



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

July 27, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BNC National Bank
Charter Number 24224

20175 North 67th Avenue
Glendale, AZ 85308

Office of the Comptroller of the Currency

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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.

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INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- The distribution of loans to small businesses, small farms, and borrowers of different income levels reflects reasonable penetration.
- The distribution of loans to low- and moderate-income geographies represents reasonable dispersion.
- The loan-to-deposit ratio evidences a reasonable volume of lending activity.
- Responsiveness to community development needs is satisfactory given the participation in community development activities that help to meet the needs of low- to moderate-income individuals and that promote economic development.

Scope of Evaluation

BNC’s Community Reinvestment Act (CRA) examination is based on a review of the bank’s primary loan products. We sampled loan originations and purchases made in 2013 and 2014 to arrive at our lending test conclusions. The following table depicts the volume of loans originated and purchased during this time period for BNC. The evaluation period for community development (CD) activity was April 4, 2012 to July 27, 2015.

Loan Originations and Purchases		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial Loans	8.20%	28.59%
Agricultural Loans	2.49%	2.16%
Home Mortgage Loans	75.30%	67.52%
Consumer Loans	14.30%	1.73%

Source: Bank origination report for 2013 and 2014

BNC has a total of four AAs. These AAs include the Phoenix – Mesa – Scottsdale, AZ Metropolitan Statistical Area (MSA) #38060; the Minneapolis – St. Paul – Bloomington, MN – WI MSA #33460; the Bismarck, ND MSA #13900; and a non-MSA AA that includes the bank’s branches in the North Dakota communities of Crosby, Garrison, Kenmare, Linton, Stanley, and Watford City.

An analysis of the primary products in each AA was conducted and consisted of the following:

- Phoenix – Home Mortgage loans
- Minneapolis/St. Paul – Home Mortgage loans
- Bismarck – Commercial and Consumer loans
- North Dakota (ND) Non-MSA – Agricultural and Consumer loans

We used a combination of Home Mortgage Disclosure Act (HMDA) data and loan samples to analyze lending test performance for 2013 and 2014. BNC submits residential real estate information as required by HMDA. All HMDA reportable loans were included in our analysis of the Phoenix and Minneapolis/St. Paul AAs, as they were identified as a primary product in these locations. Independent testing to assess the accuracy of the HMDA data was completed. The data was found to be accurate and the testing did not identify any material errors. Of the HMDA reportable loans, home purchase loans are the bank's leading product with 54.3% of the number and 56.3% of the dollar volume of HMDA loans originated. Home refinance and home improvement loans represent 39.7% and 6.0% of the number of HMDA reportable loans, respectively. Loan samples from 2013 and 2014 were used to assess commercial and consumer lending distributions inside the bank's AAs. Sampling for the lending test for the Bismarck MSA and North Dakota Non-MSA analysis consisted of 63 commercial, 85 consumer, and 22 agricultural loans. All lending samples contained 20 loans at a minimum and were expanded as needed.

Description of Institution

BNC National Bank (BNC) is an interstate bank chartered out of Glendale, AZ with operations in Arizona, Minnesota, and North Dakota. BNC has 15 branches including two in Arizona, one in Minnesota, and twelve in North Dakota. There are seven ATMs located in North Dakota and one in Arizona, none of which accepts deposits.

During the evaluation period, one bank branch closed and two branches opened. The branch in downtown Minneapolis, MN closed in July 2013. The downtown Minneapolis branch was located in a middle-income census tract. Also in July 2013, the bank converted a loan production office in Golden Valley, MN to a branch, which is located in a middle-income census tract. In November 2014, the bank opened a new branch in Mandan, ND. The new branch in Mandan is also located within a middle-income census tract.

BNC's assets as of June 30, 2015 totaled \$901 million. BNC operates as a traditional community bank offering consumer loans, business loans, personal and business checking, savings accounts, retirement accounts, wealth management, financial advice, and many online and mobile services. BNCCORP, Inc., a publicly traded holding company headquartered in Bismarck, ND, owns the bank. The holding company has \$905 million in consolidated total assets as of June 30, 2015.

BNC's business strategy is to continue controlled loan growth within the existing Arizona, Minnesota, and North Dakota markets. There are currently no plans for mergers, acquisitions, or any other notable corporate activities.

The bank's loan portfolio represents approximately 46 percent of total bank assets as of June 30, 2015. Tier One Capital totaled \$91.9 million resulting in a Tier One Leverage Capital ratio of 9.94 percent. The loan portfolio remains concentrated in commercial loans, commercial real estate loans, and residential real estate loans. By dollar amount,

total outstanding commercial loans represent 73.3 percent of the portfolio, residential real estate loans represent 16.2 percent, consumer loans 7.6 percent, and agricultural loans represent 2.9 percent of the portfolio. Given the diverse geographical makeup of BNC's markets, lending activity varies between market areas. A substantial portion of the bank's residential real estate activity stems from 12 loan production offices (LPOs), including six in Kansas, two in Arizona, one in Arkansas, one in Illinois, one in Minnesota, and one in North Dakota. These LPOs provide the bank with access to mortgage loan customers throughout the United States.

