



PUBLIC DISCLOSURE

September 22, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Western National Bank
Charter Number 13116
202 West Superior Street, Suite 307
Duluth, MN 55802-1802

Office of the Comptroller of the Currency
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 major factors supporting this rating include:

- A reasonable quarterly average loan-to-deposit ratio.
- A majority of loans originated were within the bank’s designated assessment area (AA).
- A reasonable penetration in lending to small businesses and to individuals of different income levels.
- An excellent dispersion of lending among census tracts of different income levels.

SCOPE OF EXAMINATION

This evaluation included a full scope review of Western National Bank’s (WNB) performance pursuant to the Community Reinvestment Act (CRA). The objective of this evaluation was to assess the bank’s lending performance in meeting the credit needs of its AA. The evaluation period extended from January 7, 2009 to September 22, 2014. We assessed the bank’s lending performance by sampling primary loans products purchased or originated between January 1, 2012 and December 31, 2013 (sample period). We focused our review on commercial and residential real estate loans as we determined these to be WNB’s primary loan products. We placed more weight on residential real estate loans as they represented the highest percentage of originations by number during the sample period. The following table details WNB’s loan originations and purchases for 2012 and 2013.

Loan Originations and Purchases in 2012 and 2013		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Residential Real Estate	48.72%	37.78%
Commercial Loans	27.15%	59.12%
Consumer Loans	24.13%	3.10%
Agricultural Loans	0.00%	0.00%

Source: Bank loan origination report for 2012 and 2013

DESCRIPTION OF INSTITUTION

WNB is a full-service, intrastate, community bank located in Duluth, Minnesota (MN). Per the June 30, 2014 call report, the bank had assets totaling \$113 million. WNB operates a main office and two bank branches in Duluth. The main office is located in a moderate-income tract in West Duluth with one branch located downtown in a low-

income census tract and the other branch in a grocery store located in a middle-income census tract. WNB also operates three automated teller machines (ATMs): one located at the bank's main office, one at the grocery store branch, and one on the College of St. Scholastica campus. The only deposit-taking ATM is located at the bank's main office. The bank has not opened or closed any new branches since the prior CRA evaluation.

WNB offers standard banking products to its customers including deposit accounts, mortgage loans, consumer loans, commercial loans, business banking, safe deposit boxes, and other traditional banking services such as wire transfer and money orders.

As of June 30, 2014, the bank's primary loan mix was as follows: \$50 million (66 percent) in commercial loans, \$22 million (29 percent) in residential real estate loans, and \$2.3 million (3 percent) in consumer loans. The net loans to total assets ratio was 67 percent. As of the same date, the bank's investments totaled \$23.1 million and consisted of \$9.9 million (43 percent) in U.S. Agency or Agency-sponsored obligations, \$7 million (30 percent) in Federal Funds Sold, and \$6.2 million (27 percent) in interest-bearing bank balances. Investments to total assets was 20 percent. The bank's Tier 1 Capital ratio at June 30, 2014 was 12.66 percent.

WNB is solely owned by Western Bancorporation, Incorporated. Western Bancorporation, Inc. is a multi-bank holding company which also owns Western National Bank of Cass Lake. Western National Bank of Cass Lake is an affiliate of WNB Duluth; however, the performance of Western National Bank of Cass Lake was not considered in evaluation of WNB's CRA performance. The bank has not engaged in any merger or acquisition activity since the prior CRA evaluation.

WNB has no legal impediments or financial constraints that would limit its ability to meet the credit need of its AA. WNB was rated satisfactory during its last CRA evaluation dated January 6, 2009.

DESCRIPTION OF ASSESSMENT AREA

WNB's AA consists of 55 census tracts within the Duluth, MN-Wisconsin (WI) Metropolitan Statistical Area (MSA). The Duluth, MN-WI MSA is a multi-state MSA that includes St. Louis and Carlton County in MN, and Douglas County in WI. The MSA includes the MN cities of Duluth, Proctor, and Hermantown as well as city of Superior located in WI. The AA complies with CRA regulatory requirements and does not arbitrarily exclude low- or moderate-income areas. The AA includes all census tracts where the institution has its main office, branches, and deposit-taking ATMs. The AA includes 42 census tracts in Southern St. Louis County, MN, four census tracts in Northern Carlton County, MN, and nine census tracts in Western Douglas County, WI.

The AA does not include any distressed or underserved areas.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE DULUTH MSA AA	
Population	
Number of Families	45,311
Number of Households	75,230
% of Low-Income Families	18.94%
% of Moderate-Income Families	16.80%
% of Middle-Income Families	22.42%
% of Upper-Income Families	41.84%
Geographies	
Number of Census Tracts	55
% Low-Income Census Tracts	16.36%
% Moderate-Income Census Tracts	16.36%
% Middle-Income Census Tracts	41.82%
% Upper-Income Census Tracts	25.45%
Median Family Income (MFI)	
2010 MFI for AA	\$59,812
2013 FFIEC-Adjusted MFI	\$60,900
Economic Indicators	
2013 Average Unemployment Rate	6.20%
2010 Median Housing Value	\$154,044
% of Households Below Poverty Level	14.44%

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

Local economic conditions have improved since the prior CRA evaluation. At time of the last CRA evaluation, the local economy was experiencing recessionary challenges with unemployment levels growing accordingly. At December 31, 2008, employment levels in the Duluth MN-WI MSA AA had increased to an average of 7.8 percent. According to the Bureau of Labor Statistics, the 2013 annual unemployment rates in St. Louis County, Carlton County, and Douglas County, which make up the Duluth MN-WI MSA, were 6.3 percent, 6.1 percent, and 6.2 percent, respectively. While higher than the 2013 annual Minnesota state unemployment rate of 5.1 percent, local employment levels continue to improve.

