



PUBLIC DISCLOSURE

October 30, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Dakota National Bank
Charter Number: 2068
225 Cedar Street
Yankton, SD 57078

Office of the Comptroller of the Currency
Sioux Falls Field Office
4900 S. Minnesota Avenue, Suite 300
Sioux Falls, SD 57108

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, and should not 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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General Information and Overall CRA Rating

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First Dakota National Bank (FDNB) issued by the OCC, the institution's primary supervisory agency, for the evaluation period starting January 1, 2015 and ending October 30, 2017. The agency rates the performance of an institution consistent with the provisions set for in Appendix A to 12 CFR 25.

Overall CRA Rating: Outstanding.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

- FDNB's loan-to-deposit (LTD) ratio is more than reasonable when considering the bank's size, financial condition, and the credit needs of its assessment areas (AAs).
- Management originates and purchases a substantial majority of its loans to customers located in the bank's AAs.
- Community development (CD) loans, investments, and donations represent excellent responsiveness to AA needs and opportunities.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

FDNB is an intrastate financial institution headquartered in Yankton, South Dakota. FDNB had total assets of \$1.6 billion and tier one capital of \$152.4 million as of June 30, 2017. FDNB is wholly-owned by First Dakota Financial Corporation, a one-bank holding company located in Yankton, South Dakota. As of June 30, 2017, First Dakota Financial Corporation had total assets of \$1.6 billion.

FDNB maintains branch operations in southeastern and central South Dakota. FDNB operates 19 full service branches, one deposit-taking automatic teller machine (ATM), and 16 cash-dispensing ATMs in South Dakota. Two branches, including the main branch, are located in Yankton, four branches and one deposit-taking ATM are located in Sioux Falls, and two branches are located in Mitchell. FDNB operates one branch in each of the following towns: Beresford, Blunt, Chamberlain, Elk Point, Kimball, Oacoma, Parkston, Pierre, Salem, Vermillion, and Wagner. Cash-dispensing ATMs are located at the Beresford, Chamberlain, Elk Point, Mitchell, Oacoma, Parkston, Pierre, Salem, Sioux Falls, Vermillion, Wagner, and Yankton branch locations.

FDNB established the branch in Pierre as a loan production office (LPO) on June 2, 2015. The LPO was converted to a branch on July 25, 2015 after FDNB acquired the Home Federal branch located in Pierre. The Blunt branch was opened on January 25, 2016 following FDNB’s acquisition of Dakota State Bank. The Sioux Falls branch located at 6109 South Old Village Place was opened on November 8, 2016. This was a new branch and not a result of any merger or acquisition activity. Management relocated the Vermillion branch on February 2, 2017.

In addition to the branch operations described above, FDNB operates six LPOs in Nebraska and South Dakota. The Nebraska LPOs are located in Columbus, Hastings, and Ogallala. The South Dakota LPOs are located in Corsica, Platte, and Watertown. Management relocated the Columbus LPO on April 1, 2016 and the Ogallala LPO on October 16, 2017.

FDNB’s primary business strategy is consistent with the traditional community bank model. FDNB offers a full range of credit products within its AAs including agriculture, commercial, consumer, and residential real estate loans. As of June 30, 2017, net loans total \$1.3 billion and represent 80 percent of total assets. Loan portfolio composition as of June 30, 2017 includes the following:

Loan Type	\$ Volume of Loans (000)	% of Loan Portfolio
Commercial	717,758	57
Agriculture	437,551	35
Residential Real Estate	62,732	5
Consumer	43,771	3

Source: June 30, 2017 Allowance Analysis

FDNB operates in nine AAs. The AAs comply with regulatory requirements and include the bank's main office, branch offices, and deposit-taking ATM. The AAs do not arbitrarily exclude LMI census Tracts (CTs). For purposes of this examination, we combined the seven rural AAs into one AA called the Non-Metropolitan Statistical Area (MSA) AA because the locations, business strategy, and AA demographics are similar among the AAs.