There are no financial, legal, or other factors that impede the bank's ability to meet its CRA obligations. The most recent CRA evaluation completed April 3, 2012, resulted in a "Satisfactory" rating.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, a sample of assessment areas (AAs) within that state was selected for full-scope reviews. Refer to the "Scope" section under each State Rating section (as applicable) for details regarding how the areas were selected.

Ratings

The bank's overall rating is a blend of the state ratings. We placed the most weight on the state of North Dakota because loan volume within the AA there was the greatest and the majority of BNC's deposits are also in North Dakota. The states of Arizona and Minnesota received equal weight in arriving at the overall bank rating. Full-scope reviews were completed in all four of the bank's AAs.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's performance context. Over the past 13 quarters since the bank's last CRA exam, BNC's quarterly LTD ratio averaged 50.01 percent, ranging from a high of 58.14 percent and a low of 42.15 percent.

The bank's lower LTD is explainable given their practice of selling both the guaranteed portions of SBA loans, and loan participations that may add concentration risk. If these participations were added back, the bank's LTD as of June 30, 2015 would be 81.79 percent, placing it favorably within its peer group. The bank's strategy of selling guaranteed SBA loans and participations in an effort to reduce concentration risk is considered as part of their performance context, and in light of this information, the bank's LTD is reasonable.

The following table compares the bank's LTD ratio with five other financial institutions with similar characteristics within the bank's AA.

Loan-to-Deposit Ratio		
Institution	Average Assets as of 6/30/15 (\$000s)	Average Ratio (3Q12 – 2Q15)
Cornerstone Bank	\$902,264	92.81%
Starion Financial	\$1,113,169	78.62%
Dakota Community Bank & Trust	\$798,880	71.74%
First Western Bank & Trust	\$972,325	60.36%
American Bank Center	\$1,293,752	60.30%
BNC National Bank	\$900,664	50.01%

Source: Call report data as of June 30, 2015.

Lending in Assessment Area

BNC's lending within the AA does not meet the standard for satisfactory performance. A substantial majority of the bank's loans were originated outside its designated AAs. Only 12 percent of all loans originated based on HMDA reported data and sampling, were originated inside the bank's designated AAs. This is attributed to the bank's nationwide mortgage banking activities which includes twelve loan production offices (LPOs) throughout the country. Eight of these LPOs are located outside of the bank's AAs. Of all the BNC loans originated or purchased in 2013 and 2014, 65.2 percent were originated from loan production offices outside the bank's AA. Mortgage banking operations utilize an online marketing campaign as the primary method to attract prospective borrowers. While the nationwide mortgage banking operation significantly impacts lending in the AA, the loans made by BNC in each AA are meeting the needs of their communities.

Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	685	10.62%	5,768	89.38%	6,453	154,607	9.56%	1,461,826	90.44%	1,616,433
Commercial	17	85.00%	3	15.00%	20	12,892	94.40%	765	5.60%	13,657
Agricultural	18	90.00%	2	10.00%	20	4,498	95.20%	227	4.8%	4,725
Consumer	35	87.50%	5	12.50%	40	1,318	92.28%	111	7.72%	1,428
Totals	755	11.56%	5,778	88.44%	6,533	173,315	10.59%	1,462,929	89.41%	1,636,244

Source: 2013-2014 HMDA Data, commercial, agricultural, and consumer loan samples.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) 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.

STATE OF NORTH DAKOTA Bismarck MSA AA and Non-MSA North Dakota AA

CRA Rating for the State of North Dakota¹: Satisfactory.

The Lending test is rated: Satisfactory.

The Community Development test is rated: Outstanding.

- Lending to businesses and farms of different sizes reflects reasonable penetration in both the Bismarck MSA AA and the North Dakota non-MSA AA.
- Consumer lending to borrowers of different incomes within the Bismarck MSA AA does not meet the standard for reasonable penetration, while consumer lending to borrowers of different incomes within the North Dakota non-MSA AA represents reasonable penetration within the AA.
- Geographic distribution of loans in the North Dakota non-MSA AA demonstrates excellent dispersion amongst low- and moderate-income census tracts.
- Geographic distribution of loans in the Bismarck MSA AA demonstrates satisfactory dispersion amongst census tracts.
- Lending activity in the North Dakota non-MSA AA is consistent with performance in the Bismarck MSA AA.
- Community Development activity is outstanding in the state of North Dakota and includes 15 qualifying CD loans in the Bismarck MSA AA and three in the North Dakota non-MSA AA.

