



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

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COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BNC National Bank
Charter Number 24224

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Glendale, AZ 85308-0000

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: Outstanding

BNC National Bank's (BNC) overall lending performance is satisfactory and responsiveness to meeting the community development needs of the bank's assessment areas (AA) is excellent. The factors supporting this rating include:

- 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 reflects reasonable dispersion.
- The loan-to-deposit ratio evidences a reasonable volume of lending activity.
- Responsiveness to community development needs is excellent 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 EXAMINATION

BNC's Community Reinvestment Act (CRA) examination is based on a review of the bank's primary loan products. The evaluation period for this evaluation is from November 15, 2007 through December 31, 2011. We sampled loan originations and purchases made in 2010 and 2011 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 November 15, 2007 to December 31, 2011.

Loan Portfolio Composition		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial Loans	6.88%	19.70%
Agricultural Loans	4.65%	3.26%
Home Mortgage Loans	70.59%	72.78%
Consumer Loans	17.88%	4.26%

BNC has a total of eight 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 five non-MSA AAs surrounding 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 2010 and 2011. 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. 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 61% of the number and 53% of the dollar volume of HMDA loans originated. Home refinance and home improvement loans represent 37% and 2% of the number of HMDA reportable loans, respectively. Loan samples from 2010 and 2011 were used to assess agricultural, commercial and consumer lending distributions inside the bank's AAs. Sampling for the lending test for the Bismarck and North Dakota Non-MSA analysis consisted of 21 agricultural, 29 commercial, and 84 consumer loans. Samples contained 20 loans at a minimum and were expanded as needed.

DESCRIPTION OF INSTITUTION

The BNC charter is located in Glendale, Arizona. BNC is an interstate bank operating in Arizona, Minnesota, and North Dakota. BNC has 12 branches: two in Arizona, one in Minnesota, and nine in North Dakota. During the evaluation period, the bank had additional branches in Golden Valley, MN and Ellendale, ND. The Golden Valley location converted to a Loan Production Office (LPO) in March 2012. The Ellendale branch closed in January, 2010. Lending and CD activity from Golden Valley was considered in our examination. Lending activity from Ellendale was not considered in our lending test, as the branch was only in operation for one month of our lending evaluation period.

BNC's assets as of December 31, 2011 total \$662 million. BNCCORP, Inc, a publicly traded holding company, owns BNC. BNCCORP, Inc, provides a broad range of banking, brokerage, fiduciary, and other financial services through BNC. BNCCORP, Inc. is headquartered in Bismarck, North Dakota and has \$665 million in total assets as of December 31, 2011.

BNC's business strategy is controlled loan growth in the existing Arizona, Minnesota and North Dakota markets. BNC expanded their Home Mortgage Lending activity through several LPOs in the Kansas and Nebraska markets in addition to the existing market areas. These LPOs provide nationwide mortgage lending opportunities. The

bank does not have any merger or acquisition plans, and plans to remain in the Arizona, Minnesota, and North Dakota markets.

The bank's loan portfolio remains concentrated in commercial and commercial real estate with 15% and 43% of the total loans outstanding, respectively as of December 31, 2011.

Net loans represent 52.91% of total assets. Tier One Capital is 9.41% of average assets or \$63 million. During the evaluation period, BNC was under a Formal Agreement relating to safety and soundness; however, this did not impact their ability to meet the identified needs of the community.

The most recent CRA examination for BNC National Bank was completed November 15, 2007. The bank received a "Satisfactory" rating.

SELECTION OF AREAS FOR FULL-SCOPE REVIEW

In each state where the bank has an office, a sample of AAs within that state was selected for full-scope review.

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 BNCs 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 on the Bismarck MSA, rural North Dakota, Phoenix MSA and Minneapolis MSA AAs. The least weight was placed on the rural North Dakota AAs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given the performance context of each AA. Over the past 18 quarters, since the bank's last CRA exam, BNC's quarterly LTD ratio averaged 76.41%. The LTD ratio ranged from as high as 95.01% and as low as 54.84%.

The following table compares the bank's LTD ratio with ten other financial institutions with similar characteristics within the bank's AAs. BNC's LTD ratio ranks in the middle amongst comparable banks.

