

Nicolet

BANKSHARES, INC.

March 5, 2009

Via Email (SIGTARP.response@do.treas.gov) (w/o supporting documentation) and FedEx

Special Inspector General - TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, D. C. 20220

Attn: Neil M. Barofsky
Special Inspector General

Re: SIGTARP Request for Information
Nicolet Bankshares, Inc.

Dear Mr. Barofsky:

Nicolet Bankshares, Inc., a Wisconsin corporation (the "Company"), is the parent of Nicolet National Bank (the "Bank"), a financial institution with approximately \$700 million in assets and six full service banking offices in Appleton, Crivitz, De Pere, Green Bay, and Marinette, Wisconsin, and Menominee, Michigan. On December 23, 2008, the Company received an investment of \$14.96 million under the Troubled Asset Relief Program (TARP) Capital Purchase Program. We are responding to your letter, dated February 6, 2009, with respect to our use of TARP funds and compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008 ("EESA").

To preface our response, we wish to express concern that a broad brush is being applied to the banking industry and to all banks that received TARP funds. We are different from many other recipients in that approximately a week after we accepted TARP capital, we successfully raised private capital of \$9.5 million in a private common stock offering. We have always demonstrated our commitment to supporting our community through active, responsible lending, and will continue to do so with the receipt of TARP capital. Our owner-managed culture aligns our customers and shareholders (which now includes you, the Federal government), promotes accountability and transparency, and results in fair compensation practices. We remain committed to taking actions that support the well-being of our communities, customers, employees and shareholders.

We have restated and responded to each of your requests to provide the following information below.

- (1) *A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.*

Response:

1a) As described in our application, our understanding of the TARP Capital Purchase Program is that the U.S. Treasury's goal is to invest in healthy banks so that they can support economic expansion, not only through organic growth, but also through the "cleanup" of other banks with viability or asset quality issues. As a result, we plan to use a portion of our TARP capital capacity to expand our network by being the potential logical buyer (assuming rational and realistic pricing) of troubled banks or branches of troubled institutions within an appropriate geographic range. We are especially interested in deposit acquisition, but are nonetheless confident in our ability to deal with problem loans within our footprint. From a lending perspective, we anticipate sound relationship lending opportunities from companies that we have been targeting, as well as from customers of other troubled lending institutions whose liquidity is tight. With increased legal lending limits, we also anticipate realizing value in repurchasing some of our participations sold.

1b) The TARP funds were infused directly into the Bank. This increased the Bank's capital strength, legal lending limit and capacity to make loans.

1c, 1d) Since receipt of TARP funds on December 23, 2008, we have continued the activities described in our application, consistent with our commitment to support our community, customers and shareholders. Specifically, since our receipt of the \$14.96 million in TARP funds, the funds have been used or earmarked for lending as follows: we have (i) originated, or committed to originate, \$54 million in new loans, of which nearly \$30 million were residential mortgage loans originated for sale into the secondary markets; (ii) renewed \$24 million in credit to our existing customers; (iii) maintained a \$3 million line of credit to a local bank holding company; and (iv) repurchased \$6 million of our participations sold.

Given available capital capacity, we remain aware of troubled banks or branches of troubled institutions that may be appropriate acquisition opportunities for our shareholders.

- (2) *Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.*

Response: We plan to fully comply with the executive compensation requirements associated with the TARP funds. In general, our compensation practices are straightforward, and we did not have to change our policies to comply with Section 111 of EESA, prior to the American Recovery and Reinvestment Act of 2009 ("ARRA") amendments.

In connection with our TARP closing on December 23, 2008, our senior executive officers executed side letter agreements to ensure that their respective compensation arrangements would continue to comply with Section 111 of EESA during the period in which Treasury continues to hold its investment. The senior executive officers were not otherwise compensated for these amendments and have not been awarded any other forms of executive compensation; however, in light of the executive compensation restrictions, our Compensation Committee, with the assistance of a third-party consultant, may conduct a market study on senior executive base compensation and equity. We do not anticipate any further adjustments to senior executive compensation during the period under which TARP capital remains outstanding beyond the potential market base compensation adjustments and restricted stock awards that may be recommended.

We are currently in the process, with the assistance of counsel, of reviewing the ARRA to determine whether further modifications to our executive compensation arrangements or other actions will be required pending adoption of regulations and guidance by Treasury. In light of the provisions of ARRA, the Company's Compensation Committee will recommend, and our Board of Directors will adopt, a TARP Compensation Compliance Policy that addresses each of the requirements contained in EESA, ARRA, and the related Treasury guidelines.

In connection with the EESA requirements, our Compensation Committee will review the incentive compensation arrangements of our senior executive officers to ensure that such arrangements do not encourage senior executive officers to take unnecessary or excessive risks. This review will be completed on or around March 23, 2009.

In addition to the responses above, we have enclosed copies of pertinent documentation to either support our responses or further evidence transparent discussion internally or externally about our anticipated or actual use of TARP funds. We have preserved all documents referring to our use or anticipated use of TARP funds, including any internal emails, budgets or memoranda.

Office of the Special Inspector General
Troubled Asset Relief Program
March 5, 2009

A table of contents of attached material is outlined as Exhibit A following the signature page, which will be included in our email response. The attachments themselves will be included only in the FedEx response.

As a duly authorized senior executive officer of the Company, I hereby certify, on behalf of the Company, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that all statements, representations and supporting information provided herein are true and complete to the best of my knowledge.

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Office of the Special Inspector General
Troubled Asset Relief Program
March 5, 2009

Thank you for your consideration of our responses to your comments. If you have any questions, or if we can be of further assistance to you, please contact me at 920-430-7317 or batwell@nicoletbank.com.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. B. Atwell", with a long horizontal flourish extending to the right.

Robert B. Atwell
Nicolet Bankshares, Inc.
Chairman, President, and Chief Executive Officer

EXHIBIT A

ATTACHMENTS RELATED TO RESPONSE OF NICOLET BANKSHARES, INC.
FOR FEBRUARY 6, 2009 LETTER FROM SPECIAL INSPECTOR GENERAL-TARP

- I. October 29, 2008 - Cover letter to the OCC to our application for the CPP Preferred Stock Investment under TARP.
- II. January 14, 2009 – Correspondence to Wisconsin Bankers Association in response to Senator Herb Kohl’s office asking about our use of TARP funds.
- III. January 7, 2009 – Press Release: Nicolet Bankshares, Inc increases capitalization by 50% in December.
- IV. Media
 - a. January 1, 2009 – *Green Bay Press-Gazette* – Nicolet Bank receives \$15M
 - b. January 7, 2009 – *Milwaukee Journal Sentinel* – Nicolet National Bank raises \$9.5 million in private capital
 - c. January 7, 2009 – *Green Bay Press-Gazette* – Bank plots aggressive strategy as it raises \$24M in capital
 - d. January 16, 2009 – *Wisconsin State Journal* – 2 banks in state have lent money from TARP: 4 banks in Wisconsin are participating in the federal program
 - e. February 4, 2009 – *ABC NEWS Business Unit* – Tiny Banks Lending Large
 - f. February 5, 2009 – *ABC NEWS WBAY Channel 2* – Nicolet Bank Puts Bailout Money Back in Community
 - g. February 21, 2009 – *Milwaukee Journal Sentinel* – Treasury investment in banks misunderstood, executives say