



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 6, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Exchange Bank and Trust
Charter Number 13879**

**130 South Main Street
Fond du Lac, WI 54936**

**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.

Major factors supporting this rating include:

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

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 lending 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, February 24, 2003 through March 17, 2006. The Lending Test evaluated home mortgage and small business lending from January 1, 2004 through December 31, 2005 and the Community Development Test covered the 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 2004 and 2005. We found the data to be substantially 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. Approximately 75% of the bank's loans and deposits are within these two AAs. The Fond du Lac AA contains five of the bank's 26 offices, including the main office, and accounts for 58% of the HMDA and small business lending reported during the evaluation period and 57% of the bank's total deposits as of June 30, 2005. The Sheboygan AA contains seven offices and accounts for 15% of the reported lending and 18% of total deposits. Limited-scope evaluations were performed for NEBAT's other three 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. Performance in the Fond du Lac AA was afforded more weight. A significant majority of the bank's loan volume and deposit base is within this AA. In addition, small loans to businesses were weighed more heavily than home mortgage loans. This loan category represents a larger volume of NEBAT's lending during the evaluation period and is the bank's market niche.

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 \$1.02 billion financial institution headquartered in Fond du Lac, Wisconsin. NEBAT is an intrastate bank with 26 offices and 33 automated teller machines (ATMs). Ten 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, seven in Sheboygan County, three in both Washington and Dodge Counties, and two in each of Columbia, Marquette, Waushara, and Green Lake Counties. Nine of the branches were acquired since the prior examination: two in Marquette County (Westfield, Montello) and two in Green Lake County (Kingston, Dalton) in March 2003; one in Sheboygan County (Howards Grove) and one in Dodge County (Beaver Dam) in April 2005; and one in Washington County (Allenton) and two in Waushara County (Coloma, Hancock) in October 2005. Fifteen ATMs have also been acquired since the prior examination: two in Marquette County (Westfield, Montello) and one in Green Lake County (Markesan) in March 2003; nine in Sheboygan County (Kohler-seven, Howards Grove, Plymouth) and one in Dodge County (Beaver Dam) in April 2005; and one in Washington County (Allenton) and one in Waushara County (Coloma) in October 2005.

NEBAT is a wholly owned subsidiary of NEB Corporation, a two-bank holding company located in Fond du Lac, WI with total assets of \$1.21 billion at December 31, 2005. The bank has one operating subsidiary, National Exchange Investment Corporation, whose activities and holdings are included in the bank's operations.

Net loans represent 74% of total assets at December 31, 2005. By dollar volume, the loan portfolio consists of commercial real estate loans (28.9%), commercial and industrial loans (18.6%), 1-4 family residential loans (23.2%), construction and land development loans (15.8%), agricultural loans (5.7%), consumer loans (4.6%), multi-family (1.6%), obligations of states and political subdivisions (1.0%), and other loans (0.6%). Tier 1 Capital totaled \$111 million at December 31, 2005.

The bank's business strategy has historically been to operate with a community bank orientation while offering a wide range of products. Commercial lending is a strong point of NEBAT with small business lending considered one of the bank's market niches. This is evident by the fact that more than 50% of the bank's loan portfolio consists of commercial loans. In addition to offering a wide array of commercial loan products, NEBAT also offers several home mortgage

and consumer loan products. The bank also offers internet and telephone banking as well as trust and investment services.

Based on June 30, 2005 Federal Deposit Insurance Corporation data, the latest available, NEBAT has the largest deposit market share in Fond du Lac County at 29%. The institution with the second largest deposit base in Fond du Lac County has a market share of 12.1%. In Sheboygan County the bank ranks sixth of seventeen institutions with a deposit market share of 7.8%. In the other six counties that comprise NEBAT's AAs the bank ranks as high as first (of 6 institutions in Marquette County, with a deposit market share of 28.6%) and as low as 20th (of 22 in Dodge County at 0.5%). NEBAT acquired its branches in Waushara County after June 2005 so deposit share information for that county was not available.

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 February 24, 2003.