Loan-to-Deposit Ratio		
Institution	Average Assets 12/31/2011 (\$000s)	Average Ratio (3Q07 – 4Q11)
Blackridge Bank	348,257	103.02%
Dakota Community Bank & Trust, N.A.	570,006	87.88%
Starion Financial	924,641	87.63%
Meridian Bank, N.A.	971,866	85.14%
BNC National Bank	662,437	76.41%
American Bank Center	896,529	74.50%
First Western Bank & Trust	707,745	63.17%
First Minnesota Bank	385,795	51.20%

Source: Call report data as of December 31, 2011.

Lending in Assessment Area

BNC's lending within the AA does not meet the standard for satisfactory performance. A substantial majority of the loans were originated outside the AA. This is attributed to the bank's nationwide mortgage banking activities. The bank has ten loan production offices throughout the country. Seven of these are located outside of the bank's AA. Of all the BNC loans originated or renewed in 2010 and 2011, 52% were originated from loan production offices located outside the bank's AA. Mortgage banking operations utilizes an online marketing campaign as the primary method to attract prospective borrowers. The campaign attracts borrowers from throughout the country. Management has significantly grown this business line throughout the evaluation period. In 2010, mortgage banking production grew 41% to \$675 million. 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 community.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	11	55.00	9	45.00	20	1,710	52.28	1,560	47.72	3,270
Consumer	35	87.50	5	12.50	40	704	79.58	190	20.42	894
Agricultural	19	95.00	1	5.00	20	1,956	98.74	25	1.26	1,981
HMDA	915	14.23	5,513	85.77	6,428	156,241	11.44	1,209,172	88.56	1,365,413
Totals	980	15.06	5,528	84.94	6,508	160,611	11.71	1,210,947	88.29	1,371,592

Source: HMDA reportable loans, business, consumer, agricultural loan sample.

Responses to Complaints

The bank did not receive any CRA related complaints during the evaluation period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

MULTISTATE METROPOLITAN AREA RATING

Minneapolis – St. Paul – Bloomington MN – WI MSA

CRA Rating for Minnesota: Satisfactory

The Lending test is rated: Satisfactory

The Community Development test is rated: Outstanding

- Borrower distribution reflects reasonable penetration in lending to low- and moderate-income individuals.
- Geographic distribution indicates poor dispersion in the low- and moderate-income census tracts in the Minneapolis/St. Paul AA for home mortgage refinance and purchase loans.
- Community development activity is outstanding in the state of Minnesota due to the high level of CD loans and investments.

DESCRIPTION OF MINNEAPOLIS ASSESSMENT AREA

The Minneapolis, MN AA consists of the entire Minneapolis – St. Paul – Bloomington MN – WI MSA. This includes the counties of Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright Counties in Minnesota and Pierce and St. Croix Counties in Wisconsin. The bank has two locations in the MSA. One branch is located in downtown Minneapolis and the second branch 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 2000 census, there are 746 census tracts (CTs) in the MSA. Of the 756 CTs, 47 are designated low-income, 147 are moderate-income, 369 are middle-income, 178 are upper-income, and 5 tracts are listed as “N/A”. The 2011 Department of Housing and Urban Development (HUD) estimated median family income is \$82,700.

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.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNEAPOLIS AA	
<i>Population</i>	
Number of Families	723,128
Number of Households	1,100,844
% of Low-Income Families	17.1%
% of Moderate-Income Families	18.9%
% of Middle-Income Families	26.3%
% of Upper-Income Families	37.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	728
% Low-Income Census Tracts/BNA	6.5%
% Moderate-Income Census Tracts/BNA	19.9%
% Middle-Income Census Tracts/BNA	48.8%
% Upper-Income Census Tracts/BNA	24.2%
NA	0.7%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$64,885
2011 HUD-Adjusted MFI	\$82,700
<i>Economic Indicators</i>	
Unemployment Rate	6.38%
2000 Median Housing Value	\$145,292
% of Households Below Poverty Level	5%

** Tables is based on 2000 Census information with updated information when available

Competition for financial services within the AA is strong with 162 institutions totaling approximately \$110 billion in deposits. The Federal Deposit Insurance Corporation's (FDIC) June 30, 2011 deposit market share report indicates a substantial presence from two large nationwide banks. They control 68.42% of the deposit market. BNC has a minimal share of the deposits within the MSA at .02%.

