



PUBLIC DISCLOSURE

April 18, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Northwestern Bank, National Association
Charter Number 24372

4 North Main Street
Dilworth, MN 56529

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3393

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The major factors supporting the institution's rating are as follows:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of its assessment areas (AAs).
- A substantial majority of loans are made inside the bank's AAs.
- The distribution of loans to businesses and farms of different sizes is excellent.
- The geographic distribution of loans throughout the bank's AAs is reasonable.

SCOPE OF EXAMINATION

We evaluated Northwestern Bank, National Association's (Northwestern) Community Reinvestment Act (CRA) performance utilizing small bank performance standards. The bank's CRA performance was assessed under the lending test and focused on the bank's primary loan products based on loan originations and purchases from January 1, 2014 to December 31, 2015. We determined that commercial loans are the primary product in the bank's MSA AA and agricultural loans are the primary product in the bank's Non-MSA AA. We conducted sampling of commercial and agricultural loans to assess the bank's performance in these loan categories.

The Fargo-Moorhead MSA AA carried the most weight in assigning the overall rating as it contains 95 percent of the bank's loan volume and 90 percent of total deposits as of December 31, 2015.

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation (FDIC) to find similarly situated banks. The most recent deposit information is as of June 30, 2015.

DESCRIPTION OF INSTITUTION

Northwestern is headquartered in Dilworth in Clay County in northwestern Minnesota. Northwestern is an intrastate bank with three branches located in Hendrum, Moorhead, and Ulen, Minnesota. In addition, the bank operates two non-deposit taking ATMs. The bank did not open or close any branches during the assessment period. Northwestern is 100% owned by Northwestern Bancshares, a one-bank holding company, headquartered in Dilworth, Minnesota.

Northwestern's assets totaled \$143 million as of December 31, 2015. Tier one capital was \$13.7 million with a tier one leverage ratio of 9.92 percent. Net loans and leases totaled \$104 million and consisted of 59 percent commercial loans, 20 percent agricultural loans, 17 percent real estate loans, and 4 percent consumer loans.

There are no known financial or legal impediments that would affect the bank's ability to meet the credit needs of its communities. The bank received a "Satisfactory" rating at its April 27, 2010 CRA evaluation.

DESCRIPTION OF ASSESSMENT AREA(S)

Northwestern has two designated AAs, consisting of the Fargo-Moorhead MSA AA and the Minnesota Non-MSA AA. We selected both AAs for full scope reviews as part of our evaluation.

Fargo-Moorhead MSA AA

The Fargo-Moorhead MSA AA consists of the entire Fargo-Moorhead MSA. This is a multi-state MSA, located in western Minnesota and eastern North Dakota. The MSA includes all of Clay County in Minnesota and all of Cass County in North Dakota. The bank has three branches in this AA, including the main office location. The bank has two ATMs in the AA. None of the bank's branches or ATMs within this AA are located in low- or moderate-income tracts. The AA meets regulatory requirements and does not reflect illegal discrimination.

The Fargo-Moorhead MSA has a strong, diversified economy. The Fargo-Moorhead area has been experiencing steady growth in recent years. The largest employers in the area are Sanford Medical Center, North Dakota State University, Essentia Health, Fargo Public School District, and Noridian Healthcare Solutions. Unemployment in the Fargo-Moorhead MSA for 2015 was 3.1 percent. This is in line with the state of North Dakota unemployment rate of 2.7 percent and the state of Minnesota unemployment rate of 3.7 percent. The national unemployment rate is 5.3 percent for 2015.

Competition among financial institutions in the Fargo-Moorhead MSA is high with 27 financial institutions holding \$6.5 billion in deposits as of June 30, 2015. Per the FDIC Deposit Market Share Report, Northwestern ranked 13th in the AA with a 1.62 percent market share.

The table on the following page illustrates the demographics of the Fargo-Moorhead MSA AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE FARGO-MOORHEAD MSA AA	
Population	
Number of Families	48,919
Number of Households	84,600
% of Low-Income Families	18.15%
% of Moderate-Income Families	17.92%
% of Middle-Income Families	24.84%
% of Upper-Income Families	6.16%
Geographies	
Number of Census Tracts	46
% Low-Income Census Tracts	4.35%
% Moderate-Income Census Tracts	15.22%
% Middle-Income Census Tracts	60.87%
% Upper-Income Census Tracts	19.56%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$67,695
2015 HUD-Adjusted MFI	\$76,600
Economic Indicators	
2015 Unemployment Rate	3.08%
2010 Median Housing Value	\$146,683
% of Households Below Poverty Level	13.94%

*** Table is based on 2010 census information with updated information when available.*

We contacted a member of the Lake Agassiz Development Group to gain a better understanding of community credit needs and opportunities. The contact indicated that current economic conditions are excellent and there are a large number of entrepreneurial, start-up companies in the MSA. The contact indicated there is a need for affordable housing in the area. The contact also indicated that local banks and financial institutions are doing a great job of meeting community credit needs.

Minnesota Non-MSA AA

The Minnesota Non-MSA AA consists of the entire counties of Becker, Norman, Ottertail, and Wilkin. The bank has one branch in this AA, located in Hendrum, MN. The bank does not have any ATMs in this AA. The AA meets regulatory requirements and does not reflect illegal discrimination. None of the bank's branches within this AA are located in low- or moderate-income tracts.

The Minnesota Non-MSA AA consists of small, rural communities that are predominantly involved in agriculture and small business. Unemployment in the Minnesota Non-MSA for 2015 was 4.1 percent. This is slightly higher than the state of Minnesota unemployment rate of 3.7 percent and below the national unemployment rate of 5.3 percent.

