Quarterly Report

For the quarter ended March 31, 2017

BNCCORP, INC.

(OTCQX: BNCC)

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BNCCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data, unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
CASH AND CASH EQUIVALENTS	$ 107,876	$ 11,113
INVESTMENT SECURITIES AVAILABLE FOR SALE	420,316	400,136
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	2,897	4,411
LOANS HELD FOR SALE-MORTGAGE BANKING	26,050	39,641
LOANS AND LEASES HELD FOR INVESTMENT	410,881	414,673
ALLOWANCE FOR CREDIT LOSSES	(8,040)	(8,285)
Net loans and leases held for investment	402,841	406,388
OTHER REAL ESTATE and REPOSSESSED ASSETS, net	214	218
PREMISES AND EQUIPMENT, net	19,225	19,381
ACCRUED INTEREST RECEIVABLE	3,826	4,444
OTHER	25,246	24,668
Total assets	$ 1,008,491	$ 910,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 162,063	$ 147,027
Interest-bearing –		
Savings, interest checking and money market	570,673	453,897
Time deposits under $100,000	60,552	58,789
Time deposits $100,000 and over	94,312	92,914
Total deposits	887,600	752,627
SHORT-TERM BORROWINGS	13,818	12,510
FEDERAL HOME LOAN BANK ADVANCES	-	38,000
LONG-TERM BORROWINGS	10,000	10,000
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	15,013	15,013
ACCRUED INTEREST PAYABLE	843	777
ACCRUED EXPENSES	4,338	6,685
OTHER	1,367	593
Total liabilities	932,979	836,205
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 35,000,000 shares; 3,456,860 and 3,456,008 shares issued and outstanding	35	35
Capital surplus – common stock	26,011	25,996
Retained earnings	50,389	49,328
Treasury stock (211,793 and 212,645 shares, respectively)	(2,840)	(2,847)
Accumulated other comprehensive income, net	1,917	1,683
Total stockholders' equity	75,512	74,195
Total liabilities and stockholders' equity	$ 1,008,491	$ 910,400

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Three Months Ended March 31,
(In thousands, except per share data, unaudited)

	2017	2016
INTEREST INCOME:		
Interest and fees on loans	$ 5,008	$ 4,828
Interest and dividends on investments		
Taxable	1,602	1,620
Tax-exempt	672	694
Dividends	32	33
Total interest income	7,314	7,175
INTEREST EXPENSE:		
Deposits	512	650
Short-term borrowings	5	5
Federal Home Loan Bank advances	16	13
Long-term borrowings	159	158
Subordinated debentures	89	73
Total interest expense	781	899
Net interest income	6,533	6,276
PROVISION FOR CREDIT LOSSES:	-	-
Net interest income after provision for credit losses	6,533	6,276
NON-INTEREST INCOME:		
Bank charges and service fees	688	674
Wealth management revenues	461	388
Mortgage banking revenues, net	2,504	4,375
Gains on sales of loans, net	543	45
Gains on sales of securities, net	270	-
Other	281	169
Total non-interest income	4,747	5,651
NON-INTEREST EXPENSE:		
Salaries and employee benefits	5,239	5,252
Professional services	1,053	958
Data processing fees	880	860
Marketing and promotion	726	923
Occupancy	620	524
Regulatory costs	132	167
Depreciation and amortization	400	343
Office supplies and postage	167	176
Other real estate costs	2	2
Other	639	641
Total non-interest expense	9,858	9,846
Income before income taxes	1,422	2,081
Income tax expense	361	666
Net income	$ 1,061	$ 1,415
Basic earnings per common share	$ 0.31	$ 0.41
Diluted earnings per common share	$ 0.30	$ 0.40

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Three Months Ended March 31,

(In thousands, unaudited)

	2017				2016			
NET INCOME			$	1,061			$	1,415
Unrealized gain on securities available for sale	$	648			$	4,835		
Reclassification adjustment for gains included in net income		(270)				-		
Other comprehensive income before tax		378				4,835		
Income tax expense related to items of other comprehensive income		(144)				(1,837)		
Other comprehensive income	$	234		234	$	2,998		2,998
TOTAL COMPREHENSIVE INCOME			$	1,295			$	4,413

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31,
(In thousands, except share data, unaudited)

	Common Stock		Capital Surplus Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
BALANCE, December 31, 2015	3,428,416	$ 34	$ 25,979	$ 42,172	$ (3,278)	$ 4,081	$ 68,988
Net income	-	-	-	1,415	-	-	1,415
Other comprehensive income	-	-	-	-	-	2,998	2,998
Impact of share-based compensation	19,299	-	(275)	-	354	-	79
BALANCE, March 31, 2016	3,447,715	$ 34	$ 25,704	$ 43,587	$ (2,924)	$ 7,079	$ 73,480
BALANCE, December 31, 2016	3,456,008	$ 35	$ 25,996	$ 49,328	$ (2,847)	$ 1,683	$ 74,195
Net income	-	-	-	1,061	-	-	1,061
Other comprehensive income	-	-	-	-	-	234	234
Impact of share-based compensation	852	-	15	-	7	-	22
BALANCE, March 31, 2017	3,456,860	$ 35	$ 26,011	$ 50,389	$ (2,840)	$ 1,917	$ 75,512

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(In thousands, unaudited)

	2017	2016
OPERATING ACTIVITIES:		
Net income	$ 1,061	$ 1,415
Adjustments to reconcile net income to net cash provided by (used in) operating activities -		
Depreciation and amortization	400	343
Net amortization of premiums and (discounts) on investment securities and subordinated debentures	1,861	1,753
Share-based compensation	22	79
Change in accrued interest receivable and other assets, net	903	3,795
Gain on sale of other real estate	-	(4)
Net realized gain on sales of investment securities	(270)	-
Change in other liabilities, net	(2,087)	(2,754)
Funding of loans held for sale, mortgage banking	(146,061)	(216,705)
Proceeds from sales of loans held for sale, mortgage banking	158,955	207,259
Fair value adjustment for loans held for sale, mortgage banking	529	(413)
Fair value adjustment on mortgage banking derivatives	(109)	(858)
Proceeds from sales of loans	5,216	434
Gains on sales of loans, net	(543)	(45)
Net cash provided by (used in) operating activities	19,877	(5,701)
INVESTING ACTIVITIES:		
Purchases of investment securities	(51,271)	-
Proceeds from sales of investment securities	22,129	-
Proceeds from maturities of investment securities	7,605	5,221
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(2,340)	(4,808)
Sales of Federal Reserve and Federal Home Loan Bank Stock	3,854	3,016
Net increase in loans held for investment	(1,127)	(19,329)
Proceeds from sales of other real estate	-	4
Additions to premises and equipment	(245)	(1,222)
Net cash used in investing activities	(21,395)	(17,118)

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

For the Three Months Ended March 31,

(In thousands, unaudited)

	2017	2016
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$ 134,973	$ (32,075)
Net increase in short-term borrowings	1,308	3,050
Repayments of Federal Home Loan Bank advances	(94,150)	(74,500)
Proceeds from Federal Home Loan Bank advances	56,150	120,200
Net cash provided by financing activities	98,281	16,675
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	96,763	(6,144)
CASH AND CASH EQUIVALENTS, beginning of period	11,113	15,189
CASH AND CASH EQUIVALENTS, end of period	$ 107,876	$ 9,045
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 715	$ 695
Income taxes paid	$ -	$ 69

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. (BNCCORP or BNC) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank or BNC Bank). BNC operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 17 locations. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 14 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas and Missouri. The consumer direct channel emphasizes technology (internet leads and call center) to originate mortgage loans throughout the United States. The retail channel is more relationship driven and originations are generally near our mortgage banking locations.

The accounting and reporting policies of BNC and its subsidiaries (collectively, the Company) conform to accounting principles generally accepted in the United States of America and general practices within the financial services industry. The consolidated financial statements included herein are for BNC and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

NOTE 2 – Basis of Presentation and Accounting Policies

The accompanying interim consolidated financial statements have been prepared under the presumption that users of the interim consolidated financial information have either read or have access to the audited consolidated financial statements of BNCCORP, INC. and subsidiaries for the year ended December 31, 2016. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2016 audited consolidated financial statements have been omitted from these interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and the notes thereto.

The accompanying interim consolidated financial statements have been prepared by the Company, in accordance with accounting principles generally accepted in the United States of America for interim financial information. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made.

The unaudited consolidated financial statements as of March 31, 2017 include, in the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the financial results for the respective interim periods and are not necessarily indicative of results of operations to be expected for the entire fiscal year.

The Company’s significant accounting policies are unchanged since December 31, 2016.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. Impact on the income statement will generally be through amortization of a right of use asset and recognition of expense for lease payments. This ASU is effective in annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements* was issued to improve financial reporting about expected credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The new standard will require financial institutions to forecast future conditions considering expected credit losses on the life of the asset and record a provision for credit losses at the origination of the asset. ASU 2016-13 is effective for public entities, who are non-SEC filers, for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is in the process of evaluating the impact that this new guidance will have on our consolidated financial statements and related disclosures.

