

PUBLIC DISCLOSURE

August 9, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Security Bank Minnesota
Certificate Number: 10984

437 Bridge Avenue
Albert Lea, Minnesota 56007

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 group 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.

Security Bank Minnesota's Community Reinvestment Act (CRA) performance under the applicable performance criteria supports the overall rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of small business loans reviewed were located inside the assessment area.
- The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects reasonable penetration among businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

Security Bank Minnesota is chartered in Albert Lea, Minnesota, and is wholly owned by Lake Bank Shares, Inc., a one bank holding company based in Albert Lea, Minnesota. The bank operates three offices in Albert Lea, Alden, and Emmons, Minnesota. The institution received a Satisfactory rating at its previous FDIC Performance Evaluation dated November 1, 2016, based on Interagency Small Institution Examination Procedures.

Security Bank Minnesota’s business focus is commercial lending. The institution also offers agricultural, home mortgage, and consumer lending; however, to a much lesser degree. The bank also originates secondary market mortgage loans, which provide qualified borrowers with long-term mortgage financing options. In addition, the bank has originated loans through the Small Business Administration’s Paycheck Protection Program (PPP).

The institution provides a variety of deposit services including checking, savings, individual retirement accounts, and certificates of deposit. In addition to traditional banking services, customers have access to ATMs and online banking, including electronic bill pay, periodic statements, and mobile banking.

As of June 30, 2022, assets totaled approximately \$155,824,000, loans totaled \$122,713,000, and deposits totaled \$136,681,000. The bank’s loan portfolio distribution is illustrated in the following table.

Loan Portfolio Distribution as of June 30, 2022		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	3,112	2.5
Secured by 1-4 Family Residential Properties	4,682	3.8
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	22,362	18.2
Total Real Estate Loans	30,156	24.6
Commercial and Industrial Loans	87,113	71.0
Agricultural Production and Other Loans to Farmers	2,714	2.2
Consumer Loans	2,730	2.2
Other Loans	0	0.0
Total Loans	122,713	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet its assessment area’s 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. Security Bank Minnesota designated a single contiguous assessment area that has not changed since the previous evaluation. The assessment area consists of Freeborn, Mower, Winnebago, and Worth counties; census tracts 9504 and 9505 in Dodge County; census tracts 4601, 4605, and 4606 in Faribault County; census tracts 9605 and 9608 in Steele County, and census tract 7902 in Waseca County. Freeborn, Faribault, Mower, Steele, and Waseca counties are part of the nonmetropolitan area of Minnesota. Dodge County is part of the Rochester Metropolitan Statistical Area. Winnebago and Worth counties are part of the nonmetropolitan area of Iowa. All of the bank’s offices are located in Freeborn County in the nonmetropolitan area of Minnesota.

Economic and Demographic Data

According to 2015 American Community Survey (ACS) data, the assessment area is comprised of 5 moderate-income, 27 middle-income, and 3 upper-income census tracts. The assessment area does not contain any low-income census tracts. All of the bank’s offices are located in middle-income census tracts. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	35	0.0	14.3	77.1	8.6	0.0
Population by Geography	113,166	0.0	16.2	74.0	9.8	0.0
Housing Units by Geography	50,959	0.0	16.8	74.2	9.0	0.0
Owner-Occupied Units by Geography	35,254	0.0	12.2	78.0	9.8	0.0
Occupied Rental Units by Geography	10,985	0.0	32.4	61.0	6.6	0.0
Vacant Units by Geography	4,720	0.0	14.6	77.0	8.5	0.0
Businesses by Geography	8,491	0.0	16.5	76.0	7.5	0.0
Farms by Geography	1,465	0.0	1.8	91.1	7.1	0.0
Family Distribution by Income Level	30,562	19.2	19.4	23.2	38.2	0.0
Household Distribution by Income Level	46,239	23.9	16.9	19.2	39.9	0.0
Median Family Income MSA - 40340 Rochester, MN MSA		\$81,036	Median Housing Value			\$112,421
Median Family Income Non-MSAs - IA		\$61,681	Median Gross Rent			\$626
Median Family Income Non-MSAs - MN		\$63,045	Families Below Poverty Level			8.1%

Source: 2015 ACS and 2021 D&B Data

Due to rounding, totals may not equal 100.0%

(*) The NA category consists of geographies that have not been assigned an income classification.

