Quarterly Report

For the quarter ended March 31, 2020

BNCCORP, INC.

(OTCQX: BNCC)

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

BNCCORP, INC.
INDEX TO QUARTERLY REPORT
March 31, 2020

TABLE OF CONTENTS

Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2020	December 31, 2019
ASSETS	(unaudited)	
CASH AND CASH EQUIVALENTS	$ 64,987	$ 10,523
DEBT SECURITIES AVAILABLE FOR SALE	223,371	265,278
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	2,965	3,651
LOANS HELD FOR SALE-MORTGAGE BANKING	177,015	137,114
LOANS AND LEASES HELD FOR INVESTMENT	515,905	508,569
ALLOWANCE FOR CREDIT LOSSES	(8,414)	(8,141)
Net loans and leases held for investment	507,491	500,428
REPOSSESSED ASSETS, net	5	-
PREMISES AND EQUIPMENT, net	16,151	16,401
OPERATING LEASE RIGHT OF USE ASSETS	2,476	2,638
ACCRUED INTEREST RECEIVABLE	3,443	3,681
OTHER	44,916	27,036
Total assets	$ 1,042,820	$ 966,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 143,330	$ 136,313
Interest-bearing –		
Savings, interest checking and money market	597,805	514,869
Time deposits	155,597	169,365
Total deposits	896,732	820,547
SHORT-TERM BORROWINGS	5,219	4,565
FEDERAL HOME LOAN BANK ADVANCES	-	17,000
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	15,006	15,006
ACCRUED INTEREST PAYABLE	1,167	1,685
ACCRUED EXPENSES	7,282	7,580
OPERATING LEASE LIABILITIES	2,656	2,822
OTHER	11,311	1,267
Total liabilities	939,373	870,472
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,540,650 and 3,514,770 shares issued and outstanding	35	35
Capital surplus – common stock	25,783	25,831
Retained earnings	75,359	71,057
Treasury stock (128,003 and 153,883 shares, respectively)	(1,845)	(2,115)
Accumulated other comprehensive income, net	4,115	1,470
Total stockholders' equity	103,447	96,278
Total liabilities and stockholders' equity	$ 1,042,820	$ 966,750

See accompanying notes to consolidated financial statements.

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

	2020	2019
INTEREST INCOME:		
Interest and fees on loans	$ 7,264	$ 6,094
Interest and dividends on investments		
Taxable	1,641	2,593
Tax-exempt	59	405
Dividends	38	36
Total interest income	9,002	9,128
INTEREST EXPENSE:		
Deposits	1,439	1,840
Short-term borrowings	3	15
Federal Home Loan Bank advances	12	4
Long-term borrowings	-	159
Subordinated debentures	124	155
Total interest expense	1,578	2,173
Net interest income	7,424	6,955
PROVISION FOR CREDIT LOSSES:	550	-
Net interest income after provision for credit losses	6,874	6,955
NON-INTEREST INCOME:		
Bank charges and service fees	631	646
Wealth management revenues	441	443
Mortgage banking revenues, net	8,616	3,087
Gains on sales of loans, net	3	102
Gains on sales of debt securities, net	975	64
Other	128	160
Total non-interest income	10,794	4,502
NON-INTEREST EXPENSE:		
Salaries and employee benefits	6,311	5,118
Professional services	1,278	754
Data processing fees	1,124	1,039
Marketing and promotion	1,426	1,010
Occupancy	535	559
Regulatory costs	56	132
Depreciation and amortization	356	361
Office supplies and postage	134	136
Other	787	573
Total non-interest expense	12,007	9,682
Income before income taxes	5,661	1,775
Income tax expense	1,359	337
Net income	$ 4,302	$ 1,438
Basic earnings per common share	$ 1.21	$ 0.41
Diluted earnings per common share	$ 1.21	$ 0.40

See accompanying notes to consolidated financial statements.

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

	2020		2020		2019		2019	
NET INCOME			$	4,302			$	1,438
Unrealized gain on securities available for sale	$	4,483			$	5,519		
Reclassification adjustment for gains included in net income		(975)				(64)		
Other comprehensive income before tax		3,508				5,455		
Income tax expense related to items of other comprehensive income		(863)				(1,342)		
Other comprehensive income	$	2,645		2,645	$	4,113		4,113
TOTAL COMPREHENSIVE INCOME			$	6,947			$	5,551

See accompanying notes to consolidated financial statements.

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

	Common Stock		Capital Surplus Common	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Earnings	Stock	(Loss) Income, net	Total
BALANCE, December 31, 2018	3,493,298	$ 35	$ 25,990	$ 61,042	$ (2,386)	$ (6,928)	$ 77,753
Net income	-	-	-	1,438	-	-	1,438
Other comprehensive income	-	-	-	-	-	4,113	4,113
Impact of share-based compensation	-	-	5	-	-	-	5
Cumulative effect adjustment for adoption of ASC 842 – *Leases*	-	-	-	(220)	-	-	(220)
BALANCE, March 31, 2019	3,493,298	$ 35	$ 25,995	$ 62,260	$ (2,386)	$ (2,815)	$ 83,089
BALANCE, December 31, 2019	3,514,770	$ 35	$ 25,831	$ 71,057	$ (2,115)	$ 1,470	$ 96,278
Net income	-	-	-	4,302	-	-	4,302
Other comprehensive income	-	-	-	-	-	2,645	2,645
Impact of share-based compensation	25,880	-	(48)	-	270	-	222
BALANCE, March 31, 2020	3,540,650	$ 35	$ 25,783	$ 75,359	$ (1,845)	$ 4,115	$ 103,447

See accompanying notes to consolidated financial statements.