Competition from other financial institutions in the AA is high. The AA contains a variety of state and federally chartered community banks as well as branches of regional banking institutions. According to the June 30, 2013 FDIC Deposit Market Share Report, WNB holds 2.80 percent, or \$112 million, of the market share of deposits available in the Duluth/Superior MSA. This data ranked WNB 8th for market share of deposits of the 30 financial institutions included in the report.

We contacted a member of the local government in the City of Duluth as part of this evaluation to gain understanding of the economic conditions and community credit needs of the area. The contact, who is deeply involved in economic development

activities, indicated that the economy in Duluth has been steadily improving, and that local banks were sufficiently meeting the credit needs of local individuals and businesses. According to our community contact, major industries in Duluth include healthcare, aviation, tourism, and shipping.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

WNB's loan-to-deposit (LTD) ratio is reasonable and reflects satisfactory performance. The bank's average LTD ratio was 78.54 percent averaged over the past 22 quarters. Since the prior CRA evaluation in January 2009, the ratio has ranged from a quarterly high of 107.02 percent in June 2009 to a quarterly low of 61.68 percent in December 2012. When compared to four other similarly situated institutions, WNB's LTD ratio was near the two institutions with the highest LTD ratios. Similarly situated institutions are defined as institutions that operate in the same AA as WNB, have similar asset size, and offer similar products and services.

Institution (Headquarters)	Assets as of 6/30/14 (\$000s)	Average LTD Ratio (%)
Boundary Waters Bank (Ely, MN)	\$110,499	86.06%
Woodlands National Bank (Hinckley, MN)	\$139,497	79.62%
Western National Bank (Duluth, MN)	\$113,139	78.54%
Security State Bank (Hibbing, MN)	\$120,216	58.27%
First National Bank (Chisholm, MN)	\$ 79,539	29.76%

Source: Call Report data as of June 30, 2014.

Lending in Assessment Area

WNB originates a majority of its loans to borrowers located within its AA. We analyzed a sample of 20 residential real estate and 20 commercial loans originated in 2012 and 2013 to assess the level of lending within the AA. The bank originated 88 percent of loans by number, and 81 percent of loans by dollar volume in the AA. The table on the following page demonstrates the bank's lending in the AA.

Lending in the Duluth, MN-WI MSA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	19	95.00%	1	5.00%	20	2,064	92.87%	159	7.13%	2,223
Commercial	16	80.00%	4	20.00%	20	4,256	76.07%	1,339	23.93%	5,595
Totals	35	87.50%	5	12.50%	40	6,320	80.84%	1,498	19.16%	7,818

Source: Home mortgage and commercial loan samples.

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

The distribution of residential real estate and commercial loans to borrowers of different income levels and to businesses of different sizes reflects reasonable penetration.

Residential Real Estate Loans

Based on loan sampling, 15 percent of the loans originated by the bank were made to low-income borrowers and 15 percent were made to moderate-income borrowers. This is slightly lower than the 19 percent of families that are low-income and 17 percent of families that are moderate-income in the AA. The following table outlines the distribution of loans among borrower of different income levels:

Borrower Distribution of Residential Real Estate Loans in the Duluth, MN-WI MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Mortgage	18.94%	15.00%	16.80%	15.00%	22.42%	25.00%	41.84%	45.00%

Source: Loan sample; 2010 US Census Data

Commercial Loans

Based on expanded loan sampling results, the bank originated 70 percent of commercial loans by number and 66 percent by dollar amount to businesses with revenues of less than one million dollars. This is near the demographic comparator of 74 percent of businesses in the AA with revenues of less than one million dollars. The demographic data contains a high level of businesses of unknown size, as they chose not to report the information. Although this 21 percent 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 outlines the distribution of commercial loans to business of different sizes within 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	74.01%	5.03%	20.96%	100%
% of Bank Loans in AA by #	70.00%	18.33%	11.67%	100%
% of Bank Loans in AA by \$	65.86%	30.51%	3.63%	100%

Source: Loan sample; Dunn and Bradstreet Data (2013)

Geographic Distribution of Loans

The bank's geographic distribution of residential real estate and commercial loans reflects excellent dispersion throughout census tracts of different income levels. The bank exceeded demographic comparators in low- and moderate-income tracts for both residential real estate and commercial loan originations.

Residential Real Estate Loans

Based on loan sampling, the bank originated 5 and 10 percent of loans in our sample in low-income and moderate-income census tracts, respectively. This exceeds the percentage of owner occupied housing in low- and moderate-income census tracts in the AA. The following table outlines the geographic distribution of residential real estate loans through the census tracts of different income levels in the bank's AA:

Geographic Distribution of Residential Real Estate Loans in the Duluth, MN-WI MSA								
Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Mortgages	4.92%	5.00%	7.47%	10.00%	57.82%	55.00%	29.80%	30.00%

Source: Loan Sample; 2010 US Census Data

Commercial Loans

The geographic distribution of commercial loans reflects an excellent dispersion among census tracts of different income levels. Based on sampling, the bank originated 30 percent of loans in low-income tracts, and 15 percent of loans in moderate-income tracts. This exceeded the demographic comparator of 20 percent and 67 percent of businesses in low- and moderate-income tracts, respectively. The table of the following page outlines the geographic distribution of commercial loans throughout census tracts of different income levels in the bank's AA.

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	20.00%	30.00%	6.69%	15.00%	47.78%	30.00%	25.53%	25.00%

Source: Loan Sample; 2010 US Census Data

Responses to Complaints

WNB received no CRA 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 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.