Bismarck, ND MSA

DESCRIPTION OF INSTITUTION'S OPERATIONS IN BISMARCK MSA

BNC's Bismarck, North Dakota AA consists of the entire Bismarck MSA. The MSA is made up of Burleigh County and Morton County of North Dakota. The bank has four full service branches located within the AA. The city of Bismarck is the largest city in the MSA and the second largest city in North Dakota with a 2010 census population of 61,272. The city of Mandan is adjacent to Bismarck and had a 2010 census population of 18,331. The two cities contain over 73 percent of the MSA population. Total MSA population is 108,779.

Based on the 2010 census there are 24 census tracts (CTs) in the MSA. Of the 24 CTs, there is one tract designated as low-income, two are moderate-income, sixteen are middle-income, and five are upper-income. The 2014 HUD estimated median family income is \$73,200.

¹This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

The MSA is a regional hub for energy, healthcare, retail, and service industries. Bismarck is the state capital of North Dakota and the MSA has a substantial federal, state and local government workforce. The largest employers in the MSA are private and include Sanford Health, St. Alexius Medical Center, and Basin Electric Power Cooperative.

The table below illustrates the demographics of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE BISMARCK AA	
<i>Population</i>	
Number of Families	28,450
Number of Households	43,725
% of Low-Income Families	3.94%
% of Moderate-Income Families	8.20%
% of Middle-Income Families	68.56%
% of Upper-Income Families	19.30%
<i>Geographies</i>	
Number of Census Tracts/BNA	24
% Low-Income Census Tracts/BNA	4.17%
% Moderate-Income Census Tracts/BNA	8.33%
% Middle-Income Census Tracts/BNA	66.67%
% Upper-Income Census Tracts/BNA	20.83%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$68,891
2014 HUD-Adjusted MFI	\$73,200
<i>Economic Indicators</i>	
Unemployment Rate (2014 - average monthly)	2.8%
2010 Median Housing Value	\$139,165
% of Families Below Poverty Level	9.72%

*** Table based on 2010 US Census information with updated information when available.*

BNC faces significant competition throughout the AA. Per the FDIC's June 30, 2014 deposit market share report, five banks control about 70 percent of the deposit base. BNC ranks fourth with a 11.5 percent deposit market share.

SCOPE OF EVALUATION IN BISMARCK MSA

Commercial and consumer lending are the primary products for the Bismarck AA as they represent 26.0 percent and 22.1 percent (by number of loans), respectively, of loans originated in the AA. Commercial and consumer loans also represent 81.9 percent and 11.7 percent of total loans originated by dollar, respectively. More weight was given to BNC's performance in the Bismarck MSA because the majority of BNC's deposits in North Dakota were in the Bismarck MSA AA. Additionally, the Bismarck

MSA AA contained the highest dollar volume of lending in the state of North Dakota due to the volume of commercial loans.

A member of the local community was contacted during this CRA examination. This contact was an economic development agency from Mandan, ND. The contact mentioned the strong demand for residential, commercial, and agricultural lending in the region. The contacts felt that local banks are meeting the needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN BISMARCK, ND MSA

LENDING TEST

The bank’s performance under the lending test in the Bismarck, ND MSA AA is rated Satisfactory.

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

BNC’s lending to borrowers of different incomes and to businesses of different sizes in the Bismarck MSA AA reflects poor penetration.

Borrower Distribution of Business Loans

BNC’s lending to businesses of different sizes reflects reasonable penetration. 19.8 percent of the dollar volume and 60 percent of the number of loans are to businesses in the AA having annual revenue of \$1 million or less. Although the dollar amount percentage for loans made to small businesses is substantially below the demographic information of the AA, more weight is placed on the percentage based on number of loans which is much closer to the demographic information regarding business size within the AA. Loans made to larger businesses are generally for larger dollar amounts, which led to the larger percentages based on dollar amount observed in our loan sample review. The following table illustrates the bank’s borrower distribution of business loans in the AA.

Borrower Distribution of Loans to Businesses in the Bismarck MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.01%	4.82%	23.17%	100%
% of Bank Loans in AA by #	60.00%	38.33%	1.67%	100%
% of Bank Loans in AA by \$	19.75%	79.47%	0.77%	100%

Source: Loan sample; Dunn and Bradstreet Data 2013

Borrower Distribution of Consumer Loans

BNC’s consumer lending in the Bismarck MSA AA reflects poor penetration of borrowers of different income levels.

