



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 30, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank of Commerce
Charter Number: 14109

1127 Tower Avenue
Superior, WI 54880

Office of the Comptroller of the Currency

Minneapolis Field Office
222 South 9th Street, Suite 800
Minneapolis, MN 55402

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 Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The primary factors supporting this rating include:

- The bank’s net loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and credit needs of its assessment area.
- The bank originates a majority of its loans within its assessment area.
- Borrower distribution of loans reflects reasonable penetration among businesses of different sizes.
- Geographic distribution of loans reflects a reasonable dispersion throughout the bank’s assessment area.
- The bank’s community development activities demonstrate excellent responsiveness to the community development needs of the assessment area.

Scope of Examination

This Community Reinvestment Act (CRA) examination assessed National Bank of Commerce’s (NBC’s) performance in meeting the credit needs of its community for the time period April 1, 2008 through December 31, 2011 (evaluation period). The bank was evaluated under the standard tests for Intermediate Small Banks (ISBs) which include the lending test and the community development test. The lending test focused on the bank’s primary loan product based on loan originations by number and dollar volume from January 1, 2010 through March 31, 2012. Business loans were determined to be the primary loan product based on both dollar volume (76% of dollars lent) and number of loans (40% of loans originated). The table below illustrates the number and dollar volume of loan originations/purchases during this time period.

Loan Products	\$ (000s)	%	#	%
Business Loans	398,158	76%	1,124	40%
Residential Real Estate Loans	99,779	19%	768	27%
Consumer Loans	25,535	5%	928	33%
Farm Loans	0	0%	0	0%
Total	523,472	100%	2,820	100%

Loans originated 1/1/10 through 3/31/12

A random sample of 20 business loans originated/purchased from January 1, 2010 through December 31, 2011 (sampling period) was selected to evaluate the bank’s lending activity within the assessment area. Sample results were compared to 2011 Business Geodemographic data to determine lending performance.

The community development test included a review of community development loans, qualified investments, and community development services originated or performed during the entire evaluation period. We made two community contacts to discuss area economic conditions and the bank's efforts in meeting the credit needs of the community.

Description of Institution

NBC is a \$540 million national bank operating wholly within the Duluth, MN-WI multi-state metropolitan statistical area (MSA). NBC is owned by NATCOM Bancshares, Inc, a one-bank holding company headquartered in Superior, WI. NBC operates out of six offices; four of which are in Wisconsin and two in Minnesota. Each location offers drive-up services and access to cash-dispensing automated teller machines (ATMs). The bank also has one off-premise ATM at a fast food restaurant in Superior. In September 2008, NBC purchased Community Bank in Superior, WI which was subsequently merged into NBC in November 2008. Shortly thereafter, NBC closed two of the three branches acquired from Community Bank and converted the third branch into a Loan Production Office (LPO). NBC subsequently closed the LPO in September 2011. NBC has not opened or closed any other branches since the last CRA examination. Three of NBC's offices are located in low- or moderate-income census tracts, and the remaining three branches are located in middle-income census tracts.

NBC is a full-service bank offering traditional banking products and services to individuals and businesses. Commercial lending continues to be the bank's primary business focus. As of December 31, 2011, business loans comprised 71% of outstanding loans, residential real estate loans 27%, consumer loans 1%, and other loans 1%. NBC's loan portfolio totaled \$333 million, or 62% of total assets as of December 31, 2011.

There are no legal, financial, or other factors impeding NBC's ability to help meet the credit needs of its assessment area. NBC received a "Satisfactory" CRA rating at its prior CRA examination on March 13, 2008.