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

	2020	2019
OPERATING ACTIVITIES:		
Net income	$ 4,302	$ 1,438
Adjustments to reconcile net income to net cash (used in) provided by operating activities -		
Provision for credit losses	550	-
Depreciation and amortization	356	361
Net amortization of premiums and (discounts) on debt securities and subordinated debentures	932	1,990
Share-based compensation	222	5
Change in accrued interest receivable and other assets, net	(5,999)	391
Gain on sale of bank premises and equipment	-	(20)
Gains on sales of debt securities, net	(975)	(64)
Change in other liabilities, net	(1,565)	(894)
Originations of loans held for sale, mortgage banking	(505,081)	(154,361)
Proceeds from sales of loans held for sale, mortgage banking	465,462	136,996
Fair value adjustment for loans held for sale, mortgage banking	(282)	(653)
Fair value adjustment on mortgage banking derivatives	(859)	(595)
Proceeds from sales of loans	-	1,547
Gains on sales of loans, net	(3)	(102)
Net cash used in operating activities	(42,940)	(13,961)
INVESTING ACTIVITIES:		
Purchases of debt securities	-	(38,216)
Proceeds from sales of debt securities	37,453	3,568
Proceeds from maturities of debt securities	7,142	14,027
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(4,272)	(750)
Sales of Federal Reserve and Federal Home Loan Bank Stock	4,958	720
Net (increase) decrease in loans held for investment	(7,610)	2,324
Proceeds from sales of premises and equipment	-	20
Purchases of premises and equipment	(106)	(93)
Net cash provided by (used in) investing activities	37,565	(18,400)

See accompanying notes to consolidated financial statements.

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

	2020	2019
FINANCING ACTIVITIES:		
Net increase in deposits	$ 76,185	$ 29,401
Net increase (decrease) in short-term borrowings	654	(8,607)
Repayments of Federal Home Loan Bank advances	(123,800)	(18,000)
Proceeds from Federal Home Loan Bank advances	106,800	18,000
Net cash provided by financing activities	59,839	20,794
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,464	(11,567)
CASH AND CASH EQUIVALENTS, beginning of period	10,523	25,185
CASH AND CASH EQUIVALENTS, end of period	$ 64,987	$ 13,618
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 2,096	$ 1,990
Income taxes paid	$ 10	$ -

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. (BNCCORP or BNC) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank or BNC Bank). BNC operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 13 locations. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 11 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas, Missouri, and Michigan. The consumer direct channel emphasizes 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.

NOTE 2 – Basis of Presentation and Accounting Policies

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

The accompanying unaudited interim consolidated financial statements have been prepared under the presumption that users of the interim consolidated financial information have either read or have access to the audited consolidated financial statements of BNCCORP, INC. and subsidiaries for the year ended December 31, 2019. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2019 audited consolidated financial statements have been omitted from these interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 and the notes thereto.

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

The unaudited consolidated financial statements as of March 31, 2020 include, in the opinion of management, all adjustments, consisting primarily of normal recurring adjustments, necessary for a fair presentation of the financial results for the respective interim periods and are not necessarily indicative of results of operations to be expected for the entire fiscal year.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS & INTERPRETATIONS

In February 2016, the FASB issued ASU 2016-02, *Leases* – Accounting Standards Codification (ASC) Topic 842. The amended guidance requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASC Topic 842 (ASC 842) establishes a right of use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are required to be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The Company adopted ASC 842 using a modified retrospective transition approach as of January 1, 2019. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods prior to January 1, 2019. The adoption of ASC 842 did not have a material impact to the Company's consolidated balance sheet or the consolidated statement of income. As a result of adopting ASC 842, the Company recognized operating lease liabilities of $4.0 million with corresponding ROU assets of $3.8 million and a cumulative effect adjustment to equity of $220 thousand as of January 1, 2019. See Note 6 to the consolidated financial statements.

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amended guidance broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, this update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. This update is effective for fiscal years beginning after December 15, 2022. This update requires the use of the modified retrospective adoption approach and the Company is currently evaluating the impact that this amended guidance will have on its consolidated financial statements and disclosures.

ASC 310-40, *Receivables – Troubled Debt Restructurings by Creditors.* In the first quarter of 2020, in response to economic conditions related to the COVID-19 pandemic, federal and state prudential banking regulators issued guidance on their approach for loan modifications. The guidance indicates that short-term modifications such as payment deferrals, made on a good faith basis in response to COVID-19, to borrowers who were current on contractually required payments as of December 31, 2019, are not considered Troubled Debt Restructurings (TDRs). The Financial Accounting Standards Board was consulted on and concurs with this guidance.

NOTE 3 – 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 March 31, 2020 or December 31, 2019. The carrying amount of available-for-sale debt securities and their estimated fair values were as follows (in thousands):

	As of March 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 4,993	$ 110	$ -	$ 5,103
U.S. government sponsored entity mortgage-backed securities issued by FNMA or FHLMC	5,045	47	-	5,092
U.S. government agency small business administration pools guaranteed by SBA	50,600	-	(3,497)	47,103
Collateralized mortgage obligations guaranteed by GNMA	20,521	1,289	-	21,810
Collateralized mortgage obligations issued by FNMA or FHLMC	66,873	2,967	-	69,840
Commercial mortgage-backed securities issued by FHLMC	13,178	1,419	-	14,597
Other commercial mortgage-backed securities	33,559	945	(159)	34,345
Asset-backed securities	10,894	-	(75)	10,819
State and municipal bonds	13,732	930	-	14,662
	$ 219,395	$ 7,707	$ (3,731)	$ 223,371

	As of December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 4,992	$ 2	$ -	$ 4,994
U.S. government sponsored entity mortgage-backed securities issued by FNMA or FHLMC	5,634	16	(7)	5,643
U.S. government agency small business administration pools guaranteed by SBA	53,873	-	(2,236)	51,637
Collateralized mortgage obligations guaranteed by GNMA	21,120	671	(1)	21,790
Collateralized mortgage obligations issued by FNMA or FHLMC	68,353	523	(261)	68,615
Commercial mortgage-backed securities issued by FHLMC	21,625	931	-	22,556
Other commercial mortgage-backed securities	56,530	921	(672)	56,779
Asset-backed securities	12,810	83	-	12,893
State and municipal bonds	19,873	948	(450)	20,371
	$ 264,810	$ 4,095	$ (3,627)	$ 265,278

The amortized cost and estimated fair market value of available-for-sale debt securities classified according to their contractual maturities at March 31, 2020 were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	4,993	5,103
Due after five years through ten years	51,397	52,441
Due after ten years	163,005	165,827
Total	$ 219,395	$ 223,371