NOTE 3 – Investment Securities Available for Sale

Investment securities have been classified in the consolidated balance sheets according to management's intent. The Company had no securities designated as trading or held-to-maturity in its portfolio at March 31, 2017 or December 31, 2016. The carrying amount of available-for-sale securities and their estimated fair values were as follows (in thousands):

	As of March 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 24,969	$ -	$ (167)	$ 24,802
U.S. government agency mortgage-backed securities guaranteed by GNMA	26,631	14	(827)	25,818
U.S. government agency mortgage-backed securities issued by FNMA	4,593	-	(49)	4,544
U.S. government agency small business administration pools guaranteed by SBA	150,429	464	(580)	150,313
Collateralized mortgage obligations guaranteed by GNMA/VA	79,334	667	(1,558)	78,443
Collateralized mortgage obligations issued by FNMA or FHLMC	48,895	148	(995)	48,048
State and municipal bonds	83,894	4,648	(194)	88,348
	$ 418,745	$ 5,941	$ (4,370)	$ 420,316

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 24,967	$ -	$ (252)	$ 24,715
U.S. government agency mortgage-backed securities guaranteed by GNMA	46,003	295	(1,028)	45,270
U.S. government agency small business administration pools guaranteed by SBA	122,519	731	(387)	122,863
Collateralized mortgage obligations guaranteed by GNMA/VA	85,462	607	(1,849)	84,220
Collateralized mortgage obligations issued by FNMA or FHLMC	35,849	180	(687)	35,342
State and municipal bonds	84,143	3,918	(335)	87,726
	$ 398,943	$ 5,731	$ (4,538)	$ 400,136

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at March 31, 2017 were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	15,138	15,410
Due after five years through ten years	46,423	47,332
Due after ten years	357,184	357,574
Total	$ 418,745	$ 420,316

This disclosure is required pursuant to Generally Accepted Accounting Principles. This table is not intended to reflect actual maturities, cash flows, or interest rate risk.

Actual maturities may differ from the contractual maturities shown above as a result of prepayments.

The following table shows the Company's investments' gross unrealized losses and fair value; aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (dollars are in thousands):

	March 31, 2017								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. Treasury securities	2	$ 24,802	$ (167)	-	$ -	$ -	2	$ 24,802	$ (167)
U.S. government agency mortgage-backed securities guaranteed by GNMA	3	16,781	(827)	-	-	-	3	16,781	(827)
U.S. government agency mortgage-backed securities issued by FNMA	3	4,544	(49)	-	-	-	3	4,544	(49)
U.S. government agency small business administration pools guaranteed by SBA	6	16,674	(51)	14	42,207	(529)	20	58,881	(580)
Collateralized mortgage obligations guaranteed by GNMA/VA	6	42,996	(1,558)	-	-	-	6	42,996	(1,558)
Collateralized mortgage obligations issued by FNMA or FHLMC	6	35,739	(957)	1	2,155	(38)	7	37,894	(995)
State and municipal bonds	3	5,377	(194)	-	-	-	3	5,377	(194)
Total temporarily impaired securities	29	$ 146,913	$ (3,803)	15	$ 44,362	$ (567)	44	$ 191,275	$ (4,370)

	December 31, 2016								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. Treasury securities	2	$ 24,715	$ (252)	-	$ -	$ -	2	$ 24,715	$ (252)
U.S. government agency mortgage-backed securities guaranteed by GNMA	5	28,357	(1,028)	-	-	-	5	28,357	(1,028)
U.S. government agency small business administration pools guaranteed by SBA	7	31,123	(182)	7	13,152	(205)	14	44,275	(387)
Collateralized mortgage obligations guaranteed by GNMA/VA	6	44,257	(1,849)	-	-	-	6	44,257	(1,849)
Collateralized mortgage obligations issued by FNMA or FHLMC	3	16,618	(649)	1	2,330	(38)	4	18,948	(687)
State and municipal bonds	7	15,643	(335)	-	-	-	7	15,643	(335)
Total temporarily impaired securities	30	$ 160,713	$ (4,295)	8	$ 15,482	$ (243)	38	$ 176,195	$ (4,538)

Management regularly evaluates each security with unrealized losses to determine whether losses are other-than-temporary. When determining whether a security is other-than-temporarily impaired, management assesses whether it has the intent to sell the security or whether it is more likely than not that it will be required to sell the security prior to its anticipated recovery. When evaluating a security, management considers several factors including, but not limited to, the amount of the unrealized loss, the length of time the security has been in a loss position, guarantees provided by third parties, ratings on the security, cash flow from the security, the level of credit support provided by subordinate tranches of the security, and the collateral underlying the security.

There were no securities that management concluded were other-than-temporarily impaired at March 31, 2017 or December 31, 2016.

NOTE 4 – Loans and Leases

The composition of loans and leases is as follows (in thousands):

	March 31, 2017	December 31, 2016
Loans held for sale-mortgage banking	$ 26,050	$ 39,641
Commercial and industrial	$ 118,047	$ 123,604
Commercial real estate	174,726	171,972
SBA	28,332	31,518
Consumer	62,310	59,183
Land and land development	15,685	15,982
Construction	11,467	12,215
Gross loans and leases held for investment	410,567	414,474
Unearned income and net unamortized deferred fees and costs	314	199
Loans, net of unearned income and unamortized fees and costs	410,881	414,673
Allowance for credit losses	(8,040)	(8,285)
Net loans and leases held for investment	$ 402,841	$ 406,388

NOTE 5 – Allowance for Credit Losses

Transactions in the allowance for credit losses were as follows (in thousands):

Three Months Ended March 31, 2017	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,323	$ 3,231	$ 1,433	$ 772	$ 413	$ 113	$ 8,285
Provision (reduction)	(88)	34	(36)	89	7	(6)	-
Loans charged off	(84)	-	(122)	(47)	-	-	(253)
Loan recoveries	-	3	1	4	-	-	8
Balance, end of period	$ 2,151	$ 3,268	$ 1,276	$ 818	$ 420	$ 107	$ 8,040

Three Months Ended March 31, 2016	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 3,205	$ 1,999	$ 1,578	$ 640	$ 1,041	$ 148	$ 8,611
Provision (reduction)	(128)	277	27	(46)	(81)	(49)	-
Loans charged off	(99)	-	(32)	(8)	-	-	(139)
Loan recoveries	-	3	1	3	-	-	7
Balance, end of period	$ 2,978	$ 2,279	$ 1,574	$ 589	$ 960	$ 99	$ 8,479

The following table shows the balance in the allowance for credit losses at March 31, 2017, and December 31, 2016, and the related loan balances, segregated on the basis of impairment methodology (in thousands). Impaired loans are loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment.

	Allowance For Credit Losses			Gross Loans and Leases Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
March 31, 2017						
Commercial and industrial	$ 430	$ 1,721	$ 2,151	$ 1,742	$ 116,305	$ 118,047
Commercial real estate	272	2,996	3,268	1,533	173,193	174,726
SBA	394	882	1,276	834	27,498	28,332
Consumer	18	800	818	328	61,982	62,310
Land and land development	-	420	420	-	15,685	15,685
Construction	-	107	107	-	11,467	11,467
Total	$ 1,114	$ 6,926	$ 8,040	$ 4,437	$ 406,130	$ 410,567
December 31, 2016						
Commercial and industrial	$ 514	$ 1,809	$ 2,323	$ 1,909	$ 121,695	$ 123,604
Commercial real estate	286	2,945	3,231	1,547	170,425	171,972
SBA	376	1,057	1,433	481	31,037	31,518
Consumer	14	758	772	333	58,850	59,183
Land and land development	-	413	413	-	15,982	15,982
Construction	-	113	113	-	12,215	12,215
Total	$ 1,190	$ 7,095	$ 8,285	$ 4,270	$ 410,204	$ 414,474

Performing and non-accrual loans

The Bank's key credit quality indicator is the loan's performance status, defined as accrual or non-accrual. Performing loans are considered to have a lower risk of loss and are on accrual status. Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when we believe that the borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed on non-accrual status when it becomes 90 days or more past due unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, accrued but uncollected interest income applicable to the current reporting period is reversed against interest income. Accrued but uncollected interest income applicable to previous reporting periods is charged against the allowance for credit losses. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. Delinquent balances are determined based on the contractual terms of the loan adjusted for charge-offs and payments applied to principal.