DESCRIPTION OF NEBAT'S ASSESSMENT AREAS

NEBAT has five AAs including census tracts in four Metropolitan Statistical Areas (MSA) as well as non-MSA areas. 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 one southwestern most census tract in Waushara County. The AAs comply with regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

Areas receiving full-scope reviews

Fond du Lac

Based on 2000 census data using 2004 demographics, the bank's Fond du Lac AA includes 16 of the census tracts in the Fond du Lac, WI MSA. Of these tracts, none are designated as low- or moderate-income, fifteen (93.75%) are designated as middle-income and one (6.25%) is designated as upper-income.

The 2000 weighted-average median-family income for the Fond du Lac, WI MSA is \$54,396. This is below the 2004 weighted average HUD updated MSA median-family income of \$59,200. Owner-occupied housing represents 68% of housing stock within this MSA. There are 1,831 or 6% of households below the poverty level in this MSA. 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 4.3% as of December 2005.

Bank competition is strong with sixteen 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 dominates deposit market share in

the county with 29%. The next three institutions account for 32% and the twelve remaining institutions range from 7% to less than 1%. In addition, there are nine credit unions in the MSA that are not included in the market share information.

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 financing needs of the area businesses are diverse and local institutions are doing a good job servicing these needs. The contact stated that the city, in particular, is focusing on housing. Although there is a sufficient amount of affordable housing available within the county, the quality of the housing may be lacking. The contact also stated there is less affordable housing availability outside of the county.

Sheboygan

Based on 2000 census data using 2004 demographics, the bank's Sheboygan AA includes thirteen of the census tracts in the Sheboygan, WI MSA. Of these tracts, none are designated as low- or moderate-income, ten (76.9%) are designated as middle-income and three (23.1%) are designated as upper-income.

The 2000 weighted-average median-family income for the Sheboygan, WI MSA is \$59,640. This is slightly below the 2004 weighted average HUD updated MSA median-family income of \$60,100. Owner-occupied housing represents 76% of housing stock within this MSA. There are 620 or 3% of households below the poverty level in this MSA. The area economy is stable and centered in several major industries including manufacturing, healthcare services, educational services, and food services & drinking places. US Department of Labor statistics reports Sheboygan's unemployment rate as 3.8% as of December 2005.

Bank competition is strong with seventeen 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 large banks dominate deposit market share in this MSA with 20% and 17%, respectively. No other institution has more than 10% and NEBAT ranks sixth with 7.8% of the deposit market share. In addition, there are seven credit unions in the MSA that are not included in the market share information.

We contacted a person who works for a non-profit, volunteer driven organization working to enhance the quality of life in Sheboygan Falls. The contact mentioned industrial park expansion, downtown revitalization, and expanding into new forms of technical industries beyond manufacturing as development opportunities in the area. The biggest need in furthering these projects is financing. The contact stated, in general, 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 ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's performance under the Lending Test is outstanding.

Loan-to-Deposit Ratio

The average quarterly loan-to-deposit ratio from January 1, 2003 to December 31, 2005 of 87.2% is more than reasonable given the bank's size, financial condition, and AAs credit needs. No similarly situated commercial banks or state savings banks chartered within any of the counties comprising the bank's AAs were identified for comparison. The two banks closest in asset size were more than \$400 million less than NEBAT and there were no banks with a higher amount of assets. These two banks were also the closest in branch structure, each having nine branches in NEBAT's AA (NEBAT has 26). NEBAT ranks third of these three banks based on average loan-to-deposit ratio.

The average loan-to-deposit ratio of all 27 domestic commercial banks and state savings banks chartered within the bank's AAs reporting loan-to-deposit ratios for the entire twelve quarters regardless of asset size was 82.5%. The ratios range from 109% to 58% and NEBAT ranks 12th of these institutions.

Additionally, NEBAT originates home mortgage loans that are immediately sold on the secondary market but retains the servicing of these loans. The outstanding balance of these loans is \$156 million. These loans are not included in the loan-to-deposit calculation.