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

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

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

	March 31, 2020								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. Treasury securities	-	$ -	$ -	-	$ -	$ -	-	$ -	$ -
U.S. government sponsored entity mortgage-backed securities issued by FNMA or FHLMC	-	-	-	-	-	-	-	-	-
U.S. government agency small business administration pools guaranteed by SBA	2	13,060	(426)	5	34,043	(3,071)	7	47,103	(3,497)
Collateralized mortgage obligations guaranteed by GNMA	-	-	-	-	-	-	-	-	-
Collateralized mortgage obligations issued by FNMA or FHLMC	-	-	-	-	-	-	-	-	-
Commercial mortgage-backed securities issued by FHLMC	-	-	-	-	-	-	-	-	-
Other commercial mortgage-backed securities	2	7,732	(159)	-	-	-	2	7,732	(159)
Asset-backed securities	4	10,819	(75)	-	-	-	4	10,819	(75)
State and municipal bonds	-	-	-	-	-	-	-	-	-
Total temporarily impaired securities	8	$ 31,611	$ (660)	5	$ 34,043	$ (3,071)	13	$ 65,654	$ (3,731)

Description of Securities	Less than 12 months #	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or more #	12 months or more Fair Value	12 months or more Unrealized Loss	Total #	Total Fair Value	Total Unrealized Loss
	December 31, 2019								
U.S. Treasury securities	-	$ -	$ -	-	$ -	$ -	-	$ -	$ -
U.S. government sponsored entity mortgage-backed securities issued by FNMA or FHLMC	1	4,779	(7)	-	-	-	1	4,779	(7)
U.S. government agency small business administration pools guaranteed by SBA	2	14,140	(142)	5	37,493	(2,094)	7	51,633	(2,236)
Collateralized mortgage obligations guaranteed by GNMA	1	507	(1)	-	-	-	1	507	(1)
Collateralized mortgage obligations issued by FNMA or FHLMC	5	35,047	(261)	-	-	-	5	35,047	(261)
Commercial mortgage-backed securities issued by FHLMC	-	-	-	-	-	-	-	-	-
Other commercial mortgage-backed securities	3	25,756	(672)	-	-	-	3	25,756	(672)
Asset-backed securities	-	-	-	-	-	-		-	
State and municipal bonds	3	13,780	(450)	-	-	-	3	13,780	(450)
Total temporarily impaired securities	15	$ 94,009	$ (1,533)	5	$ 37,493	$ (2,094)	20	$ 131,502	$ (3,627)

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

There were no debt securities that management concluded were other-than-temporarily impaired at March 31, 2020 or December 31, 2019.

NOTE 4 – Loans and Leases

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

	March 31, 2020	December 31, 2019
Loans held for sale-mortgage banking	$ 177,015	$ 137,114
Commercial and industrial	$ 167,797	$ 162,592
Commercial real estate	187,823	193,203
SBA	48,049	46,799
Consumer	83,012	82,498
Land and land development	13,537	10,449
Construction	15,293	12,656
Gross loans and leases held for investment	515,511	508,197
Unearned income and net unamortized deferred fees and costs	394	372
Loans, net of unearned income and unamortized fees and costs	515,905	508,569
Allowance for credit losses	(8,414)	(8,141)
Net loans and leases held for investment	$ 507,491	$ 500,428

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended March 31, 2020						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,366	$ 3,502	$ 1,131	$ 853	$ 187	$ 102	$ 8,141
Provision (reduction)	283	406	(276)	75	28	34	550
Loans charged off	(26)	(250)	-	(12)	-	-	(288)
Loan recoveries	-	1	2	2	6	-	11
Balance, end of period	$ 2,623	$ 3,659	$ 857	$ 918	$ 221	$ 136	$ 8,414

	Three Months Ended March 31, 2019						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 1,937	$ 3,558	$ 845	$ 928	$ 225	$ 199	$ 7,692
Provision (reduction)	(18)	9	12	20	3	(26)	-
Loans charged off	(3)	-	-	(19)	-	-	(22)
Loan recoveries	-	2	1	-	-	4	7
Balance, end of period	$ 1,916	$ 3,569	$ 858	$ 929	$ 228	$ 177	$ 7,677

The following table shows the balance in the allowance for credit losses at March 31, 2020, and December 31, 2019, and the related loan balances, segregated on the basis of impairment methodology (in thousands). Impaired loans are loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment.

	Allowance For Credit Losses			Gross Loans and Leases Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
March 31, 2020						
Commercial and industrial	$ 515	$ 2,108	$ 2,623	$ 1,647	$ 166,150	$ 167,797
Commercial real estate	180	3,479	3,659	1,165	186,658	187,823
SBA	58	799	857	378	47,671	48,049
Consumer	-	918	918	19	82,993	83,012
Land and land development	-	221	221	2	13,535	13,537
Construction	-	136	136	-	15,293	15,293
Total	$ 753	$ 7,661	$ 8,414	$ 3,211	$ 512,300	$ 515,511
December 31, 2019						
Commercial and industrial	$ 497	$ 1,869	$ 2,366	$ 1,610	$ 160,982	$ 162,592
Commercial real estate	172	3,330	3,502	1,448	191,755	193,203
SBA	59	1,072	1,131	380	46,419	46,799
Consumer	-	853	853	37	82,461	82,498
Land and land development	-	187	187	5	10,444	10,449
Construction	-	102	102	-	12,656	12,656
Total	$ 728	$ 7,413	$ 8,141	$ 3,480	$ 504,717	$ 508,197

Performing and non-accrual loans

The Bank’s key credit quality indicator is the loan’s performance status, defined as accrual or non-accrual. Performing loans are considered to have a lower risk of loss and are on accrual status. Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when 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 applicable to the current reporting period is reversed against interest income. Accrued but uncollected interest income applicable to previous reporting periods is charged against the allowance for credit losses. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. Delinquent balances are determined based on the contractual terms of the loan adjusted for charge-offs and payments applied to principal.

