



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 19, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Exchange Bank and Trust
Charter Number: 13879

130 South Main
Fond Du Lac, WI 54936

Office of the Comptroller of the Currency
Milwaukee Field Office
1200 North Mayfair Road, Suite 200
Wauwatosa, WI 53226

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 Outstanding

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's rating:

- The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and credit needs of the assessment areas (AAs).
- A majority of loan originations are made within the bank's AAs.
- The distribution of loans reflects more than reasonable penetration among individuals of different income levels and businesses of different sizes.
- The bank's community development performance reflects adequate responsiveness to the community development needs of its AAs through community development lending, qualified investments, and community development services.

Scope of Examination

We evaluated National Exchange Bank and Trust's (NEBAT) Community Reinvestment Act (CRA) performance under the Intermediate Small Bank Lending and Community Development Tests. In evaluating the bank's lending performance, we reviewed data for the bank's primary loan products: small business loans and home mortgage loans (including both purchase and refinance).

The evaluation covers the period from the date of the previous CRA examination, March 6, 2006, through July 19, 2010. The Lending Test evaluated home mortgage and small business lending from January 1, 2008 through June 30, 2010 and the Community Development Test covered community development loans, investments, and services during the entire evaluation period. Prior to conducting this evaluation, we tested the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) and small business lending data for 2008 and 2009. We found the data to be accurate and therefore used all reported HMDA and small business lending data for both years in the evaluation.

Our analysis included full-scope evaluations for the bank's Fond du Lac and Sheboygan AAs. A majority of the bank's business is conducted in these areas. The Fond du Lac AA contains six of the bank's 27 offices, including the main office. The Sheboygan AA contains seven offices. Limited-scope evaluations were performed for NEBAT's three other AAs.

The analysis for the Lending Test was performed using the most recent available demographic data. Conclusions were based on small loans to businesses and home mortgage loans in the Fond du Lac AA and Sheboygan AA. The majority of the bank's lending activity and deposits are in these two AAs. In addition, we placed equal weight

on 1-4 family mortgage loans and small loans to businesses as these products represent a majority of the bank's lending activity.

We reviewed the bank's community development loans, investments, and services based on information provided by the bank. We only took into account those that met the regulatory definition for community development in our analysis of the Community Development Test.

Description of Institution

NEBAT is a \$1.2 billion financial institution headquartered in Fond du Lac, WI. NEBAT is an intrastate bank with 27 offices and 37 automated teller machines (ATMs). Twelve of the ATMs accept deposits. Offices and ATMs are located throughout the bank's AAs, including two offices in moderate-income census tracts. In addition to the main office, NEBAT operates four full-service branches in Fond du Lac County, as well as an office located in a grocery store on the east side of the City of Fond du Lac. The grocery store location opened in 2007. NEBAT also operates seven offices in Sheboygan County, three each in Washington and Dodge Counties, and two each in Columbia, Marquette, Waushara, and Green Lake Counties.

NEBAT is a wholly owned subsidiary of NEB Corporation, a two-bank holding company also headquartered in Fond du Lac, WI. As of June 30, 2010, NEB Corporation's total assets were \$1.5 billion.

Net loans represent 62% of total assets at June 30, 2010. By dollar volume, the loan portfolio consists of commercial real estate loans (29.9%), commercial and industrial loans (15.8%), 1-4 family residential loans (24.5%), construction and land development loans (15.3%), agricultural loans (5.6%), consumer loans (4.4%), multi-family (2.8%), obligations of states and political subdivisions (1.7%), and other loans totaling less than 0.5%. Tier 1 Capital totaled \$173.7 million at June 30, 2010.

The bank's business strategy has historically been to operate with a community bank orientation while offering a wide range of products. While commercial-related loans equal more than 50% of the bank's loan portfolio, 1-4 family residential mortgages also represent a significant portion of total loans. As of June 30, 2010, NEBAT's 1-4 family residential mortgage loan portfolio represents a larger percentage of total loans than the national average for banks of similar size and number of locations. In addition to commercial and home mortgage loans, NEBAT also offers a wide range of consumer loan products, internet and telephone banking, and trust and investment services.

Based on June 30, 2009 Federal Deposit Insurance Corporation data, the latest available, NEBAT has the second largest deposit market share in its combined market area at 9.28%. The institution with the largest deposit base in the combined AA has a market share of 12.87%. Deposits in Fond du Lac and Sheboygan Counties represent 75% of NEBAT's deposit base according to June 30, 2009 FDIC data.