Description of Assessment Area

NBC's assessment area (AA) consists of 54 neighboring census tracts of the Duluth, MN-WI multistate MSA. The AA includes the southern portion of St. Louis County in Minnesota which includes the cities of Duluth, Hermantown, and Proctor. The AA also includes all of Douglas County in Wisconsin which includes the cities of Superior, Lake Nebagamon, Poplar, and Solon Springs. The bank's AA includes the census tracts where the bank's branches are located, as well as the surrounding census tracts where the bank has originated a majority of its loans. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 U.S. Census data indicates the bank's AA has a total population of approximately 152 thousand. Census tracts in the AA are designated as 11% low-income, 28% moderate-income, 41% middle-income, and 20% upper-income. The 2000 U.S. Census data indicates that 12% of households in the AA are below the poverty level. According to the U.S. Bureau of Labor Statistics, unemployment levels in Douglas County, WI were 7.3% in January 2012, compared to 7.4% in St. Louis County, MN. The nation-wide unemployment rate as of January 2012 was 8.3%. Based on the Department of Housing and Urban Development's 2011 estimate, the updated median family income for the bank's AA is \$61,500.

According to 2011 Business Geodemographic Data, the bank's AA is comprised of 15,679 businesses, with 69% of these companies having gross annual revenues of \$1MM or less. Nineteen percent of these businesses are operated out of low- and moderate-income census tracts. Approximately 71% of the businesses in the bank's AA have less than ten employees. Major employers in the area include health care facilities, colleges and universities, hotels and restaurant industries, local governments, as well as shipping, logging and paper industries. Services, retail trade, and construction are the largest industries in the county. Sixteen percent of establishments in the county, however, are designated as non-classifiable.

Competition among financial institutions in the bank's AA is strong. Numerous national and state banks, savings banks, credit unions, mortgage companies, and finance companies are present in the bank's AA. Five large/midsize financial institutions with several branches have a presence in the AA. Two of these institutions rank 1st and 2nd in deposits with a combined market share of approximately 40%. NBC ranks 3rd in deposit market share with 11.48% of AA deposits based on June 30, 2011 deposit information obtained from the Federal Deposit Insurance Corporation. NBC ranks 6th in loan market share with 4.78% of dollars lent in the AA based on 2000 US Census Data.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test is **Satisfactory**.

Loan-to-Deposit Ratio

NBC's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. The bank's LTD ratio averaged 83% over the 16 quarters since the last CRA examination. This ratio ranged from a quarterly low of 72% in September 2011 to a quarterly high of 91% in June 2008. NBC's average quarterly LTD ratio ranks last among three similarly situated banks (defined as banks located in the AA with total assets between \$120 million and \$540 million as of December 31, 2011). It should be noted that NBC's average LTD ratio does not reflect all home mortgage lending activities, as the bank sells mortgages on the secondary market. The following table shows LTD details and rankings:

Institution	Assets (as of 9/30/11)	Average Loan-to-Deposit Ratio; (1Q06 – 3Q11)
Republic Bank, Inc.	\$315 million	104.08%
Western National Bank	\$120 million	87.11%
North Shore Bank of Commerce	\$226 million	86.99%
National Bank of Commerce	\$540 million	83.46%

Source: Call Report Data

Lending in Assessment Area

NBC originates a majority of its loans to borrowers located within its defined AA. Loans originated to businesses within the bank's AA total 85% by number and 57% by dollar volume. The following table shows lending in the AA by primary product type:

Lending in the Duluth AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	17	85.00%	3	15.00%	20	6,681	56.69%	5,103	43.31%	11,784

Source: OCC Loan Sample

Lending to Businesses of Different Sizes

NBC's borrower distribution of loans reflects reasonable penetration among businesses of different sizes. Seventy percent of the bank's business loans, by number, were originated to businesses with gross annual revenues of \$1 million or less (small businesses). This is considered reasonable given demographic data shows 69% of the AA businesses are small businesses. By dollar volume, just over 25% of loans were

originated to small businesses. The low percentage of dollars lent to small businesses is mitigated by the fact that one large loan in the sample was made to a business with annual revenues over \$1 million, which significantly skewed the results. The \$4.5 million loan comprised nearly 70% of the dollar of loans sampled.