According to 2021 D&B data, service industries represent the largest portion of business operations at 31.1 percent; followed by agriculture, forestry, and fishing at 14.7 percent; and retail trade at 11.6 percent. Additionally, 70.5 percent of assessment area businesses have four or fewer employees, and 90.0 percent operate from a single location.

Competition

The assessment area is a moderately competitive market for credit products and financial services. According to Consolidated Reports of Condition and Income (Reports of Condition) data filed by financial institutions, there are 38 financial institutions operating 66 locations within the assessment area. These institutions range from small community banks to larger national financial institutions. Security Bank Minnesota is ranked 9th with 4.3 percent of the deposit market share.

Security Bank Minnesota is not required to collect or report small business CRA loan data and has elected not to do so. Therefore, examiners did not compare the bank's small business lending performance to aggregate CRA data within this evaluation. However, the aggregate CRA data provides an indication of the level of demand for small business loans and the level of competition within the assessment area. According to 2020 aggregate CRA data (most recent available), 78 CRA data reporters collectively reported 1,781 small business loans originated within the counties in the assessment area. These figures do not include the number of loans originated by smaller institutions that are not required to report small business lending data but operate within the assessment area. The overall volume of small business lending in the assessment area reflects a competitive market.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available. For this evaluation, examiners utilized a recently conducted community contact from a city representative that's familiar with the assessment area.

The contact stated that the area is rural in nature and home to some of the best farmland in Minnesota. As a result, the economy is agriculturally focused with the majority of employment opportunities directly related to agriculture. The contact stated that due to recent government payment programs and record high commodity prices, area farmers are financially stronger than they have been in years and most have significant amounts of cash on hand. Although input costs and land prices have doubled, farmers have been able offset the increases without the need for additional financing. Due in part to the strength of the agricultural sector and funds received from government assistance programs (PPP loans), the area was not adversely impacted by the pandemic. The strength of the local economy has also helped the housing market. The contact commented the housing market is extremely tight with more buyers than homes for sale. Overall, the contact was not aware of any unmet credit needs and felt local financial institutions were doing a good job of meeting the needs of the area.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small business, small farm, and home mortgage loans represent the credit needs of the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the previous evaluation dated November 1, 2016, to the current evaluation dated August 9, 2022. Examiners used Interagency Small Institution Examination Procedures to evaluate Security Bank Minnesota’s CRA performance. These procedures focus on the bank’s performance under the Lending Test as outlined in the Small Bank Performance Criteria Appendix.

Activities Reviewed

Examiners determined that the bank’s major product line is commercial loans. This conclusion considered discussions with management regarding the bank’s business strategy, review of bank records of the number and dollar volume of loans originated during the evaluation period, and a review of the Reports of Condition data. Examiners did not review small farm or home mortgage lending activities because they represent minimal portions of the loan portfolio, are not a major business focus of the institution, and the low volume loans originated by the bank would not provide material support for conclusions.

Bank records indicate that the lending focus and product mix remained generally consistent throughout the evaluation period. Therefore, examiners reviewed all small business loans originated or renewed in 2021, as this period was considered representative of the bank’s performance during the entire evaluation period. D&B data for 2021 provided a standard of comparison for the bank’s small business lending performance.

