used Interagency Small Institution Examination Procedures to evaluate The Citizens State Bank's CRA performance. These procedures consist of the Lending Test that considers an institution's CRA performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

This evaluation does not include any lending activity performed by affiliates.

Loan Products Reviewed

Examiners evaluated the bank's business strategy, loan portfolio composition, and lending activity and determined that small farm and small business loans are significant product lines for the bank. Accordingly, both small farm and small business loans were analyzed in this evaluation. Home mortgage loans are not a major product line for the bank and, therefore, were not reviewed. Agricultural-related loans represent the majority of the loan portfolio; therefore, small farm loans received the most weight when determining overall conclusions.

Analysis focused on small farm and small business loans originated between May 11, 2018, and May 10, 2019. Bank management confirmed that this timeframe was representative of the bank's lending activity for the entire evaluation period. The bank originated 113 small farm loans totaling $10.7 million, and 38 small business loans totaling $4.5 million during this 12 month time period.

The tables presented throughout this evaluation show both the number and dollar volume of loans analyzed; however, examiners emphasized performance by number of loans because it is a better indicator of the number of farms and businesses served. D&B data for 2018 was used as the standard of comparison for both the small farm and small business lending analyses.

DESCRIPTION OF INSTITUTION

Background

The Citizens State Bank is a full-service institution in Hugoton, Kansas. Hugoton is located in southwest Kansas in the center of Stevens County. The Citizens State Bank is owned by Hugoton Bancshares, Inc., Hugoton, Kansas, a one-bank holding company. The bank received a Satisfactory rating at its prior FDIC CRA evaluation dated October 28, 2013, using Interagency Small Institution Examination Procedures.

Operations

The Citizens State Bank operates out of its sole office in Hugoton. There have been no changes in bank offices and no merger or acquisition activities since the previous CRA evaluation.

The institution focuses primarily on agricultural lending, with other types of loans also available including commercial, home mortgage, and consumer loans (including credit cards). Typical deposit accounts such as checking, savings, money market, and certificates of deposit are offered. Alternative banking services include internet and mobile banking, electronic bill pay, telephone banking, and three bank-owned automated teller machines.

Ability and Capacity

Assets totaled $121.7 million as of March 31, 2019, and included total loans of $77.6 million and total securities of $19.9 million. The following table illustrates the loan portfolio.

Loan Portfolio Distribution as of March 31, 2019		
Loan Category	**$(000s)**	**%**
Construction and Land Development	398	0.5
Secured by Farmland	33,596	43.3
Secured by 1-4 Family Residential Properties	5,448	7.0
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	7,006	9.0
Total Real Estate Loans	**46,448**	**59.8**
Commercial and Industrial Loans	8,778	11.3
Agricultural Loans	18,776	24.2
Consumer Loans	1,139	1.5
Other Loans	2,481	3.2
Total Loans	**77,622**	**100.0**
Source: Reports of Condition and Income		

As the preceding table shows, the largest components of the loan portfolio are agricultural loans (loans secured by farmland and agricultural loans) comprising 67.5 percent of the portfolio, followed by commercial loans (loans secured by nonfarm nonresidential properties and commercial and industrial loans) at 20.3 percent, and loans secured by 1-4 family residential properties at 7.0 percent.

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. The Citizens State Bank has designated one assessment area in nonmetropolitan Kansas which is comprised of Stevens County. The assessment area has not changed since the prior evaluation. The following section discusses demographic and economic information for the bank's assessment area.

Economic and Demographic Data

The following table illustrates select demographic characteristics for the assessment area.

Demographic Information for the Assessment Area					
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**
Geographies (Census Tracts)	2	0.0	0.0	100.0	0.0
Population by Geography	5,772	0.0	0.0	100.0	0.0
Housing Units by Geography	2,294	0.0	0.0	100.0	0.0
Owner-Occupied Units by Geography	1,504	0.0	0.0	100.0	0.0
Occupied Rental Units by Geography	503	0.0	0.0	100.0	0.0
Vacant Units by Geography	287	0.0	0.0	100.0	0.0
Businesses by Geography	367	0.0	0.0	100.0	0.0
Farms by Geography	93	0.0	0.0	100.0	0.0
Family Distribution by Income Level	1,581	20.4	12.4	23.3	43.9
Household Distribution by Income Level	2,007	23.6	9.6	14.3	52.6
Median Family Income Nonmetropolitan KS	$56,877	Median Housing Value			$103,540
Families Below Poverty Level	14.5%	Median Gross Rent			$728

Source: 2015 ACS Census; 2018 D&B Data. Due to rounding, totals may not equal 100.0

D&B data for 2018 indicates that farming operations make up 20.2 percent of all assessment area businesses. Service industries represent the largest portion of non-farm businesses at 39.8 percent, followed by retail trade at 12.8 percent, and transportation/communications-related organizations at 8.2 percent. D&B data also shows that 71.1 percent of the assessment area's businesses and farms have four or fewer employees, and 84.8 percent operate from a single location.