There are no legal or financial factors impeding the bank's ability to help meet the credit

needs in its assessment areas. NEBAT received an “Outstanding” rating at its prior CRA examination dated March 6, 2006.

Description of Assessment Area(S)

NEBAT has five AAs. The bank’s Fond du Lac AA includes all but the four western most census tracts in Fond du Lac County. The Sheboygan AA includes all of Sheboygan County except the City of Sheboygan. The Madison AA includes the two northeastern most census tracts of Columbia County. The Milwaukee-Waukesha-West Allis AA includes the northern half of Washington County. The non-MSA areas comprise the final AA and include the southern half of Green Lake County, all of Marquette County, the northwestern quarter of Dodge County, and the most southwestern census tract in Waushara County. The AAs comply with regulatory requirements and do not arbitrarily exclude any low- or moderate-income (LMI) geographies.

Areas receiving full-scope reviews

Fond du Lac

The Fond du Lac AA includes 16 census tracts located in the Fond du Lac, WI MSA. Of these tracts, fifteen (93.75%) are designated as middle-income and one (6.25%) as upper-income. None are designated as low- or moderate-income census tracts.

Based on 2000 census data, the Fond du Lac AA has a population of 79,824. The median family income was \$54,396 and the updated 2009 HUD-estimated median family income is \$65,600. Owner-occupied housing represents 65% of housing stock within this AA. There are 1,831 households, or 6% of total households, below the poverty level in this AA. The area economy is stable and centered in manufacturing, trade, transportation, and utilities. US Department of Labor statistics reports Fond du Lac's unemployment rate as 7.8% as of June 2010, which is slightly below the state unemployment rate of 8.1%.

Bank competition is strong with seventeen FDIC-insured institutions having offices in Fond du Lac County. The competition includes offices of large national and regional banking companies as well as smaller locally owned financial institutions. NEBAT has the largest deposit market share in the county at 30%. The next three institutions account for another 30% of market share, with the thirteen remaining institutions having deposit market shares ranging from 7% to less than 1%.

We contacted a person who is employed by a county-wide private/public partnership that works to improve the economic well being of the businesses, communities, and residents of the county. The organization provides a number of services including consulting, assistance with government regulations and programs, business attraction skills, business start-up, economic developmental research and business-to-business marketing, and workforce development. The contact stated that local financial

institutions were doing a good job of meeting the credit needs of the community. The contact identified the major needs of the community as being affordable housing, downtown redevelopment and financing for small business start-ups. We also reviewed information obtained in 2009 from a contact associated with a community action agency located in Fond du Lac. Primary credit and community development needs cited by that contact included affordable conventional home mortgage loans and business loans guaranteed by the Small Business Administration (SBA).

Sheboygan

The Sheboygan AA includes thirteen census tracts in the Sheboygan, WI MSA. Of these tracts, none are designated as low- or moderate-income, ten (76.92%) are designated as middle-income, and three (23.08%) are designated as upper-income.

Based on 2000 census data, this AA has a population of 60,205 and a median family income of \$59,640. The updated 2009 HUD-estimated median family income is \$67,700. Owner-occupied housing represents 73% of housing stock within this AA. There are 620 households, or 3% of total households, below the poverty level in the AA. The area economy is stable. Major industries in the AA include manufacturing, healthcare services, educational services, and food & beverage services. US Department of Labor statistics indicate Sheboygan's June 2010 unemployment rate of 8.3% is slightly above the state unemployment rate of 8.1%.

Bank competition is strong with sixteen FDIC-insured institutions having offices in Sheboygan County. The competition includes offices of large national and regional banking companies as well as smaller locally owned financial institutions. Two banks, including one large bank with a national presence, dominate deposit market share in this County with 24% and 12%, respectively. No other institution has more than 10%. While Sheboygan County is NEBAT's second largest in terms of total deposits, NEBAT's deposit market share of 6.4% ranks eighth in the County.

We contacted a person who works for an economic development organization. The contact mentioned industrial park expansion and downtown revitalization as development opportunities in the area. The biggest need in furthering these projects is financing. The contact stated that in general, financial institutions in the area are doing a good job of providing financial services to the community.

Areas receiving limited-scope reviews

The areas receiving limited-scope reviews include the Madison AA, the Milwaukee-Waukesha-West Allis AA, and the non-MSA AA.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test is outstanding.