SCOPE OF EVALUATION IN MINNESOTA

The bank's strategy for their Minneapolis branch locations has significantly changed over the evaluation period. The bank continues to maintain their commercial real estate (CRE) loans in addition to offering mortgage loans. One of the branch locations converted from a full service branch into a loan production office, in March 2012. The remaining branch is located in downtown Minneapolis with unique characteristics. The customer base is largely composed of commuters, working downtown but residing in the surrounding higher income CTs. As a result, exposure to individuals in low-or

moderate-income census tracts is limited.

The bank’s loan delivery channels are also unique. The bank utilizes an online nationwide mortgage banking network to attract new borrowers. With the conversion of the branch location, the bank has little exposure to traditional methods of obtaining new customers (i.e. foot-traffic).

Home mortgage loans are the primary products for the AA consisting of over 77% of loan originations. Home mortgage refinance and purchases are the primary mortgage products as they represent 61%, and 37% of all residential real estate loans, respectively. Due to the limited volume of home improvement loans, they were excluded from this analysis.

Contact with an organization within the Minneapolis AA dealing with affordable housing indicated that affordable housing is a primary need in the Minneapolis AA. The contact stated that financial institutions are meeting the needs of the community for the most part, but there continues to be ample opportunities for banks to participate in affordable housing programs in the area.

Lending to Borrowers of Different Incomes

BNC’s lending to borrowers of different incomes demonstrates reasonable penetration.

Borrowers Distribution of Residential Real Estate Loans

BNC’s residential real estate lending in the Minneapolis AA meets the standard for satisfactory performance. Home purchase lending to low-income borrowers exceeds the demographic. Home mortgage refinances to low-income borrowers is significantly below the demographic. Both home purchase and home mortgage refinance loans to borrowers of moderate-income levels exceed the demographic.

Borrower Distribution of Residential Real Estate Loans in Minneapolis AA								
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	17.05%	20.83%	18.87%	23.61%	26.31%	26.39%	37.77%	29.17%
Refinance	17.05%	4.59%	18.87%	22.02%	26.31%	27.52%	37.77%	45.87%

Source: Data reported under HMDA; 2000 U.S. Census Data

Geographic Distribution of Loans

The geographic distribution of BNC's loans in the Minneapolis AA reflects poor dispersion.

Residential Real Estate Loans

BNC's overall geographic distribution of residential real estate loans does not meet the standard for satisfactory performance. Home mortgage refinances in low- or moderate-income CTs are significantly lower than the demographic. As noted above, this can be attributed to the limited exposure to "foot-traffic" in the branch locations. Home mortgage purchases meet or exceed the demographic for both low- and moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans in Minneapolis AA								
Census 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 Purchase	1.55%	4.17%	13.44%	12.50%	56.15%	58.33%	28.86%	25.00%
Refinance	1.55%	0%	13.44%	3.33%	56.15%	45.00%	28.86%	51.67%

Source: Data reported under HMDA; 2000 U.S. Census Data

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in Minnesota is rated outstanding.

Number and Amount of Community Development Loans

BNC's performance in extending CD loans is excellent. The bank originated eight CD loans within the AA, totaling \$24.2 million during the evaluation period. Loans were for the purpose of economic development, affordable housing, revitalization and stabilization of low- and moderate-income or distressed and underserved geographies, and community services to low- and moderate-income individuals.

Number and Amount of Qualified Investments

BNC's level of qualified investments in the Minneapolis AA demonstrates excellent responsiveness to the needs of the community. During the evaluation period, the bank invested in or donated to seventeen securities or organizations for a total of \$13.4 million.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services is satisfactory. In addition to the numerous deposit and loan products offered, bank employees were involved with nine CD services that benefited organizations related to community services for low- to moderate-income individuals and economic development.

Responsiveness to Community Development Needs

As evident by the participation in community development loans, investments, and services, the bank is responsive to the need for affordable housing in the Minneapolis AA, as identified through community contacts.

STATE OF ARIZONA

CRA Rating for Arizona: Outstanding

The Lending test is rated: Outstanding

The Community Development test is rated: Outstanding

The factors supporting this rating include:

- Borrower distribution reflects excellent penetration in lending to low- and moderate-income individuals.
- Geographic distribution indicates reasonable dispersion in the low- and moderate-income census tracts of the Phoenix AA for Home Purchase Loans.
- Participation in community development activities displays outstanding responsiveness to meeting the needs of low- and moderate-income individuals and promotion of economic development in the Phoenix AA.

