

# 2024 ANNUAL REPORT



BNCCORP

BNCCORP, INC. (BNCCORP or the Company) is a bank holding company registered under the Bank Holding Company Act of 1956 headquartered in Bismarck, North Dakota. It is the parent company of BNC National Bank (the Bank). The Company operates community banking and wealth management businesses in North Dakota and Arizona from eleven locations.



## CORPORATE PROFILE

BNCCORP, INC. (BNCCORP or the Company) is a bank holding company and the parent of BNC National Bank (BNC or the Bank), which is a diversified community bank with three primary areas of focus: commercial banking, retail banking and wealth management.

### Commercial Banking

We meet the needs of small- to mid-sized businesses with a range of commercial banking services, including business financing, commercial real estate lending, SBA loans, business checking, cash management, corporate credit cards and merchant services. Our commercial banking relationships are primarily in North Dakota and Arizona. North Dakota relationships are mainly in the capital region of Bismarck/Mandan. Beyond Bismarck, we serve communities to the north and west that are economically influenced by oil and energy, as well as the agricultural communities of central North Dakota.

### Retail Banking

BNC's retail banking services are provided through a network of locations in North Dakota and Arizona along with online access and transaction capabilities. Among our broad array of retail banking services are personal checking and savings products, personal loans, and card services. Our branch network is concentrated in North Dakota, where we have been rewarded by our customers' loyalty by being responsive to their preferences for convenient face-to-face transactional banking.

### Wealth Management

We seek to be a trusted advisor to our clients as they plan for retirement and manage their investments by providing wealth management solutions, including, personal wealth advisory services, 401(k) and other retirement plan administration. Many of our wealth management clients come to us from commercial banking relationships; we administer, for example, retirement savings plans for the employees of some of our business clients. In this way, we are well positioned to help clients manage wealth and transfer assets in a manner that enables them to accomplish their business and personal financial goals.



Michael M. Vekich  
Chairman, Board of Directors



Daniel J. Collins  
President & Chief Executive Officer

## TO OUR SHAREHOLDERS, CUSTOMERS, EMPLOYEES, AND THE COMMUNITIES WE SERVE:

**Committed, confident and resolute.** Regular readers of our annual reports will find these words repeated across a number of years, in a range of economic conditions and in times both settled and uncertain. These values endure because they reflect our team’s personal values and because they have proven themselves as guideposts for helping the Company meet challenges and seize opportunities.

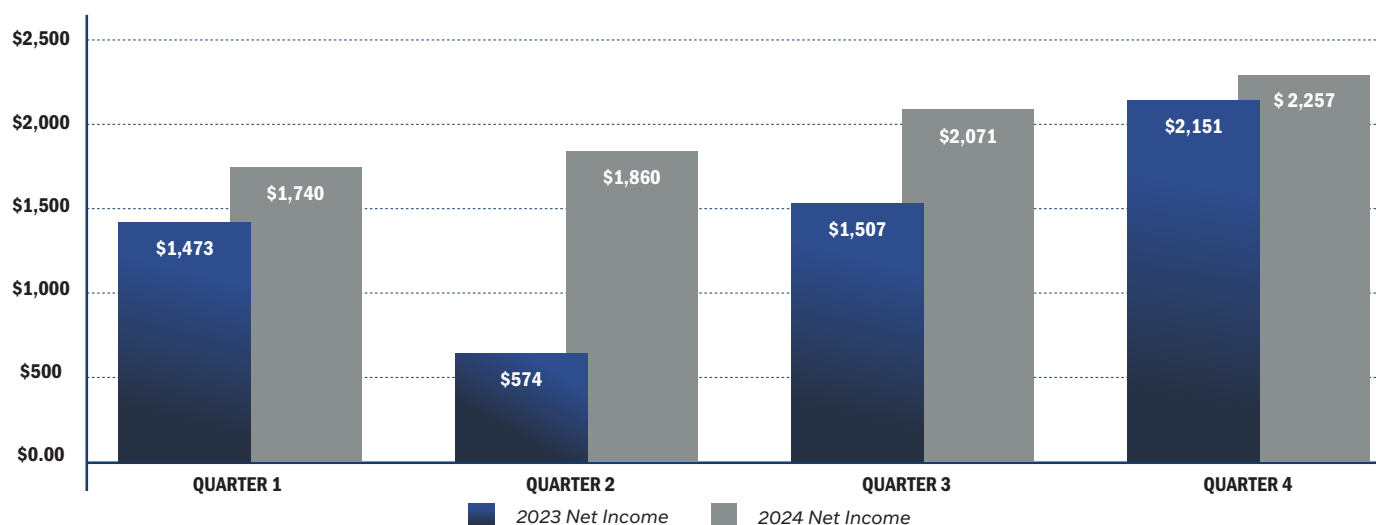
These values helped guide us through last year’s period of banking liquidity stress brought on by unprecedented interest rate increases. They reaffirm why our customers and communities view BNC as a **trusted, customer-focused partner** that understands—and embraces—its leadership role in the communities it serves. They are the foundation of our unwavering commitment to building trusted relationships, supporting the communities we serve, and meeting our customers’ needs.

### FINANCIAL PERFORMANCE

In 2024, the Company reported net income of \$7.9 million or \$2.23 per diluted share compared to \$5.7 million, or \$1.59 per diluted share in 2023. These results speak to the success of the strategic plan to exit the mortgage business, executed in June of 2023, which has allowed management to focus all its attention on the execution of its Community Banking strategy.

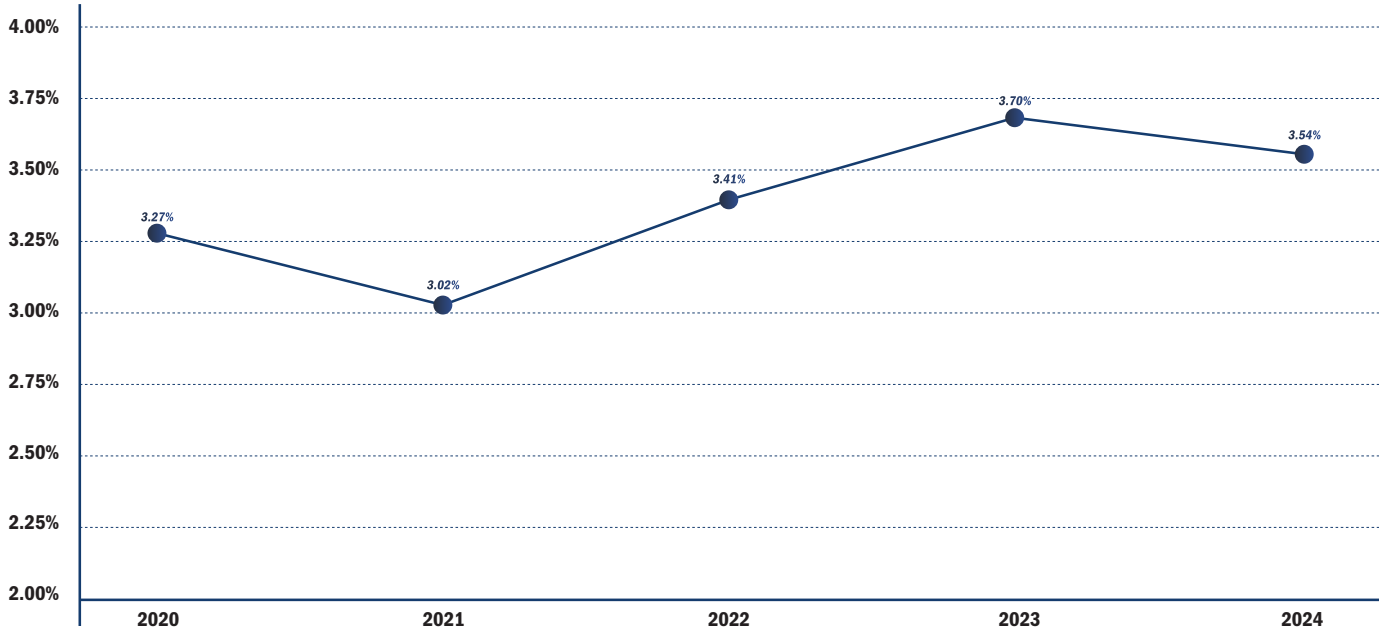
## BNCCORP, INC. 2024 QUARTERLY NET INCOME

(dollars in thousands)



The renewed focus on our community banking strategy has allowed us to build quality loan relationships at increased yields while maintaining deposits at responsible liquidity and cost levels.

### NET INTEREST MARGIN



### STRATEGIC PROGRESS AND BALANCE SHEET STRENGTH

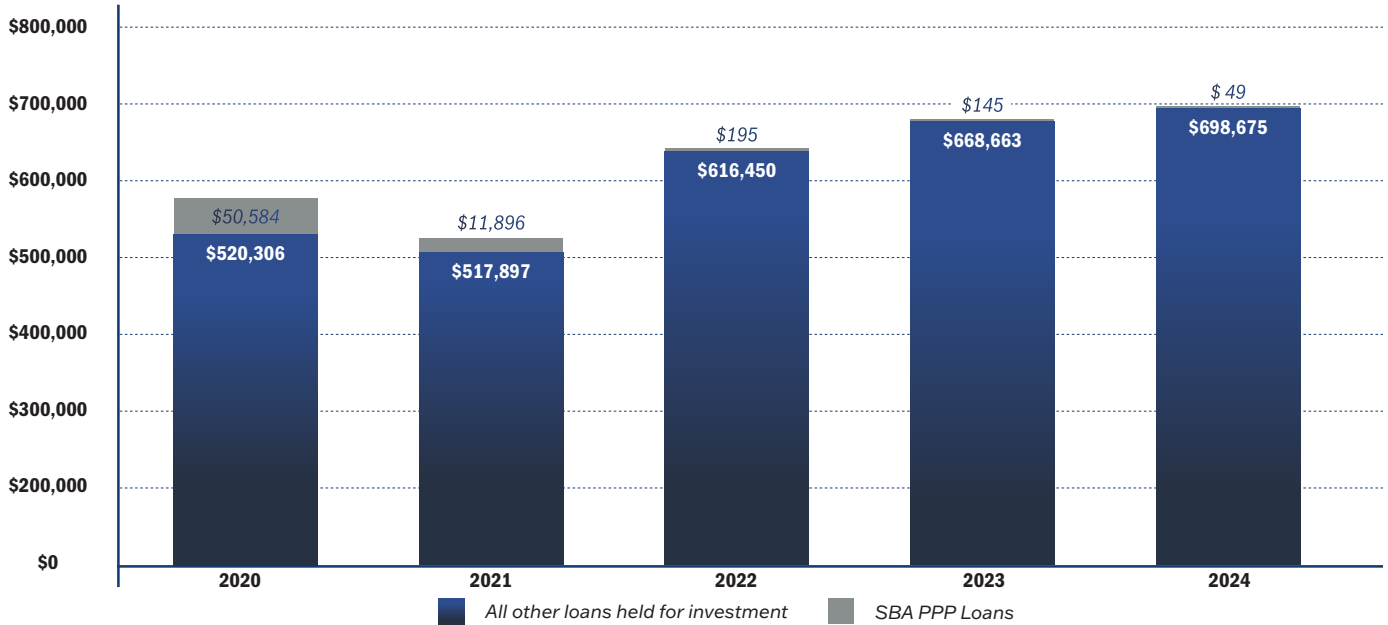
Our deliberate and disciplined approach to balance sheet management continues to provide a strong and stable platform for growth. Guided by sound risk management and thoughtful capital allocation, we delivered solid financial results in 2024. Loan balances continued to replace lower-yielding assets in 2024 while deposit costs were prudently managed. This approach produced strong net interest margins compared to the community banking industry and underscores our dedication to supporting our customers and communities in a dynamic economic environment.

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Our *deliberate* and *disciplined* approach to balance sheet management continues to provide a strong and stable platform for growth.

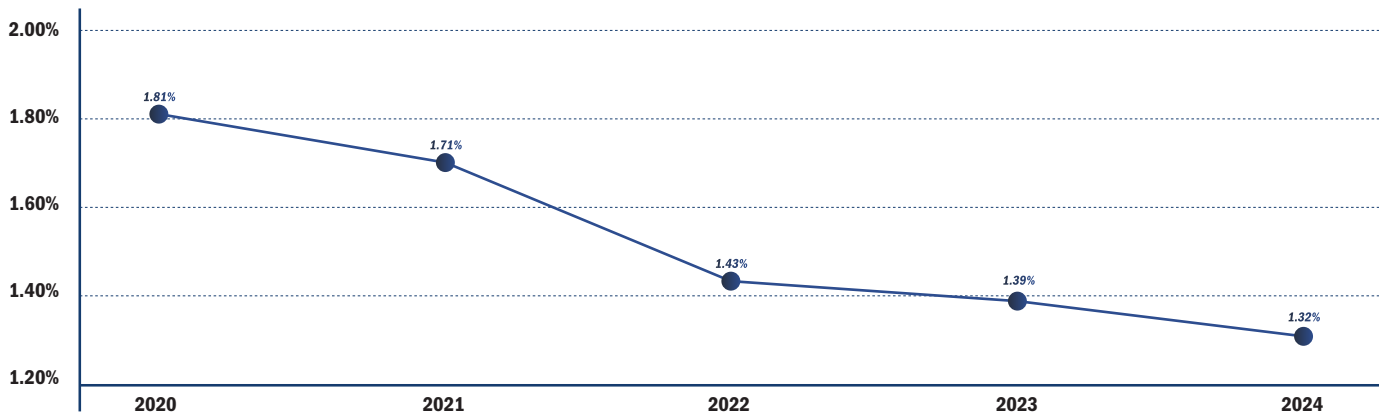
## LOANS HELD FOR INVESTMENT (PERIOD-END)

(dollars in thousands)



Application of prudent underwriting standards and appropriate risk management policies has allowed the Company to continue building quality loan relationships.

## ALLOWANCE FOR CREDIT LOSSES TO LOANS HELD FOR INVESTMENT



Incorporating insights from our strategic initiatives, we've remained focused on enhancing operational efficiency while continuing to invest appropriately and deliberately in technology and digital capabilities. These efforts have not only positioned us for long-term growth but have also allowed us to navigate challenges while maintaining our commitment to quality service and financial strength.

## COMMUNITY BANKING AT ITS CORE

Across our service area, our team takes pride in building meaningful relationships with customers, providing personalized service, and supporting the local economy. This approach resulted in notable growth in loans and strong deposit retention, along with sustained high levels of credit quality and liquidity.

Our North Dakota lenders have as much as 30 years of tenure with BNC and have developed deep relationships in our communities. Furthermore, we are particularly proud to be recognized in our Arizona market as a leader in small business lending partnering with the Small Business Administration to assist small businesses establish and grow their businesses.

These results are attributable to the resilience and skill of our team and the trust placed in us by our customers. These assets drive our success and distinguish us as a trusted partner in the communities we call home.

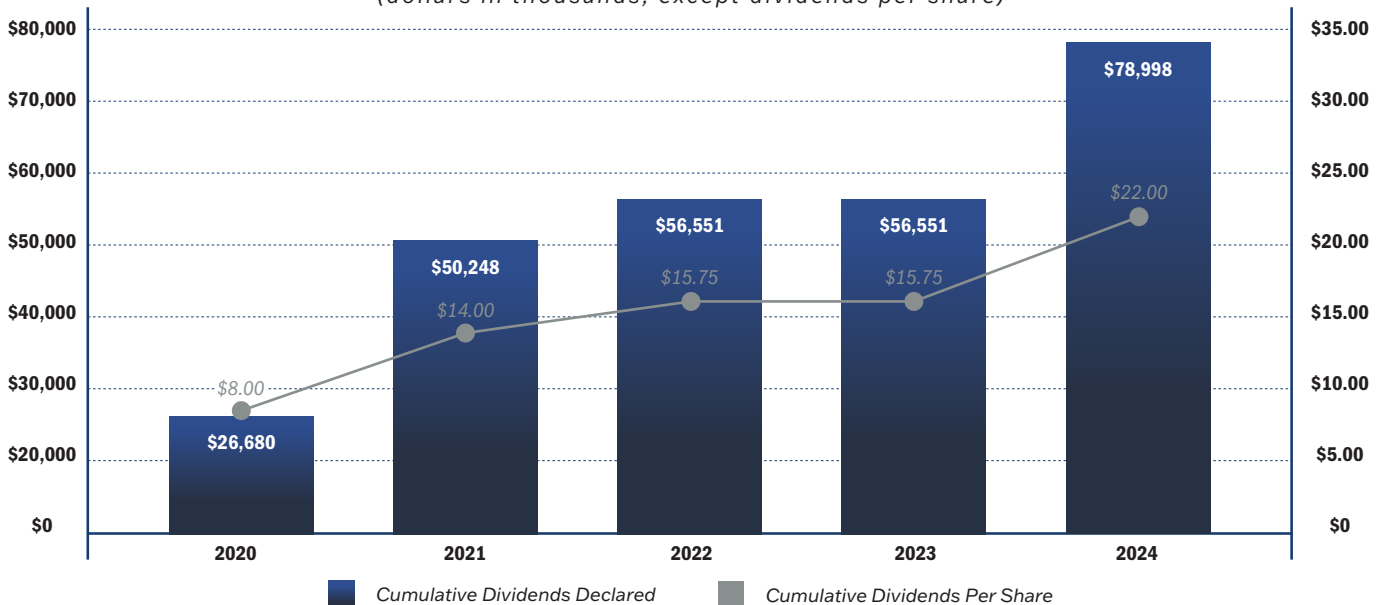
## CREATING VALUE FOR OUR SHAREHOLDERS

Our philosophy has always been to return capital to shareholders when it is not required to support the business, maintain liquidity, or manage risk. Over the past several years, this has been demonstrated through a consistent track record of dividend distributions, including the decision at the end of 2024 to declare a special cash dividend. This philosophy reflects our financial strength and our commitment to reward shareholders even as we continue to maintain a strong capital base.

Cumulatively over the last five years, BNC has declared dividends totaling \$79 million (\$22.00 per common share) and repurchased 50,000 shares of common stock, while reporting a \$26.60 tangible book value per common share as of year-end 2024.

### CUMULATIVE DIVIDENDS DECLARED

(dollars in thousands, except dividends per share)



## LOOKING AHEAD

As we enter 2025, we are leaning into the future with **optimism**, from a foundation of **stability**, and with a clear sense of **purpose**.

We see opportunity ahead for our customers, employees and shareholders. We have a solid platform, one built with care, caution and discipline, from which to seize those opportunities. Our purpose has never been clearer: Delivering responsible growth, deepening customer relationships, and adding value to all our stakeholders. We believe our commitment to our communities, our customers, and our team will continue to fuel our success.

On behalf of our Board of Directors, leadership team, and the entire BNC family, thank you for your trust and support. Together, we will continue to strengthen the communities we serve, create long-term value for our shareholders, and achieve our vision of being a trusted and stable partner for years to come.