Loan-to-Deposit Ratio

NEBAT's average quarterly loan-to-deposit ratio from the second quarter of 2006 through June 30, 2010 of 92.94% is more than reasonable given the bank's size, financial condition, and AA credit needs. No similarly situated commercial banks or state savings banks chartered within any of the counties of NEBAT's AAs were identified for comparison purposes. The two closest banks in asset size were more than \$550 million smaller than NEBAT. These two banks were also the closest in branch structure with one bank having 14 branches the other with 11 (NEBAT has 27). NEBAT ranks second among these three banks based on average loan-to-deposit ratio.

NEBAT's quarterly net loan-to-deposit ratio over the time period listed above compares favorably to the average loan-to-deposit ratio of all commercial and state savings banks chartered within the bank's AAs. The quarterly average loan-to-deposit ratio of all 26 banks, regardless of size, chartered in NEBAT's AA is 85.5% over the same time period. NEBAT's loan-to-deposit ratio ranked tenth out of those 26 financial institutions. The loan-to-deposit ratios of all the financial institutions ranged from 67% to 109%.

In addition, NEBAT originates a significant number of home mortgage loans that are immediately sold on the secondary market. In 2008, NEBAT sold 335 home mortgage loans totaling \$44.2 million. The following year NEBAT sold 698 loans totaling \$94.7 million and through the first six months of 2010, NEBAT sold another 181 loans totaling \$25.1 million. These loans are not included in the loan-to-deposit calculation above.

Lending in Assessment Area

NEBAT originates a majority of its loans to borrowers inside the bank's AA. Based on all home mortgage loans and small loans to businesses originated between January 1, 2008 and June 30, 2010, 76.38% by number and 73.47% by dollar amount, were made within NEBAT's AAs.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	1,980	81.58	447	18.42	2427	249,267	80.89	58,890	19.11	308,157
Business	2,273	72.37	868	27.63	3141	230,205	66.83%	114,284	33.17	344,489
Totals	4,253	76.38	1,315	23.62	5,568	479,472	73.47	173,174	26.53	652,646

Source: January 2008 - June 2010 Home Mortgage Disclosure Act data and bank records (verified by examiners)

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

The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.

Fond du Lac AA

NEBAT’s distribution of home mortgage loans to low- and moderate income borrowers is excellent. As shown in the table below, the number of loans originated to low-income borrowers is significantly higher than the percentage of low-income families in the AA. This is also noteworthy when considering 6% of the households in the AA have incomes below the poverty level. The percentage of home mortgage loans to moderate-income borrowers is only slightly below the demographics of the AA. Overall, this represents an excellent distribution of loans to borrowers of different income levels. In addition, as affordable housing and conventional home mortgage loans in general were cited as area needs, this demonstrates excellent responsiveness to AA needs. The bank originated a number of loans for which income information was not used and therefore not reported (“Unavailable” in the table).

Borrower Distribution of Home Mortgage Loans									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	14.49%	23.70%	18.49%	15.87%	31.69%	21.16%	35.34%	27.67%	11.60%

Source: January 2008 – June 2010 Home Mortgage Disclosure Act Data and U.S. Census Demographic Data

The distribution of business loans is reasonable. The percentage of business loans made by NEBAT to small businesses (those with revenues of \$1 million or less) in the Fond du Lac AA is above the demographic by number of loans. In terms of dollars, the percentage originated within the AA is below the demographic. This is primarily a result of NEBAT originating several large loans to businesses located outside of the Fond du Lac AA. This is reasonable as NEBAT is significantly larger than other banks chartered within the Fond du Lac AA, and it still originates a significant number of loans to small businesses within the AA.

Borrower Distribution of Loans to Businesses in Fond du Lac AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.76	4.49	18.75	100%
% of Bank Loans in AA by #	78.58	21.42	0	100%
% of Bank Loans in AA by \$	60.82	39.18	0	100%

Source: January 2008 – June 2010 Small Business Loan Data (verified by examiners) and Dunn & Bradstreet Business Demographic data.

Sheboygan AA

NEBAT’s distribution of home mortgage loans to borrowers of different income levels is also excellent in the Sheboygan AA. As indicated in the table below, the percentage of loans originated to both low- and moderate-income borrowers is materially higher than the demographics of the AA.