Non-MSA AA

The Non-MSA AA includes portions of Aurora, Bon Homme, Brule, Buffalo, Charles Mix, Clay, Davison, Douglas, Hanson, Hughes, Hutchinson, Hyde, Lyman, Stanley, Sully, and Yankton counties in South Dakota. It also includes two CTs in Cedar and Knox counties in Nebraska. These areas are primarily rural and are not included in an MSA. FDNB operates 11 branches and 10 cash-dispensing ATMs in the Non-MSA AA. This AA represents the FDNB's major market and includes the bank's main location, which is home to a majority of the senior management team. As of June 30, 2017, FDNB reported \$908.3 million in deposits in the Non-MSA AA. This represents 68 percent of total bank deposits as of that date. According to FDIC market share information as of June 30, 2017, FDNB ranked first in deposit market share in the AA with a market share of 21 percent. Management originated 5,286 loans totaling \$948.8 million in the AA during the evaluation period. This represents 73 percent of total loan originations by number and 62 percent of total loan originations by dollar during the evaluation period.

The Non-MSA AA included 35 CTs in 2016. Four of the CTs were moderate-income, 26 CTs were middle-income, and five were upper-income. The Non-MSA AA had a population of 122,094 according to the 2010 U.S. Census. The weighted-average of median family income in the AA was \$57,884 in 2016. There were 11,242 businesses in the AA as of June 30, 2016. Eighty percent of the businesses were non-farm operations and 74 percent of total businesses employed fewer than five people.

Competition in the Non-MSA AA is significant. As of June 30, 2017, there were 32 deposit-taking institutions operating a total of 85 banking offices in the Non-MSA AA. Competition in the AA includes regional and locally-owned institutions as well as branches of large national banks.

Sioux Falls MSA AA

The Sioux Falls MSA AA includes all of Lincoln, McCook, Minnehaha, and Turner counties in South Dakota. These counties comprise the Sioux Falls MSA, which is the largest urban area in South Dakota. FDNB operates five branches, one deposit-taking ATM, and four cash-dispensing ATMs in the Sioux Falls MSA AA. Four of the branches, the deposit-taking ATM, and three cash-dispensing ATMs are located in Sioux Falls. One branch and one cash-dispensing ATM are located in Salem. As of June 30, 2017, FDNB reported \$397.4 million in deposits in the Sioux Falls MSA AA. This represents 29 percent of total bank deposits as of that date. According to FDIC market share information as of June 30, 2017, FDNB ranked ninth in deposit market

share in the AA with a market share of 0.08 percent. Two large national banks control 98 percent of the deposit market share in the Sioux Falls MSA AA. Management originated 1,510 loans totaling \$561.7 million in the AA during the evaluation period. This represents 21 percent of total loan originations by number and 37 percent of total loan originations by dollar during the evaluation period.

The Sioux Falls MSA AA included 57 CTs in 2016. Fourteen of the CTs were moderate-income, 31 CTs were middle-income, and 12 were upper-income. The Sioux Falls MSA AA had a population of 228,261 according to the 2010 U.S. Census. The weighted-average of FFIEC Updated MSA median family income in the AA was \$72,000 in 2016. There were 18,123 businesses in the AA as of June 30, 2016. Ninety-two percent of the businesses were non-farm operations and 71 percent of total businesses employed fewer than five people.

Competition in the Sioux Falls MSA AA is strong. As of June 30, 2017, there were 36 deposit-taking institutions operating a total of 141 banking offices in the Sioux Falls MSA AA. Competition in the AA includes branches of large national banks, regional banks, and locally-owned institutions. Several other lenders, who are not included in the numbers above because they do not accept deposits, also have operations in the Sioux Falls MSA AA.

Union County AA

The Union County AA includes all of Union County in South Dakota. FDNB operates two branches and two cash-dispensing ATMs in the Union County AA. One branch and one cash-dispensing ATM are located in Beresford and one branch and one cash-dispensing ATM are located in Elk Point. Union County is included in the Sioux City IA-NE-SD Multistate MSA. Since FDNB's operations in the Sioux City IA-NE-SD Multistate MSA are limited to South Dakota, we included this AA in the State of South Dakota rating and did not assign a separate Multistate MSA rating to the AA.

As of June 30, 2017, FDNB reported \$42.9 million in deposits in the Union County AA. This represents three percent of total bank deposits as of that date. According to FDIC market share information as of June 30, 2017, FDNB ranked fifth in deposit market share in the AA with a market share of nine percent. Management originated 412 loans totaling \$19.5 million in the AA during the evaluation period. This represents six percent of total loan originations by number and one percent of total loan originations by dollar during the evaluation period.

The Union County AA included three CTs in 2016. One of the CTs was middle-income and two were upper-income. The Union County AA had a population of 14,399 according to the 2010 U.S. Census. The weighted-average of FFIEC Updated MSA median family income in the AA was \$60,900 in 2016. There were 1,450 businesses in the AA as of June 30, 2016. Eighty-seven percent of the businesses were non-farm operations and 75 percent of total businesses employed fewer than five people.