Sincerely,



Michael M. Vekich  
Chairman, Board of Directors



Daniel J. Collins  
President & Chief Executive Officer

### **Forward-Looking Statements**

*Statements included in this cover letter to our Annual Report which are not historical in nature are intended to be, and are hereby identified as “forward-looking statements” for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We caution readers that these forward-looking statements, including without limitation, those relating to our future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income and expenses, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to several important factors. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, but are not limited to: the impact of current and future regulation; the risks of loans and investments, including dependence on local and regional economic conditions; competition for our customers from other providers of financial services; possible adverse effects of changes in interest rates; risks associated with our acquisition and growth strategies; and other risks which are difficult to predict and many of which are beyond our control. All statements in this news release, including forward-looking statements, speak only of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events. In addition, we encourage readers to review the financial information included in this cover letter in conjunction with the Consolidated Financial Statements of BNCCORP, INC. and Subsidiaries included in the accompanying Annual Report.*





# BNCCORP

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## **Year End Financial Report**

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**For the Year Ended December 31, 2024**

**BNCCORP, INC.**

**(OTCQX: BNCC)**

322 East Main Avenue  
Bismarck, North Dakota 58501  
(701) 250-3040

**BNCCORP, INC.**  
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**December 31, 2024**  
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## Selected Financial Data

The selected consolidated financial data presented below should be read in conjunction with the consolidated financial statements and the notes thereto (dollars in thousands, except share and per share data):

	For the Years Ended December 31,				
	2024	2023	2022	2021	2020
<b>Income Statement Data:</b>					
Total interest income	\$ 46,455	\$ 43,278	\$ 33,613	\$ 33,457	\$ 36,546
Total interest expense	15,397	10,968	2,655	2,137	4,238
Net interest income	31,058	32,310	30,958	31,320	32,308
Provision (Credit) for credit losses	635	815	(150)	(350)	2,670
Non-interest income	5,893	10,004	19,128	44,683	85,954
Non-interest expense	26,052	34,183	41,907	47,647	57,107
Income tax expense	2,336	1,611	1,829	6,751	13,871
Net income	\$ 7,928	\$ 5,705	\$ 6,500	\$ 21,955	\$ 44,614
<b>Balance Sheet Data:</b> (at end of period)					
Total assets	\$ 966,681	\$ 968,205	\$ 943,321	\$ 1,047,372	\$ 1,074,131
Investments securities available for sale	129,522	159,772	174,876	208,978	183,717
Loans held for sale-mortgage banking	-	-	37,764	80,923	250,083
Loans held for investment, net of unearned income	698,724	668,808	616,645	529,793	570,890
Allowance for credit losses	(9,223)	(9,284)	(8,831)	(9,080)	(10,324)
Total deposits	837,500	837,203	819,584	906,668	853,158
Federal Home Loan Bank advances	-	-	-	-	30,900
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,464	15,464	15,000	15,001	15,004
Dividends declared on common stock	22,447	-	6,303	21,568	28,680
Common stockholders' equity	93,667	108,418	100,346	114,986	118,229
Book value per common share outstanding	\$ 26.60	\$ 30.38	\$ 28.19	\$ 32.35	\$ 33.39
Tangible common equity ratio	9.68%	11.19%	10.63%	10.98%	11.01%
<b>Earnings Performance / Share Data:</b>					
Return on average total assets	0.85%	0.62%	0.67%	2.00%	4.21%
Return on average common stockholders' equity, excluding accumulated other comprehensive income	6.97%	4.94%	5.81%	17.87%	38.84%
Efficiency ratio	70.50%	80.78%	83.67%	62.69%	48.29%
Net interest margin	3.54%	3.70%	3.41%	3.02%	3.27%
Net interest spread	2.91%	3.22%	3.30%	2.94%	3.14%
Basic earnings per common share	\$ 2.24	\$ 1.59	\$ 1.82	\$ 6.15	\$ 12.52
Diluted earnings per common share	\$ 2.23	\$ 1.59	\$ 1.82	\$ 6.15	\$ 12.52
Average common shares outstanding	3,545,575	3,577,421	3,573,934	3,568,579	3,563,203
Average common and common equivalent shares	3,548,853	3,580,239	3,574,864	3,569,134	3,564,783
Shares outstanding at year end	3,521,375	3,569,210	3,559,334	3,554,983	3,540,522
<b>Other Key Ratios</b>					
Nonperforming assets to total assets	0.65%	0.35%	0.15%	0.16%	0.24%
Nonperforming loans to total assets	0.65%	0.35%	0.14%	0.16%	0.24%
Nonperforming loans to loans held for investment	0.90%	0.50%	0.22%	0.32%	0.46%
Allowance for credit losses to loans held for investment	1.32%	1.39%	1.43%	1.71%	1.81%

## Quarterly Financial Data

	<b>2024</b>				
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
Interest income	\$ 11,677	\$ 11,251	\$ 11,644	\$ 11,883	\$ 46,455
Interest expense	3,818	3,654	3,965	3,960	15,397
Net interest income	7,859	7,597	7,679	7,923	31,058
Provision for credit losses	215	30	110	280	635
Net interest income after credit for credit losses	7,644	7,567	7,569	7,643	30,423
Non-interest income	1,538	1,468	1,414	1,473	5,893
Non-interest expense	6,907	6,604	6,276	6,265	26,052
Income before income taxes	2,275	2,431	2,707	2,851	10,264
Income tax expense	535	571	636	594	2,336
Net income	<u>\$ 1,740</u>	<u>\$ 1,860</u>	<u>\$ 2,071</u>	<u>\$ 2,257</u>	<u>\$ 7,928</u>
Basic earnings per common share	<u>\$ 0.49</u>	<u>\$ 0.53</u>	<u>\$ 0.59</u>	<u>\$ 0.64</u>	<u>\$ 2.24</u>
Diluted earnings per common share	<u>\$ 0.49</u>	<u>\$ 0.53</u>	<u>\$ 0.59</u>	<u>\$ 0.64</u>	<u>\$ 2.23</u>
Average common shares:					
Basic	3,581,466	3,533,359	3,533,413	3,538,667	3,545,575
Diluted	3,586,983	3,539,152	3,534,606	3,539,278	3,548,853
	<b>2023</b>				
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
Interest income	\$ 10,006	\$ 10,697	\$ 11,086	\$ 11,489	\$ 43,278
Interest expense	1,565	2,654	3,226	3,523	10,968
Net interest income	8,441	8,043	7,860	7,966	32,310
Provision for credit losses	240	165	230	180	815
Net interest income after provision for credit losses	8,201	7,878	7,630	7,786	31,495
Non-interest income	3,631	3,712	1,118	1,543	10,004
Non-interest expense	9,906	10,840	6,778	6,659	34,183
Income before income taxes	1,926	750	1,970	2,670	7,316
Income tax expense	453	176	463	519	1,611
Net income	<u>\$ 1,473</u>	<u>\$ 574</u>	<u>\$ 1,507</u>	<u>\$ 2,151</u>	<u>\$ 5,705</u>
Basic earnings per common share	<u>\$ 0.41</u>	<u>\$ 0.16</u>	<u>\$ 0.42</u>	<u>\$ 0.60</u>	<u>\$ 1.59</u>
Diluted earnings per common share	<u>\$ 0.41</u>	<u>\$ 0.16</u>	<u>\$ 0.42</u>	<u>\$ 0.60</u>	<u>\$ 1.59</u>
Average common shares:					
Basic	3,575,520	3,578,029	3,578,029	3,578,029	3,577,421
Diluted	3,577,837	3,580,273	3,581,222	3,581,546	3,580,239

# Operating Strategy

BNC National Bank is a community bank that focuses on business banking, retail banking, and wealth management. We build value for shareholders by providing relationship-based financial services to small and mid-sized businesses, business owners, their employees and professionals. The key elements of our strategy include:

- *Providing individualized, high-level customer service.* We provide a high level of customer service to establish and maintain long-term relationships. We believe that many of our competitors emphasize retail banking or focus on large companies, leaving the small and mid-sized business market underserved. Our consistent focus on the needs of such small and mid-sized businesses allows us to compete effectively in this market segment.
- *Diversification of products and services.* We offer banking and wealth management products and services to meet the financial needs of our customers, establish new relationships and expand our business opportunities. We seek to leverage our existing relationships by cross-selling our products and services.
- *Expand opportunistically.* We emphasize organic growth within the markets that we serve and look to opportunistically expand into new lines of business. Organic growth in North Dakota is an emphasis as we believe in the viability of the energy and agricultural industries over the long term. In Arizona, our organic loan growth focuses on small businesses and the SBA arena.
- *Managing risk.* Community banking is faced with several forms of inherent risk. We strive to manage risk by balancing the potential costs of various risks and the various rewards of banking opportunities.
- *Emphasize quality loan and deposit growth.* Providing loans and gathering deposits is a key strategy as our products are good for customers, communities, and shareholders. Growing low-cost core deposits is a key strategy. Our platforms and technology offers us a strategic opportunity to deliver high level deposit services to the businesses and professionals we serve and permits us to attract funds at a low cost.

# Management’s Discussion and Analysis of Financial Condition and Results of Operations

## Overview

The following table summarizes selected income statement data and earnings per share data (in thousands, except per share data):

	<u>2024</u>	<u>2023</u>
<b><u>Selected Income Statement Data</u></b>		
Interest income	\$ 46,455	\$ 43,278
Interest expense	15,397	10,968
Net interest income	31,058	32,310
Provision for credit losses	635	815
Non-interest income	5,893	10,004
Non-interest expense	26,052	34,183
Income before income taxes	10,264	7,316
Income tax expense	2,336	1,611
Net income	<u>\$ 7,928</u>	<u>\$ 5,705</u>
<b><u>Earnings Per Share Data</u></b>		
Basic earnings per common share	\$ 2.24	\$ 1.59
Diluted earnings per common share	\$ 2.23	\$ 1.59

### **Comparison of 2024 to 2023 Net Income:**

- Interest income increased 7.3% when compared to 2023. The increase in interest income reflects higher yields and balances of loans held for investment along with higher rates on interest bearing cash and debt securities. Offsetting these increases was a \$4.4 million increase in interest expense as the cost of deposits increased with market conditions. Net interest margin decreased to 3.54% in 2024, compared to 3.70% in 2023.
- A provision of \$635 thousand was recorded in 2024 resulting in a 1.32% ratio of allowance for credit losses to loans held for investment compared to a \$815 thousand provision and 1.39% ratio in 2023. At December 31, 2024, non-performing assets were 0.65% of total assets, compared to 0.35% at December 31, 2023.
- Non-interest income decreased \$4.1 million, or 41.1%, when comparing 2024 to 2023. The decrease primarily relates to a \$3.8 million decrease in mortgage banking revenue, net. In 2023, the Company divested its mortgage business by selling certain assets to and the assumption of certain operating liabilities by another financial institution. Other income in 2024 was \$203 thousand higher than 2023 because of a reduction of \$113 thousand on losses on sale of fixed assets when compared to the 2023 period along with higher SBIC and BOLI revenue recorded in 2024.
- Non-interest expense decreased by \$8.1 million, or 23.8%, from 2023 to 2024. During 2024, non-interest expense for the Community Banking Segment increased \$55 thousand, or 0.2%, year-over year. The modest increase is a result of expense management efforts that have been largely offset by inflationary pressures on salary and benefits and data processing expense.
- The effective tax rate was 22.8% in 2024, compared to 22.0% in 2023.

## General

Net income in 2024 was \$7.9 million compared to net income of \$5.7 million in 2023. Earnings per diluted share was \$2.23 in 2024 and \$1.59 in 2023.

### Net Interest Income

The following table sets forth information relating to the Company's average balance sheet, yields on interest-earning assets and costs on interest-bearing liabilities (dollars are in thousands):

	For the Year ended December 31, 2024			For the Year ended December 31, 2023			For the Year ended December 31, 2022		
	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
<b>Assets</b>									
Interest-bearing due from banks	\$ 64,757	\$ 3,414	5.27%	\$ 40,901	\$ 2,107	5.15%	\$ 109,950	\$ 1,262	1.15%
FHLB Stock	577	36	6.24%	1,144	35	3.02%	1,268	38	3.01%
Federal Reserve Stock	1,807	109	6.00%	1,807	108	6.00%	1,807	109	6.00%
Debt securities-taxable	138,059	4,716	3.42%	164,380	5,427	3.30%	186,380	4,225	2.27%
Debt securities-tax exempt	-	-	0.00%	1,568	19	3.71%	5,937	230	3.88%
Loans held for sale-mortgage banking	-	-	0.00%	26,743	1,531	5.72%	49,862	2,025	4.06%
Loans held for investment	680,815	38,180	5.61%	644,536	34,051	5.28%	561,318	25,724	4.58%
Allowance for credit losses	(9,384)	-	0.00%	(8,952)	-	0.00%	(8,651)	-	0.00%
Total interest-earning assets	876,631	\$ 46,455	5.30%	872,127	\$ 43,278	4.96%	907,871	\$ 33,613	3.70%
Non-interest-earning assets:									
Cash and due from banks	10,173			10,550			10,038		
Other	43,669			44,407			46,565		
Total assets	<u>\$ 930,473</u>			<u>\$ 927,084</u>			<u>\$ 964,474</u>		
<b>Liabilities and Stockholders' Equity</b>									
Deposits:									
Interest checking and money market accounts	\$ 510,928	\$ 11,766	2.30%	\$ 509,434	\$ 8,965	1.76%	\$ 522,240	\$ 1,838	0.35%
Savings	43,323	47	0.11%	46,746	47	0.10%	51,510	20	0.04%
Certificates of deposit	75,344	2,547	3.38%	59,273	937	1.58%	65,238	304	0.47%
Total interest-bearing deposits	629,595	14,360	2.28%	615,453	9,949	1.62%	638,988	2,162	0.34%
Borrowings:									
Short-term borrowings	-	-	0.00%	136	-	0.00%	241	1	0.41%
FHLB advances	-	-	0.00%	113	5	4.87%	118	3	2.44%
Subordinated debentures	15,464	1,037	6.70%	15,039	1,014	6.74%	15,000	489	3.25%
Total interest-bearing liabilities	645,059	\$ 15,397	2.39%	630,741	\$ 10,968	1.74%	654,347	\$ 2,655	0.40%
Non-interest-bearing demand accounts	173,584			186,197			195,021		
Total deposits and interest-bearing liabilities	818,643			816,938			849,368		
Other non-interest-bearing liabilities	7,895			6,456			9,575		
Total liabilities	826,538			823,394			858,943		
Stockholders' equity	103,935			103,690			105,531		
Total liabilities and stockholders' equity	<u>\$ 930,473</u>			<u>\$ 927,084</u>			<u>\$ 964,474</u>		
Net interest income		<u>\$ 31,058</u>			<u>\$ 32,310</u>			<u>\$ 30,958</u>	
Net interest spread			<u>2.91%</u>			<u>3.22%</u>			<u>3.30%</u>
Net interest margin			<u>3.54%</u>			<u>3.70%</u>			<u>3.41%</u>
Ratio of average interest-earning assets to average interest-bearing liabilities	<u>135.90%</u>			<u>138.27%</u>			<u>138.74%</u>		

The following table allocates changes in the Company's interest income and interest expense between the changes related to volume and interest rates (in thousands):

	<u>For the Years Ended December 31,</u>			<u>For the Years Ended December 31,</u>		
	<u>2024 Compared to 2023</u>			<u>2023 Compared to 2022</u>		
	<u>Change Due to</u>			<u>Change Due to</u>		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
<b>Interest Earned on Interest-Earning Assets</b>						
Interest-bearing due from banks	\$ 1,257	\$ 50	\$ 1,307	\$ (1,214)	\$ 2,059	\$ 845
FHLB Stock	(23)	24	1	(3)	-	(3)
Federal Reserve Stock	-	1	1	-	(1)	(1)
Debt securities-taxable	(893)	183	(710)	(545)	1,747	1,202
Debt securities-tax exempt	(10)	(10)	(20)	(109)	(102)	(211)
Loans held for sale- mortgage banking	(765)	(766)	(1,531)	(1,143)	649	(494)
Loans held for investment	<u>1,982</u>	<u>2,147</u>	<u>4,129</u>	<u>4,113</u>	<u>4,214</u>	<u>8,327</u>
Total increase in interest income	<u>1,548</u>	<u>1,629</u>	<u>3,177</u>	<u>1,098</u>	<u>8,567</u>	<u>9,665</u>
<b>Interest Expense on Interest-Bearing Liabilities</b>						
Interest checking and money market accounts	914	1,887	2,801	367	6,760	7,127
Savings	(3)	3	-	(2)	29	27
Certificates of deposit	362	1,248	1,610	(20)	653	633
Short-term borrowings	-	-	-	-	(1)	(1)
FHLB advances	(2)	(3)	(5)	-	2	2
Subordinated debentures	<u>29</u>	<u>(6)</u>	<u>23</u>	<u>1</u>	<u>524</u>	<u>525</u>
Total increase in interest expense	<u>1,300</u>	<u>3,129</u>	<u>4,429</u>	<u>346</u>	<u>7,967</u>	<u>8,313</u>
Increase (decrease) in net interest income	<u>\$ 248</u>	<u>\$ (1,500)</u>	<u>\$ (1,252)</u>	<u>\$ 752</u>	<u>\$ 600</u>	<u>\$ 1,352</u>

Net interest income was \$31.1 million in 2024 compared to \$32.3 million in 2023, a decrease of \$1.2 million, or 3.9%. The net interest margin decreased to 3.54% for the year ended December 31, 2024, from 3.70% in 2023. The yields on average earning assets in 2024 of 5.30% was higher than the 4.96% average yield in 2023 because of a \$36.3 million year-over-year increase in the average balance of loans held for investment at higher yields and higher yields and balances of cash and cash equivalents. Those increases were partially offset by lower average balances of debt securities and loans held for sale.

In line with the overall increase in interest rates, the cost of interest bearing deposits was 2.28% in 2024 and 1.62% in 2023. The cost of interest-bearing liabilities was 2.39% during 2024, compared to 1.74% in the same period of 2023. The Company has managed its overall cost of deposits at levels well below the prevailing brokered deposit rates offered by national brokerage firms while staying focused on maintaining strong liquidity levels.

Net interest income was \$32.3 million in 2023 compared to \$31.0 million in 2022, an increase of \$1.3 million, or 4.4%. The net interest margin increased to 3.70% for the year ended December 31, 2023, from 3.41% in 2022. Overall, yields on earning assets were 4.96% in 2023 and 3.70% in 2022. Average loans held for investment increased \$83.2 million in 2023, or 14.8%, compared to 2022. Average loans held for sale decreased \$23.1 million when compared to 2022. The increase in interest income is the result of higher yields on interest earning assets and an \$83.2 million increase in average balances of loans held for investment partially offset by lower average balances of loans held for sale. The average balance of debt securities decreased \$26.4 million from 2022.

In line with the overall increase in interest rates, the cost of interest bearing deposits was 1.62% in 2023 and 0.34% in 2022. The Company has experienced elevated levels of customers deploying excess deposit balances to national brokered deposits to capture short-term rates offered in the market, most often by non-bank brokerage firms. The



cost of interest-bearing liabilities was 1.74% during 2023, compared to 0.40% in the same period of 2022. The Company has managed its overall cost of deposits at levels well below the prevailing brokered deposit rates offered by national brokerage firms while staying focused on maintaining liquidity.

### Non-interest Income

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

	For the Years Ended		Increase (Decrease)	
	December 31,		\$	%
	2024	2023		
Bank charges and service fees	\$ 2,990	\$ 3,615	\$ (625)	(17) % (a)
Wealth management revenues	2,036	1,948	88	5 %
Mortgage banking revenues, net	-	3,771	(3,771)	(100) % (b)
Gains on sales of loans, net	22	16	6	38 % (c)
Gains on sales of debt securities, net	-	12	(12)	100 % (d)
Other	845	642	203	32 % (e)
Total non-interest income	\$ 5,893	\$ 10,004	\$ (4,111)	(41) %

- (a) Bank charges and services fees decreased year-over-year primarily due to lower fees earned from the movement of deposits to a one-way sell position.
- (b) Mortgage banking revenues decreased as the Company divested its mortgage business by selling certain assets to and assumption of certain operating liabilities by another financial institution during 2023.
- (c) Gains on sales of loans increased as the Company experienced slightly higher gains on loan participations.
- (d) Gains on sales of debt securities may vary significantly from period to period as the Company manages its risk and return profile through changing economic conditions.
- (e) The increase in year-to-date other income is primarily due to recording a loss on the sale of fixed assets related to the mortgage divestiture in the 2023 period along with higher SBIC and BOLI revenue in the 2024 period.

### Non-interest Expense

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

	For the Years Ended		Increase (Decrease)	
	December 31,		\$	%
	2024	2023		
Salaries and employee benefits	\$ 15,005	\$ 17,517	\$ (2,512)	(14) % (a)
Professional services	1,108	3,419	(2,311)	(68) % (b)
Data processing fees	3,414	3,722	(308)	(8) % (c)
Marketing and promotion	813	3,127	(2,314)	(74) % (d)
Occupancy	1,556	1,785	(229)	(13) % (e)
Regulatory costs	539	470	69	15 % (f)
Depreciation and amortization	1,086	1,094	(8)	(1) %
Office supplies and postage	364	415	(51)	(12) % (g)
Other	2,167	2,634	(467)	(18) % (h)
Total non-interest expense	\$ 26,052	\$ 34,183	\$ (8,131)	(24) %
Efficiency ratio	70.50%	80.78%	(10.28)%	

- (a) Salaries and employee benefits decreased primarily due to lower salaries within the mortgage banking segment as a result of the mortgage business divestiture.
- (b) Professional services expense decreased due to lower mortgage operating costs in addition to lower legal and consulting expenses.
- (c) Data processing fees decreased due to lower software and licensing fees associated with the mortgage banking segment that was divested in 2023 being partially offset by increased card processing charges in the community banking segment.
- (d) Marketing and promotion decreased primarily due to lower marketing costs within the mortgage segment.
- (e) Occupancy expense decreased due to fewer locations within the mortgage banking segment.
- (f) Regulatory costs increased primarily due to higher FDIC assessments.
- (g) Postage expense decreased primarily due to the mortgage divestiture in 2023.
- (h) Other expense decreased primarily due to reversal from the mortgage banking obligation reserve accounts.

## Income Tax Expense

During 2024, the Company recorded tax expense of \$2.3 million, which resulted in an effective tax rate of 22.8% compared to tax expense of \$1.6 million in 2023, which resulted in an effective tax rate of 22.0%.

Subject to certain statutory limitations, the Company is able to carry forward state tax net operating losses aggregating \$17 thousand as of December 31, 2024. The state tax net operating losses expire between 2025 and 2031.

## Financial Condition

Total assets were \$966.7 million at December 31, 2024, a decrease of \$1.5 million, compared to \$968.2 million at December 31, 2023. This decrease is primarily due to lower cash and cash equivalents and debt securities being partially offset by higher loans held for investment.

Total loans held for investment aggregated \$698.7 million at December 31, 2024, an increase of \$29.9 million, or 4.5%, compared to December 31, 2023. Debt securities decreased \$30.3 million from year-end 2023. Cash and cash equivalent balances were \$100.8 million as of December 31, 2024.

## Assets

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

	As of December 31,		Increase (Decrease)	
	2024	2023	\$	%
Cash and cash equivalents	\$ 100,815	\$ 102,454	\$ (1,639)	(2) %
Debt securities available for sale	129,522	159,772	(30,250)	(19) % (a)
Federal Reserve Bank and Federal Home Loan Bank stock	2,387	2,372	15	1 %
Loans held for investment, net	689,501	659,524	29,977	5 % (b)
Premises and equipment, net	10,893	10,955	(62)	(1) %
Operating lease right of use asset	618	938	(320)	(34) % (c)
Accrued interest receivable	4,108	4,206	(98)	(2) %
Other assets	28,837	27,984	853	3 %
Total assets	<u>\$ 966,681</u>	<u>\$ 968,205</u>	<u>\$ (1,524)</u>	- %

- (a) Debt securities available for sale decreased as the Company utilized the cash flow from the portfolio to provide liquidity for loan growth.
- (b) The increase is a result of the Company continued focus on organic loan growth in its core markets.
- (c) Decrease is a result of normal amortization of operating leases.

