



PUBLIC DISCLOSURE

March 07, 2016

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

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 Outstanding

The Lending Test is rated: Outstanding

The Community Development Test is rated: Outstanding

The main factors supporting this rating include:

- A substantial majority of loans were originated inside the assessment area (AA).
- Geographic distribution of loans reflects excellent dispersion throughout the AA.
- The bank’s community development (CD) activities exhibit excellent responsiveness to meet the needs of low- and moderate-income individuals, support small business development, and promote economic development in the AA.
- Borrower distribution of loans reflects reasonable penetration throughout the AA.
- The bank’s net loan-to-deposit (LTD) ratio is reasonable given the institution’s size, financial condition, and credit needs of its AA.

Scope of Examination

We evaluated National Bank of Commerce’s (NBC) Community Reinvestment Act (CRA) performance using intermediate-small bank procedures. The bank’s CRA performance was assessed under the lending test and CD test.

The lending test focused on the bank’s primary loan products based on loan originations and purchases from January 1, 2014, to December 31, 2015. We determined the bank’s primary loan product to be commercial loans. When assessing lending performance in the AA, we based our analysis solely on commercial loans given the high majority by dollar volume and strong volume by number. We selected a random sample of 20 commercial loans during the evaluation period to determine the bank’s lending activity within its AA. We reviewed a random sample 60 commercial loans to determine borrower distribution and 20 commercial loans to determine geographic distribution. The following table shows loan originations and purchases by number and dollar volume:

Loan Originations and Purchases in 2014 and 2015		
<i>Loan Type</i>	<i>Volume by \$</i>	<i>Volume by #</i>
Agricultural Loans	0.00%	0.00%
Commercial Loans	75.63%	36.99%
Consumer Loans	4.66%	37.99%
Residential Real Estate Loans	19.70%	25.02%

Source: Bank loan origination report for 2014 and 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 to find similarly situated banks.

The evaluation period for the CD test is May 1, 2012, through December 31, 2015. We reviewed CD loans, investments, and services made by the bank.

Description of Institution

National Bank of Commerce (NBC) is a \$553 million bank serving the Duluth MN-WI multi-state metropolitan statistical area (MSA). The bank serves Douglas County, WI and a portion of St. Louis County in MN. NBC is wholly owned by NATCOM Bancshares, Inc. which is a one-bank holding company located in Superior, WI. The bank operates six full service branches, four located in Wisconsin and two in Minnesota. NBC also operates six automated teller machines (ATMs) in the MSA. None of the ATMs are deposit taking.

NBC is a full-service bank offering a variety of loan and deposit products. As of December 31, 2015, the bank's loan portfolio totaled \$400 million or 72.29 percent of total assets. The portfolio consisted of 76 percent real estate, 15 percent commercial, 2 percent individual, and 7 percent other loan types.

There are no legal, financial, or other factors preventing the bank from meeting the credit needs of the community. The prior CRA examination dated April 30, 2012, concluded the bank was rated 'Satisfactory.'

Description of Assessment Area(s)

NBC's AA consists of 50 contiguous census tracts located within the Duluth MN-WI multi-state MSA. The AA includes the census tracts where the bank's branches are located and the surrounding census tracts the bank can reasonably serve. The AA includes nine census tracts designated as low-income and nine census tracts designated as moderate-income. Additionally, the AA includes 19 middle-income census tracts and 13 upper-income census tracts. No tracts are designated as distressed or underserved by the Federal Financial Institutions Examination Council. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The following table depicts demographic and economic characteristics of the Duluth MN-WI multi-state MSA:

Demographic and Economic Characteristics of the Duluth MN-WI MSA	
Population	
Number of Families	39,495
Number of Households	66,566
# of Low-Income Families	7,801
# of Moderate-Income Families	6,703
# of Middle-Income Families	8,789
# of Upper-Income Families	16,202
Geographies	
Number of Census Tracts	50
% Low-Income Census Tracts	18%
% Moderate-Income Census Tracts	18%
% Middle-Income Census Tracts	38%
% Upper-Income Census Tracts	26%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$59,812
2015 HUD-Adjusted MFI	\$63,500
Economic Indicators	
2015 Unemployment Rate	5.02%
2010 Median Housing Value	\$151,665
% of Households Below Poverty Level	15.15%

Source: 2010 U.S. Census data with updated information when available

We contacted local community officials to better understand the AA demographics and to evaluate the primary credit needs of the bank's AA. The contacts confirmed the need in the Superior, WI economy for affordable housing. Commercial and economic development in conjunction with affordable housing development is also a great need in the MSA.

Bank competition in the Duluth MN-WI MSA AA is high. According to the June 30, 2015, FDIC Deposit Market Share Report, there are 27 deposit-taking institutions in St. Louis and Douglas Counties. NBC ranks third in deposit market share in the AA with 10.76 percent market share. There is no clear leader in the market as none of the financial institutions hold more than 27 percent of the market share.

Local financial institutions are providing strong support in the area, partnering with many local community housing organizations. The community contacts stated that local financial institutions are helping to meet the lending needs of small businesses, and many strong community programs in the area provide for economic development.