Competition in the Union County AA is moderate. As of June 30, 2017, there were six deposit-taking institutions operating a total of ten banking offices in the Union County AA. Competition in the AA includes local institutions.

Refer to the market profiles in Appendix B for detailed demographics and other performance context information for the AAs that received a full scope review.

There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AAs. FDNB received an Outstanding rating in its last Performance Evaluation dated November 12, 2014.

Scope of the Evaluation

Evaluation Period/Products Evaluated

FDNB was evaluated under the Intermediate Small bank examination procedures, which include a Lending Test and a CD Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The CD Test evaluates the bank's record of responding to the CD needs of its AAs through CD lending and providing qualified investments, donations, and services.

The Lending Test covers FDNB's performance from January 1, 2015 to June 30, 2017. The Lending Test evaluated the primary loan product(s) originated by management in each AA during the evaluation period. Refer to Appendix A for a list of primary products identified in each AA.

To evaluate lending performance, we selected a random sample of loans originated and purchased during the evaluation period for each primary loan type in each AA. Examiners initially sampled 20 loans per primary product type in each AA and used that information in the lending analysis. The agriculture loan sample in the Non-MSA AA and the commercial loan sample in the Sioux Falls MSA AA were expanded to 60 loans to provide a larger sample size. Loan data was compared to 2010 U.S. Census data.

The evaluation period for the borrower distribution of consumer loans in the Union County AA, the geographic distribution of agriculture and commercial loans in the Non-MSA AA, and the geographic distribution of commercial loans in the Sioux Falls MSA AA was condensed to exclude 2017 loans. The 2017 median family income data was not available at the time of the examination, so our analysis did not include the current year-to-date loans in those samples.

The CD Test covers FDNB's performance from November 12, 2014 to October 30, 2017. We reviewed all CD loans, investments, donations, and services submitted by FDNB management to ensure they met the CD definition. We excluded from this evaluation some items submitted for consideration because they did not meet the definition or purpose of CD.

Selection of Areas for Full-Scope Review

We completed full scope reviews of the Non-MSA AA and the Sioux Falls MSA AA. Full scope reviews consider quantitative and qualitative factors, as well as performance context factors. We completed a limited scope review of the Union County AA. Limited scope procedures consider quantitative factors only. Refer to Appendix A for details on scope selection of each AA.

Ratings

FDNB's CRA rating is primarily based on their performance in AAs receiving full scope reviews. We completed full scope reviews of the Non-MSA AA and the Sioux Falls MSA AA. In aggregate, these AAs represent 89 percent of the institution's branch locations, 97 percent of deposit volume as of June 30, 2016, and 99 percent of loan volume originated by dollar during the evaluation period.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

FDNB's performance under the Lending Test is satisfactory. FDNB's performance under the CD Test is outstanding.

LENDING TEST

FDNB's performance under the Lending Test is rated satisfactory. FDNB's LTD ratio is more than reasonable and a substantial majority of loans originated and purchased during the evaluation period were to borrowers in the bank's AAs. The borrower and geographic distribution of loans is reasonable.

The average LTD ratio and the in/out ratio are calculated on a bank-wide basis rather than on an AA basis.

Loan-to-Deposit Ratio

FDNB's LTD ratio is more than reasonable when considering the bank's size, financial condition, and the credit needs of the bank's AAs. FDNB's average LTD ratio was 92 percent for the 11 quarters from December 31, 2014 to June 30, 2017. The LTD ratio ranged from a quarterly low of 88 percent and a quarterly high of 96 percent.

FDNB's LTD ratio is slightly higher than the average LTD ratio of other community banks operating in the bank's AAs during the evaluation period. The average LTD for competitor banks operating in the AAs was 90 percent for the 11 quarters from December 31, 2014 to June 30, 2017. The average LTD ratio for competitor banks in the AAs ranged from a quarterly low of 84 percent and a quarterly high of 101 percent.

Lending in Assessment Area

FDNB originates and purchases a substantial majority of its loans to customers within its AAs. We reviewed 20 agriculture loans, 60 commercial loans, and 20 consumer loans originated between January 1, 2015 and June 30, 2017 to assess performance with this criterion. Management originated 90 percent of its loans by number and 92 percent of its loans by dollar to borrowers within the bank's AAs.

Table 1 details lending within the bank's AAs by number and dollar amount of loans.