Demographic data contains a high level of businesses of unknown size, as they chose not to report the information. Although this 27% could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in the AA:

Borrower Distribution of Loans to Businesses in the Duluth AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.30%	3.62%	27.09%	100%
% of Bank Loans in AA by #	70.00%	30.00%	0.00%	100%
% of Bank Loans in AA by \$	25.29%	74.71%	0.00%	100%

Source: OCC Loan Sample & 2011 Business Geodemographic Data

Geographic Distribution of Business Loans

NBC’s geographic distribution of business loans reflects an excellent dispersion throughout census tracts of different income levels. The distribution of business loans to low-income geographies meets the demographic comparator, while the distribution of business loans to moderate-income geographies far exceeds the demographic comparator. Additionally, 50% of the bank’s offices are located in low- or moderate-income geographies providing convenient access to small businesses in those areas. The following table shows the bank’s performance as compared to the percentage of businesses in each census tract income tier:

Geographic Distribution of Loans to Businesses in the Duluth AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Business	15.27%	15.00%	15.07%	30.00%	44.05%	50.00%	25.61%	5.00%

Source: OCC Loan Sample & 2011 Business Geodemographic Data

Responses to Complaints

NBC has not received any CRA related complaints.

COMMUNITY DEVELOPMENT TEST

NBC's performance under the community development test is Outstanding. The bank's community development performance demonstrates excellent responsiveness to the community development needs of its AA through community development loans, qualifying investments, and community development services.

Number and Amount of Community Development Loans

NBC's number and amount of community development loans is excellent. NBC originated 6 loans identified as community development loans during the evaluation period, totaling \$7.3 million. These loans provided for the development of affordable housing and the provision of social services for low- and moderate-income individuals as well as the revitalization and stabilization of low- and moderate-income areas. While community development lending opportunities were available in NBC's AA during the evaluation period, they were not plentiful due to the severe financial crisis that occurred during this period. Both the financial crisis and the aftermath affects dampened demand for credit. Despite these barriers, NBC has done a commendable job providing lending assistance to promote community development.

NBC originated loans to a governmental affordable housing organization for the purpose of developing single-family homeownership for low- and moderate-income borrowers. NBC also provided credit to a non-profit social service agency for the purchase of a new facility, enabling an expansion of services to low- and moderate-income individuals in Superior, Wisconsin.

In addition NBC originated a loan to a limited liability corporation created as part of a New Markets Tax Credit transaction. The loan financed the construction of the headquarters and manufacturing facility of a new company located in a moderate-income census tract in Superior, Wisconsin.

Number and Amount of Qualified Investments

NBC's number and amount of qualified investments demonstrates adequate responsiveness to the community development needs of its assessment area. NBC did not undertake any qualified community development investments during the evaluation period. However the institution did provide qualified grants of \$93 thousand to a variety of local organizations throughout the evaluation period. These organizations target primarily social services to low- and moderate-income individuals including housing, food, clothing, school supplies, and counseling.

Extent to Which the Bank Provides Community Development Services

NBC's performance in providing community development services in the AA is excellent. During the evaluation period, fourteen bank employees provided their financial expertise to twelve organizations that primarily serve low- and moderate-income individuals. Community development services throughout the evaluation period included leadership roles with organizations that attract, expand, and retain small

businesses, promote homeownership, and finance and provide for the distribution of social services to low- and moderate-income individuals.

NBC maintains two branches in low-income geographies and one in a moderate-income geography. This demonstrates excellent distribution and accessibility of banking services to low- and moderate-income individuals.

Responsiveness to Community Development Needs

NBC has shown excellent responsiveness to community development needs throughout the evaluation period. NBC addressed these needs primarily through its focus on small business development and revitalizing and stabilizing low- and moderate-income areas, but also in activities focused upon affordable housing and social services for individuals with low- and moderate-incomes.

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.