The following table sets forth information regarding the Bank's performing and non-accrual loans (in thousands):

	March 31, 2017					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 49,491	$ -	$ -	$ 49,491	$ 1,742	$ 51,233
Agriculture	18,596	-	-	18,596	-	18,596
Owner-occupied commercial real estate	48,218	-	-	48,218	-	48,218
Commercial real estate	174,726	-	-	174,726	-	174,726
SBA	27,498	-	-	27,498	834	28,332
Consumer:						
Automobile	8,996	22	-	9,018	31	9,049
Home equity	8,561	-	-	8,561	-	8,561
1st mortgage	14,084	105	65	14,254	-	14,254
Other	30,440	6	-	30,446	-	30,446
Land and land development	15,530	155	-	15,685	-	15,685
Construction	11,467	-	-	11,467	-	11,467
Total loans held for investment	407,607	288	65	407,960	2,607	410,567
Loans held for sale	26,049	1	-	26,050	-	26,050
Total gross loans	$ 433,656	$ 289	$ 65	$ 434,010	$ 2,607	$ 436,617

	December 31, 2016					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 52,107	$ -	$ 20	$ 52,127	$ 1,909	$ 54,036
Agriculture	20,206	67	-	20,273	-	20,273
Owner-occupied commercial real estate	49,295	-	-	49,295	-	49,295
Commercial real estate	171,972	-	-	171,972	-	171,972
SBA	31,037	-	-	31,037	481	31,518
Consumer:						
Automobile	7,098	15	-	7,113	35	7,148
Home equity	8,787	-	-	8,787	-	8,787
1st mortgage	13,472	-	-	13,472	-	13,472
Other	29,722	54	-	29,776	-	29,776
Land and land development	15,827	155	-	15,982	-	15,982
Construction	12,215	-	-	12,215	-	12,215
Total loans held for investment	411,738	291	20	412,049	2,425	414,474
Loans held for sale	39,637	4	-	39,641	-	39,641
Total gross loans	$ 451,375	$ 295	$ 20	$ 451,690	$ 2,425	$ 454,115

The following table indicates the effect on income if interest on non-accrual loans outstanding at period end had been recognized at original contractual rates (in thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Interest income that would have been recorded	$ 45	$ 6
Interest income recorded	-	-
Effect on interest income	$ 45	$ 6

Credit Risk by Internally Assigned Grade

The Company maintains an internal risk rating process in order to manage credit risk. Loans are generally internally categorized into the following four categories: pass, watch list, substandard, and doubtful.

At March 31, 2017, the Company had $390.9 million of loans categorized as pass rated loans compared to $393.4 million at December 31, 2016.

Loans designated as watch list are loans that possess some credit deficiency that deserves close attention due to emerging problems. Such loans pose unwarranted financial risk that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. At March 31, 2017, the Company had $7.3 million of loans categorized as watch list loans compared to $8.1 million at December 31, 2016.

Loans graded as substandard or doubtful are considered "Classified" loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a higher probability of loss. At March 31, 2017, the Company had $9.8 million of substandard loans and $2.6 million of doubtful loans. This compares to $10.5 million of substandard loans and $2.4 million of doubtful loans as of December 31, 2016.

Impaired loans

Impaired loans include loans on which the Bank will not be able to collect all amounts due in accordance with the terms of the loan agreement. Impaired loans include non-accruing loans and loans that have been modified in a troubled debt restructuring. All loans are individually reviewed for impairment.

The following tables summarize impaired loans and related allowances (in thousands):

	March 31, 2017				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance	Interest Income Recognized (3 months)
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,635	$ 1,742	$ 430	$ 1,834	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,832	1,533	272	1,540	19
SBA	510	481	394	481	-
Consumer:					
Automobile	37	32	18	34	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 5,014	$ 3,788	$ 1,114	$ 3,889	$ 19
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	463	353	-	353	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	1,878	296	-	297	3
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 2,341	$ 649	$ -	$ 650	$ 3
TOTAL IMPAIRED LOANS	$ 7,355	$ 4,437	$ 1,114	$ 4,539	$ 22

	December 31, 2016				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance**	**Interest Income Recognized (12 months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,714	$ 1,909	$ 514	$ 2,128	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,846	1,547	286	1,569	80
SBA	510	481	376	489	-
Consumer:					
Automobile	30	28	14	33	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 5,100	$ 3,965	$ 1,190	$ 4,219	$ 80
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	-	-	-	-	-
Consumer:					
Automobile	10	7	-	7	-
Home equity		-	-	-	-
1st mortgage	1,878	298	-	302	12
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 1,888	$ 305	$ -	$ 309	$ 12
TOTAL IMPAIRED LOANS	$ 6,988	$ 4,270	$ 1,190	$ 4,528	$ 92

Troubled Debt Restructuring (TDR)
Included in net loans and leases held for investment, are certain loans that have been modified in order to maximize collection of loan balances. If the Company, for legal or economic reasons related to the borrower's financial difficulties, grants a concession that the Bank would not otherwise consider, compared to the original terms and conditions of the loan, the modified loan is considered a troubled debt restructuring.

The tables below summarize the amounts of restructured loans (in thousands):

	March 31, 2017			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,533	-	1,533	272
SBA	-	308	308	308
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	296	-	296	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,829	$ 308	$ 2,137	$ 580

	December 31, 2016			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,547	-	1,547	286
SBA	-	308	308	308
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	298	-	298	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,845	$ 308	$ 2,153	$ 594

TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of real estate or other assets in full or partial satisfaction of the debt. Loan modifications are not reported as TDR's after 12 months if the loan was modified at a market rate of interest for comparable risk loans, and the loan is performing in accordance with the terms of the restructured agreement for at least six months.

When a loan is modified as a TDR, there may be a direct, material impact on the loan balances, as principal balances may be partially forgiven. There were no new TDRs for the three month periods ended March 31, 2017 and March 31, 2016.

Loans that were non-accrual prior to modification remain on non-accrual for at least six months following modification. Non-accrual TDR loans that have performed according to the modified terms for six months may be returned to accruing status. Loans that were accruing prior to modification remain on accrual status after the modification as long as the loan continues to perform under the new terms.

The following table indicates the effect on interest income if interest on restructured loans outstanding at period end had been recognized at original contractual rates (in thousands):

	Three Months Ended March 31,	
	2017	2016
Interest income that would have been recorded	$ 55	$ 57
Interest income recorded	22	23
Effect on interest income	$ 33	$ 34

There were no additional funds committed to borrowers who are in TDR status at March 31, 2017 and December 31, 2016.

TDRs are evaluated separately in the Bank's allowance methodology based on the expected cash flows or collateral values for loans in this status.

The Bank had no loans that were restructured within the 12 months preceding March 31, 2017 and March 31, 2016 and defaulted during the three months ended March 31, 2017 and March 31, 2016.

NOTE 6 – Other Real Estate

Other real estate (ORE) includes property acquired through foreclosure, property in judgment and in-substance foreclosures. ORE is carried at fair value less estimated selling costs. Each property is evaluated regularly and the amounts provided to decrease the carrying amount are included in non-interest expense. A summary of the activity related to ORE is presented below (in thousands):

	Three Months Ended March 31,	
	2017	2016
Balance, beginning of period	$ 214	$ 242
Real estate sold	-	(4)
Net gains on sale of assets	-	4
Balance, end of period	$ 214	$ 242

The following is a summary of ORE balances as of the periods presented (in thousands):

	March 31, 2017	December 31, 2016	March 31, 2016
Other real estate	$ 954	$ 954	$ 954
Valuation allowance	(740)	(740)	(712)
Other real estate, net	$ 214	$ 214	$ 242

NOTE 7 – Earnings Per Share

The following table shows the amounts used in computing per share results (in thousands, except share and per share data):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Denominator for basic earnings per share:		
Average common shares outstanding	3,472,401	3,444,797
Dilutive effect of stock compensation	68,845	75,058
Denominator for diluted earnings per share	3,541,246	3,519,855
Numerator (in thousands):		
Net income	$ 1,061	$ 1,415
Basic earnings per common share	$ 0.31	$ 0.41
Diluted earnings per common share	$ 0.30	$ 0.40

NOTE 8 – Share-Based Compensation

The Company may grant share-based compensation at prices equal to the fair value of the stock at the grant date. The Company has three share-based plans for certain key employees and directors whereby shares of common stock have been reserved for awards in the form of stock options or restricted stock awards. The plans are as follows:

	1995	2002	2010	2015	Total
Total Shares in Plan	250,000	125,000	250,000	50,000	675,000
Total Shares Available for Issuance	48,751	-	250,000	44,162	342,913

Following is a summary of fully vested stock options and options expected to vest as of March 31, 2017:

	Stock Options Outstanding	Stock Options Currently Exercisable	Stock Options Vested and Expected to Vest
Number	75,600	75,600	75,600
Weighted-average exercise price	$3.00	$3.00	$3.00
Weighted-average remaining contractual term	2.96 years	2.96 years	2.96 years

The stock options currently outstanding can be exercised until they expire on March 17, 2020.

The Company recognized share-based compensation expense of $9,000 related to restricted stock for the three month period ended March 31, 2017, and $34,000 for the three month period ended March 31, 2016.

At March 31, 2017, the Company had $8,000 of unamortized restricted stock compensation expense. All of this expense will be amortized by December 31, 2017. The cost of restricted stock granted is recognized over the vesting period, which is generally three or more years.