Table 1 – Credit Extended Inside and Outside the AA										
Loan Type	Number of Loans					Dollars of Loans (in 000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture Loans	12	60	8	40	20	2,198	58	1,582	42	3,780
Commercial Loans	58	97	2	3	60	16,279	99	55	1	16,334
Consumer Loans	20	100	0	0	20	154	100	0	0	154
Total	90	90	10	10	100	18,631	92	1,637	8	20,268

Source: Loan sample

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

The distribution of loans to businesses of different sizes and households of different income levels is reasonable. FDNB's performance in the Non-MSA AA and the Sioux Falls MSA AA, which were evaluated using full scope procedures, is satisfactory.

FDNB's performance the Union County AA is outstanding based on a limited scope review.

Non-MSA AA

The distribution of agriculture and commercial loans to farms and businesses of different sizes reflects reasonable penetration of the Non-MSA AA's demographics.

Ninety-eight percent of AA farms reported gross annual revenue (GAR) of \$1 million or less in the 2010 U.S. Census. Eighty-seven percent of FDNB's agriculture loans by number and 66 percent of FDNB's agriculture loans by dollar were to farms with GAR of \$1 million or less. This represents satisfactory performance.

Table 2 includes the data used to evaluate the borrower distribution of agriculture loans in the Non-MSA AA.

Table 2 - Borrower Distribution of Loans to Farms in Non-MSA AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98	1	1	100
% of Bank Loans in AA by #	87	10	3	100
% of Bank Loans in AA by \$	66	30	4	100

Source: 2010 U.S. Census data, Loan sample

Seventy-six percent of AA businesses reported GAR of \$1 million or less in the 2010 U.S. Census. Seventy percent of FDNB's commercial loans by number and 79 percent of FDNB's commercial loans by dollar were to businesses with GAR of \$1 million or less. This represents satisfactory performance.

Table 2A includes the data used to evaluate the borrower distribution of commercial loans in the Non-MSA AA.

Table 2A - Borrower Distribution of Loans to Businesses in Non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	76	6	18	100
% of Bank Loans in AA by #	70	20	10	100
% of Bank Loans in AA by \$	79	14	7	100

Source: 2010 U.S. Census data, Loan sample

Sioux Falls MSA AA

The distribution of commercial loans to businesses of different sizes reflects reasonable penetration of the Sioux Falls MSA AA's demographics.

Eighty percent of AA businesses reported GAR of \$1 million or less in the 2010 U.S. Census. Sixty-nine percent of FDNB's commercial loans by number and 52 percent of FDNB's commercial loans by dollar were to businesses with GAR of \$1 million or less. This represents satisfactory performance. Three large loans to businesses with GAR greater than \$1 million skewed the results of the percentage of bank loans in AA by dollar.

Table 3 includes the data used to evaluate the borrower distribution of commercial loans in the Sioux Falls MSA AA.

Table 3 - Borrower Distribution of Loans to Businesses in Sioux Falls MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	80	7	13	100
% of Bank Loans in AA by #	69	23	8	100
% of Bank Loans in AA by \$	52	41	7	100

Source: 2010 U.S. Census data, Loan sample

Union County AA

The distribution of commercial loans to businesses of different sizes and consumer loans to households of different income levels reflects excellent penetration of the Union County AA's demographics.

Eighty percent of AA businesses reported GAR of \$1 million or less in the 2010 U.S. Census. Ninety percent of FDNB's commercial loans by number and 96 percent of FDNB's commercial loans by dollar were to businesses with GAR of \$1 million or less. This represents outstanding performance.

Table 4 includes the data used to evaluate the borrower distribution of commercial loans in the Union County AA.

Table 4 - Borrower Distribution of Loans to Businesses in Union County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	80	8	12	100
% of Bank Loans in AA by #	90	0	10	100
% of Bank Loans in AA by \$	96	0	4	100

Source: 2010 U.S. Census data, Loan sample

Sixteen percent of AA households were low-income according to 2016 data. Twenty percent of percent of FDNB’s consumer loans by number were to low-income households. Fourteen percent of AA households were moderate-income according to 2016 data. Forty-seven percent of FDNB’s consumer loans by number were to moderate-income households. This represents outstanding performance.

Table 4A includes the data used to evaluate the borrower distribution of consumer loans in the Union County AA.