Conclusions with Respect to Performance Tests

LENDING TEST

NBC's performance under the lending test is 'Outstanding.' The bank's lending performance during the sample period depicts excellent origination levels within the AA and excellent dispersion in geographies of different income levels. The bank's LTD ratio is reasonable, and lending to businesses of different sizes is reasonable.

Loan-to-Deposit Ratio

NBC's LTD ratio is reasonable given the bank's size and the credit needs of the AA. The bank's LTD ratio averaged 87.51 percent over the 14 quarters since the last CRA examination. The quarter ratio ranged from a low of 75.06 percent as of December 31, 2013, to a high of 92.86 percent as of March 31, 2014.

NBC's average LTD ratio ranks third among similarly situated banks. Similarly situated banks are defined as financial institutions located within the AA with similar asset sizes, product offerings, and services. The following table depicts the bank's average LTD ratio compare to similarly situated banks:

Loan-to-deposit Ratio	Assets as of 12/31/15	Average LTD Ratio
Institution	(\$000s)	(%)
Republic Bank, Incorporated	\$345,469	105.62%
National Bank of Commerce	\$552,625	87.51%
American Bank of the North	\$579,046	87.87%
North Shore Bank of Commerce	\$252,666	76.57%

Source: Call Report data as of December 31, 2015.

Lending in Assessment Area

NBC originates a substantial majority of loans inside the AA. Data from our commercial loan sample shows NBC originated 85.00 percent by number and 86.34 percent by dollar volume of loans within its AA during the sample period. The following table depicts lending performance details:

Lending in Duluth MN-WI MSA										
	Number of Loans					Dollars of Loans (000s)				
Loan Type	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	17	85.00%	3	15.00%	20	\$4,076,014	86.34%	645,000	13.66%	\$4,721,014

Source: Commercial loan sample.

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

NBC’s distribution of commercial loans reflects reasonable penetration among businesses of different sizes. The number of loans to businesses with gross revenues or sales of \$1 million or less is slightly below the demographic comparator. The demographic data contains a high level of businesses of unknown size, as they chose to not report the information. It may be reasonable to assume these are smaller businesses. Our sample identified one loan with unknown revenue due to the loan being secured by a certificate of deposit. The following table shows the distribution of business loans among business of different sizes in the AA:

Borrower Distribution of Loans to Businesses in the Duluth MN-WI MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.27%	6.01%	17.72%	100%
% of Bank Loans in AA by #	70.00%	28.33%	1.67%	100%
% of Bank Loans in AA by \$	42.80%	57.12%	0.08%	100%

Source: Loan sample; Dunn and Bradstreet Data 2015

Geographic Distribution of Loans

The geographic distribution of business loans reflects excellent dispersion throughout the AA. NBC’s performance significantly exceeds the demographic comparator for the number of loans to businesses located in a low-income census tract. The following table depicts the geographic distribution of business loans during the sample period:

Geographic Distribution of Loans to Businesses in the Duluth MN-WI MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	23.93%	40.00%	7.30%	5.00%	42.39%	45.00%	26.38%	10.00%

Source: Loan Sample; US Census Data

Responses to Complaints

NBC received no CRA related complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

NBC's performance under the CD test is rated 'Outstanding.' CD activities depict excellent responsiveness to needs of the AA through CD loans, qualified investments, and CD services within the AA.

Number and Amount of Community Development Loans

The bank's performance in extending CD loans is excellent. The bank originated 14 qualifying loans within its AA totaling \$7.5 million during the evaluation period. This equaled 11.73 percent of Tier 1 Capital as of December 31, 2015. The loans provided funds to support low- and moderate-income housing or other community development needs. Additionally, the bank made \$7.4 million in qualifying CD loans outside of its AA equivalent to 11.60 percent of December 31, 2015, Tier 1 Capital. In aggregate, CD loan activity totaled 23.33 percent of the bank's Tier 1 Capital during the evaluation period.

Number and Amount of Qualified Investments

NBC's level of qualified investments demonstrates adequate responsiveness to meeting the needs of the community. NBC provided 65 donations totaling \$176 thousand during the evaluation period to qualifying organizations within the AA. The donations assist in economic development, affordable housing, or various community services targeting low- and moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

NBC's CD services are excellent. The bank continues to offer a variety of products and services to serve customers of all income levels and geographies. The bank's services and products are offered at all of its six full-service bank locations. The bank's main office and the Duluth branch are located in low- or moderate-income census tracts. Bank employees showed strong commitment to local organizations and events throughout the evaluation period. During the evaluation period, 18 employees served in CD qualifying capacity for 14 different organizations.

Bank management has actively engaged in revitalization of the local community through the development of the Regional Economic Indicators Forum. Management's noteworthy engagement in supporting local business owners depicts continued engagement in meeting the community's needs.

Responsiveness to Community Development Needs

NBC demonstrates excellent responsive to CD needs of the AA, as evidenced by the bank's CD lending, investments, and services.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA 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.