Institution	Average Assets (December 31, 2005)	Average quarterly loan-to-deposit ratio (1Q03 – 4Q05)
Horicon Bank, Horicon, WI	\$370,440	109.17%
Community Bank & Trust, Sheboygan, WI	\$433,122	91.46%
National Exchange Bank and Trust, Fond du Lac, WI	\$920,811	87.20%

Lending in Assessment Areas

A substantial majority of loan originations are made within the bank's AAs. Based on all home mortgage loans and small loans to businesses originated between January 1, 2004 and December 31, 2005, 76.41% by number and 73.65% by dollar amount, were made within NEBAT's AAs.

Total Loans Reviewed								
Loan Type	In Assessment Area				Out of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Mortgage	1,195	76.36%	122,979	79.58%	370	23.64%	31,550	20.42%
Small Business	1,921	76.44%	185,083	70.17%	592	23.56%	78,673	29.83%

Total	3,116	76.41%	308,062	73.65%	962	23.59%	110,223	26.35%
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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

As shown in the following table, the percentage of loans to low-income borrowers is only slightly below the demographic comparator of families in this category. This represents excellent distribution of lending to low-income borrowers especially considering 6% of households in the AA are below the poverty level. Distribution of lending to moderate-income borrowers is also excellent. The percentage of loans made to moderate-income borrowers is greater than the demographic comparator of families in this category. As noted below, the bank originated several loans for which income information was not used and therefore not reported (N/A in table).

Home Mortgage Loans – Fond du Lac AA					
Borrower Income Level	Low	Moderate	Middle	Upper	N/A
% of AA Families	14.48	18.49	31.69	35.34	-
% Home Mortgage loans by bank	12.21	22.54	28.01	29.73	7.51

The distribution of business loans is good. 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 well above the business revenue demographic comparator in the AA.

Business Loans – Fond du Lac AA			
Business Revenues	< or = \$1 million	> \$1 million	Not Reported
% of AA Businesses	64.41	7.07	28.52
% small loans to businesses by bank	74.90	25.10	0.00

Sheboygan AA

As shown in the following table, NEBAT's distribution of lending to low-income borrowers is excellent for home mortgage loans, especially considering 3% of households in the AA are below the poverty level. Distribution of lending to moderate-income borrowers is also excellent. In both cases the percentage of loans made by the bank is greater than the demographic comparator of families in each category. As noted below, the bank originated several loans for which income information was not used and therefore not reported (N/A in table).

Home Mortgage Loans – Sheboygan AA					
Borrower Income Level	Low	Moderate	Middle	Upper	N/A
% of AA Families	10.64	16.55	29.21	43.60	-
% Home Mortgage loans by bank	11.31	17.65	28.96	35.75	6.33

The distribution of business loans is good. The percentage of business loans made by NEBAT to small businesses (those with revenues of \$1 million or less) in the Sheboygan AA is above the business revenue demographic comparator in the AA.

Business Loans – Sheboygan AA			
Business Revenues	< or = \$1 million	> \$1 million	Not Reported
% of AA Businesses	70.80	7.34	21.86
% small loans to businesses by bank	77.40	22.60	0.00

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 AA and Sheboygan AA consist only of middle- and upper-income geographies. However, the bank’s limited-scope AAs contain three moderate-income census tracts that are discussed in the limited-scope reviews conclusion.

Community Development Test

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

Community Development Loans

NEBAT originated three community development loans totaling \$9.1 million during the evaluation period. One loan was to help rebuild apartments located in the federally designated disaster area subsequent to Hurricane Katrina. One loan was a participation in the funding provided to a local charitable organization in Fond du Lac County that provides services primarily to low- and moderate-income (LMI) individuals. One loan was to a business in Washington County under the Small Business Association’s 504 loan program for the construction of an assisted living facility.

Although not included as community development loans, NEBAT also participates in the following loan programs that target or primarily benefit LMI individuals. These loans were included in the totals under the lending test above.

ADVOCAP Loans - These loans originated as part of the ADVOCAP Homeownership Development Program. Applicants for loans under this program must have household income below the levels established by HUD. Total loans originated under this program: 4 at \$241,900.

C-Cap Loans - C-Cap provides loans under Down payment and Closing Cost Assistance Programs funded by the FHLB of Chicago and the HOME Program (a home purchase program) funded by the State of Wisconsin Division of Housing. These programs are for LMI borrowers with pre-purchase counseling required.