Table 4A - Borrower Distribution of Consumer Loans in Union County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 Loans	16	20	14	47	17	20	53	13

Source: 2010 U.S. Census data, Loan sample with 2017 loans excluded

Geographic Distribution of Loans

The distribution of loans to CTs of different income levels is reasonable. FDNB’s performance in the Non-MSA AA and the Sioux Falls MSA AA, which were evaluated using full scope procedures, is satisfactory.

A geographic analysis of FDNB’s performance the Union County AA was not completed because there are no LMI CTs.

Non-MSA AA

The distribution of agriculture and commercial loans to CTs of different income levels reflects reasonable dispersion of the Non-MSA AA’s demographics.

Seven percent of AA farms were located in moderate-income CTs in 2016. Seven percent of FDNB’s agriculture loans by number were originated to farms located in

moderate-income CTs during the evaluation period. This represents outstanding performance.

Table 5 includes the data used to evaluate the geographic distribution of agriculture loans in the Non-MSA AA.

Table 5 - Geographic Distribution of Loans to Farms in Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0	0	7	7	80	73	13	20

Source: 2010 U.S. Census data, Loan sample with 2017 loans excluded

Five percent of AA businesses were located in moderate-income CTs in 2016. None of the loans in our commercial sample were made to businesses in moderate-income CTs. While low, we concluded this performance was reasonable due to the limited opportunity to lend to these CTs in the AA.

Table 5A includes the data used to evaluate the geographic distribution of commercial loans in the Non-MSA AA.

Table 5A - Geographic Distribution of Loans to Businesses in Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0	0	5	0	79	81	16	19

Source: 2010 U.S. Census data, Loan sample with 2017 loans excluded

Sioux Falls MSA AA

The distribution of commercial loans to CTs of different income levels reflects reasonable dispersion of the Sioux Falls MSA AA's demographics.

Thirty-four percent of AA businesses were located in moderate-income CTs in 2016. Twenty-nine percent of FDNB's commercial loans by number were to businesses located in moderate-income CTs during the evaluation period. This represents satisfactory performance.

Table 6 includes the data used to evaluate the geographic distribution of commercial loans in the Sioux Falls MSA AA.

Table 6 - Geographic Distribution of Loans to Businesses in SF MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0	0	34	29	47	53	19	18

Source: 2010 U.S. Census data, Loan sample with 2017 loans excluded

Union County AA

There are no LMI CTs in the Union County AA. A geographic analysis of this AA would not be meaningful.

Responses to Complaints

Neither the OCC nor the bank received any complaints related to FDNB's CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

FDNB's performance under the CD Test is rated outstanding. CD activities demonstrated excellent responsiveness to CD needs and opportunities in the bank's AAs. CD loans, investments, and donations totaled \$38.6 million during the evaluation period. This represents 26 percent of tier one capital as of June 30, 2017. Twenty-nine bank employees provided 1,045 service hours to 34 qualified CD organizations during the evaluation period.

Number and Amount of Community Development Loans

CD loans demonstrated excellent responsiveness to CD needs and opportunities in the bank's AAs during the evaluation period. FDNB's performance in the Non-MSA AA and the Sioux Falls MSA AA, which were evaluated using full scope procedures, is outstanding.

FDNB's performance the Union County AA is outstanding based on a limited scope review.

Non-MSA AA

CD loans demonstrated excellent responsiveness to CD needs and opportunities in the Non-MSA AA during the evaluation period. Management originated nine CD loans totaling \$13.2 million during the evaluation period. This represents nine percent of the AA's allocated tier one capital as of June 30, 2017. Two loans provided funding for

affordable housing, two loans supported organizations that provide community services to the AA, and five loans promoted economic development.

Sioux Falls MSA AA

CD loans demonstrated excellent responsiveness to CD needs and opportunities in the Sioux Falls MSA AA during the evaluation period. Management originated seven CD loans totaling \$8.2 million during the evaluation period. This represents five percent of the AA's allocated tier one capital as of June 30, 2017. Two loans provided funding for affordable housing and five loans promoted economic development.

Union County AA

CD loans demonstrated excellent responsiveness to CD needs and opportunities in the Union County AA during the evaluation period. Management originated two CD loans totaling \$10 million during the evaluation period. This represents seven percent of the AA's allocated tier one capital as of June 30, 2017. Both of the CD loans promoted economic development.

Number and Amount of Qualified Investments

CD investments demonstrated excellent responsiveness to CD needs and opportunities in the bank's AAs during the evaluation period. FDNB's performance in the Non-MSA AA and the Sioux Falls MSA AA, which were evaluated using full scope procedures, is outstanding.