Consumer lending to low-income and moderate-income borrowers are below the demographics of the AA. Within the AA, 23.38 percent of households are low-income, and 16.27 percent of households are moderate-income. However, consumer lending to low-income borrowers is just 8.33 percent, and 6.67 percent to borrowers with moderate income. In the AA, 9.72 percent of households are below the poverty level. BNC Bank’s focus within the Bismarck MSA AA is commercial lending. A majority of the consumer loans made are in response to referrals from their commercial customers. The following table illustrates the bank’s borrower distribution of consumer loans in the AA.

Borrower Distribution of Consumer Loans in Bismarck MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	23.38%	8.33%	16.27%	6.67%	18.53%	23.33%	41.82%	61.67%

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Loans

The geographic distribution of BNC’s loans in the Bismarck MSA AA demonstrates excellent dispersion.

Geographic Distribution of Business Loans

The geographic distribution of business loans in the Bismarck MSA AA exceeds the standard for satisfactory performance. Lending performance in moderate-income geographies is also higher than the demographics, at 10 percent performance compared to the 6.86 percent of AA businesses. The following table depicts the lending practices of the bank during the evaluation period.

Geographic Distribution of Loans to Businesses in Bismarck 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 Farms	% of # of Loans
Commercial	5.54%	15.00%	6.86%	10.00%	70.64%	55.00%	16.96%	20.00%

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Consumer Loans

BNC’s geographic distribution of consumer loans is excellent and exceeds the standard for satisfactory performance. Consumer loans to borrowers in low-income geographies exceeds the demographics of the AA. Consumer loans to borrowers in moderate-income geographies is below the demographic of the AA, but is comparable. When combined, lending performance to low- and moderate-income geographies is

reasonable. The following table illustrates BNC’s geographic lending performance for consumer loans.

Geographic Distribution of Consumer Loans in Bismarck MSA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	4.16%	10.00%	8.70%	5.00%	70.30%	35.00%	16.84%	50.00%

Source: Loan Sample; 2010 US Census Data

Responses to Complaints

BNC Bank has not received any CRA related consumer complaints.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in Bismarck MSA AA is rated outstanding.

Number and Amount of Community Development Loans

BNC’s performance in extending CD loans in the Bismarck MSA AA is outstanding. The bank originated 15 qualifying loans in the AA, totaling \$43.9 million during the evaluation period. The loans were mainly for revitalization or stabilization of the communities within the Bismarck MSA AA. Among the community development loans within the Bismarck MSA AA, several loans were used for a medical facility that serves low- to moderate-income census tracts, and others were used for a business that produces heating units that operates and creates jobs in a low-income area.

Number and Amount of Qualified Investments

BNC’s level of qualified investments demonstrates less than satisfactory responsiveness to the community development needs of the Bismarck MSA AA. During the evaluation period, the bank made just five donations totaling \$20,906 for community services benefitting low- and moderate-income individuals within the Bismarck MSA AA.

Extent to Which the Bank Provides Community Development Services

Participation in community development services in the Bismarck MSA AA is satisfactory. During the evaluation period, eight bank employees were involved with six different local organizations that provide needed community services or support affordable housing efforts. Involvement included teaching financial literacy to kids as part of Junior Achievement, serving on board and finance committees, and serving as a fundraising coordinator.

Responsiveness to Community Development Needs

As shown above by the participation in community development loans, investments, and services, BNC is responsive to the identified needs of economic development and community revitalization.

Non-MSA North Dakota AA

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH DAKOTA NON-MSA AA

BNC has six branches located in rural communities in North Dakota (ND). Because the AAs surrounding these branches have a similar performance context, we combined them for our analysis. Based on the lower volume of lending in the ND non-MSA AA, it received less weight in our conclusions for the state of North Dakota.

The ND Non-MSA AA consists of seven census tracts, throughout six counties (Divide, Emmons, McKenzie, McLean, Mountrail, and Ward) in north-central ND. Of the seven census tracts located in the bank's AA, one is considered moderate-income, five are considered middle-income, and one is upper-income. According to the FFIEC database of underserved and distressed tracts, four of the AA's census tracts are considered underserved (9545, 9608, 9610, 9624). The 2014 HUD estimated median family income for ND non-MSA portions is \$64,200.

BNC faces significant competition throughout the AA. Per the FDIC's June 30, 2014 Deposit Market Share Report, six banks control about 62% of the deposit base. BNC ranks sixth in deposit market share in the AA with a 6.15% share.

SCOPE OF EVALUATION IN NORTH DAKOTA NON-MSA AA

Agricultural and Consumer lending are the primary products for the ND Non-MSA AA as they represent 29.51% and 50.08% (by number of loans) of loans originated in the AA, respectively. Agricultural and consumer loans also represent 41.53% and 8.31% of total loans originated by dollar, respectively. Less weight was given to BNC's performance in the North Dakota Non-MSA AA because the majority of BNC's deposits in North Dakota were in the Bismarck MSA AA. Additionally, the North Dakota Non-MSA AA contained lower dollar volumes of lending in the state of North Dakota due to the volume of commercial loans in the Bismarck MSA AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NORTH DAKOTA NON-MSA AA

LENDING TEST

The bank’s performance under the lending test in the North Dakota non-MSA AA is rated Outstanding.