NOTE 9 – Fair Value Measurements

FASB ASC 820, *Fair Value Measurements*, defines fair value and establishes a framework for measuring fair value of assets and liabilities using a hierarchy system consisting of three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

> Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.
>
> Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market.
>
> Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability.

For the periods presented, Treasury Securities were considered to be Level 1 while all other assets and liabilities valued at fair value were considered to be Level 2. There were no transfers into or out of the respective levels during the periods presented.

The following tables summarize the financial assets and liabilities of the Company for which fair values are determined on a recurring basis (in thousands):

	Carrying Value at March 31, 2017				Three Months Ended March 31, 2017
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
ASSETS					
Securities available for sale	$ 420,316	$ 24,802	$ 395,514	$ -	$ 270
Loans held for sale	26,050	-	26,050	-	(529)
Commitments to originate mortgage loans	2,391	-	2,391	-	792
Total assets at fair value	$ 448,757	$ 24,802	$ 423,955	$ -	$ 533
LIABILITIES					
Commitments to sell mortgage loans	$ 284	$ -	$ 284	$ -	$ (543)
Mortgage banking short positions	193	-	193	-	(140)
Total liabilities at fair value	$ 477	$ -	$ 477	$ -	$ (683)

	Carrying Value at December 31, 2016				Twelve Months Ended December 31, 2016
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 400,136	$ 24,715	$ 375,421	$ -	$ 729
Loans held for sale	39,641	-	39,641	-	(23)
Commitments to originate mortgage loans	1,414	-	1,414	-	(379)
Commitments to sell mortgage loans	259	-	259	-	342
Total assets at fair value	$ 441,450	$ 24,715	$ 416,735	$ -	$ 669
LIABILITIES					
Mortgage banking short positions	$ 53	$ -	$ 53	$ -	$ (30)
Total liabilities at fair value	$ 53	$ -	$ 53	$ -	$ (30)

The Company may also be required from time to time to measure certain other financial assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. For assets measured at fair value on a nonrecurring basis, the following tables provide the level of valuation assumptions used to determine the carrying value (in thousands):

	Carrying Value at March 31, 2017				Three Months Ended March 31, 2017
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 3,323	$ -	$ 3,323	$ -	$ (130)
Other real estate(2)	214	-	214	-	-
Total	$ 3,537	$ -	$ 3,537	$ -	$ (130)

	Carrying Value at December 31, 2016				Twelve Months Ended December 31, 2016
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 3,080	$ -	$ 3,080	$ -	$ (1,714)
Other real estate(2)	214	-	214	-	4
Total	$ 3,294	$ -	$ 3,294	$ -	$ (1,710)

(1) The carrying value represents the book value less allocated reserves. The gain or loss reported is the change in the reserve balances allocated on individual impaired loans in addition to the actual write-downs for the period presented.

(2) The carrying value represents the fair value of the collateral less estimated selling costs and is based upon appraised values. The gain or loss reported is a combination of gains and/or losses on sales of other real estate and provisions for other real estate losses.

At the beginning of the period, all assets and liabilities valued at fair value on a nonrecurring basis were considered to be Level 2. There were no transfers into or out of Level 2 during the periods presented.

NOTE 10 – Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows (in thousands):

	Level in Fair Value Measurement Hierarchy	March 31, 2017		December 31, 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 107,876	$ 107,876	$ 11,113	$ 11,113
Investment securities available for sale	Level 1	24,802	24,802	24,715	24,715
Investment securities available for sale	Level 2	395,514	395,514	375,421	375,421
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,897	2,897	4,411	4,411
Loans held for sale-mortgage banking	Level 2	26,050	26,050	39,641	39,641
Commitments to originate mortgage loans	Level 2	2,391	2,391	1,414	1,414
Commitments to sell mortgage loans	Level 2	-	-	259	259
Loans and leases held for investment, net	Level 2	402,841	402,821	406,388	405,302
Accrued interest receivable	Level 2	3,826	3,826	4,444	4,444
		$ 966,197	$ 966,177	$ 867,806	$ 866,720
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 162,063	$ 162,063	$ 147,027	$ 147,027
Deposits, interest-bearing	Level 2	725,537	724,703	605,600	604,823
Borrowings and advances	Level 2	23,818	24,366	60,510	60,748
Accrued interest payable	Level 2	843	843	777	777
Accrued expenses	Level 2	4,338	4,338	6,685	6,685
Commitments to sell mortgage loans	Level 2	284	284	-	-
Mortgage banking short positions	Level 2	193	193	53	53
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,013	10,337	15,013	10,292
		$ 932,089	$ 927,127	$ 835,665	$ 830,405
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 118	$ -	$ 132
Standby and commercial letters of credit	Level 2	$ -	$ 8	$ -	$ 10

NOTE 11. Federal Home Loan Bank Advances

As of March 31, 2017, the Bank had no FHLB advances outstanding. At March 31, 2017, BNC Bank had mortgage loans with unamortized principal balances of approximately $138.6 million and investment securities with carrying value of approximately $45.1 million pledged as collateral to the FHLB. The Bank had the ability to draw advances up to approximately $142.6 million based upon its current pool of pledged collateral, subject to a requirement to purchase additional FHLB stock.

As of December 31, 2016, the Bank had $38.0 million of FHLB advances outstanding. At December 31, 2016, the Bank has mortgage loans with unamortized principal balances of approximately $158.2 million and securities with unamortized principal balances of approximately $49.2 million pledged as collateral to the FHLB. The Bank has the ability to draw advances up to approximately $122.6 million based upon the aggregate collateral that is currently pledged, subject to a requirement to purchase additional FHLB stock.

NOTE 12. Long-Term Borrowings

The following table sets forth selected information for long-term borrowings (borrowings with an original maturity of greater than one year) (in thousands):

	March 31, 2017	December 31, 2016
Note payable, interest due quarterly beginning on April 1, 2016 and ending October 19, 2025, interest payable at a fixed rate of 6.35%	$ 10,000	$ 10,000

On October 19, 2015, the Company entered into a $10.0 million term loan agreement with another bank. The long term borrowing is subordinated debt that qualifies as Tier 2 capital for the Company. The loan agreement includes various covenants that are primarily operational rather than financial in nature. As of March 31, 2017, the Company was in compliance with these covenants. The note may be repaid by the Company at par in whole or in part beginning October 19, 2020.

NOTE 13 – Other Borrowings

The following table presents selected information regarding other borrowings (in thousands):

March 31, 2017

Unsecured Borrowing Lines:		**Line**	**Outstanding**	**Available**
BNC National Bank Lines (1)		$ 34,500	$ -	$ 34,500

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank Line	$ 563	$ 393	$ -	$ 393
BNC Line	93,053	10,000	-	10,000
Total	$ 93,616	$ 10,393	$ -	$ 10,393

(1) The unsecured BNC National Bank Lines consists of three separate lines with three institutions in individual amounts of $12.5 million, $10 million, and $12 million.

At March 31, 2017, the pledged collateral for the BNC National Bank Line was comprised of collateralized mortgage obligations and the pledged collateral for the BNC Line is the common stock of BNC National Bank.

December 31, 2016

Unsecured Borrowing Lines:		**Line**	**Outstanding**	**Available**
BNC National Bank Lines (1)		$ 34,500	$ -	$ 34,500

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank Line	$ 575	$ 406	$ -	$ 406
BNC Line	91,435	10,000	-	10,000
Total	$ 92,010	$ 10,406	$ -	$ 10,406

(1) The unsecured BNC National Bank Lines consists of three separate lines with three institutions in individual amounts of $12.5 million, $10 million, and $12 million.

At December 31, 2016, the pledged collateral for the BNC National Bank Line was comprised of collateralized mortgage obligations and the pledged collateral for the BNC Line is the common stock of BNC National Bank.

NOTE 14 – Guaranteed Preferred Beneficial Interest's in Company's Subordinated Debentures

In July 2007, BNC issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at March 31, 2017 and December 31, 2016 was 2.40% and 2.05%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 15 – Stockholders' Equity

Regulatory restrictions exist regarding the ability of the Bank to transfer funds to BNCCORP in the form of cash dividends. Approval of the Office of the Comptroller of the Currency (OCC), the Bank's principal regulator, is required for BNC Bank to pay dividends to BNC in excess of the Bank's net profits from the current year plus retained net profits for the preceding two years.

On May 30, 2001, BNCCORP's Board of Directors adopted a rights plan intended to protect stockholder interests in the event BNCCORP becomes the subject of a takeover initiative that BNCCORP's Board believes could deny BNCCORP's stockholders the full value of their investment. This plan does not prohibit the Board from considering any offer that it deems advantageous to its stockholders.

Pursuant to the rights plan, the rights are issued to each common stockholder of record, and are exercisable only if a person acquires, or announces a tender offer, that would result in ownership of 15% or more of BNCCORP's outstanding common stock. The rights plan was amended in 2011 such that it now expires on May 30, 2021.