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

	March 31, 2020					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 79,338	$ 11	$ -	$ 79,349	$ 1,610	$ 80,959
Agriculture	29,192	70	-	29,262	37	29,299
Owner-occupied commercial real estate	57,539	-	-	57,539	-	57,539
Commercial real estate	186,658	-	-	186,658	1,165	187,823
SBA	47,621	50	-	47,671	378	48,049
Consumer:						
Automobile	24,268	-	-	24,268	-	24,268
Home equity	9,835	102	-	9,937	-	9,937
1st mortgage	12,578	87	-	12,665	-	12,665
Other	36,120	2	-	36,122	20	36,142
Land and land development	13,535	-	-	13,535	2	13,537
Construction	15,293	-	-	15,293	-	15,293
Total loans held for investment	511,977	322	-	512,299	3,212	515,511
Loans held for sale	176,662	353	-	177,015	-	177,015
Total gross loans	$ 688,639	$ 675	$ -	$ 689,314	$ 3,212	$ 692,526

	December 31, 2019					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 75,907	$ 189	$ -	$ 76,096	$ 1,610	$ 77,706
Agriculture	29,877	37	-	29,914	-	29,914
Owner-occupied commercial real estate	54,947	25	-	54,972	-	54,972
Commercial real estate	193,203	-	-	193,203	-	193,203
SBA	46,382	36	-	46,418	381	46,799
Consumer:						
Automobile	24,118	47	-	24,165	15	24,180
Home equity	9,650	-	-	9,650	-	9,650
1st mortgage	12,678	-	-	12,678	-	12,678
Other	35,884	84	-	35,968	22	35,990
Land and land development	10,444	-	-	10,444	5	10,449
Construction	12,656	-	-	12,656	-	12,656
Total loans held for investment	505,746	418	-	506,164	2,033	508,197
Loans held for sale	137,114	-	-	137,114	-	137,114
Total gross loans	$ 642,860	$ 418	$ -	$ 643,278	$ 2,033	$ 645,311

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

	Three Months Ended March 31,	
	2020	2019
Interest income that would have been recorded	$ 48	$ 31
Interest income recorded	-	-
Effect on interest income on loans	$ 48	$ 31

Credit Risk by Internally Assigned Grade

The Company maintains an internal risk rating process in order to increase the precision and effectiveness of credit risk management. Internal grade is generally categorized into the following four categories: pass, watch list, substandard, and doubtful.

At March 31, 2020, the Company had $496.4 million of loans held for investment categorized as pass rated loans compared to $489.8 million at December 31, 2019.

Loans designated as watch list are loans that possess some credit deficiency that deserves close attention due to emerging problems. Such loans pose unwarranted financial risk that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. At March 31, 2020, the Company had $8.0 million of loans categorized as watch list loans compared to $9.2 million at December 31, 2019.

Loans graded as substandard or doubtful are considered "Classified" loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. At March 31, 2020, the Company had $9.5 million of substandard loans and $1.5 million of doubtful loans. At December 31, 2019, the Company had $7.8 million of substandard loans and $1.5 million of doubtful loans.

Impaired loans

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

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

	March 31, 2020				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance (3 months)	Interest Income Recognized (3 months)
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,004	$ 1,417	$ 497	$ 1,417	$ -
Agriculture	37	36	18	37	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,733	1,165	180	1,309	9
SBA	121	101	58	101	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 3,895	$ 2,719	$ 753	$ 2,864	$ 9
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 248	$ 194	$ -	$ 194	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	338	277	-	278	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	40	19	-	21	-
Land and land development	136	2	-	3	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 762	$ 492	$ -	$ 496	$ -
TOTAL IMPAIRED LOANS	$ 4,657	$ 3,211	$ 753	$ 3,360	$ 9

	December 31, 2019				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance (12 months)**	**Interest Income Recognized (12 months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,004	$ 1,417	$ 497	$ 1,429	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,762	1,448	172	1,476	75
SBA	121	101	59	103	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 3,887	$ 2,966	$ 728	$ 3,008	$ 75
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 248	$ 193	$ -	$ 221	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	338	279	-	280	-
Consumer:					
Automobile	18	15	-	16	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	42	22	-	27	-
Land and land development	137	5	-	16	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 783	$ 514	$ -	$ 560	$ -
TOTAL IMPAIRED LOANS	$ 4,670	$ 3,480	$ 728	$ 3,568	$ 75

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

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

	March 31, 2020			
	Accrual	**Non-accrual**	**Total**	**Allowance**
Commercial and industrial:				
Business loans	$ -	$ 1,417	$ 1,417	$ 497
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	-	1,165	1,165	180
SBA	-	378	378	58
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	-	-	-	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ -	$ 2,960	$ 2,960	$ 735

	December 31, 2019			
	Accrual	**Non-accrual**	**Total**	**Allowance**
Commercial and industrial:				
Business loans	$ -	$ 1,417	$ 1,417	$ 497
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,448	-	1,448	172
SBA	-	380	380	59
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	-	-	-	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,448	$ 1,797	$ 3,245	$ 728

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

When a loan is modified as a TDR, there may be a direct, material impact on the loans within the consolidated balance sheets, as principal balances may be partially forgiven. There were no new TDRs for the three month period ended March 31, 2020. There were no new TDRs for the three-month period ended March 31, 2019.

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

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Interest income that would have been recorded	$ 46	$ 76
Interest income recorded	9	22
Effect on interest income on loans	$ 37	$ 54

There were no additional funds committed to borrowers who are in TDR status at March 31, 2020 and December 31, 2019.

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

The Bank had no loans that were restructured within the 12 months preceding March 31, 2020 and March 31, 2019 and defaulted during the three months ended March 31, 2020 and March 31, 2019.

NOTE 6 – 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 probable 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 three month periods ended March 31, 2020 and 2019 were as follows (in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating lease costs	$ 237	$ 246
Variable lease costs	11	9
Short-term lease costs	4	5
Total lease costs	$ 252	$ 260

Amounts reported in the consolidated balance sheet as of March 31, 2020 and December 31, 2019 are as follows (in thousands):

	As of March 31, 2020	As of December 31, 2019
Operating lease right of use asset	$ 2,476	$ 2,638
Operating lease liabilities	2,656	2,822

Other supplementary information related to leases is as follows (dollars are in thousands):

	Three Months Ended March 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities	$ 245	$ 246
ROU Assets obtained in exchange for lease obligations	16	-
Reductions to ROU assets resulting from reduction in lease obligations	178	180

	As of March 31, 2020	As of December 31, 2019
Weighted Average remaining lease term	4.77 years	4.94 years
Weighted Average discount rate	6.00%	6.00%

Maturities of lease liabilities under non-cancellable leases as of March 31, 2020 are as follows (in thousands):