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

Lending to borrowers of different incomes and to farms of different sizes represents excellent penetration.

Borrower Distribution of Consumer Loans

BNC’s consumer lending in the North Dakota non-MSA AA reflects excellent penetration among borrowers of different income levels. While the bank is near the demographic comparator for low-income households, its lending performance substantially exceeds the demographic comparator for moderate-income households. The following table displays the bank’s lending performance in comparison to the demographic of the AA.

Borrower Distribution of Consumer Loans in North Dakota non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	22.45%	20.00%	14.55%	40.00%	16.74%	5.00%	46.26%	35.00%

Source: Loan Sample; 2010 US Census Data

Borrower Distribution of Agricultural Loans

BNC’s lending to farms of different sizes reflects reasonable penetration in the ND non-MSA AA. The bank’s performance is near the demographic comparator with regard to the number of loans to small farms vs. larger farms. Based on dollar amount, however, performance is significantly below the demographic information within the AA. This comparison is given less weight because the large dollar amounts of loans to larger farms skews the percentages, but it is reasonable that the largest loans would be extended to the borrowers with the largest farming operations. The table below illustrates the lending performance compared to the AA demographic.

Borrower Distribution of Loans to Farms in the North Dakota non-MSA AA				
Agricultural Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	99.28%	0.60%	0.12%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	40.98%	59.02%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet Data 2013

Geographic Distribution of Loans

The geographic distribution of BNC’s loans in the North Dakota non-MSA AA represents excellent dispersion.

Geographic Distribution of Consumer Loans

BNC’s geographic distribution of consumer lending in the North Dakota non-MSA AA reflects excellent dispersion. The bank’s performance significantly exceeds the demographic comparator for moderate-income households within the AA. The following table illustrates the bank’s lending performance in comparison to the demographic of the AA.

Geographic Distribution of Consumer Loans in North Dakota non-MSA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	0.00%	0.00%	16.51%	45.00%	67.97%	35.00%	15.52%	20.00%

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Agricultural Loans

BNC’s geographic distribution of agricultural loans represents excellent dispersion in the North Dakota non-MSA AA. The bank’s performance in the moderate-income area substantially exceeds the demographic comparator. The following table displays the bank’s performance compared to the AA demographics.

Geographic Distribution of Loans to Farms in North Dakota non-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 Farms	% of # of Loans
Commercial	0.00%	0.00%	23.78%	90.00%	60.69%	10.00%	15.53%	0.00%

Source: Loan Sample; 2010 US Census Data

Responses to Complaints

BNC Bank has not received any CRA related consumer complaints.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in the North Dakota non-MSA AA is rated Satisfactory.

Number and Amount of Community Development Loans

BNC’s performance in extending CD loans to the North Dakota Non-MSA AA is satisfactory. The bank originated three CD loans, totaling \$2.2 million during the evaluation period. A majority of these CD loans supported revitalization or stabilization efforts in Linton, ND, which is a moderate-income area.

Number and Amount of Qualified Investments

BNC's level of qualified investments in the North Dakota non-MSA AA represents poor responsiveness to the needs of the community. During the evaluation period, the bank made five donations to various organizations totaling \$1,645. The donations were for economic development or revitalization and stabilization of moderate-income areas.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services in the North Dakota non-MSA AA is satisfactory. During the review period, one bank employee from the Linton branch was involved with four area organizations including serving as President in 2014 for one organization. The organizations this employee is involved support economic development in this moderate-income area and also provide community services.

Responsiveness to Community Development Needs

As evidenced by the participation in community development loans, investments, and services, the bank is responsive to the identified needs of economic development and revitalization or stabilization of low- and moderate-income communities.

STATE OF ARIZONA

Phoenix, AZ MSA

CRA Rating for the Phoenix MSA AA²: Needs to Improve.

The Lending test is rated: Needs to Improve.

The Community Development test is rated: Satisfactory.

- Lending to borrowers of different income levels reflects poor penetration in the Phoenix MSA AA considering performance context factors.
- Geographic distribution of residential real estate loans in the Phoenix MSA AA demonstrates poor dispersion within low- and moderate-income census tracts.
- Community development activity is satisfactory in the state of Arizona. Community Development activities include 18 qualifying CD loans in the Phoenix MSA AA, but no qualified investments or donations in the Phoenix MSA AA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN PHOENIX MSA AA

The Phoenix, Arizona AA consists of the entire Phoenix – Mesa – Scottsdale, AZ MSA. This includes the counties of Maricopa and Pinal. It is the largest MSA in the state of Arizona. The bank has two branch locations within the MSA, including one in Glendale and one in Scottsdale. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Based on the 2010 census, there are 991 census tracts (CTs) in the MSA. Of the 991 CTs, 91 are designated low-income, 243 are moderate-income, 336 are middle-income, 311 are upper income, and 10 tracts are listed as "N/A". The 2014 Department of Housing and Urban Development (HUD) estimated median family income is \$61,900.