## Debt Securities Available for Sale

The following table presents the composition of the available-for-sale investment portfolio (in thousands):

	As of December 31,			
	2024		2023	
	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Market Value	Cost	Fair Market Value
U.S. treasury securities	\$ 10,929	\$ 10,130	\$ 25,872	\$ 24,880
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC	19,189	15,996	21,282	18,095
U.S. government agency small business administration pools guaranteed by SBA	9,534	8,944	12,020	11,265
Collateralized mortgage obligations guaranteed by GNMA	6,373	6,137	8,051	7,764
Collateralized mortgage obligations issued by FNMA/FHLMC	48,099	43,137	55,750	50,890
Commercial mortgage-backed securities issued by FHLMC	16,682	15,530	16,927	15,714
Other commercial mortgage-backed securities	24,405	22,783	26,349	24,213
State and municipal bonds	8,051	6,865	8,062	6,951
Total investments	<u>\$ 143,262</u>	<u>\$ 129,522</u>	<u>\$ 174,313</u>	<u>\$ 159,772</u>

The following table presents contractual maturities for securities available for sale and yields thereon at December 31, 2024 (dollars are in thousands):

	Within 1 Year		After 1 But Within 5 Years		After 5 But Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	U.S. treasury securities <sup>(1)</sup>	\$ -	0.00%	\$ 10,929	1.33%	\$ -	0.00%	\$ -	0.00%	\$ 10,929
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC <sup>(1)(2)</sup>	-	0.00%	-	0.00%	1,250	3.18%	17,939	2.65%	19,189	2.68%
U.S. government agency small business administration pools guaranteed by SBA <sup>(1)(2)</sup>	-	0.00%	3,148	4.22%	-	0.00%	6,386	4.78%	9,534	4.59%
Collateralized mortgage obligations guaranteed by GNMA <sup>(1)(2)</sup>	-	0.00%	-	0.00%	3,175	3.92%	3,198	3.94%	6,373	3.93%
Collateralized mortgage obligations issued by FNMA/FHLMC <sup>(1)(2)</sup>	-	0.00%	234	4.69%	10,594	3.96%	37,271	2.81%	48,099	3.07%
Commercial mortgage-backed securities issued by FHLMC <sup>(1)(2)</sup>	-	0.00%	13,090	3.15%	-	0.00%	3,592	3.58%	16,682	3.24%
Other commercial mortgage-backed securities <sup>(1)(2)</sup>	-	0.00%	3,428	3.26%	-	0.00%	20,977	3.26%	24,405	3.26%
State and municipal bonds <sup>(1)(2)</sup>	-	0.00%	-	0.00%	8,051	2.74%	-	0.00%	8,051	2.74%
Total book value of debt securities	<u>\$ -</u>	<u>0.00%</u>	<u>\$ 30,829</u>	<u>2.64%</u>	<u>\$ 23,070</u>	<u>3.48%</u>	<u>\$ 89,363</u>	<u>3.09%</u>	143,262	
Net unrealized loss on debt securities available for sale									(13,740)	
Total investment in debt securities available for sale									<u>\$ 129,522</u>	3.42%

(1) Based on amortized cost rather than fair value.

(2) Maturities are based on contractual maturities. Actual cash flows from securities may vary from contractual maturities due to call options, cash flow structures of securitizations, and prepayments

As of December 31, 2024, the Company had \$129.5 million of debt securities available for sale compared to \$159.8 million at December 31, 2023. In 2024, the cash flow from debt securities was being retained as liquidity and to fund increases in loans held for investment.

At December 31, 2024, all classifications of debt securities available for sale exceeded 10% of stockholders' equity with exception of Collateralized Mortgage Obligations (CMO's) guaranteed by GNMA and State and Municipal bonds.

See Note 2 of the Consolidated Financial Statements for more information about debt securities available for sale.

### Federal Reserve Bank and Federal Home Loan Bank

The Company's equity securities consisted of \$1.8 million of Federal Reserve Bank ("FRB") stock and \$580 thousand of Federal Home Loan Bank ("FHLB") stock as of December 31, 2024 and \$1.8 million of FRB stock and \$565 thousand of FHLB stock as of December 31, 2023.

### Loans

The following table presents the Company's loan portfolio as of December 31 (dollars are in thousands):

	2024		2023		2022		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans held for sale- mortgage banking	\$ -	-	\$ -	-	\$ 37,764	100.0	\$ 80,923	100.0	\$ 250,083	100.0
Loans held for investment:										
Commercial and industrial	\$ 231,441	33.1	\$ 216,055	32.3	\$ 205,429	33.3	\$ 157,995	29.8	\$ 165,994	29.1
Commercial real estate	244,364	35.0	245,939	36.8	230,243	37.4	201,043	38.0	190,939	33.4
SBA	84,799	12.1	63,836	9.5	48,638	7.9	58,759	11.1	102,064	17.9
Consumer	120,032	17.2	111,872	16.7	95,891	15.5	78,297	14.8	81,783	14.3
Land and land development	11,243	1.6	8,416	1.3	10,758	1.7	17,185	3.2	8,603	1.5
Construction	5,903	0.9	21,648	3.2	24,690	4.0	16,121	3.0	21,748	3.8
	697,782	99.9	667,766	99.8	615,649	99.8	529,400	99.9	571,131	100.0
Unearned income and net unamortized deferred fees and costs	942	0.1	1,042	0.2	996	0.2	393	0.1	(241)	-
Loans, net of unearned income and unamortized fees and costs	\$ 698,724	100.0	\$ 668,808	100.0	\$ 616,645	100.0	\$ 529,793	100.0	\$ 570,890	100.0

The following table presents the change in the Company's loan portfolio (dollars are in thousands):

	December 31,		Increase (Decrease)	
	2024	2023	\$	%
Loans held for investment:				
Commercial and industrial	\$ 231,441	\$ 216,055	\$ 15,386	7.1 %
Commercial real estate	244,364	245,939	(1,575)	(0.6) %
SBA	84,799	63,836	20,963	32.8 %
Consumer	120,032	111,872	8,160	7.3 %
Land and land development	11,243	8,416	2,827	33.6 %
Construction	5,903	21,648	(15,745)	(72.7) %
	697,782	667,766	30,016	4.5 %
Unearned income and net unamortized deferred fees and costs	942	1,042	(100)	(9.6) %
Loans, net of unearned income and unamortized fees and costs	\$ 698,724	\$ 668,808	\$ 29,916	4.5 %

### Loan Participations

Pursuant to the Company's lending policy, loans may not exceed 85% of the Bank's legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits and, accordingly, excluded from the Bank's legal lending limit) unless the Chief Credit Officer and the Executive Credit Committee grant prior approval. To accommodate customers whose financing needs exceed lending limits and internal loan concentration limits, the Bank sells loan participations to outside participants without recourse.

Loan participations sold on a nonrecourse basis to outside financial institutions were as follows as of December 31 (in thousands):

2024	\$	127,308
2023		130,621
2022		123,683
2021		106,077
2020		130,356

### Concentrations of Credit

The following table summarizes the location of the Company's borrowers as of December 31 (dollars are in thousands):

	2024		2023	
	\$	%	\$	%
North Dakota	423,400	61 %	411,971	62 %
Arizona	136,907	20 %	117,607	18 %
Minnesota	38,044	5 %	38,509	5 %
Other	99,431	14 %	99,679	15 %
Total gross loans held for investment	\$ 697,782	100 %	\$ 667,766	100 %

The Company's borrowers use loan proceeds for projects in various geographic areas. The following table summarizes the locations where its borrowers are using loan proceeds as of December 31 (dollars are in thousands):

	<b>2024</b>		<b>2023</b>	
North Dakota	\$ 390,232	56 %	\$ 387,708	58 %
Arizona	161,402	23 %	151,401	23 %
Minnesota	29,679	4 %	28,918	4 %
California	24,347	3 %	24,212	4 %
South Dakota	23,188	3 %	24,332	4 %
Montana	19,948	3 %	10,435	1 %
Nevada	10,427	2 %	5,617	1 %
Colorado	10,006	2 %	10,447	1 %
Other	28,553	4 %	24,696	4 %
Total gross loans held for investment	<u>\$ 697,782</u>	<u>100 %</u>	<u>\$ 667,766</u>	<u>100 %</u>

The following table describes the Company's approximate concentrations by industry as of December 31 (dollars are in thousands):

	<b>2024</b>		<b>2023</b>	
Non-owner occupied commercial real estate – not otherwise categorized	\$ 192,741	28 %	\$ 198,428	30 %
Consumer, not otherwise categorized	99,243	14	99,702	15
Hotels	86,863	12	83,985	13
Agriculture, forestry, fishing and hunting	36,763	5	33,503	5
Retail trade	34,186	5	35,827	5
Healthcare and social assistance	32,447	5	32,011	5
Transportation and warehousing	31,124	5	27,905	4
Art, entertainment and recreation	27,747	4	27,507	4
Non-hotel accommodation and food service	27,288	4	24,637	4
Mining, oil and gas extraction	23,685	4	22,149	3
Real estate and rental and leasing support services	15,385	2	9,804	2
Manufacturing	15,333	2	7,801	1
Other service	14,325	2	11,940	2
Construction contractors	13,938	2	16,082	2
Educational services	13,595	2	4,246	1
Professional, scientific, and technical services	9,854	1	9,570	1
Finance and insurance	8,586	1	6,781	1
Public administration	7,357	1	7,837	1
All other	7,322	1	8,051	1
Total gross loans held for investment	<u>\$ 697,782</u>	<u>100 %</u>	<u>\$ 667,766</u>	<u>100 %</u>

The following table presents loans by type as of December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
<b>North Dakota</b>		
Commercial and industrial	\$ 69,391	\$ 62,019
Construction	1,056	5,247
Agricultural	39,301	35,220
Land and land development	7,803	7,992
Owner-occupied commercial real estate	38,393	35,260
Commercial real estate	121,985	135,858
Small business administration	19,658	18,046
Consumer	<u>92,645</u>	<u>88,066</u>
Subtotal gross loans held for investment	<u>\$ 390,232</u>	<u>\$ 387,708</u>
<b>Consolidated</b>		
Commercial and industrial	\$ 107,778	\$ 93,949
Construction	5,903	21,648
Agricultural	42,103	37,720
Land and land development	11,243	8,416
Owner-occupied commercial real estate	81,560	84,386
Commercial real estate	244,364	245,939
Small business administration	84,799	63,836
Consumer	<u>120,032</u>	<u>111,872</u>
Total gross loans held for investment	<u>\$ 697,782</u>	<u>\$ 667,766</u>

#### Loan Maturities <sup>(1)</sup>

The following table sets forth the remaining maturities of loans held for investment in the Company's portfolio as of December 31, 2024 (in thousands):

	<u>One Year or Less</u>	<u>Over 1 Year Through 5 Years</u>		<u>Over 5 Years</u>		<u>Total Loans Held for Investment</u>
		<u>Fixed Rate</u>	<u>Indexed Rate</u>	<u>Fixed Rate</u>	<u>Indexed Rate</u>	
Commercial and industrial	\$ 25,156	\$ 20,725	\$ 7,583	\$ 62,636	\$ 115,341	\$ 231,441
Commercial real estate	775	22,614	4,202	28,698	188,075	244,364
SBA	3,243	1,084	6,472	13,069	60,931	84,799
Consumer	847	4,873	6,023	85,156	23,133	120,032
Land and land development	240	4,428	2,211	222	4,142	11,243
Construction	<u>454</u>	<u>-</u>	<u>2,142</u>	<u>-</u>	<u>3,307</u>	<u>5,903</u>
Total principal amount of loans	<u>\$ 30,715</u>	<u>\$ 53,724</u>	<u>\$ 28,633</u>	<u>\$ 189,781</u>	<u>\$ 394,929</u>	<u>\$ 697,782</u>

(1) Maturities are based on contractual maturities. Indexed 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 substantially the same manner as new credit applications.

## Provision for Credit Losses

The Company is required to estimate the credit losses expected over the life of the loan, including expected credit losses on off-balance sheet commitments. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectability of the loan portfolio. In 2024, a \$635 thousand provision was recorded compared to an \$815 thousand provision in 2023.

## Allowance for Credit Losses

See Notes 1 and 5 of the Consolidated Financial Statements and “Significant Accounting Policies” for further information concerning accounting policies associated with the allowance for credit losses.

## Analysis of Allowance for Credit Losses

The following table summarizes activity in the allowance for credit losses and certain ratios (dollars are in thousands):

	For the Years Ended December 31,				
	2024	2023	2022	2021	2020
Balance of allowance for credit losses, beginning of period	\$ 9,284	\$ 8,831	\$ 9,080	\$ 10,324	\$ 8,141
Cumulative effect of CECL Adoption	-	(64)	-	-	-
<b>Charge-offs:</b>					
Commercial and industrial	(392)	(100)	-	(927)	(88)
Commercial real estate	-	-	-	-	(453)
SBA	(159)	(55)	-	-	-
Consumer	(195)	(213)	(159)	(82)	(38)
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Total charge-offs	<u>(746)</u>	<u>(368)</u>	<u>(159)</u>	<u>(1,009)</u>	<u>(579)</u>
<b>Recoveries:</b>					
Commercial and industrial	-	28	-	69	17
Commercial real estate	-	-	-	1	45
SBA	-	-	7	5	9
Consumer	40	28	33	24	12
Land and land development	-	-	20	16	9
Construction	-	-	-	-	-
Total recoveries	<u>40</u>	<u>56</u>	<u>60</u>	<u>115</u>	<u>92</u>
Net charge-offs	(706)	(312)	(99)	(894)	(487)
Provision (credit) for credit losses charged to operations	<u>645</u>	<u>829</u>	<u>(150)</u>	<u>(350)</u>	<u>2,670</u>
Balance of allowance for credit losses, end of period	<u>\$ 9,223</u>	<u>\$ 9,284</u>	<u>\$ 8,831</u>	<u>\$ 9,080</u>	<u>\$ 10,324</u>
Ratio of net charge-offs to average loans held for investment	(0.104)%	(0.046)%	(0.018)%	(0.162)%	(0.085)%
Average gross loans held for investment	\$ 680,815	\$ 644,536	\$ 561,318	\$ 553,493	\$ 573,040
Ratio of allowance for credit losses to loans held for investment	1.32%	1.39%	1.43%	1.71%	1.81%
Ratio of nonperforming loans to total assets	0.65%	0.35%	0.14%	0.16%	0.24%



## Allocation of the Allowance for Credit Losses

The table below presents an 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 as of December 31 (dollars are in thousands).

	2024		2023		2022		2021		2020	
	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment
Commercial and industrial	\$ 3,128	33%	\$ 3,378	32%	\$ 2,519	33%	\$ 2,173	30%	\$ 3,275	29%
Commercial real estate	3,234	35%	3,368	37%	3,621	37%	4,129	38%	3,923	33%
SBA	1,286	12%	1,014	10%	1,396	8%	1,641	11%	1,779	18%
Consumer	1,280	17%	1,092	17%	982	16%	836	15%	948	14%
Land and land development	208	2%	169	1%	87	2%	148	3%	170	2%
Construction	87	1%	263	3%	226	4%	153	3%	229	4%
Total	<u>\$ 9,223</u>	<u>100%</u>	<u>\$ 9,284</u>	<u>100%</u>	<u>\$ 8,831</u>	<u>100%</u>	<u>\$ 9,080</u>	<u>100%</u>	<u>\$ 10,324</u>	<u>100%</u>

The amount of the allowance for credit losses can vary depending on macroeconomic conditions and risk in the portfolio. The allocation of the allowance for credit losses can vary depending on relative volume of asset groups in the portfolio and risks therein. The allocation of the allowance for credit losses as shown in the table above 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.

## Allowance for Credit Losses; Impact on Earnings

The Company is required to estimate the credit losses expected over the life of the loan. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectibility of the loan portfolio. The allowance for credit losses is an estimate based on several judgmental factors. The Company is not aware of known trends, commitments or other events that could reasonably occur that would materially affect its methodology or the assumptions used to estimate the allowance for credit losses. However, changes in qualitative and quantitative factors could occur at any time and such changes could be of a material nature. In addition, economic situations, financial conditions of borrowers, and other factors the Company considers in arriving at its estimates may change. To the extent that these matters have negative developments, future earnings could be reduced by provisions for credit losses. See the Concentrations of Credit section within this report for additional information.

## Nonperforming Loans and Assets

The following table sets forth nonperforming assets, the allowance for credit losses and certain related ratios (dollars are in thousands):

	As of December 31,				
	2024	2023	2022	2021	2020
<b>Nonperforming loans:</b>					
Loans 90 days or more delinquent and still accruing interest	\$ -	\$ 832	\$ 1	\$ -	\$ 1
Non-accrual loans	6,275	2,519	1,354	1,673	2,611
Total nonperforming loans	6,275	3,351	1,355	1,673	2,612
Repossessed assets, net	33	33	64	17	-
Total nonperforming assets	\$ 6,308	\$ 3,384	\$ 1,419	\$ 1,690	\$ 2,612
Allowance for credit losses	\$ 9,223	\$ 9,284	\$ 8,831	\$ 9,080	\$ 10,324
Ratio of total nonperforming loans to total loans	0.90%	0.50%	0.21%	0.27%	0.32%
Ratio of total nonperforming loans to loans held for investment	0.90%	0.50%	0.22%	0.32%	0.46%
Ratio of total nonperforming assets to total assets	0.65%	0.35%	0.15%	0.16%	0.24%
Ratio of total nonperforming loans to total assets	0.65%	0.35%	0.14%	0.16%	0.24%
Ratio of allowance for credit losses to total nonperforming loans	147%	277%	652%	543%	395%

## Nonperforming Loans

The following table sets forth information concerning the Company's nonperforming loans as of December 31 (in thousands):

	2024	2023
Balance, beginning of period	\$ 3,351	\$ 1,355
Additions to nonperforming	5,981	2,393
Charge-offs	(606)	(145)
Reclassified back to performing	(1,716)	(1)
Principal payments received	(666)	(200)
Transferred to repossessed assets	(69)	(51)
Balance, end of period	\$ 6,275	\$ 3,351

**Loans 90 days or more delinquent and still accruing interest** include loans over 90 days past due which the Company believes, based on its specific analysis of the loans, do not present doubt about the collection of interest and principal in accordance with the loan contract. Loans in this category must be well secured and in the process of collection.

**Non-accrual loans** include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when the Company believes 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 is reversed against interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

### Loan Modifications

With the adoption of ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, the Company is required to evaluate all modification to loans where the borrower is experiencing financial difficulty. For the year-ended December 31, 2024 the Company had total modified loans of \$4.8 million, representing 0.7% of total loans held for investment. For the year-ended December 31, 2023 the Company had total modified loans of \$5.1 million, representing 0.8% of total loans held for investment.

**Other real estate owned and repossessed assets** represent properties and other assets acquired through, or in lieu of, loan foreclosure, and property transferred from premises and equipment. They are initially recorded at fair value less cost to sell at the date of acquisition establishing a new cost basis. Write-downs to fair value at the time of acquisition are charged to the allowance for credit losses. After foreclosure, the Company performs valuations periodically and the real estate is recorded at fair value less cost to sell. Reductions to other real estate owned and repossessed assets are considered valuation allowances. Expenses incurred to record valuation allowances subsequent to foreclosure are charged to non-interest expense.

### Potential Problem Loans

The Company attempts to quantify potential problem loans with more immediate credit risk. The table below summarizes the amounts of potential problem loans as of December 31 (in thousands):

	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
2024	\$ 12,207	\$ 3,873	\$ 873
2023	2,393	3,780	1,480
2022	2,472	2,598	1,017
2021	6,508	7,276	1,190
2020	9,121	5,201	2,132

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 the Company's position as creditor is protected to the fullest extent possible.

## Liabilities and Stockholders' Equity

The following table presents the Company's liabilities and stockholders' equity (dollars are in thousands):

	As of December 31,		Increase (Decrease)	
	2024	2023	\$	%
Deposits:				
Non-interest-bearing	\$ 172,456	\$ 184,442	\$ (11,986)	(6) % (a)
Interest-bearing				
Savings, interest checking and money market	579,608	582,855	(3,247)	(1) % (a)
Time deposits	85,436	69,906	15,530	22 % (a)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,464	15,464	-	- %
Accrued interest payable	1,248	937	311	33 % (b)
Accrued expenses	2,832	4,105	(1,273)	(31) % (c)
Operating lease liabilities	700	1,048	(348)	(33) % (d)
Dividends payable	14,304	-	14,304	100 % (e)
Other liabilities	966	1,030	(64)	(6) % (f)
Total liabilities	873,014	859,787	13,227	2 %
Stockholders' equity	93,667	108,418	(14,751)	(14) %
Total liabilities and stockholders' equity	\$ 966,681	\$ 968,205	\$ (1,524)	- %

- (a) Overall, deposits are relatively flat period-over-period. Increased time deposit balance reflect customer demands for interest bearing products. The Company continues to enjoy strong and enduring customer relationships and continues to focus on developing new deposit relationships.
- (b) Accrued interest payable increased primarily due to increased cost of deposits.
- (c) Accrued expenses decreased primarily due to lower incentive accruals, a reduction in 401k matching contributions, and a reduction of the mortgage banking obligation reserve.
- (d) Decrease is due to normal amortization of operating leases.
- (e) Increase primarily relates to recording of the \$14.3 million dividend declared on December 18, 2024, which was paid on January 14, 2025.
- (f) Decrease is primarily due to lower income taxes payable.