Examiners reviewed the entire universe of loans to evaluate the Assessment Area Concentration and Geographic Distribution criteria. To evaluate the Borrower Profile criterion, examiners reviewed a sample of small business loans originated or renewed inside the assessment area. The table below provides information on the number and dollar volume of loans reviewed.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Business	187	16,038	47	2,698
<i>Source: 2021 Bank Data</i>				

While number and dollar volume of loans are presented, examiners emphasized performance by number of loans because it is a better indicator of the number of businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Security Bank Minnesota demonstrated satisfactory performance under the Lending Test. The bank's performance under the evaluated criteria 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. The bank's net loan-to-deposit ratio, calculated from Reports of Condition data, averaged 90.2 percent over the past 23 calendar quarters from December 31, 2016, to June 30, 2022. The ratio ranged from a high of 96.9 percent as of December 31, 2019 to a low of 79.3 percent as of March 31, 2021. Overall, Security Bank Minnesota maintained a ratio that was relatively consistent throughout the evaluation period, and is higher than two of the similarly situated institutions shown in the following table. Examiners selected comparable institutions based on their asset size, lending focus, and geographic location

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 6/30/22 \$(000s)	Average Net LTD Ratio (%)
Arcadian Bank Albert Lea, MN	184,790	82.9
Commerce Bank Geneva, MN	270,635	98.8
Produce State Bank Hollandale, MN	130,299	56.9
Security Bank Minnesota Albert Lea, MN	155,824	90.2

Source: Reports of Condition 12/31/2016 through 6/30/2022

Assessment Area Concentration

Security Bank Minnesota originated a majority of small business loans by number within the assessment area as shown in the following table. Management stated, and aggregate CRA data confirmed, there is competition in the assessment area for small business loans, which limits opportunities inside the assessment area. Additionally, there were three loans to the same borrower in four different instances, and five loans to the same borrower in two different instances all outside the assessment area, which impacted the performance. Considering these factors, and a majority of loans by number being originated inside the assessment area, performance is reasonable.

Lending Inside and Outside of the Assessment Area										
	Number of Loans					Dollar Amount of Loans \$(000s)				
Loan Category	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Business	103	55.1	84	44.9	187	5,099	31.8	10,939	68.2	16,038
<i>Source: 2021 Bank Data</i>										
<i>Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. Examiners focused on the percentage of loans in the moderate-income census tracts within the assessment area.

Small Business Loans

The geographic distribution of small business lending reflects reasonable penetration throughout the assessment area. The following table shows the bank’s lending in moderate-income census tracts slightly exceeds demographic data.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	16.5	22	21.4	1,512	29.6
Middle	76.0	75	72.8	3,501	68.7
Upper	7.5	6	5.8	86	1.7
Total	100.0	103	100.0	5,099	100.0
<i>Source: 2021 D&B Data; 2021 Bank Data</i>					

Borrower Profile

The bank’s lending performance demonstrates reasonable penetration among businesses of different revenue sizes. Examiners focused on the percentage of lending to businesses with gross annual revenues of \$1 million or less.

Small Business Loans

The distribution of sampled small business loans reflects reasonable lending penetration to businesses with gross annual revenues of \$1 million or less. As illustrated in the following table, the bank’s lending performance to businesses with gross annual revenues of \$1 million or less is slightly lower than demographic data. Management stated, and aggregate CRA data confirmed, there is competition in the assessment area for small business loans. Additionally, the following table includes 6 Small Business Administration PPP loans to borrowers in which revenues were not required to be collected. The loan amounts were all less than \$50,000, indicating the bank’s willingness to serve the credit needs of smaller businesses. Considering these factors, performance is reasonable.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	83.0	33	70.2	859	31.8
>1,000,000	4.8	8	17.0	1,740	64.5
Revenue Not Available	12.2	6	12.8	99	3.7
Total	100.0	47	100.0	2,698	100.0
<i>Source: 2021 D&B Data, 2021 Bank Data Due to rounding, totals may not equal 100.0%</i>					

Response to Complaints

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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).

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 (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., 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 Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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 (e.g., 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.

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 (also known as non-MSA): 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.