PUBLIC DISCLOSURE

February 10, 2025

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State Bank of Bern
Certificate Number: 10919

402 Main Street
Bern, Kansas 66408

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.

The State Bank of Bern (SBB)'s Community Reinvestment Act (CRA) performacne under the Lending Test 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 the assessment area credit needs.
- The bank originated a substantial majority of its small farm and small business loans within the assessment area.
- The geographic distribution of loans was not analyzed since there are no low- or moderate-income census tracts in the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different revenue sizes.
- The institution has not received any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

DESCRIPTION OF INSTITUTION

SBB is a full-service community bank headquartered in Bern, Kansas, and it operates in northeastern Kanas and southeastern Nebraska. Bern Bancshares, Inc., a one-bank holding company, also located in Bern, wholly owns the institution. The bank is affiliated with SBS Insurance Agency, with locations in Seneca, Sabetha, Hiawatha, and Onaga, Kansas, as well as Auburn, Nebraska. The bank received a Satisfactory rating under the Interagency Small Institution Examination procedures at the prior FDIC performance evaluation dated February 4, 2019.

SBB continues to operate from the main office in Bern, Kansas, and one branch office in Axtell, Kansas. The Bern office is in Nemaha County, and the Axtell office is in Marshall County. SBB did not open or close any branches, and no merger or acquisition activities occurred since the previous evaluation.

SBB offers agricultural, commercial, and consumer loans. Agricultural lending represents the bank's primary lending focus, followed by commercial lending. The institution offers government guaranteed loans through the Farm Service Agency. The bank's deposit products include checking, savings, certificates of deposit, and individual retirement accounts. Alternative banking services include online banking and mobile banking.

According to the September 30, 2024 Reports of Condition and Income, the bank reported total assets of $114.6 million, total deposits of $95.1 million, and total loans of $59.3 million. The composition of the loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 9/30/2024		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	16,177	27.3
Secured by 1-4 Family Residential Properties	457	0.8
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	3,574	6.0
Total Real Estate Loans	**20,208**	**34.1**
Commercial and Industrial Loans	2,289	3.8
Agricultural Production and Other Loans to Farmers	34,131	57.6
Consumer Loans	1,756	3.0
Obligations of State and Political Subdivisions in the U.S.	918	1.5
Other Loans	0	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	**59,302**	**100**
Source: Reports of Condition and Income		

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

DESCRIPTION OF ASSESSMENT AREA

CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. SBB designated one assessment area in Kansas and Nebraska. The assessment area includes all of Nemaha and Marshall counties in Kansas, all of Pawnee County in Nebraska, and census tract 9685 in the western portion of Richardson County in Nebraska.

There have been no changes to the bank's assessment area since the prior evaluation. However, the income classification and physical boundaries of census tracts in the assessment area have been adjusted based on the 2020 U.S. Census data.

Economic and Demographic Data

The following table illustrates select demographic characteristics of the assessment area based on 2020 U.S. Census data.

Demographic Information of the Assessment Area					
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**
Geographies (Census Tracts)	9	0.0	0.0	77.8	22.2
Population by Geography	24,609	0.0	0.0	68.6	31.4
Housing Units by Geography	12,323	0.0	0.0	71.3	28.7
Owner-Occupied Units by Geography	7,938	0.0	0.0	72.7	27.3
Occupied Rental Units by Geography	2,388	0.0	0.0	59.8	40.2
Vacant Units by Geography	1,997	0.0	0.0	79.6	20.4
Businesses by Geography	3,139	0.0	0.0	68.2	31.8
Farms by Geography	751	0.0	0.0	72.7	27.3
Family Distribution by Income Level	6,595	14.3	17.7	23.1	44.9
Household Distribution by Income Level	10,326	21.4	17.3	18.2	43.1
Median Family Income Non-MSAs - Kansas		$65,183	Median Housing Value		$111,975
Median Family Income Non-MSAs - Nebraska		$70,804	Median Gross Rent		$615
			Families Below Poverty Level		5.2%
Source: 2020 U.S. Census and 2024 D&B Data *Due to rounding, totals may not equal 100.0%*					

The 2024 D&B data indicates that services represent the largest portion of farms and businesses at 26.6 percent; followed by agriculture, forestry, and fishing at 19.3 percent; non-classifiable establishments at 19.3 percent; and retail trade at 8.8 percent. The data also indicates that businesses are relatively small with 93.7 percent having 9 or fewer employees, and 90.2 percent operating from a single location.

Competition

The competition for financial services in the assessment area is substantial. According to June 30, 2024 FDIC Deposit Market Share Data, there were 20 financial institutions operating 39 locations that are either wholly or partially included in the bank's assessment area. These institutions range from small community banks to larger financial institutions. SBB is ranked 8th with 4.3 percent of the deposit market share. In addition to the banks reflected in the FDIC Deposit Market Share reports, SBB faces competition from other lenders such as farm credit and credit unions.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the area's credit needs. This information helps determine whether local financial institutions are responsive to those needs. Further, these discussions reveal indications of the credit opportunities available.