Major industries within the MSA include services, retail, finance, insurance, & real estate. Major employers located in the MSA include Wal-Mart Stores Inc., Banner Health Systems, Wells Fargo, Intel Corporation, and Arizona State University.

The table below illustrates the demographics of the AA.

²This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE PHOENIX MSA ASSESSMENT AREA	
Population	
Number of Families	1,000,063
Number of Households	1,500,828
% of Low-Income Families	21.18%
% of Moderate-Income Families	17.76%
% of Middle-Income Families	20.47%
% of Upper-Income Families	40.59%
Geographies	
Number of Census Tracts*	991
% Low-Income Census Tracts	9.18%
% Moderate-Income Census Tracts	24.52%
% Middle-Income Census Tracts	33.91%
% Upper-Income Census Tracts	31.38%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$64,408
2014 FFIEC-Adjusted MFI	\$61,900
Economic Indicators	
2014 Unemployment Rate	6.0%
2010 Median Housing Value	\$251,130
% of Households Below Poverty Level	11.72%

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

SCOPE OF EVALUATION IN THE PHOENIX MSA AA

Residential real estate lending is the primary product for the Phoenix MSA AA, as it represents 95.9 percent of loan originations by number and 93.4 percent of loans originated by dollar volume. Other loan types within the Phoenix MSA AA represent a small segment of loan production in the area and are not meaningful to analyze during our CRA lending assessment.

Home mortgage purchases are a primary mortgage products as they represent 50.9 percent by number of loans and 51.4 percent by dollar volume. Home refinance loans are another primary mortgage product, as they represent 45.9 percent by number of loans and 45.4 percent by dollar volume. Due to the limited volume of home improvement loans, they were excluded from our analysis.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE PHOENIX MSA AA

LENDING TEST

The bank’s performance under the lending test in the Phoenix MSA AA is rated Needs to Improve.

Lending to Borrowers of Different Incomes

BNC’s lending to borrowers of different incomes does not meet the standard for satisfactory performance, but is reasonable considering performance context. Lending performance to low-income borrowers shows poor penetration when compared to the demographic within the Phoenix MSA AA for both home purchase and home refinance loans. While the bank’s performance for home purchase loans demonstrates reasonable penetration for moderate-income borrowers, the bank’s performance for home refinance loans shows poor penetration for moderate-income borrowers.

Borrower Distribution of Residential Real Estate Loans in Phoenix 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 Purchase*	21.18%	2.70%	17.76%	17.12%	20.47%	21.62%	40.59%	56.76%
Refinance**	21.18%	2.00%	17.76%	3.00%	20.47%	19.00%	40.59%	51.00%

Source: 2013-2014 HMDA Data; 2010 US Census Data

*For 1.8% of home purchase loans, income was N/A.

**For 25.0% of refinance loans, income was N/A.

Geographic Distribution of Loans

BNC’s geographic distribution of consumer loans represents poor dispersion within low- and moderate-income census tracts within the Phoenix MSA AA. There are not many low-income census tracts within the Phoenix MSA AA, but there are no residential real estate loans within the low-income census tracts in the Phoenix MSA AA. Lending performance within moderate-income census tracts is below the standard for satisfactory performance, with home purchase loans representing slightly higher than half of the demographic, and home refinance loans slightly less than half. The table below illustrates BNC’s geographic lending performance for residential real estate loans. The market share of BNC within the Phoenix MSA AA is low at 0.11 percent of deposits within the area, and most of the customers they do have are located near BNC’s branch locations.

Geographic Distribution of Residential Real Estate Loans in Phoenix MSA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 Purchase	3.66%	0.00%	21.50%	12.61%	38.06%	36.04%	36.77%	51.35%
Refinance	3.66%	0.00%	21.50%	8.00%	38.06%	28.00%	36.77%	64.00%

Source: 2013-2014 HMDA Data; 2010 US Census Data

Responses to Complaints

BNC Bank has not received any CRA related consumer complaints.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in the Phoenix MSA AA is rated Satisfactory.

Number and Amount of Community Development Loans

BNC's performance in extending qualifying CD loans in the Phoenix MSA AA is outstanding. The bank originated 18 qualifying loans in the AA, totaling \$50.97 million during the evaluation period. The loans were mainly for revitalization/stabilization or for economic development of the communities within the Phoenix MSA AA.