FDNB's performance in the Union County AA is adequate based on a limited scope review.

Non-MSA AA

CD investments demonstrated excellent responsiveness to CD needs and opportunities in the Non-MSA AA during the evaluation period. In aggregate, CD investments and donations totaled \$9.2 million during the evaluation period. This represents eight percent of the AA's allocated tier one capital as of June 30, 2017.

Management purchased nine investments totaling \$3.7 million in the Non-MSA AA during the evaluation period. FDNB also received credit for 11 investments with an outstanding balance of \$4.2 million that were purchased in prior evaluation periods and still outstanding on October 30, 2017. Two investments supported economic development, one supported affordable housing, and 17 investments were municipal bonds that provided funding for essential services to distressed or underserved middle-income CTs in the AA.

Management made 102 qualified donations totaling \$1.3 million to 30 organizations in the Non-MSA AA during the evaluation period. Three donations supported affordable housing organizations, seven donations supported economic development, 24 donations supported organizations that revitalized or stabilized a distressed or underserved middle-income CT, and 68 donations supported community service organizations.

Sioux Falls MSA AA

CD investments demonstrated excellent responsiveness to CD needs and opportunities in the Sioux Falls MSA AA during the evaluation period. In aggregate, CD investments and donations totaled \$4.5 million during the evaluation period. This represents 13 percent of the AA's allocated tier one capital as of June 30, 2017.

Management purchased one investment totaling \$1.1 million in the Sioux Falls MSA AA during the evaluation period. FDNB also received credit for four investments with an outstanding balance of \$3.4 million that were purchased in prior evaluation periods and still outstanding on October 30, 2017. All of the investments supported affordable housing in the AA.

Management made 18 qualified donations totaling \$55 thousand to four organizations in the Sioux Falls MSA AA during the evaluation period. Two donations supported economic development and 16 donations supported community service organizations.

Union County AA

CD investments demonstrated adequate responsiveness to CD needs and opportunities in the Union County AA during the evaluation period. In aggregate, CD investments and donations totaled \$2 thousand during the evaluation period. This represents less than one percent of the AA's allocated tier one capital as of June 30, 2017.

Management did not purchase any CD investments in the Union County AA during the evaluation period.

Management made four qualified donations totaling \$2 thousand to two organizations in the Union County AA during the evaluation period. Two donations supported an affordable housing organization and two donations supported a community service organization.

Statewide

In addition to the investments and donations described above, management purchased one investment totaling \$1.4 million that supported affordable housing on a statewide level during the evaluation period. FDNB also received credit for three investments with an outstanding balance of \$1 million that were purchased in prior evaluation periods and

still outstanding on October 30, 2017. The outstanding investments were purchased as CRA investments and support economic development in South Dakota.

Management also made 18 qualified donations totaling \$91 thousand to three organizations on a statewide level during the evaluation period. Each of the donations supported organizations working to revitalize or stabilize distressed or underserved middle-income CTs in South Dakota.

Extent to Which the Bank Provides Community Development Services

CD services and the retail branch structure demonstrated excellent responsiveness to CD needs and opportunities in the bank's AAs during the evaluation period. FDNB's performance in the Non-MSA AA and the Sioux Falls MSA AA, which were evaluated using full scope procedures, is outstanding.

FDNB's performance in the Union County AA is adequate based on a limited scope review.

FDNB complements its traditional service delivery methods with certain alternative delivery processes including online banking, mobile banking, telephone banking, text banking, mobile deposits, bank-to-bank transfers, and ATMs. These delivery methods provide increased access to banking services throughout all AAs. We did not place significant weight on these alternative delivery systems because management does not maintain metrics to determine their effectiveness in helping to meet the service and credit needs of LMI individuals.

Non-MSA AA

FDNB operates one branch and one cash-dispensing ATM in a moderate-income CT in the Non-MSA AA. There are no low-income CTs in the AA and only four moderate-income CTs in the AA in 2016. FDNB also operates one branch in a distressed middle-income CT, three branches in underserved middle-income CTs, and one branch in a middle-income CT that is both distressed and underserved in the AA.

FDNB's record of providing CD services in the Non-MSA AA is excellent. Twenty bank employees provided 874 service hours to 25 qualified CD organizations during the evaluation period. Examples of CD services provided by management include the following:

- One member of senior management serves on the revolving loan fund committee for an organization that supports economic development in distressed and/or underserved CTs in the AA. The employee reviewed loan requests from small businesses seeking funding from the organization.