NOTE 16 – Regulatory Capital and Current Operating Environment

BNC and BNC Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet capital requirements mandated by regulators can trigger certain mandatory and discretionary actions by regulators. Such actions, if undertaken, could have a direct material adverse effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, BNC and BNC Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Regulators continue to impose capital requirements that are specific to individual institutions. The requirements are generally above the statutory ratios.

At March 31, 2017, our capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

At March 31, 2017 and December 31, 2016 our regulatory capital amounts and ratios were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2017								
Total Risk Based Capital:								
Consolidated	$ 104,083	20.14%	$ 41,333	≥8.0%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	96,898	18.78	41,271	≥8.0	51,588	10.0	45,310	8.78
Tier 1 Risk Based Capital:								
Consolidated	87,605	16.96	31,000	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	90,430	17.53	30,953	≥6.0	41,271	8.0	49,159	9.53
Common Equity Tier 1 Risk Based Capital:								
Consolidated	72,592	14.05	23,250	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	90,430	17.53	23,215	≥4.5	33,532	6.5	56,898	11.03
Tier 1 Leverage Capital:								
Consolidated	87,605	9.59	36,540	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	90,430	9.92	36,477	≥4.0	45,597	5.0	44,833	4.92
Tangible Common Equity (to total assets):								
Consolidated	75,271	7.46	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	92,813	9.21	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2016								
Total Risk Based Capital:								
Consolidated	$ 103,887	19.96%	$ 41,646	≥8.0%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	95,655	18.41	41,558	≥8.0	51,947	10.0	43,708	8.41
Tier 1 Risk Based Capital:								
Consolidated	87,358	16.78	31,235	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	89,139	17.16	31,168	≥6.0	41,558	8.0	47,581	9.16
Common Equity Tier 1 Risk Based Capital:								
Consolidated	72,345	13.90	23,426	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	89,139	17.16	23,376	≥4.5	33,766	6.5	55,373	10.66
Tier 1 Leverage Capital:								
Consolidated	87,358	9.47	36,902	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	89,139	9.67	36,873	≥4.0	46,092	5.0	43,048	4.67
Tangible Common Equity (to total assets):								
Consolidated	74,048	8.13	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	91,288	9.71	N/A	N/A	N/A	N/A	N/A	N/A

The most recent notifications from the Office of the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Management believes the Bank remains well capitalized through the date for which subsequent events have been evaluated.

Because the majority of the Bank's deposit growth occurred near quarter-end, and significant funds are on deposit at the Federal Reserve Bank at the quarter end, the impact of the substantial deposit growth on regulatory capital ratios was not significant this quarter.

Management's Discussion and Analysis of Financial Condition and Results of Operations

We refer to "we", "our", "BNC", or "the Company" when such reference includes BNCCORP, INC. and its consolidated subsidiaries, collectively; "BNCCORP" when referring only to the holding company named BNCCORP, INC.; "the Bank", or "BNC Bank" when referring only to BNC National Bank. Where not otherwise indicated below, financial condition and results of operation discussed are of BNCCORP, INC.

Comparison of Results for the Three Months Ended March 31, 2017 and 2016

Summary for the Three Months Ended March 31, 2017 and 2016

Net income was $1.061 million, or $0.30 per diluted share, for the quarter ended March 31, 2017. This compared to net income of $1.415 million, or $0.40 per diluted share, in the first quarter of 2016.

Net interest income for the first quarter of 2017 was $6.533 million, an increase of $257 thousand, or 4.1%, from $6.276 million for the same period of 2016. The net interest margin for the current period increased to 3.09% from 3.01% a year ago. Growth in loans held for investment, higher yields on earning assets, and reduced interest expense improved the net interest margin.

Interest income was $7.314 million for the quarter ended March 31, 2017 compared to $7.175 million for the first quarter of 2016. This increase is the result of higher yields on higher average earning assets. The yield on average interest earning assets increased to 3.45% from 3.44% in the same quarter of 2016. During the first quarter of 2017, the average balance of interest earning assets increased by $18.4 million when compared to the first quarter of 2016. Average loans held for investment increased $32.3 million, or 8.4%, and average loans held for sale decreased by $12.9 million, in the first quarter of 2017 compared to the same quarter in 2016. The average balance of investment securities decreased by $19.1 million in the first quarter of 2017, compared to the same period a year ago. Yields on investment securities increased to 2.26% in the first quarter of 2017 from 2.23% in the same period of 2016.

Interest expense in the first quarter of 2017 was $781 thousand, a decrease of $118 thousand from the same period in 2016. The cost of interest bearing liabilities decreased to 0.47% in the current quarter from 0.54% in the first quarter 2016, before considering the effect of a $140 thousand charge to redeem $18.8 million of brokered deposits in the first quarter of 2016. The cost of core deposits was 0.26% in the first quarter of 2017 and 0.19% in the first quarter of 2016, due largely to higher balances of retail certificates of deposit, which generally have higher rates than non-maturity deposits. Average interest bearing core deposits, which excludes brokered deposits, increased $53.6 million, or 7.2%, during the first quarter of 2017 compared to the first quarter of 2016.

Total loans held for investment increased by $12.2 million, or 3.1%, from March 31, 2016 and decreased by $3.8 million, or 0.9%, from December 31, 2016. In addition, mortgage loans held for sale decreased $13.6 million between March 31, 2017 and December 31, 2016.

Total deposits increased by $135.0 million to $887.6 million at March 31, 2017 from $752.6 million at December 31, 2016 as BNC grew deposits in all markets, particularly in North Dakota. Our growth in the non-Bakken branches was $113.6 million, or 29.6% and a material portion of this growth was the result of significant cash generating transactions by our customers during the quarter. BNC anticipates that a substantial portion of these deposits will be redeployed by our customers as 2017 continues. Core deposits, which excludes brokered deposits, increased $136.3 million to $901.4 million at March 31, 2017 from December 31, 2016 and $150.7 million from March 31, 2016.

Other borrowings decreased $36.7 million at March 31, 2017 compared to December 31, 2016. In early 2017, Federal Home Loan Bank short-term advances were paid down as deposits increased and mortgage funding experienced seasonal declines. The short-term nature of Federal Home Loan Bank advances provide flexibility for the Company to manage the balance sheet.

No provision for credit losses was recorded in the first quarter of 2017 or 2016.

At March 31, 2017, the North Dakota commercial and industrial loan portfolio included $8.4 million of oil exploration and production (E&P) loans, secured by such production. Oil prices most directly impact on the value of the underlying collateral for our E&P loans. Advances on E&P lines are generally limited to 50% of the value of proven, developed and producing oil reserves with valuations generally being performed on a semi-annual basis. As of March 31, 2017, no E&P loans were considered classified or watch list loans.

The economic activity in western North Dakota is subdued relative to a few years ago. Prolonged periods of lower agricultural and oil prices could have an adverse economic impact on the North Dakota economy, commodity dependent businesses, and our loan portfolio. In addition to E&P loans, loans to customers serving the energy industries in western North Dakota are impacted by protracted low energy prices, as depressed energy prices in recent periods have reduced economic activity and collateral values in western North Dakota. Customers in, or serving, the North Dakota agricultural sector have been experiencing lower commodity prices for multiple years, which has had a dampening effect on economic activity in the region.

Non-interest income for the first quarter of 2017 was $4.747 million. This compares to non-interest income of $5.651 million for the same period in 2016, a decrease of $904 thousand, or 16.0%. Mortgage banking revenues aggregated $2.504 million in the current period compared to $4.375 million in the first quarter of 2016. Mortgage banking revenues were lower in early 2017 due to higher rates than in early 2016. The first quarter 2016 enjoyed a surge in refinance volume as interest rates ticked downward. In March, despite relatively higher interest rates, mortgage banking activity increased and originations to purchase homes were approximately 70% of the loan volume. Gains on sales of loans and investment securities aggregated $813 thousand in the first quarter 2017, compared to $45 thousand in the prior year first quarter.

Non-interest expense for the first quarter of 2017 was $9.858 million compared to $9.846 million in the same period of 2016, an increase of $12 thousand. Salaries and benefits decreased $13 thousand from the first quarter 2016. The number of full time equivalent employees at March 31, 2017 was 286, down by 5 FTE's, or 1.7%, since December 31, 2016. Employee headcount was reduced by approximately 22 in the first quarter 2017, as we managed our mortgage business through an increasing rate environment. Mortgage related marketing expense in the first quarter of 2017 decreased by $197 thousand when compared to the first quarter of 2016.

In the first quarter of 2017, we recorded tax expense of $361 thousand which resulted in an effective tax rate of 25.4% for the quarter. A tax expense of $666 thousand was recognized during the first quarter of 2016, which resulted in an effective tax rate of 32.0%.