Number and Amount of Qualified Investments

BNC's level of qualified investments demonstrates poor responsiveness to the community development needs of the Phoenix MSA AA. During the evaluation period, BNC Bank did not make any community development donations in the Phoenix area, nor did they make any community development investments in the Phoenix area during that time.

Extent to Which the Bank Provides Community Development Services

Participation in community development services in the Phoenix MSA AA is satisfactory. During the evaluation period, four different bank employees were involved in varying roles using their financial expertise to benefit varied community organizations. One employee has volunteered for three years to manage finance activities on behalf of an organization that provides educational services to low- and moderate-income individuals. Another employee has been involved for three years with two different organizations that provide economic development services to the community. Another employee has been involved two years on a credit committee for an organization that helps with job growth and economic development. One last employee has been involved for one year with an organization that helps make loans for affordable housing in low- and moderate-income areas.

Responsiveness to Community Development Needs

As shown above by the participation in community development loans and services, BNC is responsive to the identified needs of economic development, community revitalization, and affordable housing.

STATE OF MINNESOTA

Minneapolis – St. Paul – Bloomington, MN – WI MSA

CRA Rating for the Minneapolis MSA AA is rated³:Satisfactory.

The Lending test is rated: Satisfactory.

The Community Development test is rated: Satisfactory.

- Lending to borrowers of different income levels reflects reasonable penetration in the Minneapolis MSA AA.
- Geographic distribution of loans in the Minneapolis MSA AA demonstrate reasonable dispersion amongst low- and moderate-income census tracts.
- Community Development activity is satisfactory in the state of Minnesota, which includes qualifying CD investments totaling 127 percent of the allocated Tier One Capital in the Minneapolis MSA AA, but does not include any qualifying CD loans in the Minneapolis MSA AA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE MINNEAPOLIS MSA AA

The Minneapolis, MN AA consists of the following counties within the Minneapolis – St. Paul – Bloomington MN – WI MSA: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Sherburne, Washington, and Wright counties. The bank has one branch and one LPO in the MSA. The branch is located in downtown Minneapolis and the LPO is located in Golden Valley, MN. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Based on the 2010 census, there are 732 census tracts (CTs) in the MSA. Of the 732 CTs, 63 are designated low-income, 140 are moderate-income, 318 are middle-income, 207 are upper-income, and 4 tracts are listed as "N/A". The 2014 Department of Housing and Urban Development (HUD) estimated median family income is \$83,900

Major industries within the MSA include services, retail trade, construction and finance, insurance & real estate. Major employers located in the MSA include Target Corporation, Allina Health Systems, Fairview Health Systems, Wells Fargo & Company, and the University of Minnesota.

The table below illustrates the demographics of the AA.

³This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNEAPOLIS MSA ASSESSMENT AREA	
Population	
Number of Families	761,040
Number of Households	1,184,354
% of Low-Income Families	18.92%
% of Moderate-Income Families	17.39%
% of Middle-Income Families	23.06%
% of Upper-Income Families	40.63%
Geographies	
Number of Census Tracts*	732
% Low-Income Census Tracts	8.61%
% Moderate-Income Census Tracts	19.13%
% Middle-Income Census Tracts	43.44%
% Upper-Income Census Tracts	28.28%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$84,507
2014 HUD-Adjusted MFI	\$83,900
Economic Indicators	
2014 Unemployment Rate	3.9%
2010 Median Housing Value	\$256,544
% of Households Below Poverty Level	9.02%

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

Competition for financial services within the AA is strong with 135 institutions totaling approximately \$209 billion in deposits. The Federal Deposit Insurance Corporation's (FDIC) June 30, 2014 deposit market share report indicates a substantial presence from two large nationwide banks. They control 85.27% of the deposit market. BNC has a minimal share of the deposits within the MSA at .01%.

SCOPE OF EVALUATION IN MINNEAPOLIS MSA AA

Residential real estate lending is the primary product for the Minneapolis MSA AA as they represent 68.3% (by number of loans) of loans originated in the AA. In 2014, geographic boundary revisions by the Office of Management and Budget (OMB) became effective. This affected the composition and overall demographics of the MSA which we utilize to compare the bank's lending activity against. Given the OMB changes, 2013 and 2014 performance was analyzed separately for the Minneapolis MSA AA.

For 2013, commercial loans made up most of the bank's lending activity, making commercial lending the primary product for that year. However, due to low lending volume of just 21 total originated loans in the AA, a lending analysis was not meaningful in 2013. In 2014, home mortgage loans were the primary product for the AA consisting of 79.5% of loan originations by number of loans, and 66.5% by dollar volume. Home

mortgage purchases are a primary mortgage products as they represent 61.2% by number of loans and 55.3% by dollar volume. Home refinance loans are another primary mortgage product, as they represent 38.8% by number of loans and 44.7% by dollar volume. Due to the limited volume of home improvement loans, they were excluded from our analysis.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE MINNEAPOLIS MSA AA

LENDING TEST

The bank’s performance under the lending test in the Minneapolis MSA AA is rated Satisfactory.