According to the Kansas Department of Labor, the unemployment rate for Stevens County increased from 2.6 percent in May 2018 to 2.8 percent in May 2019. In comparison, the unemployment rate for the state of Kansas was 3.1 percent in May 2018 and 3.2 percent in May 2019.

Competition

There is substantial competition for financial services in the assessment area, especially given the limited population base. According to the FDIC Deposit Market Share data as of June 30, 2018, there is one other bank operating in Stevens County. The other bank is a branch office of a larger institution, and it is also located in Hugoton. The FDIC data shows that The Citizens State Bank has a 75.9 percent deposit market share in Stevens County. Other non-bank entities, such as Farm Credit and credit unions located in neighboring communities provide significant lending competition also.

Community Contact

Examiners contact third parties active in the assessment area to help gain insight into the area's economy, demographic trends, and business environment. This information helps identify credit

and community development needs and opportunities available in the area. It also helps determine whether local financial institutions are responsive to those needs.

A community official contacted during the examination felt the area economy is reliant on agriculture and oil/gas production. Both industries have been somewhat sluggish in recent years due to low agriculture and natural gas prices. However, residents are optimistic about the area economy because a major corporation just recently purchased a factory facility in town. The contact indicated that the general banking needs of the area are typical loan and deposit products and services. Agricultural loans are the primary credit need in the assessment area, although some business, home, and consumer loans are also needed. The contact felt that the local banks have been responsive to the credit needs in the area.

Credit Needs

Considering information from the community contact and bank management, along with demographic and economic data, examiners determined that agricultural lending is the primary credit need. Small business loans, home mortgage loans, and other consumer loans are also needed to a lesser extent.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

The Citizens State Bank demonstrated reasonable performance under the Lending Test. The bank's Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance supports this conclusion.

Loan-to-Deposit Ratio

The average net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. During this evaluation period, the ratio ranged from a low of 48.2 percent as of March 31, 2014, to a high of 94.2 percent as of September 30, 2017. The Citizens State Bank maintained a reasonably comparable ratio to other similarly-situated banks. Examiners selected similarly-situated banks based on asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	**Total Assets as of 03/31/2019 ($000s)**	**Average Net LTD Ratio (%)**
The Citizens State Bank, Hugoton, Kansas	**121,653**	**73.2**
Heartland Tri-State Bank, Elkhart, Kansas	89,909	75.0
Johnson State Bank, Johnson, Kansas	78,497	51.2
Grant County Bank, Ulysses, Kansas	230,904	75.5
Source: Reports of Condition and Income 12/31/13 - 03/31/19		

Assessment Area Concentration

A majority of the small farm and small business loans reviewed, by number and dollar volume, were located within the assessment area, reflecting reasonable performance. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total	Dollar Amount of Loans $(000s)				Total
	Inside		Outside			Inside		Outside		
	#	%	#	%	#	$	%	$	%	$(000s)
Small Farm	91	80.5	22	19.5	113	8,941	83.6	1,751	16.4	10,692
Small Business	33	86.8	5	13.2	38	3,508	77.1	1,040	22.9	4,548
Source: 5/11/2018 - 5/10/2019 Bank Data										

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes in the assessment area. Reasonable performance for both small farm and small business loans supports this conclusion. Examiners focused on the percentage, by number, of small farm and small business loans to operations with gross annual revenues of $1 million or less.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes in the assessment area. Specifically, the percentage of loans, by number, to farms with gross annual revenues of $1 million or less compares reasonably to the percentage of farms in this revenue category. It should also be noted that the loans to farms with over $1 million in gross annual revenues were made to just seven different farming operations.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	$(000s)	%
≤$1,000,000	96.8	78	85.7	5,237	58.6
>1,000,000	3.2	13	14.3	3,704	41.4
Total	**100.0**	**91**	**100.0**	**8,941**	**100.0**
Source: 2018 D&B Data, 5/11/2018 - 5/10/2019 Bank Data.					

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes in the assessment area. Specifically, the percentage of loans, by number, to businesses with gross annual revenues of $1 million or less compares reasonably to the percentage of businesses in this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
≤$1,000,000	74.1	28	84.8	2,010	57.3
>1,000,000	6.3	5	15.2	1,498	42.7
Revenue Not Available	19.6	0	0.0	0	0.0
Total	**100.0**	**33**	**100.0**	**3,508**	**100.0**
Source: 2018 D&B Data, 5/11/2018 - 5/10/2019 Bank Data.					

Geographic Distribution

Since the assessment area does not contain any low- or moderate-income census tracts, a geographic distribution analysis of the institution's lending performance within the assessment area would not provide meaningful conclusions. Therefore, this criterion was not evaluated.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and

nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic

branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.