The following table illustrates the demographics of the Minnesota Non-MSA AA:

<i>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNESOTA NON-MSA AA</i>	
Population	
Number of Families	29,699
Number of Households	43,704
% of Low-Income Families	20.50%
% of Moderate-Income Families	19.68%
% of Middle-Income Families	23.41%
% of Upper-Income Families	8.43%
Geographies	
Number of Census Tracts	32
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	9.38%
% Middle-Income Census Tracts	87.50%
% Upper-Income Census Tracts	3.12%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$57,683
2015 HUD-Adjusted MFI	\$63,600
Economic Indicators	
2015 Unemployment Rate	4.11%
2010 Median Housing Value	\$160,817
% of Households Below Poverty Level	12.47%

** Table is based on 2010 census information with updated information when available.

Competition among financial institutions in the Minnesota Non-MSA is high with 27 financial institutions holding \$2.2 billion in deposits as of June 30, 2015. Per the FDIC Deposit Market Share Report, Northwestern ranked 23rd in the AA with a 0.54 percent market share.

We contacted a member of the Norman County Farm Services Agency to gain a better understanding of community credit needs and opportunities. The contact indicated that access to jobs is sometimes limited as Norman County is very rural. The contact indicated small business loans are a need in the area. The contact also indicated that local banks and financial institutions are doing a great job of meeting the community needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance is rated Satisfactory. This assessment is based on the LTD ratio, lending in the bank's AAs, borrower lending distribution, and geographic lending distribution.

Loan-to-Deposit Ratio

Northwestern's LTD ratio is reasonable given their size, financial condition, and the credit needs of their AA. The bank's LTD ratio averaged 77.36 percent over the 23 quarters since the last CRA examination. The LTD ratio ranged from a high of 93.16 percent in the first quarter of 2015 to a low of 66.65 percent in the first quarter of 2013. The following table shows Northwestern's average LTD ratio compared to five other similarly situated financial institutions:

Loan-to-Deposit Ratio Institution	Assets as of 9/30/2015 (\$000s)	Average LTD Ratio (%)
VisionBank	157,295	97.36%
Security State Bank of Fergus Falls	131,266	88.48%
Northwestern Bank, NA	138,746	77.36%
The First National Bank of Henning	106,903	75.58%
Wadena State Bank	127,396	66.62%
Valley Premier Bank	106,894	63.92%

Source: Call Report Data as of September 30, 2015

Lending in Assessment Area

During the review period, Northwestern originated a substantial majority of its loans inside its AAs. The combined percentage of agricultural and commercial loans originated within the bank's two AAs totaled 90 percent by number and 94 percent by dollar volume. The following table shows the bank's lending activity inside and outside its AAs during the assessment period:

Lending in Northwestern's AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	16	80.00	4	20.00	20	\$2,604	86.48	\$407	13.52	\$3,011
Commercial	20	100.00	0	0.00	20	\$4,240	100.00	\$0	0.00	\$4,240
Total	36	90.00	4	10.00	40	\$6,844	94.39	\$407	5.61	\$7,251

Source: Business and Farm Loan Samples

Lending to Businesses and Farms of Different Sizes

The distribution of loans reflects excellent penetration among businesses of different sizes.

Fargo-Moorhead MSA AA

The distribution of loans reflects excellent penetration among businesses of different sizes. Lending to businesses with revenues of \$1 million or less is well above the area demographics. The table below demonstrates the distribution of business loans in the AA:

Borrower Distribution of Loans to Businesses in the Fargo-Moorhead MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.84%	6.80%	18.36%	100%
% of Bank Loans in AA by #	90.19%	9.81%	0.00%	100%
% of Bank Loans in AA by \$	85.00%	15.00%	0.00%	100%

Source: Business Loan Sample; Dunn and Bradstreet Data.

Minnesota Non-MSA AA

The distribution of loans reflects excellent penetration among farms of different sizes in the Minnesota Non-MSA AA. Lending to farms with revenues of \$1 million or less exceeds the area demographics. The table below demonstrates the distribution of farm loans in the AA:

Borrower Distribution of Loans to Farms in the Minnesota Non-MSA AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	98.47%	1.21%	0.32%	100%
% of Bank Loans in AA by #	100%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100%	0.00%	0.00%	100%

Source: Farm Loan Sample; Dunn and Bradstreet Data

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AAs. The Fargo-Moorhead MSA AAs included two low-income and seven moderate-income census tracts, and the Minnesota Non-MSA AA included three moderate-income census tracts.

Fargo-Moorhead MSA AA

The geographic distribution of loans reflects reasonable dispersion throughout the Fargo-Moorhead MSA AA. While lending in low-income census tracts is below the demographic comparator, lending in moderate-income census tracts exceeds the

demographic comparator. The table below shows the geographic distribution of business loans:

Geographic Distribution of Loans to Businesses in Fargo-Moorhead MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans
Business Loans	3.35%	0.00%	20.19%	32.50%	52.07%	57.50%	24.39%	10.00%

Source: Business Loan Sample; Dunn and Bradstreet Data

Minnesota Non-MSA AA

The geographic distribution of loans reflects reasonable dispersion throughout the Minnesota Non-MSA AA. Lending in the moderate-income census tracts was below the demographic comparator; however, the three moderate-income census tracts in this AA are not in close proximity to the bank’s branch. As a result, we consider this performance reasonable. The table below shows the geographic distribution of farm loans:

Geographic Distribution of Loans to Farms in Minnesota Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farm Loans	0.00%	0.00%	4.01%	0.00%	95.10%	100.0%	0.89%	0.00%

Source: Farm Loan Sample; Dunn and Bradstreet Data

Responses to Complaints

Northwestern did not receive any CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s (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.

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