- One employee assists in the preparation and review of legal documents and provides financial advice to an organization that provides food to LMI children in the AA.

Sioux Falls MSA AA

FDNB operates two branches, one deposit-taking ATM, and one cash-dispensing ATM in moderate-income CTs in the Sioux Falls MSA AA.

FDNB's record of providing CD services in the Sioux Falls MSA AA is adequate. Six employees provided 149 service hours to six qualified CD organizations during the evaluation period. Examples of CD services provided by management include the following:

- One employee provided education on housing options for LMI individuals to the community.
- One employee served on the Board of Directors for an organization that provides community services to LMI individuals in the AA.

Union County AA

There are no LMI CTs in the Union County AA.

FDNB's record of providing CD services in the Union County AA is adequate. One employee provided seven service hours to one qualified CD organization during the evaluation period. The employee served as an advisor to an economic development organization focused on small business development during the evaluation period.

Statewide

Two employees provided 15 service hours to two qualified CD organizations that promoted economic development on a statewide basis during the evaluation period. One employee provided training on cash flow monitoring and breakeven analysis to small farms located throughout South Dakota. The second employee served on the Board of Directors of an organization that provides small business loans to borrowers located in southeastern South Dakota.

Responsiveness to Community Development Needs

FDNB's CD activities represent excellent responsiveness to CD needs in the Non-MSA AA and the Sioux Falls MSA AA. CD activities are consistent with the CD needs identified by community contacts in the AAs.

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 (excludes CD loans): 1/1/15 to 6/30/17 Investment and Service Tests and CD Loans: 11/12/14 to 10/30/17	
Financial Institution	Products Reviewed	
First Dakota National Bank (FDNB) Yankton, SD	Agriculture loans, Commercial loans, Consumer loans, CD loans, investments, and services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Non-MSA AA	Full scope	Rural counties in South Dakota including portions of Aurora, Bon Homme, Brule, Buffalo, Charles Mix, Clay, Davison, Douglas, Hanson, Hughes, Hutchinson, Hyde, Lyman, Stanley, Sully, and Yankton counties and Cedar and Knox counties in Nebraska. Primary products: agriculture loans and commercial loans.
Sioux Falls MSA #43620	Full scope	Metropolitan area including all of Lincoln, McCook, Minnehaha, and Turner counties. Primary product: commercial loans.
Union County AA	Limited scope	Metropolitan area including all of Union County. Union County is included in the Sioux City IA-NE-SD Multistate MSA #43580. Primary products: commercial loans and consumer loans.

Appendix B: Community Profiles for Full-Scope Areas

Non-MSA AA

Demographic Information for Full-Scope Area: Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	35	0	11	75	14	0
Population by Geography	122,094	0	8	75	17	0
Owner-Occupied Housing by Geography	53,207	0	5	77	18	0
Businesses by Geography	8,900	0	5	79	16	0
Farms by Geography	2,342	0	7	80	13	0
Family Distribution by Income Level	30,288	18	17	23	42	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	30,288	0	12	77	11	0
Median Family Income = HUD Adjusted Median Family for 2016 = Households Below the Poverty Level =	\$57,884 \$58,500 14%	Median Housing Value = Unemployment Rate =				\$100,943 3.0%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census and 2016 HUD updated MFI.

The Non-MSA AA includes portions of Aurora, Bon Homme, Brule, Buffalo, Charles Mix, Clay, Davison, Douglas, Hanson, Hughes, Hutchinson, Hyde, Lyman, Stanley, Sully, and Yankton counties in South Dakota. It also includes two CTs in Cedar and Knox counties in Nebraska. FDNB does not include each county identified above in its entirety because it cannot reasonably serve the entire area based on the current branch structure. The information in the table above is limited to FDNB's AA. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude LMI geographies.

The Non-MSA AA represents FDNB's major market and includes the bank's main branch located in Yankton. FDNB operates 11 branches and 10 cash-dispensing ATMs in the Non-MSA AA. As of June 30, 2017, FDNB gathered \$908.3 million in deposits in the Non-MSA AA. This represents 68 percent of the bank's deposits. FDNB ranked first in deposit market share in this AA as of June 30, 2017, with a deposit market share of 21 percent.

Over the evaluation period, FDNB originated 73 percent of total loan originations by number and 62 percent of total loan originations by dollar at branches in the Non-MSA AA. FDNB's primary focus in the AA is agriculture loans and commercial loans;

however, the bank offers a full range of credit products in the AA including consumer and residential real estate loans.