Borrower Distribution of Home Mortgage Loans									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	10.65%	18.03%	16.55%	20.62%	29.21%	24.82%	43.60%	28.10%	8.43%

Source: January 2008 – June 2010 Home Mortgage Disclosure Act Data and U.S. Census Demographic Data

The distribution of business loans in the Sheboygan AA is also reasonable. By number of loans, NEBAT originated a higher percentage of its loans to small businesses (those with revenues of \$1 million or less) than the demographics of the AA. Similar to the Fond du Lac AA, the dollar percentage of loans originated within the AA is below the demographics.

Borrower Distribution of Loans to Businesses in Sheboygan AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.76	5.01	16.24	100%
% of Bank Loans in AA by #	81.21	18.79	0	100%
% of Bank Loans in AA by \$	62.77	37.23	0	100%

Source: January 2008 – June 2010 Small Business Loan Data (verified by examiners) and Dunn & Bradstreet Business Demographic data.

Conclusions for Areas Receiving Limited-Scope Reviews

The findings for the remaining assessment areas are consistent with the findings for the Fond du Lac and Sheboygan AA’s. The distribution of loans to borrowers of different income levels in the limited scope AAs is excellent. In the limited-scope Madison MSA, NEBAT originated 38.7% of its home mortgage loans to low-income families and 22.6% to moderate-income families. This compares favorably to this area’s demographics where low- and moderate-income families represent 22% and 30% of total families respectively. In the limited-scope Milwaukee MSA, NEBAT originated 18.8% of its home mortgage loans to low-income families. This is above the demographics of the

area which indicate 11.6% of total families are low-income. NEBAT also originated 11.4% of home mortgage loans in the Milwaukee MSA to moderate-income families. This is slightly below the percentage (16.8%) of moderate-income families in the AA. Finally, NEBAT's home mortgage lending to families of different income levels was excellent in the non-MSA AA. NEBAT originated 23.8% of home mortgage loans in this AA to low-income families and 21.7% to moderate-income families. This is above the demographics indicating 15.6% and 21.1% of total families are low- and moderate-income respectively.

The distribution of loans to businesses with revenues less than \$1 million in the limited-scope AAs is consistent with that of the full-scope AAs. In the Madison MSA, NEBAT originated 87% of its business loans over the assessment period to businesses with revenues less than \$1 million. This compares favorably to the demographics which indicates 78% of businesses in the AA have revenues less than \$1 million. A similar result was noted in the non-MSA AA where NEBAT originated 84% of its business loans to entities generating revenues of less than \$1 million. Demographic information indicates 77% of the businesses in the non-MSA AA have revenues less than \$1 million. Lending performance in the Milwaukee MSA AA was comparable to the demographics, as 72% of the bank's loans were to businesses with revenues less than \$1 million. Demographics in this AA indicate 79% of the businesses have revenues of less than \$1 million.

Geographic Distribution of Loans

A geographic analysis of the bank's lending in full-scope review AAs was not meaningful as both the Fond du Lac and Sheboygan AAs consist only of middle and upper income census tracts. However, the bank's limited scope review AAs contain three moderate income census tracts and the bank met or exceeded the demographics for lending in those areas. For example, 4.66% of owner-occupied housing in the bank's total AA is in the three moderate-income tracts. Of the bank's total home mortgage loans, 4.87% were originated in the three moderate-income census tracts.

Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the last examination.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is rated satisfactory.

Number and Amount of Community Development Loans

NEBAT originated 5 community development loans totaling \$12.6 million during the evaluation period. All of the loans were originated in the Fond du Lac AA. One loan was to rehabilitate housing that will be rented to low- and moderate-income families. Another was granted to an organization that provides services for low-to moderate-

income individuals. The other community development loans were Small Business Administration (SBA) 504 loans totaling \$5.1 million. Loans originated under the SBA 504 program must generally meet certain job creation or retention requirements per dollar provided by the SBA. NEBAT's performance, with consideration given to the available opportunities, reflects adequate responsiveness to community needs.