	Operating Leases
2020	$ 502
2021	507
2022	495
2023	475
2024	357
Thereafter	320
Total lease liabilities	$ 2,656

NOTE 7 – Earnings Per Share

The following table shows the amounts used in computing per share results:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,558,702	3,518,390
Dilutive effect of stock compensation	7,821	37,455
Denominator for diluted earnings per share	3,566,523	3,555,845
Numerator (in thousands):		
Net income	$ 4,302	$ 1,438
Basic earnings per common share	$ 1.21	$ 0.41
Diluted earnings per common share	$ 1.21	$ 0.40

NOTE 8 – Share-Based Compensation

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

	1995	2015	Total
Total Shares in Plan	250,000	50,000	300,000
Total Shares Available for Issuance	45,951	37,318	83,269

Following is a summary of stock option transactions for the three-month periods ending March 31:

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	21,000	$ 3.00	42,600	$ 3.00
Granted	-	-	-	-
Exercised	(21,000)	3.00	-	3.00
Forfeited	-	-	-	-
Outstanding, end of period	-	3.00	42,600	3.00

The stock options expired on March 17, 2020. Option holders were able to pay the exercise price of a stock option in cash or through the surrender of shares of stock held by the option holder at the time of exercise. Executives selling shares into the market are encouraged, but not required, to do so under a passive trading plan that meets the requirements of the Securities and Exchange Commission's Rule 10b-5.

The Company recognized share-based compensation expense of $6,000 related to restricted stock for the three month period ended March 31, 2020. The Company recognized share-based compensation expense of $5,000 related to restricted stock for the three-month period ended March 31, 2019.

At March 31, 2020, the Company had $69,000 of unamortized restricted stock compensation expense. The cost of restricted stock granted is recognized over the vesting period, which is generally four years.

NOTE 9 – Revenue from Contracts with Customers

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Service charges on deposits	$ 194	$ 182
Bankcard fees	227	247
Bank charges and service fees not within scope of ASC 606	210	217
Total bank charges and service fees	631	646
Wealth management revenue	441	416
Wealth management revenue not within the scope of ASC 606	-	27
Total wealth management revenues	441	443
Other	10	18
Other not within the scope of ASC 606 (a)	118	142
Total other	128	160
Other non-interest income not within the scope of ASC 606 (a)	9,594	3,253
Total non-interest income	$ 10,794	$ 4,502

(a) This revenue is not within the scope of ASC 606, and includes fees related to mortgage banking operations, gains on sale of loans, 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 March 31, 2020. Total receivables from revenue recognized under the scope of ASC 606 were $429 thousand as of March 31, 2020 and $460 thousand as of December 31, 2019. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

NOTE 10 – Fair Value Measurements

FASB 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 not active and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability.

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

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

	Carrying Value at March 31, 2020				Three Months Ended March 31, 2020
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
ASSETS					
Debt securities available for sale	$ 223,371	$ 5,103	$ 218,268	$ -	$ 975
Loans held for sale	177,015	-	177,015	-	282
Commitments to originate mortgage loans	10,727	-	10,727	-	4,901
Commitments to sell mortgage loans	3,466	-	3,466	-	3,487
Total assets at fair value	$ 414,579	$ 5,103	$ 409,476	$ -	$ 9,645
LIABILITIES					
Mortgage banking short positions	$ 7,827	$ -	$ 7,827	$ -	$ (7,529)
Total liabilities at fair value	$ 7,827	$ -	$ 7,827	$ -	$ (7,529)

	Carrying Value at December 31, 2019				Twelve Months Ended December 31, 2019
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
ASSETS					
Debt securities available for sale	$ 265,278	$ 4,994	$ 260,284	$ -	$ (1,296)
Loans held for sale	137,114	-	137,114	-	2,844
Commitments to originate mortgage loans	4,358	-	4,358	-	2,051
Total assets at fair value	$ 406,750	$ 4,994	$ 401,756	$ -	$ 3,599
LIABILITIES					
Commitments to sell mortgage loans	$ 21	$ -	$ 21	$ -	$ 128
Mortgage banking short positions	299	-	299	-	(89)
Total liabilities at fair value	$ 320	$ -	$ 320	$ -	$ 39

The Company sells short positions in mortgage-backed securities to hedge 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.

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

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

	Carrying Value at March 31, 2020				Three Months Ended March 31, 2020
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
Impaired loans[1]	$ 2,458	$ -	$ -	$ 2,458	$ (285)
Other real estate[2]	-	-	-	-	-
Total	$ 2,458	$ -	$ -	$ 2,458	$ (285)

	Carrying Value at December 31, 2019				Twelve Months Ended December 31, 2019
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
Impaired loans[1]	$ 2,752	$ -	$ -	$ 2,752	$ (473)
Other real estate[2]	-	-	-	-	35
Total	$ 2,752	$ -	$ -	$ 2,752	$ (438)

(1) The carrying value represents the book value less allocated reserves. The gain or loss reported is the change in the reserve balances allocated on individual impaired loans in addition to the actual write-downs for the period presented.
(2) The carrying value represents the fair value of the collateral less estimated selling costs and is based upon appraised values. The gain or loss reported is a combination of gains and/or losses on sales of other real estate and provisions for other real estate losses.

While the overall loan portfolio is not carried at fair value, reserves are allocated, on certain loans, to reflect fair value based on the external appraised value of the underlying collateral, less anticipated costs to sell, or through present value of future cash flow models for impaired loans that are not collateral dependent. The external appraisals are generally based on a sales, income, or cost approach, which are then adjusted for the unique characteristics of the property being valued. The valuation of impaired loans are reviewed on a quarterly basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