DESCRIPTION OF THE PHOENIX ASSESSMENT AREA

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 and two loan production offices (LPOs) within the MSA. One branch and LPO are in Glendale, AZ, and the other branch and LPO are in Scottsdale, AZ. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Based on the 2000 census, there are 696 census tracts (CTs) in the MSA. Of the 696 CTs, 43 are designated low-income, 199 are moderate-income, 238 are middle-income, 210 are upper income, and 6 tracts are listed as "N/A". The 2011 Department of Housing and Urban Development (HUD) estimated median family income is \$65,500.

Major industries within the MSA include services, and finance, insurance, & real estate. Major employers located in the MSA include Bashas' Supermarkets, US Airways, Banner Health Systems, Intel Corporation, and Boeing Corporation.

The table below illustrates the demographics of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE PHOENIX AA	
<i>Population</i>	
Number of Families	814,264
Number of Households	1,194,461
% of Low-Income Families	19.6%
% of Moderate-Income Families	18.8%
% of Middle-Income Families	21.8%
% of Upper-Income Families	39.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	696
% Low-Income Census Tracts/BNA	6.2%
% Moderate-Income Census Tracts/BNA	28.6%
% Middle-Income Census Tracts/BNA	34.2%
% Upper-Income Census Tracts/BNA	30.2%
NA	0.8%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$51,172
2011 HUD-Adjusted MFI	\$65,500
<i>Economic Indicators</i>	
2011 Unemployment Rate	8.4%
2000 Median Housing Value	\$127,589
% of Households Below Poverty Level	10%

** Table is based on 2000 Census information with updated information when available

Competition for financial services in the AA is strong with 61 institutions totaling approximately \$62 billion in deposits. The Federal Deposit Insurance Corporation's (FDIC) June 30, 2011 deposit market share report indicates significant presence from three large national banks that control 71.37% of the deposit market. BNC ranks 40th and has a .11% share of the deposits within the AA.

SCOPE OF EVALUATION IN ARIZONA

The bank's strategy for their Arizona operations has changed significantly over the evaluation period. The bank continues to maintain their commercial real estate (CRE) and Small Business Administration (SBA) loans in addition to the expansion of mortgage lending. Two branch locations are maintained in Glendale and Scottsdale, however, only the Glendale branch offers full banking services. The Scottsdale location is designated as a branch but primarily acts as a corporate office.

Home Mortgage loans are the AAs primary product as they represent 95% of all loan originations during the evaluation period. Home purchase loans are the primary home mortgage product for the AA as they represent 74% of all residential real estate loans made in the AA. Due to the low volume of loans home refinance and home improvement loans were excluded from this analysis.

Community contacts were made with non-profit, community development and housing organizations. Contacts indicated a need for affordable housing, mortgage lending, consumer lending, and financial literacy programs for local refugees in the Phoenix AA. Contacts stated that financial institutions are meeting the needs of the community, but there continues to be ample opportunities for banks to participate in community development in the area. Economic development for small businesses was also identified as an AA need.

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

BNC’s lending to borrowers of different incomes demonstrates excellent penetration.

Borrowers Distribution of Home Purchase Loans

BNC’s home purchase lending in the Phoenix AA exceeds the standard for satisfactory performance. Lending to low-income borrowers is near to the demographic and considered excellent. Loans to moderate-income borrowers exceeds the demographic. The table below displays the lending compared to the demographic of the AA.

Borrower Distribution of Residential Real Estate Loans in Phoenix AA								
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	19.62%	19.21%	18.79%	30.46%	21.81%	19.21%	39.78%	31.13%

Source: Data reported under HMDA; 2000 U.S. Census Data

Geographic Distribution of Loans

The geographic distribution of BNC’s loans in the Phoenix AA reflects reasonable dispersion.

Home Purchase Loans

BNC’s overall geographic distribution of home purchase loans meets the standard for satisfactory performance. Home purchase loans to borrowers in low-income CTs are below the demographic and considered poor, however less than 2% of the owner occupied housing units are located in low-income CTs so lending opportunities are limited. Lending in the moderate -income CTs is comparable to the demographic.

Geographic Distribution of Residential Real Estate Loans in Phoenix AA								
Census 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	1.63%	.88%	24.02%	22.30%	39.20%	44.81%	35.14%	32.01%

Source: Data reported under HMDA; 2000 U.S. Census Data

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in Arizona is rated outstanding.

