



PUBLIC DISCLOSURE

September 18, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lakeside National Bank
Charter Number 16357

2805 Ridge Road
Rockwall, TX 75032

Office of the Comptroller of the Currency
Dallas Field Office
225 E. John Carpenter Frwy., Suite 900
Irving, TX 75062

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, and should not 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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Overall CRA Rating

The Lending Test is rated: Satisfactory.

- The bank's average loan-to-deposit ratio is reasonable at 40.09 percent, compared to an average of 33.25 percent for comparable institutions.
- Lending within the assessment area (AA) is reasonable. A majority of loans sampled, 58 percent, originated within the bank's AA.
- Lending to businesses of different sizes met the standard of reasonable performance. Eighty percent of the commercial loans sampled were made to businesses with revenues less than or equal to \$1 million dollars.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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 MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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.

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, which 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).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, 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 conduct 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, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

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.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, 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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties 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 percent 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 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state 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 multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

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

Small Loan(s) to Farm(s): 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, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Description of Institution

Lakeside National Bank (LNB) is a \$65 million dollar community bank headquartered in Rockwall, Texas serving the communities within Rockwall County. LNB is a single state institution, and is a subsidiary of Lakeside Bancshares, Inc., a one-bank holding company. Lakeside Bancshares, Inc. is also headquartered in Rockwall, Texas. LNB has one location with an on-site ATM and a drive up teller window that provides extended weekday and Saturday hours.

Management's lending focus remains centered in business loans and 1-4 family residential real estate loans. Primary loan products are residential real estate loans and commercial loans. The bank does not have any financial or legal obstacles affecting its ability to meet needs within the community.

Loan Type	\$ Amount as of June 30, 2017 (in millions)	% of Loan Portfolio
1-4 Family Res Real Estate	\$11.2	40%
Commercial	\$9.7	35%
Consumer Installment	\$2.6	9%
Other	\$4.3	16%
Total	\$27.8	100%

Source: Call Report Data; Bold = primary loan products

Competition in the Rockwall County AA has increased since the previous CRA examination. There are numerous state and nationally chartered financial institutions, including The American National Bank of Texas, JP Morgan Chase, Bank of America, Wells Fargo, Alliance Bank, Inwood National Bank, and Northstar Bank of Texas. The previous CRA examination was conducted as of November 1, 2011 and resulted in a Satisfactory rating.

Scope of the Evaluation

Evaluation Period/Products Evaluated

LNB was evaluated using the Small Bank CRA examination procedures, which included a lending test. The lending test evaluated the financial institution's record of meeting the credit needs of its AA.

The full-scope CRA examination covered a period from November 1, 2011, the date of the prior Performance Evaluation (PE) to September 18, 2017, the date of the current evaluation. Commercial and residential real estate loans were identified as LNB's primary loan products. To evaluate lending performance, a sample of 20 commercial loans and 20 residential loans originating from January 1, 2014 to December 31, 2016, were reviewed. The loan-to-deposit ratio was evaluated using a comparison of other similarly situated financial institutions with headquarters located within the Dallas-Plano-Irving Metropolitan Statistical Area (MSA).

Data Integrity

HMDA data, which was tested for accuracy during the examination, was also used to evaluate lending performance. Testing identified no significant discrepancies regarding the accuracy and reliability of HMDA data during the review. Conclusions regarding the borrower distribution of residential real estate loans in the AA were based on HMDA data.

Selection of Areas for Full-Scope Review

The bank's single AA, consisting of Rockwall County, Texas, received a full-scope review during the evaluation.

Ratings

The bank's overall rating is based on those areas that received full-scope reviews.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

LNB demonstrated satisfactory performance in meeting the credit needs of its AA. Our review focused on overall lending within the AA as well as the primary lending products originated since the previous CRA examination: commercial and residential loans. HMDA data was used to assess the residential loans while a random sample of commercial loans was used to determine the extent of lending within the AA and the distribution of loans by borrower income levels.

Loan-to-Deposit Ratio

LNB's loan-to-deposit ratio (LTD) is reasonable given the credit needs of the AA, and the institution's size, location, and financial condition. The average loan-to-deposit ratio of 40.09 percent is an increase from 37 percent during the last CRA examination.

Similarly situated institutions had similar LTD ratios:

Institution	City	TOTAL ASSETS (000s) – as of June 30, 2017	Avg. LTD Ratio
Lakeside National Bank	Rockwall	65,956	40.09
American Bank, National Association	Dallas	57,752	35.84
The First National Bank of Kemp	Kemp	76,887	40.82
The State National Bank in West	West	71,902	23.11

Source: Call Report Data

We selected local institutions with asset size approximately between \$25 and \$75 million and a single location. Lakeside has historically had a low loan-to-deposit ratio, but this is slowly increasing as loan requests within the community meet the bank's conservative underwriting criteria. Despite a lower LTD ratio, LNB continues to meet reasonable performance standards for lending to borrowers of different incomes and businesses of different sizes, thereby meeting the credit needs of its community.