Lending to Borrowers of Different Incomes

BNC’s lending to borrowers of different income levels represents reasonable penetration.

Borrowers Distribution of Residential Real Estate Loans

BNC’s residential real estate lending in the Minneapolis MSA AA represents reasonable penetration of borrowers from different income levels. While the level of lending to low-income borrowers is below the demographic, 9.02 percent of the population in the AA is below the poverty level. These borrowers may find it more difficult to qualify for a home loan. Additionally, lending to moderate-income borrowers exceeds the demographic. Refer to the table below for additional detail regarding BNC’s lending performance to residential real estate loan borrowers of different income levels.

2014 Borrower Distribution of Residential Real Estate Loans in Minneapolis MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Purchase	18.92%	13.33%	17.39%	33.33%	23.06%	33.33%	40.63%	26.67%
Refinance	18.92%	0.00%	17.39%	21.05%	23.06%	26.32%	40.63%	47.37%

Source: 2013-2014 HMDA Data; 2010 US Census Data

*For 5.26% of refinance loans, income was N/A.

Geographic Distribution of Loans

The geographic distribution of BNC’s lending in the Minneapolis MSA AA represents reasonable dispersion.

Geographic Distribution of Residential Real Estate Loans

The geographic distribution of residential real estate loans in the Minneapolis MSA AA meets the standard for satisfactory performance. Lending performance in low- and

moderate-income geographies is slightly above the demographic for home purchase loans, but below the demographic for home refinance loans. The following table illustrates the lending practices of the bank during the evaluation period.

Geographic Distribution of Residential Real Estate Loans in Minneapolis MSA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 Purchase	2.67%	6.67%	13.28%	13.33%	49.58%	33.33%	34.47%	46.67%
Refinance	2.67%	0.00%	13.28%	5.26%	49.58%	36.84%	34.47%	57.89%

Source: 2013-2014 HMDA Data; 2010 US Census Data

Responses to Complaints

BNC Bank has not received any CRA related consumer complaints.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in the Minneapolis MSA AA is rated Satisfactory.

Number and Amount of Community Development Loans

BNC’s performance in extending loans to the Minneapolis MSA AA is poor. During the assessment period, the bank did not originate any qualifying community development loans within the Minneapolis MSA AA.

Number and Amount of Qualified Investments

BNC’s level of qualified investments in the Minneapolis MSA AA represents outstanding responsiveness to the needs of the community. During the evaluation period, the bank has continued to hold two investments in the amount of \$1.98 million, which is equivalent to 127 percent of the AA’s allocated Tier One Capital as of June 30, 2015. This investment is for the purpose of economic development and small business financing within the Minneapolis MSA AA.

Extent to Which the Bank Provides Community Development Services

BNC’s participation in community development services in the Minneapolis MSA AA is satisfactory. During the review period, one bank employee has served as a board member for an organization for three years, and budget/finance committee member for another organization also for three years. Another bank employee has served as a board and committee member for a different organization for one year. The

organizations these employees are involved with provide community services within the Minneapolis MSA AA.

Responsiveness to Community Development Needs

As evidenced by the participation in community development investments and services, the bank is responsive to the identified needs of economic development and community services in low- and moderate-income communities.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: (01/01/2013 to 12/31/2014) Community Development Test: (04/04/2012 to 07/27/2015)	
Financial Institution	Products Reviewed	
BNC National Bank (BNC) Glendale, AZ	Commercial Loans Consumer Loans Agricultural Loans Home Mortgage Loans	
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Bismarck/Mandan MSA #13900	Full Scope	Entire MSA – Burleigh and Morton Counties in ND
North Dakota non-MSA	Full Scope	Divide, Emmons, McKenzie, McLean, Mountrail, and Ward Counties in ND
Phoenix/Mesa MSA #38060	Full Scope	Entire MSA – Maricopa and Pinal Counties in AZ
Minneapolis/St. Paul/Bloomington MSA #33460	Full Scope	Includes only MN counties of: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Sherburne, Washington, and Wright

Appendix B: Summary of Multistate Metropolitan Area and State Ratings

Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State Rating
BNC National Bank	Satisfactory	Satisfactory	Satisfactory
State Ratings:			
Arizona	Needs to Improve	Satisfactory	Needs to Improve
Minnesota	Satisfactory	Satisfactory	Satisfactory
North Dakota	Satisfactory	Outstanding	Satisfactory