Total C-Cap HOME Program loans: 4 at \$419,500.

Total C-Cap Down payment Plus Program Loans (funds under this program may be used for closing costs, down payment assistance, escrow reserves, or rehab costs): 1 at \$23,063.

Wisconsin Housing and Economic Development Authority (WHEDA) HOME Program -

This program is a first-time home buyer program that provides below-market fixed interest rates and allows for a lower down payment than conventional mortgage programs.

This program primarily benefits LMI borrowers. These are not reported on HMDA, but the bank services these loans. Total loans originated under this program: 46 at \$4,275,000.

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. Total loans originated under this program: 16 at \$62,984.

Federal Home Loan Bank Down payment Plus First-Time Homebuyer Program – This program is a down payment and closing cost assistance program for first-time homebuyers, providing up to \$5,000 of for households with incomes less than 80% of area median income. Total loans originated under this program: 3 at \$15,000.

NEBAT's performance in this area, with consideration given to the available opportunities, reflects adequate responsiveness to the communities' needs.

Qualified Investments

During the evaluation period, the bank's qualified investments in the Fond du Lac AA include donations to thirteen organizations totaling \$96,235. In addition, the bank has \$1,339,000 outstanding on a municipal bond from a prior assessment period. Qualified investments in the Sheboygan AA include donations to five organizations totaling \$7,560. In addition the bank invested \$5,000 in a Qualified Venture Fund that covers five of the counties in the bank's AA. Qualified investments in the remaining six counties include donations to seventeen organizations totaling \$73,683 and an outstanding investment of \$50,000 from a prior assessment period. 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. The level of investments reflects adequate responsiveness to the communities' needs.

Community Development Services

NEBAT has branches in two of the three moderate-income census tracts in their AAs. NEBAT offers a full range of consumer and commercial banking products and services at all of its branches. In addition to their full-service branch and ATM locations, NEBAT also offers Internet banking and telephone banking for added availability to the bank's products.

Through its employees, NEBAT is also involved in a variety of community development services that reflect exceptional responsiveness to the communities' needs. Many of the bank's employees are involved with organizations that promote economic development or provide services for LMI individuals. Although not a comprehensive list, some of the community development services include:

Fond du Lac AA

A bank employee serves on the loan board of a local community action agency (CAA). The CAA provides loan programs geared to LMI individuals and other services having a community development purpose. As a director, the employee provides financial and technical expertise by assisting the CAA in the administration of its loan programs.

A bank employee serves on the board of a local business improvement district (BID). The purpose is to encourage reinvestment and assist business and property owners in order to enhance the targeted downtown area. The employee provides technical expertise by bringing area banks together to pool resources to fund the program.

A bank employee serves on the City and County Revolving Loan Fund Committee. The employee provides financial and technical expertise through review of commercial loan applications and discussion of finance packages with new businesses.

A senior bank employee served on the board of directors of a local economic development corporation (EDC). The EDC's main focus has been on small business development and assistance and has been successful in attracting and retaining businesses for the county. The employee provided technical and financial expertise to the EDC and its clients.

Sheboygan AA

An employee of NEBAT serves as Treasurer and on the board of a local 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 EDC in Sheboygan Falls. The EDC fosters economic development of downtown Sheboygan Falls by recruiting and providing financial services to primarily small businesses.

An employee serves as Director on a local Community Revolving Loan Fund Committee. The organization provides assistance with loans to start-up businesses.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance in Washington, Columbia, Marquette, Green Lake, Dodge, and Waushara Counties is not inconsistent with the bank's overall performance. Branches and ATMs are readily accessible in these areas. Banking services provided are consistent with the areas receiving full-scope reviews. These areas also include all three of the moderate-income tracts in the bank's AA. 4.66% of the owner-occupied housing units and 3.71% of the businesses in the bank's total AA are in these moderate-income tracts. Overall, NEBAT's lending in the moderate-income tracts is excellent comparing favorably to the demographics. 5.86% of the bank's total HMDA loans and 5.96% of the small business loans were in these tracts. Bank employees are also active in several organizations that serve LMI individuals or promote economic development in these areas.

Responses to Complaints

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

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.