Lending in Assessment Area

Lending in the AA is reasonable. Based on the sample of loans reviewed, LNB originated a majority of its primary loan products within its AA. As indicated in the following table, 58 percent of the number and 52 percent of the dollar volume of sampled loans originated within LNB's AA.

Lending in Rockwall County										
Loan Type	Number of Loans					Dollar Amount of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	11	55%	9	45%	20	1,885	56%	1,463	44%	3,348
Commercial	12	60%	8	40%	20	275,118	52%	256,750	48%	531,868
Total	23	58%	17	42%	40	277,003	52%	258,213	48%	535,216

Source: Loan sample and data reported under the Home Mortgage Disclosure Act (HMDA).

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

Overall, LNB met the standard of reasonable penetration in lending to borrowers of different incomes and businesses of different sizes.

Borrowers of Different Incomes

As indicated in the table below, LNB originates or refinances 1-4 family residential real estate loans that meet the standard for moderate-income families in the assessment area; however, there were no loans originated to low-income families. Higher housing prices in Rockwall County, driven by a strong economy and income growth, have limited the opportunities for low-income families to purchase homes. The median housing value of a home in Rockwall County is \$202 thousand compared to a median family income of \$36 thousand for low income borrowers.

Borrower Distribution of Residential Real Estate Loans in Rockwall County								
Loan Type	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	11%	0%	13%	17%	23%	0%	53%	75%
Home Improvement	11%	0%	13%	8%	23%	0%	53%	77%
Refinance *	11%	0%	13%	0%	23%	34%	53%	50%

Source: Data reported under the Home Mortgage Disclosure Act (HMDA).

Businesses of Different Sizes

LNB met the standard of reasonable performance in lending to businesses of different sizes. The percentage of loans made to businesses with revenues less than or equal to \$1 million dollars (small businesses) was 80 percent and was representative of the percentage of small businesses in the AA.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	88.46	3.87	7.67	100%
% of Bank Loans in AA by #	80	20	0	100%
% of Bank Loans in AA by \$	71	29	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

A meaningful analysis of the geographical distribution of loans could not be performed for the Rockwall County AA due to the absence of low- and moderate- income census tracts within the AA.

Responses to Complaints

LNB did not receive any complaints of public comments regarding CRA performance during this evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (01/01/14 to 12/31/16) Investment and Service Tests and CD Loans: not applicable	
Financial Institution		Products Reviewed
Lakeside National Bank (LNB) 2805 Ridge Road Rockwall, TX 75032		1-4 family residential real estate loans Commercial Loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Rockwall County AA	Full Scope	N/A

Appendix B: Community Profiles for Full-Scope Areas

Rockwall County AA

Demographic Information for Full-Scope Area: Rockwall County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	11	0%	0%	45.5%	54.5%	0%
Population by Geography	78,337	0%	0%	48.6%	51.4%	0%
Owner-Occupied Housing by Geography	20,906	0%	0%	42.9%	57.1%	0%
Businesses by Geography	7,028	0%	0%	48.8%	51.2%	0%
Farms by Geography	199	0%	0%	41.7%	58.3%	0%
Family Distribution by Income Level	20,199	11.1%	13.1%	22.7%	53.1%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	20,199	0%	0%	14.3%	9.8%	0%
Median Family Income = \$88,710		Median Housing Value (\$000s) = \$202				
FFIEC Adjusted Median Family Income for 2016 = \$71,700		Unemployment Rate = 3.8%				
Households Below the Poverty Level = 854						

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 U.S. Census and 2016 FFIEC updated MFI.

LNB identified Rockwall County, Texas as the bank’s AA. The AA includes 11 census tracts, five of which are middle-income census tracts and six of which are upper-income census tracts. The AA includes all of Rockwall County, Texas and there are no low or moderate income census tracts located in the county. The AA is a part of the larger Dallas-Plano-Irving MSA. The AA designated by the bank meets regulatory guidelines, and does not arbitrarily exclude any low or moderate income areas.

Competition within the AA is significant. In all, there are 14 financial institutions with 22 offices and total deposits of \$934 million in Rockwall County. According to the FDIC Market Share Report dated June 30, 2017, LNB is ranked 9th and holds a market share of deposits of 3.86 percent. The American National Bank of Texas holds the largest market share at 29.7 percent. LNB operates one branch and one ATM within the AA.

Rockwall County is in the top 25 fastest growing counties in the United States and is listed as the sixth wealthiest county in Texas. The largest employers in the county are Rockwall Independent School District, Texas Health Presbyterian Hospital Rockwall, and Wal-Mart Superstore. The largest labor sectors are services, education, health care, and government. Unemployment in the AA is below state and national averages at 3.8 percent.

The credit needs of the community were determined through conversations with bank management and through an interview with a community contact of a local charitable organization that serves low- and moderate-income individuals. Both determined that affordable housing, consumer installment loans, and financing for small and mid-sized businesses continue to be the primary credit needs for Rockwall County. The community contact stated that LNB continues to support the local community.