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated \$218 thousand and \$644 thousand at December 31, 2024, and 2023, respectively. Although the Company sold 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 is also evident within the mortgage banking industry as disputes arise between lenders and investors. Such requests for repurchase are commonly due to purported fraudulent or faulty representations and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the obligation, the Company tracks historical reimbursements and calculates the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimates the future reimbursement amounts and records the estimated obligation. See Note 17 of the Consolidated Financial Statements for a description of financial instruments with off-balance-sheet risk.

## Deposits

The following table sets forth, for the periods indicated, the distribution of the Company's average deposit account balances and average cost of funds rates on each category of deposits (dollars are in thousands):

	For the Years Ended December 31,								
	2024			2023			2022		
	Average Balance	Percent of Deposits	Wgtd. Avg. Rate	Average Balance	Percent of Deposits	Wgtd. Avg. Rate	Average Balance	Percent of Deposits	Wgtd. Avg. Rate
Interest checking and MMDAs	\$ 510,928	63.6%	2.30%	\$ 509,434	63.6%	1.76%	\$ 522,240	62.6%	0.35%
Savings deposits	43,323	5.4%	0.11%	46,746	5.8%	0.10%	51,510	6.2%	0.04%
Time deposits	75,344	9.4%	3.38%	59,273	7.4%	1.58%	65,238	7.8%	0.47%
Total interest-bearing deposits	629,595	78.4%	2.28%	615,453	76.8%	1.62%	638,988	76.6%	0.34%
Non-interest-bearing demand deposits	173,584	21.6%	0.00%	186,197	23.2%	0.00%	195,021	23.4%	0.00%
Total deposits	\$ 803,179	100.0%	1.72%	\$ 801,650	100.0%	1.24%	\$ 834,009	100.0%	0.26%

Time deposits, in denominations of \$250 thousand and over, totaled \$20.4 million at December 31, 2024, as compared to \$20.6 million at December 31, 2023. The following table sets forth the amount and maturities of time deposits of \$250 thousand and over as of December 31, 2024 (in thousands):

### Maturing in:

3 months or less	\$	3,472
Over 3 months through 6 months		8,379
Over 6 months through 12 months		7,096
Over 12 months		1,492
	\$	<u>20,439</u>

The following table provides additional detail to the Company's total deposit relationships:

(In thousands)	As of December 31,		
	2024	2023	2022
Deposits:			
Non-interest-bearing	\$ 172,456	\$ 184,442	\$ 207,232
Interest-bearing –			
Savings, interest checking and money market	579,608	582,855	554,577
Time deposits	85,436	69,906	57,775
Total on balance sheet deposits	837,500	837,203	819,584
Off-balance sheet deposits (1)	18,531	34,792	187,407
Total available deposits	\$ 856,031	\$ 871,995	\$ 1,006,991

- (1) The off-balance sheet deposits above do not include off-balance sheet time deposits that can be brought back on the balance sheet at various future maturity dates. As of December 31, 2024, the Company managed off-balance sheet time deposit balances of \$13.9 million, compared to \$18.7 million of time deposit balances as of December 31, 2023 and none as of December 31, 2022.

The Company remains highly focused on meeting the needs of its customers and ensuring deposit rates reflect changing market conditions. The Company estimates that deposit insurance and other deposit protection programs secure greater than 70% of its customer's deposit balances. This fact, combined with a strong balance sheet and relationship-focused culture has allowed the Company to maintain a significant deposit base.

Off-balance sheet accounts are primarily utilized to custody larger business customer deposits that require daily access to funds and provide for FDIC insurance coverage. The Company began moving deposits off balance sheet

in the first quarter of 2022 and proceeded to further expand its use throughout 2022. Off-balance sheet deposits can fluctuate greatly as customers balance utilization demands evolve.

### Borrowed Funds

There were no FHLB advances outstanding at December 31, 2024 and December 31, 2023.

Notes 9 and 10 of the Consolidated Financial Statements summarize the general terms of the Company's FHLB advances and other borrowings at December 31, 2024 and 2023.

### Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures

See Note 11 of the Consolidated Financial Statements for a description of the subordinated debentures.

### Capital Resources

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Tier 1 leverage (Consolidated)	12.75%	14.52%	13.99%	11.74%	11.74%
Total risk-based capital (Consolidated)	15.35%	17.64%	17.57%	20.02%	17.88%
Common equity tier 1 risk-based capital (Consolidated)	12.36%	14.58%	14.48%	16.54%	14.65%
Tier 1 risk-based capital (Consolidated)	14.22%	16.49%	16.43%	18.77%	16.63%
Tangible common equity (Consolidated) (a)	9.68%	11.19%	10.63%	10.98%	11.01%
Tier 1 leverage (Bank)	11.89%	12.54%	11.97%	10.65%	10.92%
Total risk-based capital (Bank)	14.38%	15.40%	15.19%	18.27%	16.72%
Common equity tier 1 risk-based capital (Bank)	13.25%	14.25%	14.04%	17.02%	15.47%
Tier 1 risk-based capital (Bank)	13.25%	14.25%	14.04%	17.02%	15.47%

(a) Tangible common equity is calculated by dividing common equity, less intangible assets, by total period end assets.

See Note 12 and Note 13 of the Consolidated Financial Statements for a discussion of stockholders equity and regulatory capital and the current operating environment.

The Common equity tier 1 (CET 1) ratio, which is generally a comparison of a bank's core equity capital with its total risk weighted assets, is a measure of the current risk profile of the Company's asset base from a regulatory perspective. The Tier 1 leverage ratio, which is calculated by dividing Tier 1 capital by average total assets, does not consider the mix of risk weighted assets. Regulators have required Tier 1 ratios that significantly exceed the "Well Capitalized" ratio levels. As such, the Company is managing its Tier 1 leverage ratio to levels above the "Well Capitalized" thresholds. Although Tangible Common Equity (TCE) is not a regulatory capital measure, TCE is a ratio that is commonly used to assess the capital strength of banking entities. Accordingly, the Company has included the ratio in the regulatory capital table above.

The Company routinely evaluates the sufficiency of its capital in order to ensure compliance with regulatory capital standards and to provide a source of strength for the Bank. The Company manages capital by assessing the composition of capital and the amounts available for growth, risk, or other purposes.

The following table sets forth, for the periods indicated, the special cash dividends that the Company has declared (dollars in thousands, except dividend per share):

<u>Dividend Declaration Date</u>	<u>Dividend Payment Date</u>	<u>Dividend Per Share</u>	<u>Total Dividend Payment</u>
December 18, 2024	January 14, 2025	\$ 4.00	\$ 14,304
February 2, 2024	March 25, 2024	2.25	8,143
May 3, 2022	June 21, 2022	1.75	6,303
October 28, 2021	December 15, 2021	6.00	21,568
December 17, 2020	February 1, 2021	8.00	28,680

### Off-Balance-Sheet Arrangements

In the normal course of business, the Company is a party to various financial instruments with off-balance-sheet risk. These instruments include commitments to extend credit, standby and commercial letters of credit, and performance and financial standby letters of credit. Such instruments help the Company meet the needs of its customers, manage its interest rate risk and effectuate various transactions. These instruments and commitments, which the Company enters into for purposes other than trading, carry varying degrees of credit, interest rate or liquidity risk. See Note 17 of the Consolidated Financial Statements for a detailed description of each of these instruments.

### Contractual Obligations, Contingent Liabilities and Commitments

The Company is a party to financial instruments with risks that can be subdivided into three categories:

Cash financial instruments, generally characterized as on-balance-sheet items, include investments, loans, mortgage-backed securities, deposits and debt obligations.

Credit-related financial instruments, generally characterized as off-balance-sheet items, include such instruments as commitments to extend credit, commitments to sell mortgage loans, commercial letters of credit and performance and financial standby letters of credit. See Note 17 of the Consolidated Financial Statements.

Investment-related financial instruments, characterized as an off-balance-sheet item, include potential funding for investments in Small Business Investment Companies (SBIC). See Note 18 of the Consolidated Financial Statements.

At December 31, 2024, the aggregate contractual obligations (excluding bank deposits) and commitments were as follows (in thousands):

	Payments due by period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	
<b>Contractual Obligations:</b>					
Total borrowings	\$ -	\$ -	\$ -	\$ -	\$ -
Future minimum lease payments under non-cancelable operating leases	324	222	76	78	700
Total	\$ 324	\$ 222	\$ 76	\$ 78	\$ 700

	Amount of Commitment - Expiration by Period				Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	
<b>Other Commitments:</b>					
Commitments to originate loans	\$ 66,219	\$ 33,360	\$ 9,975	\$ 1,605	\$ 111,159
Standby and commercial letters of credit	2,163	675	-	83	2,921
Commitments to fund SBIC	-	200	505	-	705
Total	\$ 68,382	\$ 34,235	\$ 10,480	\$ 1,688	\$ 114,785

## Liquidity Risk Management

Liquidity risk is the possibility of being unable to meet present and future financial obligations in a timely manner. Liquidity risk management encompasses the Company's ability to meet all present and future financial obligations in a timely manner. The objectives of the Company's 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 debt securities, the Company may utilize brokered deposits, sell debt 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. Funding through the issuance of subordinated notes, subordinated debentures, and long-term borrowings also has been utilized.

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

The Company's liquidity position is measured on an as-needed basis, but no less frequently than monthly using each of the following items:

1. Estimated liquid assets and certain off-balance sheet considerations less estimated volatile liabilities using the aforementioned methodology (\$125.2 million as of December 31, 2024);
2. Borrowing capacity from the FHLB (\$114.1 million as of December 31, 2024); and
3. Capacity to issue brokered deposits with maturities of less than 12 months (\$134.5 million as of December 31, 2024).

On an ongoing basis, the Company uses a variety of factors to assess the Company's liquidity position including, but not limited to, the following:

- Stability of its deposit base;
- Amount of unpledged debt securities;
- Liquidity of its loan portfolio; and
- Potential loan demand.

The Company's liquidity assessment process segregates its balance sheet into liquid assets along with certain off-balance sheet considerations 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. The Company has a targeted range for its liquidity position over this horizon and manage operations to achieve these targets.

The Company further projects cash flows over a 12-month horizon based on its assets and liabilities and sources and uses of funds for anticipated events.

Pursuant to the Company's contingency funding plan, it estimates cash flows over a 12-month horizon under a variety of stressed scenarios to identify potential funding needs and funding sources. The Company's contingency plan identifies actions that could be taken in response to adverse liquidity events.

The Company believes this process, combined with its policies and guidelines, should provide for adequate levels of liquidity to fund the anticipated needs of on- and off- balance sheet items.



## **Forward-Looking Statements**

Statements included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” which are not historical in nature are intended to be, and are hereby identified as “forward-looking statements” for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company cautions readers that these forward-looking statements, including without limitation, those relating to its future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income and expenses, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to several important factors. These factors include, but are not limited to: risks of loans and investments, including dependence on local and regional economic conditions; the impact of lower oil prices in its major market; competition for its customers from other providers of financial services; possible adverse effects of changes in interest rates including the effects of such changes on derivative contracts and associated accounting consequences; risks associated with its acquisition and growth strategies; and other risks which are difficult to predict and many of which are beyond its control.

## **Recently Issued and Adopted Accounting Pronouncements**

Note 1 of the Consolidated Financial Statements includes a summary of recently issued and adopted accounting pronouncements and their related or anticipated impact on the Company.

## **Accounting Policies**

Note 1 of the Consolidated Financial Statements includes a summary of accounting policies and their related impact on the Company.

## **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 the Company’s earnings or value. The Company’s 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. The Company has risk management policies to monitor and limit exposure to interest rate risk. The Company’s asset/liability management process is utilized to manage its 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.

The Company’s 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 it 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.

The Company’s primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes assumptions regarding the changes in interest rates and the impact on the Company’s 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 December 31, 2024, 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 December 31, 2024, 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.

The Company monitors 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 level of interest rates as of December 31, 2024, the downward scenarios for interest rate movements is limited to -200bp. 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 increases from 7.50% to 8.50% 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 result for the 12-month horizon that covers the calendar year of 2024 is shown below (dollars in thousands):

### Net Interest Income Simulation

Movement in interest rates	<u>-200bp</u>	<u>-100bp</u>	<u>Unchanged</u>	<u>+100bp</u>	<u>+200bp</u>	<u>+300bp</u>
Projected 12-month net interest income	\$ 34,207	\$ 33,847	\$ 33,215	\$ 32,315	\$ 31,440	\$ 30,559
Dollar change from unchanged scenario	\$ 992	\$ 632	\$ -	\$ (900)	\$ (1,775)	\$ (2,656)
Percentage change from unchanged scenario	2.99%	1.90%	-	(2.71)%	(5.34)%	(8.00)%

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 assets and liabilities as of December 31, 2024 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate any actions the Company 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 the Company’s rate sensitivity position as of December 31, 2024. 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 December 31, 2024				
	0–3 Months	4–12 Months	1–5 Years	Over 5 years	Total
	(dollars are in thousands)				
<b>Interest-earning assets:</b>					
Interest-bearing deposits with banks	\$ 78,464	\$ -	\$ -	\$ -	\$ 78,464
Debt securities (a)	11,049	12,510	70,807	41,616	135,982
FRB and FHLB stock	2,387	-	-	-	2,387
Loans held for investment, fixed rate	35,154	53,626	139,764	24,888	253,432
Loans held for investment, indexed rate	103,353	70,228	260,260	10,509	444,350
Total interest-earning assets	<u>\$ 230,407</u>	<u>\$ 136,364</u>	<u>\$ 470,831</u>	<u>\$ 77,013</u>	<u>\$ 914,615</u>
<b>Interest-bearing liabilities:</b>					
Interest checking and money market accounts	\$ 535,822	\$ -	\$ -	\$ -	\$ 535,822
Savings	43,786	-	-	-	43,786
Time deposits	25,213	52,628	7,560	35	85,436
Subordinated debentures	-	15,464	-	-	15,464
Total interest-bearing liabilities	<u>\$ 604,821</u>	<u>\$ 68,092</u>	<u>\$ 7,560</u>	<u>\$ 35</u>	<u>\$ 680,508</u>
Interest rate gap	<u>\$ (374,414)</u>	<u>\$ 68,272</u>	<u>\$ 463,271</u>	<u>\$ 76,978</u>	<u>\$ 234,107</u>
Cumulative interest rate gap at December 31, 2024	<u>\$ (374,414)</u>	<u>\$ (306,142)</u>	<u>\$ 157,129</u>	<u>\$ 234,107</u>	
Cumulative interest rate gap to total assets	(38.73%)	(31.67%)	16.25%	24.22%	

- (a) Values for debt 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.

The table assumes that all savings and interest-bearing demand deposits reprice in the earliest period presented, however, management believes a significant portion of these accounts are generally not rate sensitive. The Company's 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 the Company's assets and liabilities as of December 31, 2024, and do not contemplate any actions the Company might undertake in response to changes in market interest rates.

**BNCCORP, INC. AND SUBSIDIARIES**  
Consolidated Financial Statements  
December 31, 2024 and 2023  
(With Independent Auditors' Report Thereon)

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
BNCCORP, INC. and Subsidiaries  
Bismarck, North Dakota

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of BNCCORP, INC. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BNCCORP, INC. and Subsidiaries as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of BNCCORP, INC. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BNCCORP, INC. and Subsidiaries' ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

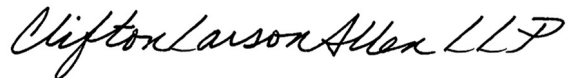
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BNCCORP, INC. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BNCCORP, INC. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Other Information Included in the Annual Report***

Management is responsible for the other information included in the annual report. The other information comprises selected financial data, operating strategy, management's discussion and analysis of financial condition and results of operations, and quantitative and qualitative disclosures about market risk but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
March 12, 2025



## BNCCORP, INC. AND SUBSIDIARIES

### Consolidated Balance Sheets

As of December 31,

(In thousands, except share data)

	2024	2023
<b>ASSETS</b>		
Cash and cash equivalents	\$ 100,815	\$ 102,454
Debt securities available for sale	129,522	159,772
Federal Reserve Bank and Federal Home Loan Bank stock	2,387	2,372
Loans held for investment	698,724	668,808
Allowance for credit losses	(9,223)	(9,284)
Net loans held for investment	689,501	659,524
Premises and equipment, net	10,893	10,955
Operating lease right of use asset	618	938
Accrued interest receivable	4,108	4,206
Other	28,837	27,984
Total assets	\$ 966,681	\$ 968,205
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits:		
Non-interest-bearing	\$ 172,456	\$ 184,442
Interest-bearing –		
Savings, interest checking and money market	579,608	582,855
Time deposits	85,436	69,906
Total deposits	837,500	837,203
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,464	15,464
Accrued interest payable	1,248	937
Accrued expenses	2,832	4,105
Operating lease liabilities	700	1,048
Dividends payable	14,304	-
Other	966	1,030
Total liabilities	873,014	859,787
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$.01 par value – Authorized 11,300,000 shares; 3,668,653 issued; 3,521,375 and 3,569,210 shares outstanding	36	36
Capital surplus – common stock	26,904	26,572
Retained earnings	78,667	93,186
Treasury stock (147,278 and 99,443 shares, respectively)	(2,696)	(1,528)
Accumulated other comprehensive loss, net	(9,244)	(9,848)
Total stockholders' equity	93,667	108,418
Total liabilities and stockholders' equity	\$ 966,681	\$ 968,205

See accompanying notes to consolidated financial statements.

**BNCCORP, INC. AND SUBSIDIARIES**

## Consolidated Statements of Income

For the Years Ended December 31,

(In thousands, except per share data)

	<u>2024</u>	<u>2023</u>
INTEREST INCOME:		
Interest and fees on loans	\$ 38,180	\$ 35,582
Interest and dividends on investments		
Taxable	8,130	7,534
Tax-exempt	-	19
Dividends	145	143
Total interest income	<u>46,455</u>	<u>43,278</u>
INTEREST EXPENSE:		
Deposits	14,360	9,949
Federal Home Loan Bank advances	-	5
Subordinated debentures	1,037	1,014
Total interest expense	<u>15,397</u>	<u>10,968</u>
Net interest income	<u>31,058</u>	<u>32,310</u>
PROVISION FOR CREDIT LOSSES	635	815
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>30,423</u>	<u>31,495</u>
NON-INTEREST INCOME:		
Bank charges and service fees	2,990	3,615
Wealth management revenues	2,036	1,948
Mortgage banking revenues, net	-	3,771
Gains on sales of loans, net	22	16
Gains on sales of debt securities, net	-	12
Other	845	642
Total non-interest income	<u>5,893</u>	<u>10,004</u>
NON-INTEREST EXPENSE:		
Salaries and employee benefits	15,005	17,517
Professional services	1,108	3,419
Data processing fees	3,414	3,722
Marketing and promotion	813	3,127
Occupancy	1,556	1,785
Regulatory costs	539	470
Depreciation and amortization	1,086	1,094
Office supplies and postage	364	415
Other	2,167	2,634
Total non-interest expense	<u>26,052</u>	<u>34,183</u>
Income before income taxes	<u>10,264</u>	<u>7,316</u>
Income tax expense	2,336	1,611
Net income	<u>\$ 7,928</u>	<u>\$ 5,705</u>
Basic earnings per common share	<u>\$ 2.24</u>	<u>\$ 1.59</u>
Diluted earnings per common share	<u>\$ 2.23</u>	<u>\$ 1.59</u>

See accompanying notes to consolidated financial statements.

**BNCCORP, INC. AND SUBSIDIARIES**  
Consolidated Statements of Comprehensive Income  
For the Years Ended December 31,  
(In thousands)

	<b>2024</b>		<b>2023</b>	
NET INCOME	\$	7,928	\$	5,705
Unrealized gain on debt securities available for sale	\$	801	\$	2,922
Reclassification adjustment for gains on sales of securities, net, included in net income		-		(12)
Other comprehensive income before tax		801		2,910
Income tax effect related to items of other comprehensive income		(197)		(716)
Other comprehensive income	\$	604	\$	2,194
TOTAL COMPREHENSIVE INCOME		\$ 8,532		\$ 7,899

See accompanying notes to consolidated financial statements.

**BNCCORP, INC. AND SUBSIDIARIES**  
Consolidated Statements of Stockholders' Equity  
For the Years Ended December 31,  
(In thousands, except share data)

	<u>Common Stock</u>		<u>Capital Surplus</u>		<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss), net</u>	<u>Total</u>
	<u>Shares Outstanding</u>	<u>Amount</u>	<u>Common Stock</u>	<u>Retained Earnings</u>			
BALANCE, December 31, 2022	3,559,334	\$ 36	\$ 26,399	\$ 87,575	\$ (1,622)	\$ (12,042)	\$ 100,346
Cumulative effect adjustment for adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments	-	-	-	(94)	-	-	(94)
Net income	-	-	-	5,705	-	-	5,705
Other comprehensive income	-	-	-	-	-	2,194	2,194
Share-based compensation	9,876	-	173	-	94	-	267
BALANCE, December 31, 2023	3,569,210	\$ 36	\$ 26,572	\$ 93,186	\$ (1,528)	\$ (9,848)	\$ 108,418
Net income	-	-	-	7,928	-	-	7,928
Other comprehensive income	-	-	-	-	-	604	604
Impact of share-based compensation	2,165	-	332	-	(5)	-	327
Common stock repurchased	(50,000)	-	-	-	(1,163)	-	(1,163)
Dividends declared on common stock (\$6.25)	-	-	-	(22,447)	-	-	(22,447)
BALANCE, December 31, 2024	3,521,375	\$ 36	\$ 26,904	\$ 78,667	\$ (2,696)	\$ (9,244)	\$ 93,667

See accompanying notes to consolidated financial statements.