Number and Amount of Community Development Loans

BNC's performance in extending CD loans is excellent. The bank originated seven CD loans within the AA, totaling \$3.5 million during the evaluation period. Loans were for the purpose of economic development, affordable housing, revitalization and stabilization of low- and moderate-income or distressed and underserved geographies, and community services to low- and moderate-income individuals.

Number and Amount of Qualified Investments

BNC's level of qualified CD investments in the Phoenix AA demonstrates excellent responsiveness to the needs of the community. During the evaluation period, the bank invested or donated to seven securities or organizations for a total of \$3.3 million.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services is satisfactory. In addition to the numerous deposit and loan products offered, bank employees were involved with ten CD services that benefited organizations related to community services for low- to moderate-income individuals and economic development.

Responsiveness to Community Development Needs

As evident by the participation in community development loans, investments, and services, the bank is responsive to the need for economic development and affordable housing in the Phoenix AA, as identified through community contacts.

STATE OF NORTH DAKOTA
Bismarck MSA and Rural North Dakota AAs

CRA Rating for North Dakota: Satisfactory

The Lending test is rated: Satisfactory

The Community Development test is rated: Satisfactory

The factors that support this rating include:

- Lending to businesses of different sizes and borrowers of different incomes reflects reasonable penetration in both the Bismarck AA and rural North Dakota AAs.
- Geographic distribution of loans in the rural North Dakota AAs demonstrates excellent dispersion amongst low- and moderate-income census tracts.
- Geographic distribution of loans in the Bismarck AA demonstrates satisfactory dispersion amongst census tracts.
- Lending activity in the rural North Dakota AAs is not inconsistent with performance in the Bismarck AA.
- Community development activity is satisfactory in the state of North Dakota with qualified CD loans totaling 5% of the allocated Tier One Capital in the Bismarck AA and 85% in the rural North Dakota AAs.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH DAKOTA

Description of Bismarck Assessment Area

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 three 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 2000 census population of 55,532. The city of Mandan is adjacent to Bismarck and had a 2000 census population of 16,718. The two cities contain over 76% of the MSA population. Total MSA population is 94,719.

Based on the 2000 census there are 21 census tracts (CTs) in the MSA. Of the 21 CTs, there are no tracts designated as low-income, four are moderate-income, fifteen are middle-income, and two are upper-income. The 2011 HUD estimated median family income is \$76,700.

The MSA is a regional hub for 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 Medcenter One Health Systems, St. Alexius Medical Center, and Bobcat/Ingersoll Rand.

The table below illustrates the demographics of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE BISMARCK AA	
<i>Population</i>	
Number of Families	25,265
Number of Households	37,620
% of Low-Income Families	17.4%
% of Moderate-Income Families	18.5%
% of Middle-Income Families	27.3%
% of Upper-Income Families	36.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	21
% Low-Income Census Tracts/BNA	0.0%
% Moderate-Income Census Tracts/BNA	19.1%
% Middle-Income Census Tracts/BNA	71.4%
% Upper-Income Census Tracts/BNA	9.5%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$49,944
2011 HUD-Adjusted MFI	\$76,700
<i>Economic Indicators</i>	
Unemployment Rate (2011 - average monthly)	3.3%
2000 Median Housing Value	\$83,418
% of Families Below Poverty Level	5.74%

*** Table based on 2000 US Census information with updated information when available.*

BNC faces significant competition throughout the AA. Per the FDIC's June 30, 2011 deposit market share report, five banks control about 68% of the deposit base. BNC ranks fourth with a 10.38% deposit market share.

SCOPE OF EVALUATION IN NORTH DAKOTA

Consumer and commercial lending are the primary products for the Bismarck AA as they represent 60.23% and 30.40% (by number of loans), respectively, of loans originated in the AA. Consumer and commercial loans also represent 12.24% and 80.39% 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.

Members of the local community were contacted during this CRA examination. These contacts included one community economic development organization from Linton, ND, in addition to a housing finance agency from Bismarck, ND. The contacts mentioned the need for agriculture operating loans, business start-up financing and affordable housing loans. These contacts felt that local banks are meeting the needs of the community.

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 AA reflects reasonable penetration.

Borrower Distribution of Business Loans

BNC's lending to businesses of different sizes meets the standard for satisfactory performance. Thirty-nine percent of the dollar volume and 60.00% of the number of loans are to businesses with revenues of \$1 million or less. This is comparable to the 70.11% of businesses in the AA having revenues of \$1 million or less. Although there is a relatively high percentage of unavailable business revenues, the community contacts indicate that local banks are meeting the small business needs in the AA. The following table illustrates the bank's borrower distribution of business loans in the AA.