Net Interest Income

The following table presents average balance sheet information, yields on interest-earning assets and costs on interest-bearing liabilities (dollars are in thousands):

	Three Months Ended March 31,								
	2017			2016			Change		
	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost
Interest-earning assets									
Federal funds sold/cash equivalents	$ 22,015	$ 44	0.81%	$ 4,079	$ 8	0.79%	$ 17,936	$ 36	0.02% (a)
Investments - taxable	315,066	1,590	2.05%	328,498	1,645	2.01%	(13,432)	(55)	0.04% (b)
Investments - tax exempt	87,951	672	3.10%	93,837	694	2.97%	(5,886)	(22)	0.13% (b)
Loans held for sale – mortgage banking	24,233	232	3.88%	37,172	322	3.48%	(12,939)	(90)	0.40% (c)
Loans and leases held for investment	416,138	4,776	4.65%	383,795	4,506	4.72%	32,343	270	-0.07% (d)
Allowance for loan losses	(8,174)	-		(8,517)	-		343	-	
Total interest-earning assets	$ 857,229	$ 7,314	3.46%	$ 838,864	$ 7,175	3.44%	$ 18,365	$ 139	0.02%
Interest-bearing liabilities									
Interest checking and money market	$ 445,919	$ 169	0.15%	$ 431,576	$ 137	0.13%	$ 14,343	$ 32	0.02% (e)
Savings	33,487	2	0.02%	32,169	2	0.03%	1,318	-	-0.01% (e)
Certificates of deposit under $100,000	58,219	124	0.86%	77,043	430	2.24%	(18,824)	(306)	-1.38% (e)
Certificates of deposit $100,000 and over	95,060	217	0.93%	72,219	81	0.45%	22,841	136	0.48% (e)
Total interest-bearing deposits	632,685	512	0.33%	613,007	650	0.43%	19,678	(138)	-0.10%
Short-term borrowings	11,988	5	0.17%	13,961	5	0.14%	(1,973)	-	0.03%
Federal Home Loan Bank advances	7,625	16	0.85%	11,843	13	0.44%	(4,218)	3	0.41% (f)
Long-term borrowings	10,000	159	6.35%	10,000	158	6.35%	-	1	0.00%
Subordinated debentures	15,013	89	2.40%	15,015	73	1.96%	(2)	16	0.44%
Total borrowings	44,626	269	2.44%	50,819	249	1.97%	(6,193)	20	0.47%
Total interest-bearing liabilities	$ 677,311	781	0.47%	$ 663,826	899	0.54%	$ 13,485	(118)	-0.07%
Net interest income/spread		$ 6,533	2.99%		$ 6,276	2.90%		$ 257	0.09%
Net interest margin			3.09%			3.01%			0.08%
Notation:									
Non-interest-bearing deposits	$ 155,363	-		$ 148,102	-		$ 7,261	-	(e)
Total deposits	$ 788,048	$ 512	0.26%	$ 761,109	$ 650	0.34%	$ 26,939	$ (138)	-0.08%
Taxable equivalents:									
Total interest-earning assets	$ 857,228	$ 7,634	3.61%	$ 838,864	$ 7,504	3.60%	$ 18,364	$ 130	0.01%
Net interest income/spread	-	$ 6,853	3.14%	-	$ 6,605	3.06%	-	$ 248	0.08%
Net interest margin	-	-	3.24%	-	-	3.17%	-	-	0.07%

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business.
(b) Average investment portfolio balances have declined as brokered certificates of deposit were redeemed in 2016, loans held for investment were funded, and average cash balances increased $18.0 million.
(c) The average balance of loans held for sale has decreased in 2017 as volumes decreased due to a rising interest rate environment.
(d) The average balance of loans held for investment has risen in 2017 compared to March 31, 2016 due to increased loan activity in our core market areas throughout 2016.
(e) Overall deposit balances have increased primarily due to higher retail certificates of deposit being partially offset by decreased brokered certificates of deposits. In the first and third quarters of 2016, BNC redeemed $18.8 million and $14.6 million, respectively, of higher rate callable brokered certificates of deposit. Included in the first quarter of 2016 are costs of $140 thousand related to the redemption of the brokered certificates of deposit.
(f) Federal Home Loan Bank short term advances have been utilized to flexibly manage our balance sheet. In early 2017, the advances were paid down as deposits increased and liquidity needs of the mortgage business decreased.

Non-interest Income

The following table presents the major categories of our non-interest income (dollars are in thousands):

	Three Months Ended March 31,		Increase (Decrease)		
	2017	2016	$	%	
Bank charges and service fees	$ 688	$ 674	$ 14	2 %	
Wealth management revenues	461	388	73	19 %	(a)
Mortgage banking revenues	2,504	4,375	(1,871)	(43) %	(b)
Gains on sales of loans, net	543	45	498	1,107 %	(c)
Gains on sales of securities, net	270	-	270	100 %	(d)
Other	281	169	112	66 %	(e)
Total non-interest income	$ 4,747	$ 5,651	$ (904)	(16) %	

(a) Wealth management revenues increased as assets under management increased.
(b) Mortgage banking revenues were lower in early 2017 as increasing rates resulted in lower mortgage production.
(c) Gains on sales of loans have increased as SBA loan production increased in recent months. Gains on sale of loans can vary significantly from period to period.
(d) Gains and losses on sales of securities may vary significantly from period to period.
(e) The Company recorded revenue from SBIC investments of $162 thousand and $42 thousand in the first quarter of 2017 and 2016, respectively. While it is difficult to predict the timing, or amount of distributions, we currently anticipate distributions in future periods.

Non-interest Expense

The following table presents the major categories of our non-interest expense (dollars are in thousands):

	Three Months Ended March 31,		Increase (Decrease)		
	2017	2016	$	%	
Salaries and employee benefits	$ 5,239	$ 5,252	$ (13)	- %	
Professional services	1,053	958	95	10 %	(a)
Data processing fees	880	860	20	2 %	
Marketing and promotion	726	923	(197)	(21) %	(b)
Occupancy	620	524	96	18 %	(c)
Regulatory costs	132	167	(35)	(21) %	(d)
Depreciation and amortization	400	343	57	17 %	(e)
Office supplies and postage	167	176	(9)	(5) %	
Other real estate costs	2	2	-	- %	
Other	639	641	(2)	- %	
Total non-interest expense	$ 9,858	$ 9,846	$ 12	- %	
Efficiency ratio	87.4%	82.6%			

(a) The increase of professional services is primarily due to an increase in legal costs.
(b) Marketing expenses decreased due to lower costs of mortgage marketing expenses.
(c) Occupancy increased due to higher seasonal maintenance costs in North Dakota of approximately $56 thousand.
(d) Regulatory costs have decreased due a reduction in BNC’s FDIC fee assessment.
(e) Depreciation and amortization increased due to the opening of a new North Dakota branch location in 2016.

Income Taxes

In the first quarter of 2017, we recorded tax expense of $361 thousand which resulted in an effective tax rate of 25.4% for the quarter. A tax expense of $666 thousand was recognized during the first quarter of 2016, which resulted in an effective tax rate of 32.0%.

Comparison of Financial Condition at March 31, 2017 and December 31, 2016

Assets

The following table presents our assets by category (dollars are in thousands):

	March 31, 2017	December 31, 2016	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 107,876	$ 11,113	$ 96,763	871 %	(a)
Investment securities available for sale	420,316	400,136	20,180	5 %	
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	2,897	4,411	(1,514)	(34) %	(b)
Loans held for sale-mortgage banking	26,050	39,641	(13,591)	(34) %	(c)
Loans and leases held for investment, net	410,881	414,673	(3,792)	(1) %	
Allowance for credit losses	(8,040)	(8,285)	245	(3) %	
Other real estate and repossessed assets, net	214	218	(4)	(2) %	
Premises and equipment, net	19,225	19,381	(156)	(1) %	
Accrued interest receivable	3,826	4,444	(618)	(14) %	(d)
Other assets	25,246	24,668	578	2 %	
Total assets	$ 1,008,491	$ 910,400	$ 98,091	11 %	

(a) Cash balances can fluctuate significantly. This increase largely relates to significant deposits by customers experiencing large cash generating transactions in the first quarter 2017.
(b) The change in FHLB stock varies in proportion to the level of FHLB advances outstanding.
(c) Loans held for sale decreased as loan sales exceeded new loan originations in the first quarter of 2017.
(d) The decrease primarily relates to lower interest receivable on investment securities.