**BNCCORP, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows  
For the Years Ended December 31,  
(In thousands)

	<b>2024</b>	<b>2023</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 7,928	\$ 5,705
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for credit losses	635	815
Depreciation	1,086	1,094
Amortization of right of use assets	342	566
Net amortization of premiums and (discounts) on debt securities and subordinated debentures	1,375	1,522
Share-based compensation	327	267
Change in accrued interest receivable and other assets, net	(886)	(469)
Loss on sale of bank premises and equipment	30	144
Net realized gain on sales of debt securities	-	(12)
Deferred tax benefit	(90)	(76)
Change in other liabilities, net	(1,363)	(1,214)
Funding of loans held for sale, mortgage banking	-	(439,449)
Proceeds from sales of loans held for sale, mortgage banking	-	477,272
Fair value adjustment for loans held for sale, mortgage banking	-	52
Fair value adjustment on mortgage banking derivatives	-	409
Gains on sales of loans, net	(22)	(16)
Net cash provided by operating activities	9,362	46,610
<b>INVESTING ACTIVITIES:</b>		
Purchases of debt securities available for sale	-	(9,555)
Proceeds from sales of debt securities available for sale	-	9,483
Proceeds from maturities of debt securities available for sale	29,677	16,575
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(15)	(1,640)
Sales of Federal Reserve and Federal Home Loan Bank Stock	-	2,331
Net increase in loans held for investment	(30,600)	(52,508)
Proceeds from sales of premises and equipment	-	102
Purchases of premises and equipment	(1,054)	(531)
Net cash used in investing activities	(1,992)	(35,743)

See accompanying notes to consolidated financial statements.

**BNCCORP, INC. AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows, continued  
For the Years Ended December 31,  
(In thousands)

	<u>2024</u>	<u>2023</u>
<b>FINANCING ACTIVITIES:</b>		
Net increase in deposits	\$ 297	\$ 17,619
Repayments of Federal Home Loan Bank advances	-	(41,001)
Proceeds from Federal Home Loan Bank advances	-	41,001
Dividends paid on common stock	(8,143)	-
Common stock repurchase	(1,163)	-
Net cash (used in) provided by financing activities	<u>(9,009)</u>	<u>17,619</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,639)</b>	<b>28,486</b>
CASH AND CASH EQUIVALENTS, beginning of period	<u>102,454</u>	<u>73,968</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 100,815</u>	<u>\$ 102,454</u>
 <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 15,086</u>	<u>\$ 10,344</u>
Income taxes paid	<u>\$ 2,547</u>	<u>\$ 1,457</u>
 <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Additions to repossessed assets in the settlement of loans	<u>\$ 88</u>	<u>\$ 101</u>
Right of use assets obtained in exchange for lease obligations	<u>\$ 23</u>	<u>\$ 340</u>
Dividends declared on common stock not yet paid	<u>\$ 14,304</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

## **NOTE 1. Description of Business and Significant Accounting Policies**

### **Description of Business**

BNCCORP, INC. (“BNCCORP”) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the “Bank”). BNC National Bank operates community banking and wealth management businesses through 11 locations in North Dakota and Arizona. During 2023, the Bank conducted mortgage banking through a consumer-direct channel complemented by relationship based retail channels. The consumer direct channel emphasized technology (internet leads and call center) to originate mortgage loans throughout the United States. The retail channel is primarily relationship driven and originations are generally near mortgage banking locations. On June 16, 2023, the Company sold certain operating assets and assigned certain liabilities related to the Company’s mortgage segment to First Federal Bank.

With respect to group concentrations of credit risk, most of the Company’s business activity is with customers in North Dakota. At December 31, 2024, the Company did not have any significant credit concentrations in any particular industry.

The consolidated financial statements included herein are for BNCCORP and subsidiaries. The accounting and reporting policies of BNCCORP and subsidiaries (collectively, the “Company”) conform to U.S. generally accepted accounting principles (GAAP) and general practices within the financial services industry. The more significant accounting policies are summarized below.

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of BNCCORP and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for credit losses, fair value measurements for financial instruments, and income taxes. Ultimate results could materially differ from those estimates.

## **SIGNIFICANT ACCOUNTING POLICIES**

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, cash due from banks and federal funds sold.

### **Debt Securities**

Debt securities that the Bank intends to hold indefinitely as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, liquidity needs, or prepayment risk are classified as available for sale. Available for sale securities are carried at fair value. Net unrealized gains and losses, net of deferred income taxes, on securities available for sale are reported as a separate component of stockholders’ equity until realized (see Comprehensive Income).

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For callable securities purchased at a premium, such premium is amortized over the period to the earliest call date. Dividend and interest income is recognized when earned. Realized gains and losses on the sale of debt securities are determined using the specific-identification method and recognized in non-interest income on the trade date.

**Federal Reserve Bank and Federal Home Loan Bank**

Investments in Federal Reserve Bank and Federal Home Loan Bank stock qualify as restricted stock, which is not subject to equity security accounting treatment, and is reported at cost, subject to impairment.

**Loans Held For Sale-Mortgage Banking**

Loans held for sale-mortgage banking are accounted for at fair value pursuant to the fair value option permitted by ASC 825, *Financial Instruments*. Gains and losses from the changes in fair value are included in mortgage banking revenues, net.

**Loans Held For Investment**

Loans held for investment are stated at their outstanding principal amount net of unearned income, unamortized deferred fees and costs, and an allowance for credit losses. Interest income is recognized on the accrual basis using the interest method prescribed in the loan agreement except when collectibility is in doubt.

Loans are reviewed regularly by management and are placed on non-accrual status when the collection of interest or principal is 90 days or more past due, unless the loan is adequately secured and in the process of collection. When a loan is placed on non-accrual status, interest accrued and uncollected is reversed against interest income in the current period. Interest payments received on non-accrual loans are generally applied to principal unless the remaining principal balance has been determined to be fully collectible. Accrual of interest may be resumed when it is determined that all amounts due are expected to be collected and the loan has exhibited a sustained level of performance, generally at least six months.

**Loan Origination Fees and Costs; Other Lending Fees**

For Loans Held for Investment, origination fees and costs incurred to extend credit are deferred and amortized over the term of the loan as an adjustment to yield using the interest method, except where the net amount is deemed to be immaterial.

The Company occasionally originates lines of credit where the customer is charged a non-usage fee if the line of credit is not used. In such instances, the Company periodically reviews use of lines on a retrospective basis and recognizes non-usage fees in non-interest income.

**Loan Servicing and Transfers of Financial Assets**

The Bank sells commercial business loans to third parties. The loans are generally sold on a non-recourse basis. Subsequent to the sale, the loans continue to be serviced by the Bank. Sold loans are not included in the accompanying consolidated balance sheets.

The sales of loans are accounted for pursuant to ASC 860, *Transfers and Servicing of Financial Assets*.

The Bank originated certain residential mortgage loans with the intent to sell to secondary market investors. The mortgage servicing rights associated with these loans were sold to third parties.

**Allowance for Credit Losses**

The Company's allowance for credit losses is comprised of an allowance for loans held for investment, allowance for unfunded commitments, and allowance for debt securities available for sale. The Company is required to estimate the credit losses expected over the life of the loan. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectibility of the loan portfolio.



**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

*Allowance for Credit Losses – Loans Held for Investment*

The Company's methodology for estimating the allowance for credit losses is applied consistently to the loan portfolio. The following identifies the methodology by which the Company estimates the allowance for credit losses:

Collective Pools. The Company makes a significant number of loans that, due to their underlying similar characteristics, are assessed for loss as "collective" pools. The Bank segments the pools by type of loan and using historical loss and peer group loss information estimates an expected credit loss for each individual loan or lease within the pool. Historical loss rates are derived by tracking the historical net charge-offs. The historical loss rates for each type of loan are then averaged to calculate an overall loss rate, which is applied to the current loan balance. Loans of this nature are generally internally designated as a "pass" rated credit. Loans within this category are identified and segmented based on internal loan type. Each loan is then given a historical loss rate based on its identified loan type, which is then applied to the life of the loan. Loss rates for each loan type are determined by comparing the Company's historic loss rates and peer loss rates. The maximum loss rate for each loan type becomes the loss rate utilized.

Collective Risk Grade. The Company has loans where the risk grade classification deteriorates below an internally assigned grade of "pass". In these cases, the Company generally experiences higher historical loss rates and expects the credit losses on the contractual balance to increase. Loans in this category are pooled by risk grade and historic loss rates are applied to the contractual balances of each individual loan or lease. Loss rates are established based on the Company's historic loss rates for criticized loans. This loss rate is then applied to each loan which maintains a risk rating below "pass". Loans that fall within the collective risk grade segment are not included in the collective pool segment.

Individual Reserves. The Company estimates reserves for individually evaluated loans through a loan-by-loan analysis of problem loans that considers expected future cash flows, the value of collateral and other factors that may impact the borrower's ability to make payments when due. Included in this group are loans in nonaccrual status or modified loans. Individual reserves are determined through evaluation of collateral values, expected future cash flow and other factors that may impact the borrower's ability to make contractual payments. An individual reserve is then applied to individual loans based on the level of expected loss. Loans evaluated within the individual reserve segment are excluded from all other segments.

Qualitative / Forecast Reserve. The Company also considers qualitative adjustments to the quantitative baseline. Utilizing a framework based on the Interagency Policy Statement on Allowance for Credit Losses, the Company considers prevailing and anticipated economic trends, such as current and forecasted economic conditions, economic trends, an assessment of credit risk inherent in the loan portfolio, and delinquency trends. The Company also considers information to the extent the Company expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The Company maintains a scorecard that includes nine qualitative factors and performs a review on a quarterly basis. Upon evaluation of the qualitative factors, a qualitative loss rate will be established and applied to all loans outside of those included in the Individual Reserve component. The Company's forecast period is generally 1 to 2 years.

*Allowance for Credit Losses – Unfunded Commitments*

The allowance for unfunded commitments represents the expected credit losses on off-balance sheet commitments, such as commitments to extend credit and financial standby letters of credit. The allowance for unfunded commitments is included in other liabilities on the consolidated balance sheets. The allowance for unfunded commitments is determined by estimating future draws and applying the expected loss rates on those draws. Future draws are based on historical utilization rates along with individual assessment for specific loan types. Loss rates are estimated through the same methodology as defined within the "collective pools" segment of the allowance for loans held for investment.

*Allowance for Credit Losses – Debt Securities Available for Sale*

The Company's evaluation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit losses and can change over time.

The Company does not believe that the debt securities available for sale that were in an unrealized loss position as of December 31, 2024 represent a credit loss impairment. As of December 31, 2024, the gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a history of zero credit loss. Total gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the debt securities. The Company does not intend to sell the debt securities that were in an unrealized loss position and it is unlikely that the Company will be required to sell the debt securities before recovery of their amortized cost basis, which may be at maturity.

**Collateral-Dependent Loans**

A financial asset is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For all classes of loans deemed collateral-dependent, the Company elected the practical expedient to estimate expected credit losses based on the collateral's fair value less cost to sell. In most cases, the Company records a partial charge-off to reduce the loan's carrying value to the collateral's fair value less cost to sell. Substantially all of the collateral consists of various types of commercial business assets; agriculture machinery; and other consumer property.

**Other Real Estate Owned and Repossessed Assets, net**

Real estate properties and other assets acquired through loan foreclosures are recorded at fair value less estimated costs to sell. If the carrying amount of an asset acquired through foreclosure is in excess of the fair value less estimated costs to sell, the excess amount is charged to the allowance for credit losses. Fair value is primarily determined based upon appraisals of the assets involved and management periodically assesses appraised values to ascertain continued relevancy of the valuation. If subsequent declines in fair value in excess of the carrying amount of foreclosed assets are identified, the Company establishes a valuation allowance against the asset. Net operating income from and gains on disposition of these assets are included in other non-interest income. Net operating expenses, losses on disposition, and subsequent declines in the estimated fair value of these assets are charged to other non-interest expense.

**Premises and Equipment**

Land is carried at cost. Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization for financial reporting purposes is charged to non-interest expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are up to forty years for buildings and three to ten years for furniture and equipment. Leasehold improvements are capitalized and amortized over the shorter of the lease term or the estimated useful life of the improvement. Maintenance and repairs, as well as gains and losses on dispositions of premises and equipment, are included in non-interest income or expense as incurred.

### **Impairment of Long-Lived Assets**

The Company reviews long-lived assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The impairment review includes a comparison of future cash flows (undiscounted and without interest charges) expected to be generated by the assets to their current carrying value. If impairment is identified, the assets are written down to their fair value through a charge to non-interest expense.

### **Securities Sold Under Agreements to Repurchase**

From time to time, the Bank enters into sales of securities under agreements to repurchase, generally for periods of less than 90 days. These agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets as short-term borrowings. The costs of securities underlying the agreements remain in the asset accounts.

### **Fair Value**

Several accounting standards require recording assets and liabilities based on their fair values. Determining the fair value of assets and liabilities can be highly subjective. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

ASC 820, *Fair Value Measurement*, 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 less 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 the Company's own estimates of assumptions that market participants would use in pricing the asset or liability.

Management assigns levels to assets and liabilities accounted for at fair value.

### **Fair Values of Financial Instruments**

The Company is required to disclose the estimated fair value of financial instruments. Fair value estimates are subjective in nature, involving uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following methods and assumptions are used by the Company in estimating fair value disclosures for its financial instruments.

**Debt Securities Available for Sale.** The fair value of the Company's securities, other than U.S. Treasury securities, are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less active, and model-based valuation techniques for which significant assumptions are observable in the market. U.S. Treasury securities are based upon quoted prices for identical instruments traded in active markets.

**Loans Held for Sale-Mortgage Banking.** Loans held for sale-mortgage banking are accounted for at fair value pursuant to the fair value option permitted by ASC 825, *Financial Instruments*. Fair value measurements on

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

loans held for sale are based on quoted market prices for similar loans in the secondary market, market quotes from anticipated sales contracts and commitments, or contract prices from firm sales commitments.

**Derivative Financial Instruments.** The fair value of the Company's derivatives are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less active, and model-based valuation techniques for which significant assumptions are observable in the market.

**Financial Instruments with Off-Balance-Sheet Risk.** The fair values of the Company's commitments to extend credit and commercial and standby letters of credit are estimated using fees currently charged to enter into similar agreements.

### **Derivative Financial Instruments**

ASC 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Accordingly, the Company records all derivatives at fair value.

In 2023, the Company entered into interest rate lock commitments on certain mortgage loans originated by its mortgage banking operations on a best efforts basis, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding. The Company also had corresponding forward sales contracts related to these interest rate lock commitments. Both the mortgage loan commitments and the related forward sales contracts are accounted for as derivatives and carried at fair value in other assets with changes in fair value recorded in mortgage banking revenues, net.

The Company also committed to originate and sell certain loans through its mortgage banking operations on a mandatory delivery basis. To hedge interest rate risk, the Company sold short positions in mortgage backed securities related to the loans sold on a mandatory delivery basis. The commitments to originate and short positions are accounted for as derivatives and carried at fair value in other liabilities with changes in fair value recorded in mortgage banking revenues, net.

### **Share-Based Compensation**

ASC 718, *Compensation – Stock Compensation*, requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date.

At December 31, 2024, the Company had two stock-based compensation plans, which are described more fully in Note 22 and Note 23 to these consolidated financial statements.

### **Revenue from Contracts with Customers**

The majority of the Company's performance obligations for revenue from contracts with customers are satisfied at a point in time and are typically collected from customers at the time of the transaction or shortly thereafter.

The following is a description of the principal activities from which the Company generates revenue that are within the scope of ASC 606:

*Service charges on deposits* – Service charges on deposit accounts represent daily and monthly analysis fees recognized for the services related to customer deposit accounts, including account maintenance, overdraft fees, and depository transactions processing fees. Depository accounts charge fees in accordance with the customer's pricing schedule or may be assessed a flat service fee per month. The Company satisfies the performance obligation related to providing depository accounts daily as transactions are processed and deposit service charge revenue is recognized daily.

*Bankcard fees* – Bankcard fees primarily represent income earned from interchange revenue from Visa for the Company's processing of debit card transactions. The performance obligation for interchange revenue is

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the processing of each transaction through the Company's access to the banking system. This performance obligation is completed for each individual transaction and revenue is recognized per transaction in accordance with interchange rates established by Visa.

*Wealth management revenue* – Wealth management revenue consists of fees earned on personal trust accounts, retirement plan administration, and wealth management services. The performance obligations related to this revenue include items such as performing trustee service administration, investment management services, custody and record-keeping services, and retirement plan administration. These fees are part of contractual agreements and the performance obligations are satisfied upon completion of services. The fees are generally a fixed-flat annual rate or based on a percentage of the account's market value per the contract with the customer and revenue is recognized over time as earned.

*Other income* – The Company recognizes other miscellaneous income through a variety of other revenue streams, the most material of which includes revenue from investments in Small Business Investment Companies (SBIC), gains on sales of financial assets, and bank-owned life insurance income. These revenue streams are outside of the scope of ASC 606 and are recognized in accordance with the applicable U.S. GAAP. The remainder of other income is primarily earned through transactions with personal banking customers, including stop payment charges and fees for cashier's checks. The performance obligations of these types of fees are satisfied as transactions are completed and revenue is recognized upon transaction execution according to established fee schedules with the customers.

Note 14 to these consolidated financial statements includes disclosure of revenue from contracts with customers.

### **Income Taxes**

The Company files consolidated federal and unitary state income tax returns where allowed.

The determination of current and deferred income taxes is based on analyses of many factors including interpretation of federal and state income tax laws, differences between tax and financial reporting basis of assets and liabilities, expected reversals of temporary differences, estimates of amounts due or owed and current financial accounting standards. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income taxes.

Deferred income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in income in the period of enactment regardless of the balance sheet classification of the underlying deferred tax asset or liability.

Management evaluates deferred tax assets to determine whether they are realizable based upon accounting standards and specific facts and circumstances. A valuation allowance is established to reduce deferred tax assets to amounts that are more likely than not expected to be realized.

### **Earnings Per Share**

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Such potential dilutive instruments include stock options and contingently issuable stock. Note 20 to these consolidated financial statements includes disclosure of the Company's EPS calculations.

**BNCCORP, INC. AND SUBSIDIARIES**  
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**Comprehensive Income**

Comprehensive income is the total of net income and other comprehensive income, which for the Company, is generally comprised of unrealized gains and losses on securities available for sale, net of corresponding tax effects.

**Subsequent Events**

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 12, 2025, the date the consolidated financial statements were available to be issued.

**RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS & INTERPRETATIONS**

In December of 2023, the FASB issued Accounting Standards Update (ASU) 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This standard establishes new income tax disclosure requirements in addition to modifying and eliminating certain existing requirements. Under the new guidance, entities must consistently categorize and provide greater disaggregation of information in the rate reconciliation. They must also further disaggregate income taxes paid. The ASU is effective for fiscal years beginning after December 15, 2024. The adoption of the ASU is not expected to have a material impact on the Company's financial statements.

**BNCCORP, INC. AND SUBSIDIARIES**  
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## NOTE 2. Debt Securities Available For Sale

Debt 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 December 31, 2024, or 2023. The amortized cost of debt securities available for sale and their estimated fair values were as follows as of December 31 (in thousands):

	<b>2024</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. treasury securities	\$ 10,929	\$ -	\$ (799)	\$ 10,130
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	19,189	-	(3,193)	15,996
U.S. government agency small business administration pools guaranteed by SBA	9,534	-	(590)	8,944
Collateralized mortgage obligations guaranteed by GNMA	6,373	-	(236)	6,137
Collateralized mortgage obligations issued by FNMA/FHLMC	48,099	-	(4,962)	43,137
Commercial mortgage-backed securities issued by FHLMC	16,682	-	(1,152)	15,530
Other commercial mortgage-backed securities	24,405	-	(1,622)	22,783
State and municipal bonds	8,051	-	(1,186)	6,865
	<u>\$ 143,262</u>	<u>\$ -</u>	<u>\$ (13,740)</u>	<u>\$ 129,522</u>
	<b>2023</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. treasury securities	\$ 25,872	\$ -	\$ (992)	\$ 24,880
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	21,282	-	(3,187)	18,095
U.S. government agency small business administration pools guaranteed by SBA	12,020	-	(755)	11,265
Collateralized mortgage obligations guaranteed by GNMA	8,051	-	(287)	7,764
Collateralized mortgage obligations issued by FNMA/FHLMC	55,750	-	(4,860)	50,890
Commercial mortgage-backed securities issued by FHLMC	16,927	-	(1,213)	15,714
Other commercial mortgage-backed securities	26,349	-	(2,136)	24,213
State and municipal bonds	8,062	-	(1,111)	6,951
	<u>\$ 174,313</u>	<u>\$ -</u>	<u>\$ (14,541)</u>	<u>\$ 159,772</u>

The Company elected to exclude accrued interest receivable from the amortized cost basis of debt securities available for sale throughout this footnote. Total accrued interest receivable for debt securities was \$586 thousand and \$700 thousand as of December 31, 2024 and 2023, respectively, and is included in the accrued interest receivable line item on the Company's consolidated balance sheets.