Competition in the Non-MSA AA is significant. As of June 30, 2017, there were 32 deposit-taking institutions operating a total of 85 banking offices in the Non-MSA AA. Competition in the AA includes regional and locally-owned institutions, as well as branches of large national banks.

Economic conditions in the Non-MSA AA were good during the evaluation period. While the AA is heavily reliant on the agriculture industry, the size and location of the AA offers job diversity and some protection from weather-related concerns. These factors contributed to sound economic conditions of the AA during the evaluation period, despite multiple years of low farm commodity prices. According to the Bureau of Labor Statistics, the unemployment rate in South Dakota was 3.0 percent as of June 30, 2017. This compares favorably to the national unemployment rate of 4.5 percent as of June 30, 2017. Major employers vary by county in the AA but include manufacturing, state government offices, healthcare systems, and local school systems.

As part of this performance evaluation, we completed one community contact in the Non-MSA AA. The community contact serves as the Executive Director of a government organization that assists farmers and ranchers in securing financial assistance from programs offered by the United States Department of Agriculture. The contact noted the economy in the Non-MSA AA was stable during the evaluation period and unemployment was low, despite low commodity prices for agriculture producers. The contact stated that a primary credit need in the Non-MSA AA is small farm loans and, in particular, small farm loans to beginning farmers without substantial equity in their operations. The contact noted local financial institutions have done a very good job supporting the agriculture industry in the Non-MSA AA.

Sioux Falls MSA AA

Demographic Information for Full-Scope Area: Sioux Falls MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	57	0	25	54	21	0
Population by Geography	228,261	0	24	54	22	0
Owner-Occupied Housing by Geography	59,610	0	18	58	24	0
Businesses by Geography	16,692	0	34	47	19	0
Farms by Geography	1,431	0	6	79	15	0
Family Distribution by Income Level	58,142	18	18	26	38	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	21,044	0	36	52	12	0
Median Family Income = HUD Adjusted Median Family for 2016 = Households Below the Poverty Level =	\$68,154 \$72,000 9%	Median Housing Value = Unemployment Rate =				\$146,371 2.5%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census and 2016 HUD updated MFI.

The Sioux Falls MSA AA includes all of MSA #43620 or Lincoln, McCook, Minnehaha, and Turner counties in South Dakota. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude LMI geographies.

FDNB operates five branches, one deposit-taking ATM, and four cash-dispensing ATMs in the Sioux Falls MSA AA. As of June 30, 2017, FDNB gathered \$397.4 million in deposits in the Non-MSA AA. This represents 29 percent of the bank's deposits. FDNB ranked ninth in deposit market share in this AA as of June 30, 2017, with a deposit market share of 0.08 percent. Two large national banks control 98 percent of the deposit market share in the Sioux Falls MSA AA.

Over the evaluation period, FDNB originated 21 percent of total loan originations by number and 37 percent of total loan originations by dollar at branches in the Sioux Falls MSA AA. FDNB's primary focus in the AA is commercial loans; however, the bank offers a full range of credit products in the AA including agriculture, consumer, and residential real estate loans.

Competition in the Sioux Falls MSA AA is strong. As of June 30, 2017, there were 36 deposit-taking institutions operating a total of 141 banking offices in the Sioux Falls MSA AA. Competition in the AA includes branches of large national banks, regional banks, and locally-owned institutions. Several other lenders, who are not included in the numbers above because they do not accept deposits, also have operations in the Sioux Falls MSA AA.

Economic conditions in the Sioux Falls MSA AA were strong during the evaluation period. According to the Bureau of Labor Statistics, the unemployment rate in Sioux Falls MSA was 2.5 percent as of June 30, 2017. This compares favorably to the national unemployment rate of 4.5 percent and the state unemployment rate of 3.0 percent as of June 30, 2017. Major employers in the Sioux Falls MSA AA include Sanford Health, Avera Health, Smithfield Foods, and the Sioux Falls School District.

As part of this performance evaluation, we completed one community contact in the Sioux Falls MSA AA. The contact serves as the Acting President of an organization that promotes economic development in the Sioux Falls MSA AA. The contact noted the economy in the Sioux Falls MSA AA was extremely strong during the evaluation period. The City of Sioux Falls continues to see growth and set records for the most building permits issued during each year of the evaluation period. The contact stated business banking needs are being met in the Sioux Falls MSA AA. He noted that local banks are in favor of economic development and are very willing to accommodate businesses and their borrowing needs.