NOTE 11 – Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	March 31, 2020		December 31, 2019	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 64,987	$ 64,987	$ 10,523	$ 10,523
Debt securities available for sale	Level 1	5,103	5,103	4,994	4,994
Debt securities available for sale	Level 2	218,268	218,268	260,284	260,284
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,965	2,965	3,651	3,651
Loans held for sale-mortgage banking	Level 2	177,015	177,015	137,114	137,114
Commitments to originate mortgage loans	Level 2	10,727	10,727	4,358	4,358
Commitments to sell mortgage loans	Level 2	3,466	3,466	-	-
Gross loans and leases held for investment	Level 2	512,300	521,428	504,717	505,156
Gross loans and leases held for investment	Level 3	3,211	2,458	3,480	2,752
Accrued interest receivable	Level 2	3,443	3,443	3,681	3,681
		$ 1,001,485	$ 1,009,860	$ 932,802	$ 932,513
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 143,330	$ 143,330	$ 136,313	$ 136,313
Deposits, interest-bearing	Level 2	753,402	754,690	684,234	684,215
Borrowings and advances	Level 2	5,219	5,219	21,565	21,565
Accrued interest payable	Level 2	1,167	1,167	1,685	1,685
Accrued expenses	Level 2	7,282	7,282	7,580	7,580
Commitments to sell mortgage loans	Level 2	-	-	21	21
Mortgage banking short positions	Level 2	7,827	7,827	299	299
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,006	7,878	15,006	10,834
		$ 933,233	$ 927,393	$ 866,703	$ 862,512
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 180	$ -	$ 225
Standby and commercial letters of credit	Level 2	$ -	$ 7	$ -	$ 8

NOTE 12 – Federal Home Loan Bank Advances

As of March 31, 2020, the Bank had $0 of FHLB advances outstanding. At March 31, 2020, the Bank had loans with unamortized principal balances of approximately $173.4 million and debt securities with unamortized principal balances of approximately $38.4 million pledged as collateral to the FHLB.

As of December 31, 2019, the Bank had $17.0 million of FHLB advances outstanding. At December 31, 2019, the Bank had loans with unamortized principal balances of approximately $171.6 million and debt securities with unamortized principal balances of approximately $46.8 million pledged as collateral to the FHLB.

As of March 31, 2020, the Bank has the ability to draw advances up to approximately $139.2 million based upon the aggregate collateral that is currently pledged, subject to a requirement to purchase additional FHLB stock, based upon collateral pledged.

NOTE 13 – Other Borrowings

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

March 31, 2020

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

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank Line	$ 2,244	$ 2,131	$ -	$ 2,131
BNC Line	110,287	10,000	-	10,000
Total	$ 112,531	$ 12,131	$ -	$ 12,131

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

At March 31, 2020, the pledged collateral for the secured BNC National Bank Line was comprised of commercial real estate loans and the pledged collateral for the secured BNC Line was the common stock of BNC National Bank.

December 31, 2019

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

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank Line	$ 2,271	$ 2,157	$ -	$ 2,157
BNC Line	102,955	10,000	-	10,000
Total	$ 105,226	$ 12,157	$ -	$ 12,157

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

At December 31, 2019, the pledged collateral for the secured BNC National Bank Line was comprised of commercial real estate loans and the pledged collateral for the secured BNC Line was the common stock of BNC National Bank.

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

In July 2007, BNC issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at March 31, 2020 and December 31, 2019 was 3.31% and 3.50%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 15 – Stockholders' Equity

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

While the Company has not historically paid a dividend or repurchased stock, if the Company elected to do so, the Company would be required to seek regulatory approval from the Federal Reserve Board.

NOTE 16 – Regulatory Capital and Current Operating Environment

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

At March 31, 2020 the capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

At March 31, 2020 and December 31, 2019, the regulatory capital amounts and ratios were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
March 31, 2020								
Total Risk Based Capital:								
Consolidated	$ 122,617	16.72 %	$ 58,667	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	114,006	15.56	58,625	≥8.0	73,281	10.0	40,725	5.56
Tier 1 Risk Based Capital:								
Consolidated	114,203	15.57	44,001	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	105,592	14.41	43,969	≥6.0	58,625	8.0	46,967	6.41
Common Equity Tier 1 Risk Based Capital:								
Consolidated	99,197	13.53	33,000	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	105,592	14.41	32,976	≥4.5	47,633	6.5	57,959	7.91
Tier 1 Leverage Capital:								
Consolidated	114,203	11.73	38,931	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	105,592	10.87	38,871	≥4.0	48,589	5.0	57,003	5.87
Tangible Common Equity (to total assets): (a)								
Consolidated	103,332	9.91	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	110,172	10.57	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2019								
Total Risk Based Capital:								
Consolidated	$ 117,817	17.13 %	$ 55,023	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	109,044	15.88	54,940	≥8.0	68,675	10.0	40,369	5.88
Tier 1 Risk Based Capital:								
Consolidated	109,675	15.95	41,268	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	100,902	14.69	41,205	≥6.0	54,940	8.0	45,962	6.69
Common Equity Tier 1 Risk Based Capital:								
Consolidated	94,669	13.76	30,951	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	100,902	14.69	30,904	≥4.5	44,639	6.5	56,263	8.19
Tier 1 Leverage Capital:								
Consolidated	109,675	10.65	41,205	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	100,902	9.81	41,142	≥4.0	51,427	5.0	49,475	4.81
Tangible Common Equity (to total assets): (a)								
Consolidated	96,159	9.95	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	102,837	10.65	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.

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

NOTE 17 – Subsequent Events

During the first quarter of 2020, the Coronavirus (COVID-19) was declared a global pandemic event. While it is too early to estimate the full economic impact of this pandemic, we anticipate a significant decline in economic activity affecting a broad array of industries. Community banks like BNC will be impacted by the pandemic. BNC is operating in an environment with more uncertainty, lower interest rates, higher credit risk, and higher unemployment, which may impact banking and mortgage banking operations.

Certain programs initiated by the federal government are expected to impact future financial performance. The significant programs currently impacting BNC are as follows:

- BNC participated in the SBA Paycheck Protection Program (PPP), funding $86.7 million of loans in April 2020. The weighted average fee percentage associated with PPP loans funded by BNC through April 24, 2020 was 3.40%. In addition, these loans are guaranteed by the SBA and carry a 1.00% yield with a 2-year maturity. Recognition timing of the fee income in future periods will be influenced by the extent and timing of reimbursement of funds to BNC. A significant number of PPP borrowers deposited loan proceeds into BNC deposit accounts. As a result of deposits from PPP loans and other factors, the Company's deposits increased to $954 million and total assets increased to $1.1 billion as of April 30, 2020. A second round of PPP funding opened on April 27, 2020 and BNC continues to participate in the program.