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

The amortized cost and estimated fair value of debt securities available for sale classified according to their contractual maturities at December 31, 2024, were as follows (in thousands):

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ -	\$ -
Due after one year through five years	30,829	29,130
Due after five years through ten years	23,070	21,316
Due after ten years	89,363	79,076
Total	<u>\$ 143,262</u>	<u>\$ 129,522</u>

The table above 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.

Debt securities available for sale with estimated fair values of \$31.6 million and \$41.1 million at December 31, 2024, and 2023, respectively, were pledged as collateral for public and trust deposits and borrowings, including borrowings from the FHLB and repurchase agreements with customers.

The Company had no sales of debt securities during 2024. This compares to \$9.5 million of sales proceeds and \$12 thousand of net realized gains in 2023.



**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

The following table shows the Company's gross unrealized losses and fair value of debt securities available for sale aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31 (in thousands):

Description of Securities	2024								
	Less Than 12 Months			12 Months or More			Total		
		Fair	Unrealized		Fair	Unrealized		Fair	Unrealized
	#	Value	Loss	#	Value	Loss	#	Value	Loss
U.S. treasury securities	-	\$ -	\$ -	3	\$ 10,130	\$ (799)	3	\$ 10,130	\$ (799)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	-	-	-	8	15,996	(3,193)	8	15,996	(3,193)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	8,944	(590)	4	8,944	(590)
Collateralized mortgage obligations guaranteed by GNMA	-	-	-	8	6,137	(236)	8	6,137	(236)
Collateralized mortgage obligations issued by FNMA/FHLMC	1	156	(2)	18	42,981	(4,960)	19	43,137	(4,962)
Commercial mortgage-backed securities issued by FHLMC	-	-	-	3	15,530	(1,152)	3	15,530	(1,152)
Other commercial mortgage-backed securities	-	-	-	10	22,783	(1,622)	10	22,783	(1,622)
State and municipal bonds	-	-	-	2	6,865	(1,186)	2	6,865	(1,186)
Total temporarily impaired securities	<u>1</u>	<u>\$ 156</u>	<u>\$ (2)</u>	<u>56</u>	<u>\$ 129,366</u>	<u>\$ (13,738)</u>	<u>57</u>	<u>\$ 129,522</u>	<u>\$ (13,740)</u>

Description of Securities	2023								
	Less Than 12 Months			12 Months or More			Total		
		Fair	Unrealized		Fair	Unrealized		Fair	Unrealized
	#	Value	Loss	#	Value	Loss	#	Value	Loss
U.S. treasury securities	1	\$ 9,963	\$ (6)	4	\$ 14,917	\$ (986)	5	\$ 24,880	\$ (992)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	-	-	-	8	18,095	(3,187)	8	18,095	(3,187)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	11,265	(755)	4	11,265	(755)
Collateralized mortgage obligations guaranteed by GNMA	-	-	-	8	7,764	(287)	8	7,764	(287)
Collateralized mortgage obligations issued by FNMA/FHLMC	1	175	(2)	18	50,715	(4,858)	19	50,890	(4,860)
Commercial mortgage-backed securities issued by FHLMC	-	-	-	3	15,714	(1,213)	3	15,714	(1,213)
Other commercial mortgage-backed securities	-	-	-	11	24,213	(2,136)	11	24,213	(2,136)
State and municipal bonds	-	-	-	2	6,951	(1,111)	2	6,951	(1,111)
Total temporarily impaired securities	<u>2</u>	<u>\$ 10,138</u>	<u>\$ (8)</u>	<u>58</u>	<u>\$ 149,634</u>	<u>\$ (14,533)</u>	<u>60</u>	<u>\$ 159,772</u>	<u>\$ (14,541)</u>

The Company does not believe that the debt securities available for sale that were in an unrealized loss position as of December 31, 2024 and December 31, 2023 represent a credit loss impairment. For both periods presented, the

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Notes to Consolidated Financial Statements

gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a history of zero credit loss. Total gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the debt securities. The Company does not intend to sell the debt securities that were in an unrealized loss position and it is unlikely that the Company will be required to sell the debt securities before recovery of their amortized cost basis, which may be at maturity.

### **NOTE 3. Federal Reserve Bank and Federal Home Loan Bank Stock**

The carrying amounts of FRB and FHLB stock, which approximate their fair values, consisted of the following as of December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Federal Reserve Bank stock, at cost	\$ 1,807	\$ 1,807
Federal Home Loan Bank, at cost	580	565
Total	<u>\$ 2,387</u>	<u>\$ 2,372</u>

### **NOTE 4. Loans**

The composition of loans is as follows at December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Commercial and industrial	\$ 231,441	\$ 216,055
Commercial real estate	244,364	245,939
SBA	84,799	63,836
Consumer	120,032	111,872
Land and land development	11,243	8,416
Construction	<u>5,903</u>	<u>21,648</u>
Gross loans held for investment	697,782	667,766
Unearned income and net unamortized deferred fees and costs	<u>942</u>	<u>1,042</u>
Loans, net of unearned income and unamortized fees and costs	698,724	668,808
Allowance for credit losses	<u>(9,223)</u>	<u>(9,284)</u>
Net loans held for investment	<u>\$ 689,501</u>	<u>\$ 659,524</u>

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans held for investment throughout this footnote. Total accrued interest receivable for loans held for investment was \$3.5 million as of December 31, 2024 and 2023, and is included in the accrued interest receivable line item on the Company's consolidated balance sheets.

To accommodate customers whose financing needs exceed the Bank's lending limits, the Bank sells loan participations on a nonrecourse basis to outside financial institutions and derecognizes the portion of the loan balance sold. The Bank retains the servicing rights of the participations sold. At December 31, 2024, and 2023, loan participations sold on a nonrecourse basis to outside financial institutions totaled \$127.3 million and \$130.6 million, respectively.

#### **Loans to Related Parties**

Note 21 to these consolidated financial statements includes information relating to loans to executive officers, directors, principal shareholders and associates of such persons.

**BNCCORP, INC. AND SUBSIDIARIES**  
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**Loans Pledged as Collateral**

The table below present's loans pledged as collateral to the FHLB and FRB as of December 31(in thousands):

	<u>2024</u>	<u>2023</u>
Commercial and industrial	\$ 70,907	\$ 67,767
Commercial real estate	132,217	125,828
Total	<u>\$ 203,124</u>	<u>\$ 193,595</u>

**NOTE 5. Allowance for Credit Losses**

Transactions in the allowance for credit losses were as follows for the years ended December 31 (in thousands):

	<u>2024</u>						
	<u>Commercial and Industrial</u>	<u>Commercial Real Estate</u>	<u>SBA</u>	<u>Consumer</u>	<u>Land and Land Development</u>	<u>Construction</u>	<u>Total</u>
Balance, beginning of period	\$ 3,378	\$ 3,368	\$ 1,014	\$ 1,092	\$ 169	\$ 263	\$ 9,284
Provision (credit)	142	(134)	431	343	39	(176)	645
Loans charged off	(392)	-	(159)	(195)	-	-	(746)
Loan recoveries	-	-	-	40	-	-	40
Balance, end of period	<u>\$ 3,128</u>	<u>\$ 3,234</u>	<u>\$ 1,286</u>	<u>\$ 1,280</u>	<u>\$ 208</u>	<u>\$ 87</u>	<u>\$ 9,223</u>

	<u>2023</u>						
	<u>Commercial and Industrial</u>	<u>Commercial Real Estate</u>	<u>SBA</u>	<u>Consumer</u>	<u>Land and Land Development</u>	<u>Construction</u>	<u>Total</u>
Balance, beginning of period	\$ 2,519	\$ 3,621	\$ 1,396	\$ 982	\$ 87	\$ 226	\$ 8,831
Cumulative effect-CECL adoption	511	(300)	(467)	(13)	66	139	(64)
Provision (credit)	420	47	140	308	16	(102)	829
Loans charged off	(100)	-	(55)	(213)	-	-	(368)
Loan recoveries	28	-	-	28	-	-	56
Balance, end of period	<u>\$ 3,378</u>	<u>\$ 3,368</u>	<u>\$ 1,014</u>	<u>\$ 1,092</u>	<u>\$ 169</u>	<u>\$ 263</u>	<u>\$ 9,284</u>

The Company recorded a \$635 thousand provision for credit losses in 2024. A provision of \$645 thousand was recorded as an allowance for loan losses and a credit of \$10 thousand was recorded as a reduction of allowance for unfunded commitments. This compares to an \$815 thousand provision for credit losses in 2023. A provision of \$829 thousand was recorded as an allowance for loan losses and a credit of \$14 thousand was recorded as a reduction of allowance for unfunded commitments.

At December 31, 2024, the Company maintained an allowance for unfunded commitments of \$165 thousand. At December 31, 2023, the Company maintained an allowance for unfunded commitments of \$175 thousand. The allowance for unfunded commitments are included as part of the other liabilities line on the Company's Consolidated Balance Sheets.

### **Credit Quality Indicators**

The Company maintains an internal risk rating process in order to increase the precision and effectiveness of credit risk management. Loans are assigned one of the following four internally assigned grades: pass, special mention, substandard, and doubtful. The following are the definitions of the Company's credit quality indicators:

**Pass.** Loans designated as pass are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans and leases that are considered Pass.

**Special Mention.** Loans designated as special mention 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.

**Substandard.** 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 loan. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

**Doubtful.** 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.

Below is a summary of the segments and certain of the inherent risks in the Company's loan portfolio:

**Commercial and industrial and SBA.** These portfolio segments include guaranteed, secured and unsecured commercial loans. Credit risks inherent in this portfolio segment include fluctuations in the local and national economy.

**Commercial real estate.** The commercial real estate portfolio segment includes all commercial loans that are secured by real estate, other than those included in the construction and development. Risks inherent in this portfolio segment include fluctuations in property values and changes in the local and national economy impacting the sale or lease of the finished structures.

**Construction and Land Development.** These portfolio segments include loans for the purpose of construction. Credit risks inherent in these portfolios include fluctuations in property values, unemployment, and changes in the local and national economy.

**Consumer.** This portfolio segment consists of real estate and non-real estate loans to consumers. This includes mortgages, secured loans, and unsecured loans. The risks inherent in this portfolio segment include those factors that would impact the consumer's ability to meet their obligations under the loan, such as the local unemployment rate.

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The following presents by credit quality indicator, loan class, and year of origination, the amortized cost basis of the Company's loans (in thousands):

December 31, 2024	Term Loans by Origination Year						Revolving Loans	Total
	2024	2023	2022	2021	2020	Prior		
<b>Commercial and Industrial</b>								
Pass	\$ 52,138	\$ 23,624	\$ 59,852	\$ 18,853	\$ 15,035	\$ 30,169	\$ 27,313	\$ 226,984
Special mention	-	-	-	1,101	-	553	577	2,231
Substandard	-	-	274	144	-	1,525	-	1,943
Doubtful	-	-	283	-	-	-	-	283
Total commercial and industrial	\$ 52,138	\$ 23,624	\$ 60,409	\$ 20,098	\$ 15,035	\$ 32,247	\$ 27,890	\$ 231,441
Commercial and industrial loans:								
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 392	\$ -	\$ 392
<b>Commercial Real Estate</b>								
Pass	\$ 8,408	\$ 30,883	\$ 42,751	\$ 48,117	\$ 16,793	\$ 85,625	\$ 2,431	\$ 235,008
Special mention	-	-	6,906	-	-	-	2,450	9,356
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate	\$ 8,408	\$ 30,883	\$ 49,657	\$ 48,117	\$ 16,793	\$ 85,625	\$ 4,881	\$ 244,364
Commercial real estate:								
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Small Business Administration</b>								
Pass	\$ 23,066	\$ 12,116	\$ 20,102	\$ 8,312	\$ 1,861	\$ 16,645	\$ 787	\$ 82,889
Special mention	-	80	174	351	-	15	-	620
Substandard	-	-	508	-	-	191	-	699
Doubtful	-	-	-	38	-	553	-	591
Total small business administration	\$ 23,066	\$ 12,196	\$ 20,784	\$ 8,701	\$ 1,861	\$ 17,404	\$ 787	\$ 84,799
Small business administration loans:								
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 159	\$ -	\$ 159
<b>Consumer</b>								
Pass	\$ 23,859	\$ 25,093	\$ 26,299	\$ 10,491	\$ 7,296	\$ 10,155	\$ 15,608	\$ 118,801
Special mention	-	-	-	-	-	-	-	-
Substandard	168	873	34	69	33	3	51	1,231
Doubtful	-	-	-	-	-	-	-	-
Total consumer	\$ 24,027	\$ 25,966	\$ 26,333	\$ 10,560	\$ 7,329	\$ 10,158	\$ 15,659	\$ 120,032
Consumer loans:								
Current period gross write-offs	\$ 10	\$ 21	\$ 68	\$ 42	\$ 23	\$ 31	\$ -	\$ 195
<b>Land and Land Development</b>								
Pass	\$ 996	\$ 2,143	\$ 1,169	\$ 861	\$ 307	\$ -	\$ 5,767	\$ 11,243
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total land and land development	\$ 996	\$ 2,143	\$ 1,169	\$ 861	\$ 307	\$ -	\$ 5,767	\$ 11,243
Land and land development loans:								
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Construction</b>								
Pass	\$ -	\$ 601	\$ -	\$ -	\$ -	\$ -	\$ 5,302	\$ 5,903
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction	\$ -	\$ 601	\$ -	\$ -	\$ -	\$ -	\$ 5,302	\$ 5,903
Construction loans:								
Current period gross write-offs:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total gross loans	\$ 108,635	\$ 95,413	\$ 158,352	\$ 88,337	\$ 41,325	\$ 145,434	\$ 60,286	\$ 697,782
Total gross write-offs	\$ 10	\$ 21	\$ 68	\$ 42	\$ 23	\$ 582	\$ -	\$ 746

**BNCCORP, INC. AND SUBSIDIARIES**  
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**Term Loans by Origination Year**

<b>December 31, 2023</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>Prior</b>	<b>Revolving Loans</b>	<b>Total</b>
<b>Commercial and Industrial</b>								
Pass	\$ 29,495	\$ 70,079	\$ 26,465	\$ 19,142	\$ 7,516	\$ 26,733	\$ 32,913	\$ 212,343
Special mention	-	13	-	26	-	-	-	39
Substandard	27	36	57	120	959	1,768	-	2,967
Doubtful	-	573	-	-	133	-	-	706
Total commercial and industrial	<u>\$ 29,522</u>	<u>\$ 70,701</u>	<u>\$ 26,522</u>	<u>\$ 19,288</u>	<u>\$ 8,608</u>	<u>\$ 28,501</u>	<u>\$ 32,913</u>	<u>\$ 216,055</u>
Commercial and industrial loans:								
Current period gross write-offs	\$ 29	\$ -	\$ 71	\$ -	\$ -	\$ -	\$ -	\$ 100
<b>Commercial Real Estate</b>								
Pass	\$ 24,193	\$ 53,823	\$ 37,076	\$ 18,672	\$ 9,959	\$ 88,948	\$ 11,384	\$ 244,055
Special mention	-	-	1,884	-	-	-	-	1,884
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate	<u>\$ 24,193</u>	<u>\$ 53,823</u>	<u>\$ 38,960</u>	<u>\$ 18,672</u>	<u>\$ 9,959</u>	<u>\$ 88,948</u>	<u>\$ 11,384</u>	<u>\$ 245,939</u>
Commercial real estate:								
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Small Business Administration</b>								
Pass	\$ 11,959	\$ 19,165	\$ 9,067	\$ 1,874	\$ 11,027	\$ 8,034	\$ 744	\$ 61,870
Special mention	-	192	-	192	86	-	-	470
Substandard	-	517	-	-	-	205	-	722
Doubtful	-	-	31	-	265	478	-	774
Total small business administration	<u>\$ 11,959</u>	<u>\$ 19,874</u>	<u>\$ 9,098</u>	<u>\$ 2,066</u>	<u>\$ 11,378</u>	<u>\$ 8,717</u>	<u>\$ 744</u>	<u>\$ 63,836</u>
Small business administration loans:								
Current period gross write-offs	\$ 4	\$ -	\$ -	\$ 51	\$ -	\$ -	\$ -	\$ 55
<b>Consumer</b>								
Pass	\$ 31,317	\$ 32,557	\$ 13,181	\$ 9,639	\$ 3,900	\$ 6,332	\$ 14,855	\$ 111,781
Special mention	-	-	-	-	-	-	-	-
Substandard	-	14	22	29	-	26	-	91
Doubtful	-	-	-	-	-	-	-	-
Total consumer	<u>\$ 31,317</u>	<u>\$ 32,571</u>	<u>\$ 13,203</u>	<u>\$ 9,668</u>	<u>\$ 3,900</u>	<u>\$ 6,358</u>	<u>\$ 14,855</u>	<u>\$ 111,872</u>
Consumer loans:								
Current period gross write-offs	\$ 123	\$ 31	\$ 21	\$ 1	\$ -	\$ 37	\$ -	\$ 213
<b>Land and Land Development</b>								
Pass	\$ 2,665	\$ 1,373	\$ 1,629	\$ 276	\$ -	\$ 219	\$ 2,254	\$ 8,416
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total land and land development	<u>\$ 2,665</u>	<u>\$ 1,373</u>	<u>\$ 1,629</u>	<u>\$ 276</u>	<u>\$ -</u>	<u>\$ 219</u>	<u>\$ 2,254</u>	<u>\$ 8,416</u>
Land and land development loans:								
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Construction</b>								
Pass	\$ 2,593	\$ 1,042	\$ -	\$ -	\$ -	\$ -	\$ 18,013	\$ 21,648
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction	<u>\$ 2,593</u>	<u>\$ 1,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,013</u>	<u>\$ 21,648</u>
Construction loans:								
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total gross loans	<u>\$ 102,249</u>	<u>\$ 179,384</u>	<u>\$ 89,412</u>	<u>\$ 49,970</u>	<u>\$ 33,845</u>	<u>\$ 132,743</u>	<u>\$ 80,163</u>	<u>\$ 667,766</u>
Total gross write-offs	<u>\$ 156</u>	<u>\$ 31</u>	<u>\$ 92</u>	<u>\$ 52</u>	<u>\$ -</u>	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ 368</u>

**BNCCORP, INC. AND SUBSIDIARIES**  
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**Performing and non-accrual loans**

The Bank's key credit quality indicator is a 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 the Bank believes 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 is reversed against interest income in the current period. 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 at December 31 (in thousands):

	2024					Total
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	
Commercial and industrial:						
Business loans	\$ 107,206	\$ -	\$ -	\$ 107,206	\$ 571	\$ 107,777
Agriculture	41,914	-	-	41,914	189	42,103
Owner-occupied commercial real estate	81,561	-	-	81,561	-	81,561
Commercial real estate	244,364	-	-	244,364	-	244,364
SBA	79,423	-	-	79,423	5,376	84,799
Consumer:						
Automobile	6,066	45	-	6,111	24	6,135
Home equity	14,247	-	-	14,247	33	14,280
1st mortgage	31,940	873	-	32,813	-	32,813
Other	66,415	307	-	66,722	82	66,804
Land and land development	11,243	-	-	11,243	-	11,243
Construction	5,903	-	-	5,903	-	5,903
Total gross loans	<u>\$ 690,282</u>	<u>\$ 1,225</u>	<u>\$ -</u>	<u>\$ 691,507</u>	<u>\$ 6,275</u>	<u>\$ 697,782</u>

**BNCCORP, INC. AND SUBSIDIARIES**  
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	<b>2023</b>					
	<b>Current</b>	<b>31-89 Days Past Due</b>	<b>90 Days or More Past Due And Accruing</b>	<b>Total Performing</b>	<b>Non-accrual</b>	<b>Total</b>
Commercial and industrial:						
Business loans	\$ 93,110	\$ 2	\$ -	\$ 93,112	\$ 837	\$ 93,949
Agriculture	37,720	-	-	37,720	-	37,720
Owner-occupied commercial real estate	84,143	243	-	84,386	-	84,386
Commercial real estate	245,939	-	-	245,939	-	245,939
SBA	58,155	3,236	828	62,219	1,617	63,836
Consumer:						
Automobile	9,488	50	-	9,538	-	9,538
Home equity	13,405	-	-	13,405	-	13,405
1st mortgage	26,427	1,051	-	27,478	-	27,478
Other	61,157	225	4	61,386	65	61,451
Land and land development	8,416	-	-	8,416	-	8,416
Construction	21,648	-	-	21,648	-	21,648
Total gross loans	<u>\$ 659,608</u>	<u>\$ 4,807</u>	<u>\$ 832</u>	<u>\$ 665,247</u>	<u>\$ 2,519</u>	<u>\$ 667,766</u>

The following table sets forth information on the Bank's non-accrual loans as of December 31 (in thousands):

	<b>2024</b>		
	<b>Non-accrual loans with a related ACL</b>	<b>Non-accrual loans without a related ACL</b>	<b>Total Non-Accrual Loans</b>
Commercial and industrial:			
Business loans	\$ 288	\$ 283	\$ 571
Agriculture	189	-	189
SBA	5,231	145	5,376
Consumer:			
Automobile	24	-	24
Home equity	33	-	33
Other	82	-	82
Total	<u>\$ 5,847</u>	<u>\$ 428</u>	<u>\$ 6,275</u>

	<b>2023</b>		
	<b>Non-accrual loans with a related ACL</b>	<b>Non-accrual loans without a related ACL</b>	<b>Total Non-Accrual Loans</b>
Commercial and industrial: Business loans	\$ 837	\$ -	\$ 837
SBA	1,617	-	1,617
Consumer: Other	65	-	65
Total	<u>\$ 2,519</u>	<u>\$ -</u>	<u>\$ 2,519</u>



**BNCCORP, INC. AND SUBSIDIARIES**  
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The following table indicates the effect on interest income on loans if interest on non-accrual loans outstanding at year end had been recognized at original contractual rates during the year ended December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Interest income that would have been recorded	\$ 369	\$ 181
Interest income recorded	-	-
Effect on interest income on loans	<u>\$ 369</u>	<u>\$ 181</u>

**Loan Modifications**

The Company individually evaluates all modification to loans where the borrower is experiencing financial difficulty. In cases where the modification is determined to be at least as favorable to the Company as the terms for comparable loans to other borrowers with similar risk characteristics the loan is considered a new origination. In the event the evaluation determines that the modification is not in-line with terms for comparable loans, the Company considers these loans to be a modified loan. These types of modifications generally take the form of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension.