Loan Participations

Pursuant to our lending policy, loans may not exceed 85 percent of the Bank's legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits) unless the Bank's Chief Credit Officer or the Executive Credit Committee grant prior approval. To accommodate creditworthy customers whose financing needs exceed lending limits and internal restrictions, the Bank sells loan participations to outside participants without recourse. Loan participations sold on a nonrecourse basis to outside financial institutions were $181.6 million as of March 31, 2017 and $182.2 million as of December 31, 2016. The sales of participations are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Concentrations of Credit

The following table summarizes the locations and balances of our borrowers (dollars are in thousands):

	March 31, 2017		December 31, 2016	
North Dakota	$ 289,956	71 %	$ 291,412	70 %
Arizona	66,149	16 %	67,751	16 %
Minnesota	22,602	5 %	23,083	6 %
Other	31,860	8 %	32,228	8 %
Total gross loans held for investment	$ 410,567	100 %	$ 414,474	100 %

Our borrowers use loan proceeds for projects in various geographic areas. The following table summarizes the locations and balances where our borrowers are using loan proceeds (dollars are in thousands):

	March 31, 2017		December 31, 2016	
North Dakota	$ 271,375	66 %	$ 272,717	66 %
Arizona	86,920	21 %	88,196	21 %
Minnesota	14,308	3 %	14,628	4 %
California	10,299	3 %	10,422	3 %
Colorado	8,690	2 %	9,141	2 %
Ohio	8,364	2 %	8,440	2 %
Other	10,611	3 %	10,930	2 %
Total gross loans held for investment	$ 410,567	100 %	$ 414,474	100 %

Loan Maturities[1]

The following table sets forth the remaining maturities of loans in each major category of our portfolio as of March 31, 2017 (in thousands):

		Over 1 year through 5 years		Over 5 years		Total Loans and Leases
	One year or less	Fixed Rate	Floating Rate	Fixed Rate	Floating rate	Held for Investment
Commercial and industrial	$ 12,288	$ 1,127	$ 23,530	$ 37,346	$ 43,756	$ 118,047
Commercial real estate	4,094	4,958	10,251	32,620	122,803	174,726
SBA	1,323	-	4,089	2,038	20,882	28,332
Consumer	1,314	274	4,774	47,949	7,999	62,310
Land and land development	350	542	1,907	6,722	6,164	15,685
Construction	3,965	3,202	2,971	-	1,329	11,467
Total principal amount of loans	$ 23,334	$ 10,103	$ 47,522	$ 126,675	$ 202,933	$ 410,567

(1) Maturities are based on contractual maturities. Floating rate loans include loans that would reprice prior to maturity if base rates change.

Actual maturities may differ from the contractual maturities shown above as a result of renewals and prepayments. Loan renewals are evaluated in the same manner as new credit applications.

Allocation of the Allowance for Credit Losses

The table below presents, for the periods indicated, the allocation of the allowance for credit losses among the various loan categories and sets forth the percentage of loans in each category to gross loans. The allocation of the allowance for credit losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions (dollars are in thousands).

	March 31, 2017		December 31, 2016	
	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment
Commercial and industrial	$ 2,151	29 %	$ 2,323	30 %
Commercial real estate	3,268	42 %	3,231	41 %
SBA	1,276	7 %	1,433	8 %
Consumer	818	15 %	772	14 %
Land and land development	420	4 %	413	4 %
Construction	107	3 %	113	3 %
Total	$ 8,040	100 %	$ 8,285	100 %

Nonperforming Loans

The following table sets forth information concerning our nonperforming loans as of the dates indicated (in thousands):

	Three Months Ended March 31,		Twelve Months Ended December 31,
	2017	2016	2016
Balance, beginning of period	$ 2,445	$ 565	$ 565
Additions to nonperforming	557	155	3,086
Charge-offs	(206)	(31)	(912)
Reclassified back to performing	-	-	(176)
Principal payment received	(124)	(17)	(114)
Transferred to repossessed assets	-	-	(4)
Balance, end of period	$ 2,672	$ 672	$ 2,445

Nonperforming Assets

The following table sets forth information concerning our nonperforming assets as of the dates indicated (dollars are in thousands):

	March 31, 2017	December 31, 2016
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ 65	$ 20
Non-accrual loans	2,607	2,425
Total nonperforming loans	2,672	2,445
Other real estate and repossessed assets, net	214	218
Total nonperforming assets	$ 2,886	$ 2,663
Allowance for credit losses	$ 8,040	$ 8,285
Ratio of total nonperforming loans to total loans	0.61%	0.54%
Ratio of total nonperforming loans to loans and leases held for investment	0.65%	0.59%
Ratio of total nonperforming assets to total assets	0.29%	0.29%
Ratio of nonperforming loans to total assets	0.26%	0.27%
Ratio of allowance for credit losses to nonperforming loans	301%	339%

Potential Problem Loans

We attempt to quantify potential problem loans with more immediate credit risk. The table below summarizes the amounts of potential problem loans (in thousands):

	Watch List			Substandard		
	Impaired	Other	Total	Impaired	Other	Total
March 31, 2017	$ -	$ 7,297	$ 7,297	$ -	$ 9,761	$ 9,761
December 31, 2016	-	8,125	8,125	6	10,511	10,517

At March 31, 2017, the Bank had $12.4 million of classified loans and $2.6 million of loans on non-accrual. This compares to $12.9 million of classified loans and $2.4 million of loans on non-accrual at December 31, 2016 and $10.0 million of classified loans and $497 thousand of loans on non-accrual at March 31, 2016.

A significant portion of these potential problem loans are not in default but may have characteristics such as recent adverse operating cash flows or general risk characteristics that the loan officer feels might jeopardize the future timely collection of principal and interest payments. The ultimate resolution of these credits is subject to changes in economic conditions and other factors. These loans are closely monitored to ensure that our position as creditor is protected to the fullest extent possible.

Other Real Estate

See Note 6 of our Financial Statements for information on other real estate owned.

Liabilities

The following table presents our liabilities (dollars are in thousands):

	March 31, 2017	December 31, 2016	Increase (Decrease) $	Increase (Decrease) %	
Deposits:					
Non-interest-bearing	$ 162,063	$ 147,027	$ 15,036	10 %	(a)
Interest-bearing-					
Savings, interest checking and money market	570,673	453,897	116,776	26 %	(a)
Time deposits under $100,000	60,552	58,789	1,763	3 %	
Time deposits $100,000 and over	94,312	92,914	1,398	2 %	
Short-term borrowings	13,818	12,510	1,308	10 %	
Federal Home Loan Bank advances	-	38,000	(38,000)	(100) %	(b)
Long-term borrowings	10,000	10,000	-	- %	
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,013	15,013	-	- %	
Accrued interest payable	843	777	66	8 %	
Accrued expenses	4,338	6,685	(2,347)	(35) %	(c)
Other liabilities	1,367	593	774	131 %	(d)
Total liabilities	$ 932,979	$ 836,205	$ 96,774	12 %	

(a) BNC markets have been successful in generating deposit growth in the first quarter 2017. This increase largely relates to significant deposits by customers experiencing large cash generating transactions in the first quarter 2017.

(b) The Company has borrowed on a short-term basis from the Federal Home Loan Bank as an efficient source of liquidity. As deposits have increased and mortgage funding levels decreased in the quarter the utilization of this liquidity option decreased.

(c) The decrease is primarily due to the timing of payroll and benefit accruals and the utilization of the mortgage banking obligation reserve in the quarter.

(d) Other liabilities increased primarily due to increases in deferred tax liabilities and fair value of mortgage banking commitments to sell.

Mortgage Banking Obligations

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated $1.0 million at March 31, 2017 and $1.3 million at December 31, 2016. Although we sell mortgage banking loans without recourse, industry standards require standard representations and warranties which require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk exists within the mortgage banking industry as continued disputes arise between lenders and investors. Such requests for repurchase are commonly due to faulty representations and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the contingent obligation, we track historical reimbursements and calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, we estimate the future reimbursement amounts and record the estimated obligation. The following is a summary of activity related to mortgage banking obligations (in thousands):

	Three Months Ended March 31, 2017	Twelve Months Ended December 31, 2016	Three Months Ended March 31, 2016
Balance, beginning of period	$ 1,339	$ 1,781	$ 1,781
Provision	-	90	-
Write offs, net	(300)	(532)	(182)
Balance, end of period	$ 1,039	$ 1,339	$ 1,599

Stockholders' Equity

Our stockholders' equity increased $1.3 million between December 31, 2016 and March 31, 2017 primarily due to $1.1 million in additional retained earnings and an increase in unrealized gains and losses in our investment portfolio of $234 thousand. As presented in Note 16 – Regulatory Capital and Current Operating Environment, the Company maintains capital in excess of regulatory requirements.

The Company routinely evaluates the sufficiency of its capital in order to ensure compliance with regulatory capital standards and be a source of strength for the Bank. We manage capital by assessing the composition of capital and amounts available for growth, risk or other purposes. In recent periods, capital has grown through retention of earnings and the Company has reduced certain higher cost forms of capital such as the redemption in 2014 of $7.5 million in Guaranteed Preferred Beneficial Interests in Subordinated Debt costing 12.05% and the redemption in 2015 of $21.1 million of Series A and B Preferred Stock costing 9%. Management will continue to evaluate capital requirements and prudent capital management opportunities.

Liquidity Risk Management

Liquidity risk is the possibility of being unable to meet all present and future financial obligations in a timely manner. Liquidity risk management encompasses our ability to meet all present and future financial obligations in a timely manner. The objectives of liquidity management policies are to maintain adequate liquid assets, liability diversification among instruments, maturities and customers and a presence in both the wholesale purchased funds market and the retail deposit market.