- Financial institutions have been encouraged to provide modifications that allow otherwise performing borrowers the opportunity to financially recover from potentially short-term COVID-19 related economic conditions. Pursuant to regulator interagency guidance published in the first quarter of 2020, BNC modified approximately $200 million of loans as of April 24, 2020 that allow our customers to defer payments for periods from 90 to 180 days. These loans were current as of December 31, 2019 and therefore, per the interagency TDR guidance, are not automatically considered TDRs.

- As part of the COVID-19 debt relief efforts, the SBA initiated a program that will pay six months of principal, interest, and any associated fees that borrowers owe for certain SBA loans that are in regular servicing status. In the second quarter of 2020, the SBA began making such relief payments.

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

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

Comparison of Results for the Three Months Ended March 31, 2020 and 2019

Summary for the Three Months Ended March 31, 2020 and 2019

Net income was $4.302 million, or $1.21 per diluted share, for the quarter ended March 31, 2020. This compared to net income of $1.438 million, or $0.40 per diluted share, in the first quarter of 2019.

Net interest income for the first quarter of 2020 was $7.424 million, an increase of $469 thousand, or 6.7%, from $6.955 million for the same period of 2019. The increase from the year-ago period primarily reflected the positive impact of deleveraging through deposit reduction and the redemption of subordinated debt in the fourth quarter of 2019. The net interest margin for the current period increased to 3.28% from 2.99% a year ago.

Interest income decreased to $9.002 million for the quarter ended March 31, 2020, compared to $9.128 million for the first quarter of 2019. The decrease in interest income is due to higher average loan balances that were offset by the loss of interest income from debt securities sold to deleverage the balance sheet and fund elevated mortgage loan activity. The yield on average interest earning assets increased to 3.96% from 3.93% in the same quarter of 2019. During the first quarter of 2020, the average balance of interest earning assets decreased by $32.8 million when compared to the first quarter of 2019. Average loans held for investment increased $45.5 million, or 9.8%, and average loans held for sale increased by $99.9 million, or 436.2%, when comparing the first quarters of 2020 and 2019. The average balance of debt securities decreased by $174.7 million, or 41.0%, in the first quarter of 2020, compared to the same period a year ago. Yields on debt securities increased to 2.65% in the first quarter of 2020 from 2.63% in the same period of 2019.

Interest expense in the first quarter of 2020 was $1.578 million, a decrease of $595 thousand, or 27.4%, from the same period in 2019. The cost of interest bearing liabilities decreased to 0.88% in the current quarter from 1.12% in the first quarter 2019. Interest expense on deposits decreased as a result of lower balances as the Company deleveraged certain higher cost deposits. The cost of core deposits was 0.69% in the first quarter of 2020 and 0.85% in the first quarter of 2019. Interest expense was also $159 thousand lower in the 2020 first quarter due to the redemption of $10.0 million of subordinate debt in the fourth quarter of 2019. Based on deposit repricing executed late in the first quarter of 2020, BNC anticipates its cost of deposits will be under 0.50% to start the second quarter.

Total loans held for investment increased by $51.2 million, or 11.0%, from March 31, 2019 and increased by $7.3 million, or 1.4%, from December 31, 2019. Mortgage loans held for sale increased by $136.2 million, or 333.8%, from March 31, 2019 and $39.9 million from December 31, 2019 as lower interest rates continued to support higher mortgage banking origination activity in the first quarter of 2020.

Total deposits increased by $76.2 million to $896.7 million at March 31, 2020 from $820.5 million at December 31, 2019 as the Company asserted its ability to bring back approximately $50 million of deposits previously moved off our balance sheet in the fourth quarter of 2019. The return of these deposits and sale of debt securities has resulted in cash balances of $65.0 million after increasing loan balances $47.2 million at the end of the first quarter. We anticipate a portion of this cash may be used to fund PPP loans and mortgage loans held for sale as our mortgage banking business remains robust. PPP loan proceeds deposited with BNC will increase deposits until borrowers utilize loan proceeds.

Short-term borrowings increased $654 thousand at March 31, 2020 compared to December 31, 2019 while FHLB borrowings decreased by $17.0 million during the same period due to higher cash balances available in the first quarter of 2020.

The provision for credit losses of $550 thousand in the first quarter of 2020 was more than the $0 in the first quarter of 2019 due in part to the uncertain impact COVID-19 will have on borrowers. Loan balances charged-off in the first quarter of 2020 were $288 thousand.

Non-interest income for the first quarter of 2020 was $10.794 million. This compares to non-interest income of $4.502 million for the same period in 2019, an increase of $6.292 million, or 139.8%. Mortgage banking revenues aggregated $8.616 million in the current period compared to $3.087 million in the first quarter of 2019, as lower interest rates induced higher mortgage banking origination activity. The fair value of mortgage derivatives decreased late in the quarter as a result of mortgage backed securities market dislocation and general liquidity concerns by mortgage servicers related to mortgagors being able to defer payments pursuant to the Coronavirus Aid Relief and Economic Security (CARES) Act legislation. This dislocation appears to have been short-term as mortgage banking originations have been robust in early April 2020 and margins appear to have normalized. Gains on sales of assets aggregated $978 thousand in the first quarter 2020, compared to $166 thousand in the prior year first quarter. Gains on sales of assets and earnings from certain investments can vary significantly from period to period.

Non-interest expense for the first quarter of 2020 was $12.007 million compared to $9.682 million in the same period of 2019, an increase of $2.325 million. Salaries and benefits increased $1.193 million, or 23.3%, from the first quarter 2019. The increase in salaries and employee benefits relates to mortgage operations and is due to elevated levels of loan processing in the first quarter of 2020. Professional services in the first quarter of 2020 were up $524 thousand, or 69.5%, from the first quarter 2019, related exclusively to mortgage related closing costs. Other expense increased by $214 thousand when compared to the same period of 2019 due to recording a mortgage warranty reserve provision and mortgage related personnel recruiting costs.

In the first quarter of 2020, we recorded tax expense of $1.359 million, which resulted in an effective tax rate of 24.0% for the quarter. Tax expense of $337 thousand was recognized during the first quarter of 2019, which resulted in an effective tax rate of 19.0%. The increase in the effective tax rate in 2020 is due to higher pre-tax revenues and lower non-taxable interest income from municipal securities.