Although not included as community development loans, NEBAT also originates loans under a number of programs that target or primarily benefit Low- or -Moderate Income (LMI) individuals or small businesses. During the assessment period, NEBAT originated loans under the following programs:

- St. Agnes Loan Program - This program provides lower interest rate financing for patients of St. Agnes Hospital who do not have sufficient insurance or are unable to repay hospital bills within a certain time frame. The program primarily benefits LMI individuals.
- Small Business Association (SBA) guaranteed loans – These loans, originated by NEBAT but guaranteed by the SBA, are designed for start-up and existing small businesses. Not including the SBA 504 loans mentioned above, NEBAT originated several other SBA loans during the assessment period.
- Farm Service Agency (FSA) guaranteed loans - During the assessment period, the bank originated a significant number of FSA guaranteed loans. These loans helped small farmers in the bank's AAs. While agricultural loans are not considered among the bank's primary loan products, this demonstrates the bank's willingness to serve the rural areas of its AAs.

The loans originated under these programs were already included in the totals under the lending test above but are highlighted here to illustrate NEBAT's commitment to meeting community development needs.

Number and Amount of Qualified Investments

During the evaluation period, the bank's qualified investments in the Fond du Lac AA include donations to twelve organizations totaling \$948,391. Qualified investments in the Sheboygan AA include donations to seven organizations totaling \$8,043. Qualified investments in the limited-scope AA include donations to eleven organizations totaling \$17,575. All funds are specifically targeted to benefit LMI persons or support organizations whose major purpose is revitalizing low- and moderate-income census tracts within the AAs. We also noted that funds donated to a foundation in the Fond Du Lac County were subsequently donated to various food pantries and other organizations located within the bank's AAs. NEBAT's donations to the foundation are reflected only in the Fond du Lac AA above. The level of investments reflects adequate responsiveness to the communities' needs.

Extent to Which the Bank Provides Community Development Services

NEBAT has branches in two of the three moderate-income census tracts in their AAs. Services offered at the branches located in moderate-income tracts are identical to those offered elsewhere. A full range of banking products and services are offered at all locations.

Through its employees, NEBAT is also involved in a variety of community development services that reflect satisfactory responsiveness to the communities' needs. Examples include:

Fond du Lac AA:

Bank employees provided services to five economic development organizations over the assessment period. For example, a bank employee sits on the board and provides guidance for an accredited economic development corporation. Other employees assisted in the review of business proposals for the City of Fond du Lac's Tax Incentive Financing and Business Improvement Districts. One of the organizations assisted by a bank employee is a local Main Street Program which provides revitalization and redevelopment programs for the City of Fond du Lac's downtown business district.

Two employees also provided services to organizations that make low or deferred interest home improvement loans to owners or landlords meeting eligible income requirements. In addition, a bank employee participated in a committee to apply for and provide funds to LMI homeowners whose residences were damaged by flood waters during the assessment period.

Five other organizations that provide services to LMI individuals benefited from bank employee assistance. The bank employees provide guidance on accounting, budget, financial reporting processes as well as fundraising.

Sheboygan AA:

An employee of NEBAT serves as Director and Treasurer of a local affordable housing authority. The agency provides multi-family housing for elderly individuals with incomes less than 80% of the county's median family income. The employee is involved in the agency's budgeting process and assists in the allocation of resources.

An employee serves on the board of a local Economic Development Corp (EDC) in the Sheboygan AA. The EDC fosters economic development by recruiting and providing financial services, primarily to small businesses. In addition, another employee served on a committee of an organization to foster growth and revitalization of another Sheboygan AA community.

Limited-Scope AAs:

Community development services in the limited-scope AAs are not inconsistent with the full-scope AAs. Two employees provide assistance and expertise to three local economic development organizations. These organizations help small businesses obtain financing and, in one organization's case, administer a revolving loan fund for low-interest business financing. Two bank employees also provide services to two community development service organizations.

Responsiveness to Community Development Needs

NEBAT's performance in meeting community development needs, with consideration given to the available opportunities, reflects adequate responsiveness to the communities' needs. For example, an identified credit need in the Fond du Lac AA is affordable housing, including conventional home mortgage loans. NEBAT's performance in meeting the housing needs of LMI borrowers is excellent. Downtown redevelopment and small business loans, particularly SBA loans were also cited as Fond du Lac AA needs. One of the community development loans mentioned above was for a project located in downtown Fond du Lac and NEBAT has a satisfactory record of originating SBA-guaranteed loans. In addition, NEBAT employees serve within organizations designed to assist in the revitalization of downtown Fond du Lac. Similarly, NEBAT employees serve within organizations formed for the express purpose of fostering growth in the Sheboygan AA, including the downtown area. This was identified as a community need.

Fair Lending or Other Illegal Credit Practices Review

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