Borrower Distribution of Loans to Businesses in Bismarck AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.11%	2.80%	27.09%	100%
% of Bank Loans in AA by #	60.00%	40.00%	0%	100%
% of Bank Loans in AA by \$	38.57%	61.43%	0%	100%

Source: Business loan sample; Dunn and Bradstreet data; 2011 Business Geodemographic Data.

Borrower Distribution of Consumer Loans

BNC's consumer lending in the Bismarck AA meets the standard for satisfactory performance.

Consumer lending to low-income borrowers is below the demographic of the AA but considered comparable. In the AA, 9.56% of households are below the poverty level. Lending to moderate-income borrowers is significantly higher than the demographic comparator. The following table displays the bank's lending performance in comparison to the demographic of the AA.

Borrower Distribution of Consumer Loans in the Bismarck AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	22.23%	11.32%	17.22%	28.30%	20.24%	24.53%	40.21%	33.96%

Source: Consumer Loan Sample; 2000 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of BNC's loans in the Bismarck AA demonstrates reasonable dispersion.

Geographic Distribution of Business Loans

The geographic distribution of business loans in the Bismarck AA exceeds the standard for satisfactory performance. Performance in the moderate-income geographies is higher than the demographic of the AA. The following table depicts the lending practices of the bank during the evaluation period.

Geographic Distribution of Loans to Businesses in Bismarck of AA								
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
Business	0%	0%	19.30%	20.00%	68.43%	65.00%	12.75%	15.00%

Source: Business loan sample; U.S. Census data.

Geographic Distribution of Consumer Loans

BNC's geographic distribution of consumer loans is poor and does not meet the standard for satisfactory performance. Consumer loans to borrowers in the moderate-income geographies are considerably below the demographic of the AA. There are no low-income geographies in this AA. The following table illustrates BNC's geographic lending performance for consumer loans.

Geographic Distribution of Consumer Loans in the Bismarck AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0%	0%	17.13%	3.77%	72.66%	66.04%	10.20%	30.19%

Source: Consumer Loan Sample; U.S. Census data.

The bank's focus in the Bismarck AA is commercial lending. A majority of the consumer loans made are in response to referrals from their commercial customers, who tend to be from middle- and upper-income census tracts.

COMMUNITY DEVELOPMENT TEST

BNC's performance under the community development test in the Bismarck MSA is rated satisfactory.

Number and Amount of Community Development Loans

BNC's performance in extending CD loans in the Bismarck AA is satisfactory. The bank originated four CD loans in the AA, totaling \$1.4 million during the evaluation period. This is equivalent to 4.45% of the AA's allocated Tier One Capital as of December 31, 2011. The loans were mainly for economic development in the Bismarck MSA.

Number and Amount of Qualified Investments

BNC's level of qualified investments demonstrates satisfactory responsiveness to the community development needs of the Bismarck AA. During the evaluation period, the bank had 14 investment, totaling \$1.1 million for the purpose of affordable housing and community services for low- to moderate-income individuals.

Extent to Which the Bank Provides Community Development Services

Participation in community development services in the Bismarck AA is outstanding. In addition to the numerous deposit and loan products offered, bank employees were involved in twenty-one CD services benefiting different organizations.

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 affording housing.

Conclusions for Rural North Dakota Assessment Areas

Description of North Dakota Non-MSA Assessment Area

BNC has six branches located in rural communities in North Dakota (ND). Because each of these AAs are rural and have a similar performance context, we combined all five AAs for our analysis. Based on the lower volume of lending in the rural ND AAs, they received less weight in our conclusions.

The ND Non-MSA AA consists of eight census tracts, throughout six counties (Divide, Emmons, McKenzie, McLean, Mountrail, and Ward) in north-central ND. Of the eight census tracts located in the bank's AA, one is considered moderate-income and seven are considered middle-income. Six of the AA's census tracts are considered distressed and underserved (9545, 9663, 9624, 9604, 9605, 9552). Census tract 110 is considered distressed-only, due to population loss. The remaining tract, 9664, is a moderate-income census tract. The 2011 HUD estimated median family income for ND non-MSA portions is \$63,000.

BNC's Ellendale, ND branch closed in January 2010. We did not consider loans made at this branch for our lending test. Ellendale community development activity was considered for the years 2008 and 2009.