The following presents the amortized cost of loans to borrowers experiencing financial difficulty that were modified during 2024 and 2023 by loan segment and modification type (in thousands):

	<u>For year ended December 31, 2024</u>			
	<u>Term Extension and Payment Deferment (1)</u>	<u>Payment Deferral (2)</u>	<u>Total</u>	<u>Percentage of Total Loans</u>
SBA	\$ 937	\$ 3,895	\$ 4,832	0.7 %
Total	<u>\$ 937</u>	<u>\$ 3,895</u>	<u>\$ 4,832</u>	0.7 %

- (1) Modifications extended term by seven months and deferred payments up to seven months.  
(2) Modifications deferred payment by six months.

Loan modifications to borrowers experiencing financial difficulty in 2024 did not result in principal forgiveness.

	<u>For year ended December 31, 2023</u>				
	<u>Term Extension and Payment Deferment (1)</u>	<u>Term Extension, Payment Modification, Interest Rate Reduction (2)</u>	<u>Payment Deferral (3)</u>	<u>Total</u>	<u>Percentage of Total Loans</u>
Commercial and industrial	\$ 133	\$ 57	\$ -	\$ 190	0.1 %
SBA	1,791	-	3,103	4,894	0.7
Total	<u>\$ 1,924</u>	<u>\$ 57</u>	<u>\$ 3,103</u>	<u>\$ 5,084</u>	0.8 %

- (1) Modifications extended term by seven months and deferred payments up to seven months.  
(2) Modifications extended term by twelve months, reduced payment, and reduced interest rate by 8.75%.  
(3) Modifications deferred payment by six months.

Loan modifications to borrowers experiencing financial difficulty in 2023 did not result in principal forgiveness.

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

The following table sets forth information regarding the performing status of loans to borrowers experiencing financial difficulty at December 31 (in thousands):

As of December 31, 2024				
	Current	31-89 Days Past Due	90 Days or More Past Due	Total
SBA	\$ -	\$ -	\$ 4,832	\$ 4,832
Total	\$ -	\$ -	\$ 4,832	\$ 4,832

As of December 31, 2023				
	Current	31-89 Days Past Due	90 Days or More Past Due	Total
Commercial and industrial	\$ 57	\$ 133	\$ -	\$ 190
SBA	-	4,066	828	4,894
Total	\$ 57	\$ 4,199	\$ 828	\$ 5,084

**Collateral-Dependent Loans**

A financial asset is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. The following tables present the amortized cost basis of collateral-dependent loans by class and the specific allowance at December 31 (in thousands):

	2024	
	Principal Balance	Specific Allowance
Commercial and industrial: Business loans	\$ 2,086	\$ 381
Commercial and industrial: Agriculture	189	54
SBA	4,999	535
Consumer: Automobile	24	5
Consumer: Home equity	33	6
Consumer: Other	57	10
Total	\$ 7,388	\$ 991

	2023	
	Principal Balance	Specific Allowance
Commercial and industrial: Business loans	\$ 2,605	\$ 604
SBA	1,029	102
Consumer: Other	65	11
Total	\$ 3,699	\$ 717

## NOTE 6. Premises and Equipment, net

Premises and equipment, net consisted of the following at December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Land and improvements	\$ 1,667	\$ 1,667
Buildings and improvements	16,054	15,896
Leasehold improvements	318	307
Furniture, fixtures, and equipment	<u>9,489</u>	<u>9,091</u>
Total cost	27,528	26,961
Less accumulated depreciation and amortization	<u>(16,635)</u>	<u>(16,006)</u>
Net premises and equipment	<u>\$ 10,893</u>	<u>\$ 10,955</u>

Depreciation and amortization expense totaled \$1.1 million and \$1.1 million for the years ended December 31, 2024, and 2023, respectively.

## NOTE 7. Leases

The Company has operating leases, primarily for office space, that expire over the next seven years. These leases generally contain renewal options for periods ranging from one to five years. The Company has evaluated each individual lease to determine if exercising the renewal option was reasonably certain and considered the renewal into determining the lease term and associated payments. The Company's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include both fixed and variable payments. The variable payments are for the Company's proportionate share of the building's property taxes, insurance and common area maintenance. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

The components of lease cost for the years ended December 31 were as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 422	\$ 586
Variable lease cost	44	64
Short-term lease cost	<u>-</u>	<u>11</u>
	<u>\$ 466</u>	<u>\$ 661</u>

Amounts reported in the consolidated balance sheet as of December 31, 2024, and December 31, 2023, are as follows (in thousands):

	<u>As of</u> <u>December 31, 2024</u>	<u>As of</u> <u>December 31, 2023</u>
Operating lease right of use (ROU) asset	\$ 618	\$ 938
Operating lease liabilities	700	1,048

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

Other supplementary information related to leases as of December 31, was as follows (dollars are in thousands):

	<b>2024</b>	<b>2023</b>
Cash paid for lease liabilities	\$ 421	\$ 606
Amortization of ROU assets	342	566
	<b>As of</b>	<b>As of</b>
	<b>December 31, 2024</b>	<b>December 31, 2023</b>
Weighted average remaining lease term	3.31 years	3.71 years
Weighted average discount rate	5.26%	5.79%

Maturities of lease liabilities under non-cancellable leases as of December 31, 2024, are as follows (in thousands):

	<b>Operating Leases</b>
2025	\$ 353
2026	202
2027	41
2028	42
2029	44
Thereafter	81
Total future minimum lease payments	763
Amounts representing interest	(63)
Total lease liabilities	\$ 700

## **NOTE 8. Deposits**

The scheduled maturities of time deposits as of December 31, 2024, are as follows (in thousands):

2025	\$	77,841
2026		5,523
2027		714
2028		205
2029		1,118
Thereafter		35
	\$	85,436

At December 31, 2024 and 2023, the Bank had no time deposits that had been acquired through a traditional broker channel. The Company had no interest-bearing deposits that meet the regulatory definition of a brokered deposit as of December 31, 2024 and December 31, 2023.

At December 31, 2024, and 2023, the Bank had \$20.4 million and \$20.6 million, respectively, in time deposits greater than \$250 thousand.

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

The following table shows a summary of interest expense by product type as of December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Savings	\$ 47	\$ 47
Interest checking	5,657	4,166
Money market	6,109	4,799
Time deposits	<u>2,547</u>	<u>937</u>
	<u>\$ 14,360</u>	<u>\$ 9,949</u>

**Deposits Received from Related Parties**

Note 21 to these consolidated financial statements includes information relating to deposits received from executive officers, directors, principal shareholders and associates of such persons.

**NOTE 9. Federal Home Loan Bank Advances**

As of December 31, 2024, the Bank had no FHLB advances outstanding. At December 31, 2024, the Bank had loans with unamortized principal balances of approximately \$200.0 million pledged as collateral to the FHLB.

As of December 31, 2023, the Bank had no FHLB advances outstanding. At December 31, 2023, the Bank had loans with unamortized principal balances of approximately \$190.4 million pledged as collateral to the FHLB.

As of December 31, 2024, the Bank had the ability to draw advances up to approximately \$114.1 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirement.

**NOTE 10. Other Borrowings**

The following table presents selected information regarding other borrowings at December 31 (in thousands):

<u>2024</u>				
<u>Unsecured Borrowing Lines:</u>				
		<u>Line</u>	<u>Outstanding</u>	<u>Available</u>
BNC National Bank lines (1)		\$ 34,500	\$ -	\$ 34,500
<u>Secured Borrowing Lines:</u>				
	<u>Collateral Pledged</u>	<u>Line</u>	<u>Outstanding</u>	<u>Available</u>
BNC National Bank line	\$ 3,116	\$ 1,683	\$ -	\$ 1,683
BNCCORP line	101,376	10,000	-	10,000
Total	<u>\$ 104,492</u>	<u>\$ 11,683</u>	<u>\$ -</u>	<u>\$ 11,683</u>

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

**BNCCORP, INC. AND SUBSIDIARIES**  
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At December 31, 2024, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

**2023**

**Unsecured Borrowing Lines:**

	<u>Line</u>	<u>Outstanding</u>	<u>Available</u>
BNC National Bank lines (1)	\$ 34,500	\$ -	\$ 34,500

**Secured Borrowing Lines:**

	<u>Collateral Pledged</u>	<u>Line</u>	<u>Outstanding</u>	<u>Available</u>
BNC National Bank line	\$ 3,249	\$ 1,509	\$ -	\$ 1,509
BNCCORP line	106,014	10,000	-	10,000
Total	\$ 109,263	\$ 11,509	\$ -	\$ 11,509

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

At December 31, 2023, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

## **NOTE 11. Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures**

In July 2007, the Company issued \$15.5 million of floating rate subordinated debentures. During the third quarter of 2023 the index rate and spread converted from three-month LIBOR plus 1.40% to three-month SOFR plus 1.66%. The interest rate at December 31, 2024, and December 31, 2023, was 6.25% and 7.06%, 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 12. Stockholders' Equity**

Regulatory restrictions exist on 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 National Bank to pay dividends to BNCCORP in excess of the Bank's net profits from the current year plus retained net profits for the preceding two years.

BNCCORP is required to consult with the Federal Reserve Board prior to declaring a cash dividend to stockholders. On February 2, 2024, BNCCORP's Board of Directors declared a \$2.25 per share special cash dividend that was paid on March 25, 2024, and on December 18, 2024, BNCCORP's Board of Directors declared a \$4.00 per share special cash dividend that was paid on January 14, 2025.

BNCCORP's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to 175,000 of BNCCORP, INC. outstanding common stock. During the first quarter of 2024, the Company repurchased 50,000 shares of common stock for a total cost of \$1.2 million, or \$23.25 per share, excluding the cost of commissions, transaction charges and taxes. No other share repurchases of common stock were made by the Company during 2024. As of December 31, 2024, 125,000 shares remained under the Board of Directors' current authorized share repurchase program. Share repurchases can be made through open market purchases, unsolicited and solicited privately negotiated transactions, or in accordance with terms of Rule 10b-18 promulgated under the

**BNCCORP, INC. AND SUBSIDIARIES**  
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Securities Exchange Act of 1934. The Company will not repurchase shares from directors or officers of the Company under the authorization. The Company will contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals.

### **NOTE 13. Regulatory Capital and Current Operating Environment**

BNCCORP and BNC National 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, BNCCORP and BNC National 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 may also impose capital requirements that are specific to individual institutions. The requirements are generally above the statutory ratios.

At December 31, 2024, the capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

The capital amounts and ratios presented below for December 31, 2024, and December 31, 2023, were as follows (dollars in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To be Well Capitalized</u>		<u>Amount in Excess of Well Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>2024</b>								
<b>Total Risk-Based Capital:</b>								
Consolidated	\$ 127,627	15.35 %	\$ 66,524	≥8.00 %	\$ N/A	N/A %	\$ N/A	N/A %
BNC National Bank	119,461	14.38	66,445	≥8.00	83,056	10.00	36,405	4.38
<b>Tier 1 Risk-Based Capital:</b>								
Consolidated	118,239	14.22	49,893	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	110,073	13.25	49,833	≥6.00	66,445	8.00	43,628	5.25
<b>Common Equity Tier 1 Risk-Based Capital:</b>								
Consolidated	102,774	12.36	37,419	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	110,073	13.25	37,375	≥4.50	53,986	6.50	56,087	6.75
<b>Tier 1 Leverage Capital:</b>								
Consolidated	118,239	12.75	37,104	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	110,073	11.89	37,045	≥4.00	46,306	5.00	63,767	6.89
<b>Tangible Common Equity (to total assets): (a)</b>								
Consolidated	93,586	9.68	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	101,294	10.49	N/A	N/A	N/A	N/A	N/A	N/A
<b>2023</b>								
<b>Total Risk-Based Capital:</b>								
Consolidated	\$ 142,868	17.64 %	\$ 64,806	≥8.00 %	\$ N/A	N/A %	\$ N/A	N/A %
BNC National Bank	124,592	15.40	64,726	≥8.00	80,908	10.00	43,684	5.40
<b>Tier 1 Risk-Based Capital:</b>								
Consolidated	133,584	16.49	48,605	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	115,308	14.25	48,545	≥6.00	64,726	8.00	50,582	6.25
<b>Common Equity Tier 1 Risk-Based Capital:</b>								
Consolidated	118,120	14.58	36,453	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	115,308	14.25	36,409	≥4.50	52,590	6.50	62,718	7.75
<b>Tier 1 Leverage Capital:</b>								
Consolidated	133,584	14.52	36,813	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	115,308	12.54	36,778	≥4.00	45,973	5.00	69,335	7.54
<b>Tangible Common Equity (to total assets): (a)</b>								
Consolidated	108,329	11.19	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	105,926	10.96	N/A	N/A	N/A	N/A	N/A	N/A

(a) Tangible common equity is calculated by dividing common equity, less intangible assets, by total period end assets.



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The most recent notifications from the 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.

The Bank must adhere to various U.S. Department of Housing and Urban Development (HUD) regulatory guidelines including required minimum capital and liquidity to maintain their Federal Housing Administration approval status. Failure to comply with the HUD guidelines could result in withdrawal of this certification. As of December 31, 2024 and 2023 the Bank was in compliance with HUD guidelines.

## NOTE 14. Revenue from Contracts with Customers

The following table disaggregates non-interest income subject to ASC 606 (in thousands):

	<u>2024</u>	<u>2023</u>
Service charges on deposits	\$ 591	\$ 649
Bankcard fees	1,096	1,162
Bank charges and service fees not within scope of ASC 606	<u>1,303</u>	<u>1,804</u>
Total bank charges and service fees	2,990	3,615
Wealth management revenue	<u>2,036</u>	<u>1,948</u>
Total wealth management revenues	2,036	1,948
Other	46	44
Other not within the scope of ASC 606 (a)	<u>799</u>	<u>598</u>
Total other	845	642
Other non-interest income not within the scope of ASC 606 (a)	<u>22</u>	<u>3,799</u>
Total non-interest income	<u>\$ 5,893</u>	<u>\$ 10,004</u>

(a) This revenue is not within the scope of ASC 606, and includes fees related to mortgage banking operations, gains on sale of loans, net gains on sale of debt securities, revenue from investments in SBIC, and various other transactions.

The Company had no material contract assets or remaining performance obligations as of December 31, 2024. Total receivables from revenue recognized under the scope of ASC 606 were \$539 thousand and \$492 thousand as of December 31, 2024, and December 31, 2023, respectively. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

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**NOTE 15. Fair Value Measurements**

The following table summarizes the financial assets and liabilities of the Company for which fair values are determined on a recurring basis as of December 31 (in thousands):

	Carrying Value at December 31, 2024				Twelve Months Ended December 31, 2024
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
<b>ASSETS</b>					
Debt securities available for sale	\$ 129,522	\$ 10,130	\$ 119,392	\$ -	\$ -
Total assets at fair value	<u>\$ 129,522</u>	<u>\$ 10,130</u>	<u>\$ 119,392</u>	<u>\$ -</u>	<u>\$ -</u>
	Carrying Value at December 31, 2023				Twelve Months Ended December 31, 2023
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
<b>ASSETS</b>					
Debt securities available for sale	\$ 159,772	\$ 24,880	\$ 134,892	\$ -	\$ 12
Loans held for sale	-	-	-	-	(52)
Commitments to originate mortgage loans	-	-	-	-	57
Commitments to sell mortgage loans	-	-	-	-	(434)
Mortgage banking short positions	-	-	-	-	(32)
Total assets at fair value	<u>\$ 159,772</u>	<u>\$ 24,880</u>	<u>\$ 134,892</u>	<u>\$ -</u>	<u>\$ (449)</u>

In 2023, the Company sold short positions in mortgage-backed securities to manage interest rate risk on the loans committed for mandatory delivery. The commitments to originate and sell mortgage banking loans and the short positions are derivatives and are recorded at fair value.

## NOTE 16. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows as of December 31 (in thousands):

	Level in Fair Value Measurement Hierarchy	December 31, 2024		December 31, 2023	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>					
Cash and cash equivalents	Level 1	\$ 100,815	\$ 100,815	\$ 102,454	\$ 102,454
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,387	2,387	2,372	2,372
Gross loans held for investment	Level 2	697,782	681,736	667,766	654,919
Accrued interest receivable	Level 2	4,108	4,108	4,206	4,206
		<u>\$ 805,092</u>	<u>\$ 789,046</u>	<u>\$ 776,798</u>	<u>\$ 763,951</u>
<b>Liabilities and Stockholders' Equity:</b>					
Deposits, noninterest-bearing	Level 2	\$ 172,456	\$ 172,456	\$ 184,442	\$ 184,442
Deposits, interest-bearing	Level 2	665,044	664,286	652,761	651,581
Accrued interest payable	Level 2	1,248	1,248	937	937
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,464	12,122	15,464	12,678
		<u>\$ 854,212</u>	<u>\$ 850,112</u>	<u>\$ 853,604</u>	<u>\$ 849,638</u>
<b>Financial instruments with off-balance- sheet risk:</b>					
Commitments to extend credit	Level 2	\$ -	\$ 219	\$ -	\$ 224
Standby and commercial letters of credit	Level 2	\$ -	\$ 29	\$ -	\$ 30

The Company discloses the estimated fair value of financial instruments as it is useful to the reader of financial statements. Fair value estimates are subjective in nature, involving uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## NOTE 17. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to various financial instruments with off-balance-sheet risk, primarily to meet the needs of customers as well as to manage interest rate risk. These instruments, which are issued by the Company for purposes other than trading, carry varying degrees of credit, interest rate or liquidity risk in excess of the amounts reflected in the consolidated balance sheets.

### Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer, which are binding, provided there is no violation of any condition in the contract, and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Bank's exposure to credit losses in the event of default by the borrower. The Bank manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment or real estate. Since the Bank expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Bank's future liquidity requirements related to such commitments.

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**Standby and Commercial Letters of Credit**

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commercial letters of credit are issued on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Bank's credit loss exposure is up to the letter's contractual amount. At December 31, 2024, based on current information, no losses were anticipated as a result of these commitments. Management assesses the borrower's creditworthiness to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring the Bank to fund letters of credit may not occur, the Bank expects the liquidity requirements related to such letters of credit to be less than the total outstanding commitments.

The contractual amounts of these financial instruments were as follows as of December 31 (in thousands):

	2024		2023	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	\$ 23,392	\$ 87,767	\$ 27,119	\$ 89,476
Standby and commercial letters of credit	741	1,842	659	1,798

**Performance and Financial Standby Letters of Credit**

As of December 31, 2024, the Bank had no performance standby letters of credit and \$337 thousand of financial standby letters of credit compared to no performance standby letters of credit and \$372 thousand of financial standby letters of credit as of December 31, 2023. Performance standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to make payment on account in an event of default by the account party in the performance of a nonfinancial or commercial obligation. Financial standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to repay money for the account of the account party or to make payment on account of any indebtedness undertaken by the account party, in the event that the account party fails to fulfill its obligation to the beneficiary. Under these arrangements, the Bank could, in the event of the account party's nonperformance, be required to pay a maximum of the amount of issued letters of credit. The Bank has recourse against the account party up to and including the amount of the performance standby letter of credit. The Bank evaluates each account party's creditworthiness on a case-by-case basis and the amount of collateral obtained varies and is based on management's credit evaluation of the account party.

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**Mortgage Banking Obligations**

Through its mortgage banking operations, the Company originated and sold residential mortgage loans with servicing released to third parties. These loans were sold without recourse to the Company. Although the Company sold 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 is also present within the mortgage banking industry as continued disputes arise between lenders and investors. Such requests for repurchase are commonly due to faulty representation and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the contingent obligation, the Company tracks historical reimbursements and calculates the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimates the future reimbursement amounts and records the estimated obligation.

The following is a summary of activity related to mortgage banking reimbursement obligations at December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Balance, beginning of period	\$ 644	\$ 656
Provision	(345)	91
Write offs, net	(81)	(103)
Balance, end of period	<u>\$ 218</u>	<u>\$ 644</u>

**NOTE 18. Commitments and Contingencies**

**Small Business Investment Companies (SBIC)**

The Bank has made investments in the Small Business Administration’s SBIC program to enhance small business access to venture capital. At December 31, 2024, the Bank may be required to fund \$705 thousand of additional capital calls related to its SBIC investments.