Examiners relied on a prior community contact that is knowledgeable of the area's agricultural economy. According to the contact, agricultural loans are the primary credit need. The contact stated the economy is stable; however, the continued rise in land values makes farm expansion more difficult. Additionally, farm input costs have risen, grain prices have been falling, and cattle prices are increasing. The contact stated that banks are willing to lend money to farmers through a variety of government programs, such as Federal joint and guaranteed financing and Kansas Development

Finance Authority bonds for beginner farmers. The contact stated that overall, the community credit needs are being met.

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

SCOPE OF EVALUATION

General Information
This evaluation covers the period from the prior evaluation dated February 4, 2019, to the current evaluation dated February 10, 2025. Examiners used Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance.

Activities Reviewed
Examiners determined that the bank's major product lines are small farm and small business lending for this evaluation. Examiners selected these products based on the bank's business strategy, loan portfolio composition, and the number and dollar volume of loans originated during the evaluation period. Home mortgage lending was not reviewed as part of this evaluation as the bank does not offer residential real estate loans. Management confirmed agricultural lending remains the bank's primary lending focus, and it represents the largest component of the loan portfolio. Accordingly, examiners placed greater weight on the bank's small farm lending performance.

For both loan categories reviewed, examiners focused on loans originated, renewed, or extended in 2024, as bank management indicated that the 2024 lending patterns are generally representative of the bank's lending during the entire review period. The bank's 2024 records showed 124 small farm loans totaling $13.0 million, and 25 small business loans totaling $2.3 million.

For the Lending Test, examiners reviewed all of the above loans to evaluate the Assessment Area Concentration criterion. For the Borrower Profile criterion, examiners reviewed a sample of 47 small farm loans totaling $4.8 million, and all 24 small business loans totaling $2.3 million in the assessment area.

Examiners used 2024 D&B data as the standard of comparison for the bank's small farm and small business lending performance. Although both the number and dollar volume of loans are shown throughout this evaluation, examiners emphasize performance by the number of loans as it is considered a better indicator of the number of farms and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

SBB demonstrated satisfactory performance under the Lending Test. The bank's performance under all evaluated criteria supports this conclusion.

Loan-to-Deposit Ratio

SBB's average net loan-to-deposit ratio is reasonable given the institution's size, complexity, financial condition, and credit needs of the assessment area. SBB's net loan-to-deposit ratio averaged 57.5 percent over the past 23 quarters from March 31, 2019, to September 30, 2024. The ratio ranged from a low of 48.6 percent on June 30, 2021, to a high of 64.1 percent on June 30, 2019. As shown in the following table, the bank's ratio is commensurate to other similarly situated institutions' loan-to-deposit ratios. Examiners selected similarly situated institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Bank	**Total Assets as of 9/30/2024 ($000s)**	**Average Net Loan-to-Deposit Ratio (%)**
The State Bank of Bern, Bern, Kansas	**$114,560**	**57.5**
F&M Bank, Falls City, Nebraska	$131,262	56.7
Union State Bank, Olsburg, Kansas	$38,522	42.8
The Farmers State Bank, Fairview, Kansas	$24,775	60.8
Source: Reports of Condition and Income 3/31/2019 to 9/30/2024		

Assessment Area Concentration

SBB originated a substantial majority of its small farm and small business loans within the assessment area. See the following table for details.

Lending Inside and Outside of the Assessment Area										
Loan Category	**Number of Loans**				**Total**	**Dollar Amount of Loans**				**Total**
	Inside		**Outside**			**Inside ($000s)**		**Outside ($000s)**		
	#	**%**	**#**	**%**	**#**	**$**	**%**	**$**	**%**	**$**
Small Business	24	96.0	1	4.0	25	2,257	100.0	1	0.0	2,258
Small Farm	117	94.4	7	5.6	124	12,077	92.7	951	7.3	13,028
Source: Bank Data										

Geographic Distribution

The assessment area does not include any low- or moderate-income census tracts, so a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

Borrower Profile

Overall, the distribution of borrowers reflects reasonable penetration. Although the small business performance was excellent, the bank's reasonable small farm lending performance is the primary driver for this conclusion. For this criterion, examiners focused on the percentage of small farm and small business loans to operations with gross annual revenues of $1 million or less.

Small Farm Loans

The borrower distribution of small farm loans is reasonable. The bank's lending performance to farms with revenues of $1 million or less lags demographic data in this revenue category. However, the 2022 Agricultural Census revealed 54.3 percent of farms had no interest expense. This information indicates a sizeable percentage of farms in the assessment area had little or no need for credit. Refer to the following table for details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Farms**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000	98.4	36	76.6	2,909	60.5
>$1,000,000	0.9	11	23.4	1,896	39.5
Revenue Not Available	0.7	0	0.0	0	0.0
Total	**100.0**	**47**	**100.0**	**4,805**	**100.0**
Source: 2024 D&B Data, Bank Data.					

Small Business Loans

The distribution of small business loans to operations of different revenue sizes is excellent. As illustrated in the following table, the bank's percentage of lending to businesses with revenues of $1 million or less exceeds the demographic data for this revenue category.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000	82.8	23	95.8	2,065	91.5
>$1,000,000	4.6	1	4.2	192	8.5
Revenue Not Available	12.7	0	0.0	0	0.0
Total	**100.0**	**24**	**100.0**	**2,257**	**100.0**
Source: 2024 D&B Data, Bank Data. *Due to rounding, totals may not equal 100.0%*					

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; therefore, this consideration did not affect the institution's overall CRA rating.

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.