The Consolidated Statements of Cash Flows in the Consolidated Financial Statements present data on cash and cash equivalents provided by and used in operating, investing and financing activities. In addition to liquidity from core deposit growth, together with repayments and maturities of loans and investments, we utilize brokered deposits, sell securities under agreements to repurchase and borrow overnight federal funds. The Bank is a member of the FHLB of Des Moines. Advances from the FHLB are collateralized by the Bank's mortgage loans and various investment securities. We have also obtained funding through the issuance of subordinated notes, subordinated debentures and long-term borrowings.

Our liquidity is defined by our ability to meet our cash and collateral obligations at a reasonable cost and with a minimum loss of income. Given the uncertain nature of our customers' demands as well as our desire to take advantage of earnings enhancement opportunities, we must have adequate sources of on- and off-balance-sheet funds that can be acquired in time of need.

We measure our liquidity position on an as needed basis, but no less frequently than monthly. We measure our liquidity position using the total of the following items:

1. Estimated liquid assets less estimated volatile liabilities using the aforementioned methodology ($252.0 million as of March 31, 2017);
2. Borrowing capacity from the FHLB ($142.6 million as of March 31, 2017); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($132.4 million as of March 31, 2017).

On an on-going basis, we use a variety of factors to assess our liquidity position including, but not limited to, the following items:

- Stability of our deposit base,
- Amount of pledged investments,
- Amount of unpledged investments,
- Liquidity of our loan portfolio, and
- Potential loan demand.

Our liquidity assessment process segregates our balance sheet into liquid assets and short-term liabilities assumed to be vulnerable to non-replacement over a 30 day horizon in abnormally stringent conditions. Assumptions for the vulnerable short-term liabilities are based upon historical factors. We have a targeted range for our liquidity position over this horizon and manage operations to achieve these targets.

We further project cash flows over a 12 month horizon based on our assets and liabilities and sources and uses of funds for anticipated events.

Pursuant to our contingency funding plan, we also estimate cash flows over a 12-month horizon under a variety of stressed scenarios to identify potential funding needs and funding sources. Our contingency plan identifies actions that could be taken in response to adverse liquidity events.

We believe this process, combined with our policies and guidelines, should provide for adequate levels of liquidity to fund the anticipated needs of on- and off- balance sheet items.

Quantitative and Qualitative Disclosures about Market Risk

Market risk arises from changes in interest rates, exchange rates, and commodity prices and equity prices and represents the possibility that changes in future market rates or prices will have a negative impact on our earnings or value. Our principal market risk is interest rate risk.

Interest rate risk arises from changes in interest rates. Interest rate risk can result from: (1) Repricing risk – timing differences in the maturity/repricing of assets, liabilities, and off-balance-sheet contracts; (2) Options risk – the effect of embedded options, such as loan prepayments, interest rate caps/floors, and deposit withdrawals; (3) Basis risk – risk resulting from unexpected changes in the spread between two or more different rates of similar maturity, and the resulting impact on the behavior of lending and funding rates; and (4) Yield curve risk – risk resulting from unexpected changes in the spread between two or more rates of different maturities from the same type of instrument. We have risk management policies to monitor and limit exposure to interest rate risk. Our asset/liability management process is utilized to manage our interest rate risk. The measurement of interest rate risk associated with financial instruments is meaningful only when all related and offsetting on-and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

Our interest rate risk exposure is actively managed with the objective of managing the level and potential volatility of net interest income in addition to the long-term growth of equity, bearing in mind that we will always be in the business of taking on rate risk and that rate risk immunization is not entirely possible. Also, it is recognized that as exposure to interest rate risk is reduced, so too may the overall level of net interest income and equity. In general, the assets and liabilities generated through ordinary business activities do not naturally create offsetting positions with respect to repricing or maturity characteristics. Access to the derivatives market can be an important element in maintaining our interest rate risk position within policy guidelines. Using derivative instruments, principally interest rate floors, caps, and interest rate swaps, the interest rate sensitivity of specific transactions, as well as pools of assets or liabilities, can be adjusted to maintain the desired interest rate risk profile. See Note 2 of our Consolidated Financial Statements for a summary of our accounting policies pertaining to such instruments.

Our primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes our assumptions regarding the changes in interest rates and the impact on our current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month end balances of the various balance sheet accounts are held constant at their March 31, 2017 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its March 31, 2017 level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

We monitor the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of March 31, 2017, the downward scenarios for interest rate movements is limited to -100bp but a +400bp scenario has been added. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 4.00% to 5.00% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

The net interest income simulation results for the 12-month horizon are shown below (dollars are in thousands):

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp	+400bp
Projected 12-month net interest income	$ 28,951	$ 30,161	$ 29,968	$ 29,771	$ 29,639	$ 29,783
Dollar change from unchanged scenario	$ (1,210)	$ -	$ (193)	$ (390)	$ (522)	$ (378)
Percentage change from unchanged scenario	(4.01)%	-	(0.64)%	(1.29)%	(1.73)%	(1.25)%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of March 31, 2017 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate any actions we might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the “rate sensitivity position” or “gap position.” The following table sets forth our rate sensitivity position as of March 31, 2017. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated Maturity or Repricing at March 31, 2017				
	0–3 Months	4–12 Months	1–5 Years	Over 5 years	Total
	(dollars are in thousands)				
Interest-earning assets:					
Interest-bearing deposits with banks	$ 107,876	$ -	$ -	$ -	$ 107,876
Investment securities (a)	134,986	5,924	90,528	146,781	378,219
FRB and FHLB stock	2,897	-	-	-	2,897
Fed funds sold	-	-	-	-	-
Loans held for sale-mortgage banking, fixed rate	-	26,050	-	-	26,050
Loans held for sale-mortgage banking, floating rate	-	-	-	-	-
Loans held for investment, fixed rate	8,353	20,223	85,605	25,595	139,776
Loans held for investment, indexed rate	85,097	9,322	171,307	5,379	271,105
Total interest-earning assets	$ 339,209	$ 61,519	$ 347,440	$ 177,755	$ 925,923
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 536,344	$ -	$ -	$ -	$ 536,344
Savings	34,329	-	-	-	34,329
Time deposits under $100,000	19,471	19,431	17,328	4,322	60,552
Time deposits $100,000 and over	41,332	24,233	22,096	6,651	94,312
Short-term borrowings	13,818	-	-	-	13,818
FHLB advances	-	-	-	-	-
Long-term borrowings	-	-	-	10,000	10,000
Subordinated debentures	15,000	-	-	13	15,013
Total interest-bearing liabilities	$ 660,294	$ 43,664	$ 39,424	$ 20,986	$ 764,368
Interest rate gap	$ (321,085)	$ 17,855	$ 308,016	$ 156,769	$ 161,555
Cumulative interest rate gap at March 31, 2017	$ (321,085)	$ (303,230)	$ 4,786	$ 161,555	
Cumulative interest rate gap to total assets	(31.84%)	(30.07%)	0.47%	16.02%	

(a) Values for investment securities reflect the timing of the estimated principal cash flows from the securities based on par values, which vary from the amortized cost and fair value of our investments.

The table assumes that all savings and interest-bearing demand deposits reprice in the earliest period presented, however, we believe a significant portion of these accounts constitute a core component and are generally not rate sensitive. Our position is supported by the fact that reductions in interest rates paid on these deposits historically have not caused notable reductions in balances in net interest income because the repricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, assets and liabilities indicated as repricing within the same period may in fact reprice at different times and at different rate levels.

Static gap analysis does not fully capture the impact of embedded options, lagged interest rate changes, administered interest rate products, or certain off-balance-sheet sensitivities to interest rate movements. Therefore, this tool generally cannot be used in isolation to determine the level of interest rate risk exposure in banking institutions.

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of March 31, 2017 and do not contemplate any actions we might undertake in response to changes in market interest rates.

OTHER INFORMATION

Legal Proceedings

From time to time, we may be a party to legal proceedings arising out of our lending, deposit operations or other activities. We engage in foreclosure proceedings and other collection actions as part of our loan collection activities. From time to time, borrowers may also bring actions against us, in some cases claiming damages. Some financial services companies have been subjected to significant exposure in connection with litigation, including class action litigation and punitive damage claims. While we are not aware of any such actions or allegations that should reasonably give rise to any material adverse effect, it is possible that we could be subjected to such a claim in an amount that could be material. Based upon a review with our legal counsel, we believe that the ultimate disposition of such pending litigation will not have a material effect on our financial condition, results of operations or cash flows.

Signatures

This report is submitted on behalf of the Company by the duly authorized undersigned.

BNCCORP, INC.

Date:	May 12, 2017	By:	/s/ Timothy J. Franz
			Timothy J. Franz President and Chief Executive Officer
		By:	/s/ Daniel J. Collins
			Daniel J. Collins Chief Financial Officer