**Legal Proceedings**

From time to time, the Company may be a party to legal proceedings arising from lending, deposit operations or other activities. While the Company is not aware of any such actions or allegations that should reasonably give rise to any material adverse effect, it is possible that the Company could be subject to such a claim in an amount that could be material. Based upon a review with legal counsel, the Company believes that the ultimate disposition of any such litigation will not have a material effect on the Company’s financial condition, results of operations or cash flows.

**NOTE 19. Income Taxes**

Income tax expense (benefit) consists of the following for the years ended December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Current:		
Federal	\$ 1,962	\$ 1,363
State	464	324
	<u>2,426</u>	<u>1,687</u>
Deferred:		
Federal	(16)	(56)
State	(74)	(20)
	<u>(90)</u>	<u>(76)</u>
Total	<u>\$ 2,336</u>	<u>\$ 1,611</u>

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The reconciliation between income tax expense computed by applying the statutory federal income tax rate of 21.0% is as follows for the years ended December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Statutory federal income tax expense	\$ 2,155	\$ 1,536
State income taxes, net of federal income tax benefit	320	219
Tax-exempt interest income	(51)	(58)
Tax-exempt life insurance	(107)	(99)
Other, net	19	13
Total	<u>\$ 2,336</u>	<u>\$ 1,611</u>

Deferred tax assets are included in other assets on the Company's consolidated balance sheets. Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that result in significant portions of the Company's deferred tax assets and liabilities are as follows as of December 31 (in thousands):

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Loans, primarily due to credit losses	\$ 2,446	\$ 2,443
Compensation	606	574
Unrealized loss on debt securities available for sale	3,374	3,571
Acquired intangibles	121	121
Other	189	216
Deferred tax assets	<u>6,736</u>	<u>6,925</u>
Deferred tax liabilities:		
Discount accretion on securities	85	170
Premises and equipment	179	57
Other	546	625
Deferred tax liabilities	<u>810</u>	<u>852</u>
	5,926	6,073
Valuation allowance	(14)	(14)
Net deferred tax assets	<u>\$ 5,912</u>	<u>\$ 6,059</u>

Subject to certain limiting statutes, the Company is able to carry forward state tax net operating losses aggregating \$17 thousand as of December 31, 2024. The state net operating losses expire between 2025 and 2031.

Tax years ended December 31, 2021 through 2024 remain open to federal examination. Tax years ended December 31, 2020 through 2024 remain open to certain state examinations.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based upon the technical merits of the position. The tax benefit recognized in the consolidated financial statements from such a position would be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense would be recognized on the full amount of deferred benefits for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense within the consolidated statements of income. At December 31, 2024, and 2023, the Company did not have any uncertain tax positions.

## NOTE 20. Earnings Per Share

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

	<u>2024</u>	<u>2023</u>
Denominator for basic earnings per share:		
Average common shares outstanding	3,545,575	3,577,421
Dilutive effect of share-based compensation	<u>3,278</u>	<u>2,818</u>
Denominator for diluted earnings per share	3,548,853	3,580,239
Numerator (in thousands):		
Net income	<u>\$ 7,928</u>	<u>\$ 5,705</u>
Basic earnings per common share	<u>\$ 2.24</u>	<u>\$ 1.59</u>
Diluted earnings per common share	<u>\$ 2.23</u>	<u>\$ 1.59</u>

## NOTE 21. Related-Party Transactions

The Bank has entered into transactions with related parties, such as opening deposit accounts for and extending credit to employees of the Company. The related-party transactions have been made under terms substantially the same as those offered by the Bank to unrelated parties.

In the normal course of business, loans are granted to, and deposits are received from, executive officers, directors, principal stockholders and associates of such persons. The aggregate dollar amount of these loans was \$250 thousand and \$450 thousand at December 31, 2024, and 2023, respectively. Advances and other increases of loans to related parties in 2024 and 2023 totaled \$120 thousand and \$101 thousand, respectively. Loan pay downs and other reductions by related-parties in 2024 and 2023 were \$320 thousand and \$194 thousand, respectively. Commitments to extend credit to related parties decreased to \$85 thousand at December 31, 2024, from \$180 thousand at December 31, 2023. The total amount of deposits received from these parties was \$2.6 million at December 31, 2024, and \$1.8 million at December 31, 2023. Loans to, and deposits received from, these parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collection.

The Federal Reserve Act limits amounts of, and requires collateral on, extensions of credit by the Bank to BNCCORP, and with certain exceptions, its non-bank affiliates. There are also restrictions on the amounts of investment by the Bank in stocks and other subsidiaries of BNCCORP and such affiliates and restrictions on the acceptance of their securities as collateral for loans by the Bank. As of December 31, 2024, BNCCORP and its affiliates were in compliance with these requirements.

## NOTE 22. Benefit Plans

BNCCORP has a qualified 401(k) savings plan covering all employees of BNCCORP and subsidiaries who meet specified age and service requirements. Under the plan, eligible employees may elect to defer up to 75% of compensation each year not to exceed the dollar limits set by law. At their discretion, BNCCORP and its subsidiaries may provide matching contributions to the plan. In 2024 and 2023, BNCCORP and subsidiaries made matching contributions of up to 50% of eligible employee deferrals up to a maximum employer contribution of 5% of employee compensation. Generally, all participant contributions and earnings are fully and immediately vested. The Company makes its matching contribution during the first calendar quarter following the last day of each calendar year and an employee must be employed by the Company on the last day of the calendar year in order to receive

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the current year's employer matching contribution. The anticipated matching contribution is expensed monthly over the course of the calendar year based on employee contributions made throughout the year. The Company made matching contributions of \$442 thousand and \$468 thousand for 2024 and 2023, respectively. Under the investment options available under the 401(k) savings plan, prior to January 28, 2008, employees could elect to invest their salary deferrals in BNCCORP common stock. At December 31, 2024, the assets in the plan totaled \$41.5 million and included \$720 thousand (22,496 shares) invested in BNCCORP common stock. At December 31, 2023, the assets in the plan totaled \$37.6 million and included \$641 thousand (22,496 shares) invested in BNCCORP common stock. On January 28, 2008, the Company voluntarily delisted from the NASDAQ Global Market and deregistered its common stock under the Securities Exchange Act of 1934 (as amended). As a result, the participants are prohibited from making new investments of the Company's common stock in the plan.

During 2015, the Company adopted a non-qualified deferred compensation plan for the benefit of select employees. The plan structure permits the Company to make discretionary awards into an in-service account or a retirement account of a plan participant established under the plan. The Company recognizes the expense for discretionary awards in the period it commits to such awards. Additionally, plan participants may defer some or all of their annual cash incentive awards into their in-service accounts. Company discretionary awards to the participant's in-service account are generally vested 50% upon initial participation with the remainder vesting ratably over 5 years. A participant's retirement account generally vests 50% upon an initial contribution and ratably thereafter over 10 years. Participants may allocate their in-service account balance among a fixed number of investment options. The value of the payout from the in-service account will depend on the performance of such investment options. Company discretionary awards into a participant's retirement account are denominated in shares of BNCCORP common stock and upon retirement, the plan participant will receive the number of shares of BNCCORP common stock credited to the participant's retirement account at that time. A separate Rabbi Trust has been established by the Company to offset the change in value of this liability. Assets in the trust offsetting in-service liabilities are recorded in other assets. BNCCORP common stock held in the trust related to the Company's retirement account obligation is recorded in treasury stock and equates to 21,649 and 19,069 shares as of December 31, 2024, and 2023, respectively. As of December 31, 2024, the plan obligation totaled \$1.3 million and \$1.1 million as of December 31, 2023.

In December of 2015, the Company adopted a non-qualified deferred compensation plan for directors of BNCCORP. Effective with 2016 service, a director may voluntarily make contributions of earned director compensation to a deferred account that is ultimately payable with BNCCORP common stock at the time of separation from service with the Company. The deferred shares of BNCCORP common stock were 33,525 shares and 28,232 shares as of December 31, 2024, and 2023, respectively.

### **NOTE 23. Share-Based Compensation**

The Company has two share-based plans for certain key employees and directors whereby shares of BNCCORP common stock have been reserved for awards in the form of stock options, restricted stock, or common stock equivalent awards. Pursuant to each plan, the compensation committee may grant options at prices equal to the fair value of BNCCORP common stock at the grant date. The Company generally issues shares held in treasury when options are exercised and restricted stock is granted.

Total shares in plan and total shares available as of December 31, 2024, are as follows:

	<u>1995</u>	<u>2015</u>	<u>Total</u>
Total shares in plan	250,000	50,000	300,000
Total shares available	40,951	14,189	55,140

The Company recognized share-based compensation expense of \$80 thousand and \$78 thousand for the years ended December 31, 2024, and 2023, respectively, related to grants of restricted stock.



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The tax benefits associated with share-based compensation was approximately \$40 thousand for the year ended December 31, 2024, and was approximately \$2 thousand for the year ended December 31, 2023.

At December 31, 2024, the Company had \$84 thousand of unamortized restricted stock compensation, which is expected to be recognized over a period of four years. Restricted shares of stock granted have vesting and amortization periods of up to four years.

Following is a summary of restricted stock activities for the years ended December 31:

	<u>2024</u>		<u>2023</u>	
	<u>Number Restricted Stock Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Number Restricted Stock Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested, beginning of year	10,250	\$ 31.83	5,500	\$ 39.91
Granted	-	-	5,000	23.10
Vested	(6,500)	36.87	(250)	34.77
Forfeited	-	-	-	-
Non-vested, end of year	<u>3,750</u>	<u>23.10</u>	<u>10,250</u>	<u>31.83</u>

Following is a summary of stock grants to directors for the years ended December 31:

	<u>2024</u>		<u>2023</u>	
	<u>Number of Shares</u>	<u>Grant Date Fair Value</u>	<u>Number of Shares</u>	<u>Grant Date Fair Value</u>
Shares granted	2,500	\$ 27.00	2,000	\$ 30.97

## **NOTE 24. Segment Reporting**

The Company determines reportable segments based on the way that management organizes the segments within the Company for making operating decisions, allocating resources, and assessing performance. The Company has determined that it has three reportable segments: Community Banking, Mortgage Banking, and Holding Company.

### **Community Banking**

The Community Banking segment serves the needs of businesses and consumers through 11 locations in North Dakota and Arizona. Within this segment, the following products and services are provided: business and personal loans, commercial real estate loans, SBA loans, business and personal checking, savings products, and cash management, as well as trust and wealth management services and retirement plan administration. These products and services are supported through web and mobile based applications. Revenues for community banking consist primarily of interest earned on loans and debt securities, bankcard fees, loan fees, services charges on deposits and fees for wealth management services.

### **Mortgage Banking**

The Mortgage Banking segment originated residential mortgage loans for the primary purpose of sale on the secondary market. The segment consisted of both a consumer direct channel located in Kansas utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complemented by a relationship based retail channels. Revenues for mortgage banking consisted primarily of interest earned on mortgage loans held for sale, gains on sales of loans, unrealized gains or losses on mortgage financial instruments, and loan origination fees. On June 16, 2023, the Company sold certain operating assets and assigned certain liabilities related to the Company's mortgage segment to First Federal Bank as the Company exited the mortgage banking segment.

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**Holding Company**

The Holding Company segment represents BNCCORP, the parent company of BNC National Bank. Revenue for the Holding Company segment primarily consists of interest earned on cash and cash equivalents and management fees charged to the Community Banking and Mortgage Banking segments for management services. Interest expense for the Holding Company segment consists of interest expense on the Company's subordinated debentures. Non-interest expense for the segment includes parent company costs for certain centralized functions such as corporate administration, accounting, audit, consulting, and governance.

The Company's operating segments are presented based on its management structure and management accounting practices. The structure and practices are specific to the Company and therefore, the financial results of the Company's business segments are not necessarily comparable with similar information for other financial institutions.

	<b>2024</b>				
	<b>Community Banking</b>	<b>Mortgage Banking</b>	<b>Holding Company</b>	<b>Intercompany Eliminations (1)</b>	<b>BNCCORP Consolidated</b>
Interest income	\$ 46,452	\$ -	\$ 98	\$ (95)	\$ 46,455
Interest expense	14,455	-	1,037	(95)	15,397
Net interest income (expense)	31,997	-	(939)	-	31,058
Provision for credit losses	635	-	-	-	635
Net interest income (expense) after credit for credit losses	31,362	-	(939)	-	30,423
Non-interest income	6,196	-	2,288	(2,591)	5,893
Non-interest expense	25,645	-	2,998	(2,591)	26,052
Income (loss) before income taxes	11,913	-	(1,649)	-	10,264
Income tax expense (benefit)	2,755	-	(419)	-	2,336
Net income (loss)	<u>\$ 9,158</u>	<u>\$ -</u>	<u>\$ (1,230)</u>	<u>\$ -</u>	<u>\$ 7,928</u>
Total Assets at December 31, 2024	<u>\$ 965,288</u>	<u>\$ -</u>	<u>\$ 23,224</u>	<u>\$ (21,831)</u>	<u>\$ 966,681</u>
	<b>2023</b>				
	<b>Community Banking</b>	<b>Mortgage Banking</b>	<b>Holding Company</b>	<b>Intercompany Eliminations (1)</b>	<b>BNCCORP Consolidated</b>
Interest income	\$ 42,709	\$ 1,514	\$ 139	\$ (1,084)	\$ 43,278
Interest expense	10,092	946	1,014	(1,084)	10,968
Net interest income (expense)	32,617	568	(875)	-	32,310
Provision for credit losses	815	-	-	-	815
Net interest income (expense) after provision for credit losses	31,802	568	(875)	-	31,495
Non-interest income	7,354	3,641	2,134	(3,125)	10,004
Non-interest expense	25,590	8,768	2,950	(3,125)	34,183
Income (loss) before income taxes	13,566	(4,559)	(1,691)	-	7,316
Income tax expense (benefit)	3,181	(1,131)	(439)	-	1,611
Net income (loss)	<u>\$ 10,385</u>	<u>\$ (3,428)</u>	<u>\$ (1,252)</u>	<u>\$ -</u>	<u>\$ 5,705</u>
Total Assets at December 31, 2023	<u>\$ 966,807</u>	<u>\$ -</u>	<u>\$ 19,138</u>	<u>\$ (17,740)</u>	<u>\$ 968,205</u>

(1) Intercompany eliminations remove internal shared service costs for intercompany use of funds to originate mortgage loans held for sale and costs related to internal services rendered to segments by centralized function of the Company such as administration, audit, accounting, compliance, governance, consulting, and technology expense.

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**NOTE 25. Condensed Financial Information-Parent Company Only**

Condensed financial information of BNCCORP, INC. on a parent company only basis is as follows:

**Parent Company Only**  
Condensed Balance Sheets  
As of December 31,  
(In thousands, except per share data)

	<b>2024</b>	<b>2023</b>
Assets:		
Cash and cash equivalents	\$ 21,662	\$ 17,625
Investment in subsidiaries	101,056	105,565
Receivable from subsidiaries	599	560
Other	503	495
Total assets	\$ 123,820	\$ 124,245
Liabilities and stockholders' equity:		
Subordinated debentures	\$ 15,464	\$ 15,464
Payable to subsidiaries	77	60
Accrued expenses and other liabilities	14,612	303
Total liabilities	30,153	15,827
Common stock, \$.01 par value – Authorized 11,300,000 shares; 3,668,653 issued; 3,521,375 and 3,569,210 shares outstanding	36	36
Capital surplus – common stock	26,904	26,572
Retained earnings	78,667	93,186
Treasury stock (147,278 and 99,443 shares, respectively)	(2,696)	(1,528)
Accumulated other comprehensive income, net	(9,244)	(9,848)
Total stockholders' equity	93,667	108,418
Total liabilities and stockholders' equity	\$ 123,820	\$ 124,245

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Parent Company Only**  
Condensed Statements of Income  
For the Years Ended December 31,  
(In thousands)

	<u>2024</u>	<u>2023</u>
Income:		
Management fee income	\$ 2,270	\$ 2,123
Interest	98	139
Other	51	43
Total income	<u>2,419</u>	<u>2,305</u>
Expenses:		
Interest	1,069	1,045
Salaries and benefits	1,151	1,156
Legal and other professional	756	823
Other	1,092	971
Total expenses	<u>4,068</u>	<u>3,995</u>
Loss before income tax benefit and equity in earnings of subsidiaries	(1,649)	(1,690)
Income tax benefit	419	439
Loss before equity in earnings of subsidiaries	(1,230)	(1,251)
Equity in earnings of subsidiaries	9,158	6,956
Net income	<u>\$ 7,928</u>	<u>\$ 5,705</u>

**BNCCORP, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements

**Parent Company Only**  
Condensed Statements of Cash Flows  
For the Years Ended December 31,  
(In thousands)

	<b>2024</b>	<b>2023</b>
Operating activities:		
Net income	\$ 7,928	\$ 5,705
Adjustments to reconcile net income to net cash provided by operating activities -		
Equity in earnings of subsidiaries	(9,158)	(6,956)
Dividends received from subsidiaries	14,400	-
Share-based compensation	327	267
Change in other assets	(48)	(195)
Change in other liabilities	(106)	96
Net cash provided by (used in) operating activities	13,343	(1,083)
Financing activities:		
Dividends paid on common stock	(8,143)	-
Purchase of treasury stock	(1,163)	-
Net cash used in financing activities	(9,306)	-
Net increase (decrease) in cash and cash equivalents	4,037	(1,083)
Cash and cash equivalents, beginning of year	17,625	18,708
Cash and cash equivalents, end of year	\$ 21,662	\$ 17,625
Supplemental cash flow information:		
Interest paid	\$ 1,074	\$ 969
Income taxes paid	\$ 2,175	\$ 1,269

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# CORPORATE DATA

## Investor Relations

### Email Inquiries:

corp@bncbank.com

### General Inquiries:

BNCCORP, INC.

322 East Main Avenue, Bismarck, North Dakota 58501

Telephone (701) 250-3040 | Facsimile (701) 222-3653

Daniel J. Collins

*President & Chief Executive Officer*

(612) 305-2210

Justin C. Currie

*Chief Financial Officer*

(701) 250-3042

## Annual Meeting

The 2025 annual meeting of stockholders will be held at 8:30 a.m. (Central Daylight time) on Wednesday, June 18, 2025 by virtual meeting.

## Independent Public Accountants

CliftonLarsonAllen LLP

220 South Sixth Street, Suite 300

Minneapolis, MN 55402-1436

## Securities Listing

BNCCORP, INC.'s common stock is traded on the OTCQX Markets under the symbol: "BNCC".

## COMMON STOCK PRICES

For the Years Ended December 31,

	2024(1)		2023(1)	
	High	Low	High	Low
First Quarter	\$28.70	\$22.94	\$31.29	\$21.95
Second Quarter	\$23.40	\$21.00	\$23.90	\$20.70
Third Quarter	\$26.50	\$23.50	\$24.00	\$22.18
Fourth Quarter	\$35.45	\$25.75	\$28.70	\$21.90

<sup>(1)</sup>The quotes represent the high and low closing sales prices as reported by OTCQX Markets.

## Stock Transfer Agent and Registrar

Broadridge Financial Solutions, Inc.

51 Mercedes Way

Edgewood, New York 11717

(877) 830-4936

## Corporate Broker

D.A. Davidson Community Banking and Wealth Management Group

1-800-288-2811 | cbwm@dadco.com

## Directors, BNCCORP, INC.

Michael M. Vekich,

*Chairman of the Board &  
CEO, Vekich Chartered*

John W. Palmer,

*Principal & Managing Member,  
PL Capital Advisors, LLC*

Nathan P. Brenna,

*Owner, Brenna Farm & Ranch  
Former Attorney*

Tom Redmann,

*Retired Loan Officer  
Bank of North Dakota*

Gaylen Ghylin,

*Retired EVP, Secretary & CFO of  
Tiller Corporation d/b/a Barton Sand  
& Gravel Co., Commercial Asphalt  
Co. & Barton Enterprises, Inc.*

## Directors, BNC National Bank

Nathan P. Brenna

Gaylen Ghylin

John W. Palmer

Tom Redmann

Michael M. Vekich

Daniel J. Collins

# BNC National Bank

## BANK BRANCHES – ND:

Bismarck Main  
322 East Main Avenue  
Bismarck, ND 58501

Crosby  
206 South Main Street  
Crosby, ND 58730

Bismarck South  
219 South 3rd Street  
Bismarck, ND 58504

Garrison  
92 North Main  
Garrison, ND 58540

Bismarck North  
801 East Century Avenue  
Bismarck, ND 58503

Linton  
104 North Broadway  
Linton, ND 58552

Bismarck Sunrise  
3000 Yorktown Drive  
Bismarck, ND 58503

Stanley  
210 South Main  
Stanley, ND 58784

Mandan  
2711 Sunset Drive NW  
Mandan, ND 58554

Watford City  
205 North Main  
Watford City, ND 58854

## BANK BRANCHES - AZ

Glendale – Charter Address  
20175 North 67th Ave  
Glendale, AZ 85308



# BNCCORP, INC.



BNCCORP

**BNCCORP, INC.**

322 East Main Avenue  
Bismarck, ND 58501  
(701) 250-3040  
[www.bnccorp.com](http://www.bnccorp.com)

**OTC QX**