BNC faces significant competition throughout the AA. Per the FDIC's June 30, 2011 Deposit Market Share Report, six banks control about 60% of the deposit base. BNC ranks fifth in deposit market share in the AA with a 6.36% share.

Agricultural and Consumer lending are the primary products for the ND Non-MSA AA as they represent 30.56% and 58.56% (by number of loans) of loans originated in the AA, respectively. Agricultural and consumer loans also represent 72.16% and 14.97% of total loans originated by dollar, respectively.

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 satisfactory penetration.

Borrower Distribution of Agricultural Loans

BNC's lending performance to farms of different sizes is satisfactory. The bank's performance is somewhat lower than the demographic information for the ND non-MSA AAs. The following table displays the bank's performance compared to the AA demographic. Of those borrowers that did not provide revenue income, we assessed revenue by proxy using loan size. The majority of the loans in our sample without income information were for loans less than \$25,000.

Borrower Distribution of Loans to Farms in the ND Non-MSA AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	99.65%	0.35%	0.00%	100.00%
% of Bank Loans in AA by #	84.21%	0.00%	15.79%	100.00%
% of Bank Loans in AA by \$	75.36%	0.00%	24.64%	100.00%

Source: Loan sample; Dunn and Bradstreet data

Borrower Distribution of Consumer Loans

BNC’s consumer lending in ND Non-MSA AA is satisfactory. The bank exceeds the demographic comparator for low-income households and is somewhat lower than the comparator in moderate-income households. The following table displays the bank’s lending performance in comparison to the demographic of the AAs.

Borrower Distribution of Consumer Loans in the ND Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	27.07%	40.00%	17.94%	15.00%	20.75%	5.00%	34.24%	30.00%

Source: Loan sample; U.S. Census Information; 10% unknown from the loan sample.

Geographic Distribution of Loans

The geographic distribution of BNC’s loans in the ND non-MSA AA represents reasonable dispersion. More weight was placed on consumer lending performance at 59% of AA originations during 2010 and 2011, compared to 31% of lending volume on the agricultural side.

Geographic Distribution of Consumer Loans

BNC’s geographic distribution of consumer lending in ND Non-MSA AA reflects reasonable dispersion. The bank is somewhat lower than the comparator in moderate-income households, but remains adequate. The following table displays the bank’s lending performance in comparison to the demographic of the AA.

Geographic Distribution of Consumer Loans in the ND Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0%	0%	14.81%	10.00%	85.19%	90.00%	0%	0%

Source: Loan sample; U.S. Census Information

Geographic Distribution of Agricultural Loans

BNC’s geographic distribution of agricultural loans is excellent in the ND non-MSA AA. The bank’s performance exceeds the demographic information for the ND non-MSA AA. The following table displays the bank’s performance compared to the AA demographic.

Geographic Distribution of Loans to Farms in the ND Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Agricultural	0%	0%	25.35%	68.42%	74.65%	31.58%	0%	0%

Source: Loan sample; Dunn & Bradstreet Data

COMMUNITY DEVELOPMENT TEST

BNC's performance in the ND non-MSA AA is excellent.

Number and Amount of Community Development Loans

BNC's performance in extending CD loans to the ND Non-MSA AA is outstanding. The bank originated twelve CD loans, totaling \$16.2 million during the evaluation period. A majority of these loans were for the economic development of North Dakota Indian Reservations.

Number and Amount of Qualified Investments

BNC's level of qualified investments in the ND Non-MSA AA represents satisfactory responsiveness to the needs of the community. During the evaluation period, the bank invested or donated \$13 thousand to 14 organizations. A majority of donations went to revitalize and stabilize moderate-income and distressed and underserved middle-income communities.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services in the ND Non-MSA AA is satisfactory. Bank employees were involved in nine CD services benefiting different organizations.

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: (1/1/2010 to 12/31/11) Community Development Test: (11/15/07 to 12/31/11)	
Financial Institution	Products Reviewed	
BNC National Bank (BNC) Phoenix, 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
Phoenix MSA #38060	Full Scope	Divide, Emmons, McKenzie, McLean, Mountrail, Ward Counties of ND
Minneapolis/St. Paul MSA #33460	Full Scope	
Bismarck/Mandan MSA #13900	Full Scope	
Rural North Dakota	Full Scope	

APPENDIX B: SUMMARY OF STATE RATINGS

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