Net Interest Income

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

	Three Months Ended March 31, 2020			Three Months Ended March 31, 2019			Change		
	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost
Interest-earning assets									
Federal funds sold/cash equivalents	$ 29,257	$ 45	0.61%	$ 32,458	$ 231	2.91%	$ (3,201)	$ (186)	-2.30% (a)
Debt securities – taxable	247,526	1,634	2.66%	366,806	2,398	2.65%	(119,280)	(764)	0.01% (b)
Debt securities – tax exempt	6,621	59	3.54%	61,961	405	2.62%	(55,340)	(346)	0.92% (b)
Loans held for sale – mortgage banking	122,745	1,024	3.35%	22,892	234	4.15%	99,853	790	-0.80% (c)
Loans and leases held for investment	511,849	6,240	4.90%	466,377	5,860	5.10%	45,472	380	-0.20% (d)
Allowance for loan losses	(8,006)	-	0.00%	(7,686)	-	0.00%	(320)	-	0.00%
Total interest-earning assets	$ 909,992	$ 9,002	3.96%	$ 942,808	$ 9,128	3.93%	$ (32,816)	$ (126)	0.03%
Interest-bearing liabilities									
Interest checking and money market	$ 498,414	$ 664	0.54%	$ 567,529	$ 1,199	0.86%	$ (69,115)	$ (535)	-0.32% (e)
Savings	35,813	7	0.08%	34,455	6	0.07%	1,358	1	0.01% (e)
Certificates of deposit	162,601	768	1.91%	152,928	635	1.68%	9,673	133	0.23% (e)
Total interest-bearing deposits	696,828	1,439	0.83%	754,912	1,840	0.99%	(58,084)	(401)	-0.16%
Short-term borrowings	5,163	3	0.21%	8,414	15	0.74%	(3,251)	(12)	-0.53% (f)
Federal Home Loan Bank advances	2,687	12	1.79%	558	4	2.63%	2,129	8	-0.84% (g)
Long-term borrowings	-	-	0.00%	10,000	159	6.35%	(10,000)	(159)	-6.35%
Subordinated debentures	15,006	124	3.26%	15,008	155	4.13%	(2)	(31)	-0.87%
Total borrowings	22,856	139	2.45%	33,980	333	3.97%	(11,124)	(194)	-1.52%
Total interest-bearing liabilities	$ 719,684	1,578	0.88%	$ 788,892	2,173	1.12%	$ (69,208)	(595)	-0.24%
Net interest income/spread		$ 7,424	3.06%		$ 6,955	2.81%		$ 469	0.25%
Net interest margin			3.28%			2.99%			0.29% (h)
Notation:									
Non-interest-bearing deposits	$ 135,159	-	0.00%	$ 124,782	-	0.00%	$ 10,377	-	0.00% (e)
Total deposits	$ 831,987	$ 1,439	0.70%	$ 879,694	$ 1,840	0.85%	$ (47,707)	$ (401)	-0.15%
Taxable equivalents:									
Total interest-earning assets	$ 909,993	$ 9,059	4.00%	$ 942,808	$ 9,327	4.01%	$ (32,815)	$ (268)	-0.01%
Net interest income/spread	-	$ 7,481	3.12%	-	$ 7,154	2.89%	-	$ 327	0.23%
Net interest margin	-	-	3.31%	-	-	3.08%	-	-	0.23%

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business.
(b) Average debt securities portfolio balances have decreased as liquidity requirements for loan growth and deleveraging strategies resulted in the sale of debt securities.
(c) The average balance of loans held for sale increased in the first quarter of 2020 as the lower interest rate environment continued to support increased mortgage loan originations activity.
(d) The average balance of loans held for investment rose compared to the first quarter of 2019 due to steady loan activity in our core markets throughout 2019. See Note 17 to the consolidated financial statement for Subsequent Events.
(e) Overall, average deposit balances have decreased primarily due to deleveraging actions taken in the fourth quarter of 2019.
(f) A significant portion of our customers transferred funds into interest-bearing deposit accounts.
(g) Federal Home Loan Bank short-term advances have been utilized to flexibly manage our balance sheet.
(h) Net interest margin has increased due to higher loan balances, lower deposits, redemption of subordinated debt in December 2019 and lower deposit cost of funds. The full impact of the federal funds rate being reduced 150 basis points in the first quarter of 2020 has not yet fully manifested in BNC's first quarter financial results.

Non-interest Income

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Increase (Decrease) $	Increase (Decrease) %	
Bank charges and service fees	$ 631	$ 646	$ (15)	(2) %	
Wealth management revenues	441	443	(2)	- %	
Mortgage banking revenues	8,616	3,087	5,529	179 %	(a)
Gains on sales of loans, net	3	102	(99)	(97) %	(b)
Gains on sales of securities, net	975	64	911	1,423 %	(c)
Other	128	160	(32)	(20) %	(d)
Total non-interest income	$ 10,794	$ 4,502	$ 6,292	140 %	

(a) Mortgage banking revenues increased due to higher mortgage origination activity in the current low interest rate environment.
(b) Gains on sale of loans can vary significantly from period to period.
(c) Gains and losses 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.
(d) Other income consists largely of SBIC income and gains on sales of fixed assets.

Non-interest Expense

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Increase (Decrease) $	Increase (Decrease) %	
Salaries and employee benefits	$ 6,311	$ 5,118	$ 1,193	23 %	(a)
Professional services	1,278	754	524	69 %	(b)
Data processing fees	1,124	1,039	85	8 %	(c)
Marketing and promotion	1,426	1,010	416	41 %	(d)
Occupancy	535	559	(24)	(4) %	
Regulatory costs	56	132	(76)	(58) %	
Depreciation and amortization	356	361	(5)	(1) %	
Office supplies and postage	134	136	(2)	(1) %	
Other	787	573	214	37 %	(e)
Total non-interest expense	$ 12,007	$ 9,682	$ 2,325	24 %	
Efficiency ratio	65.9%	84.5%			

(a) Salaries and employee benefits increase relates to increased mortgage production in 2020.
(b) Professional service expense increase primarily relates to increased mortgage operating costs.
(c) Data processing fees increased due to increased network hardware and software expense.
(d) Marketing and promotion increased due to increased mortgage lead costs.
(e) Other expense increase includes increased mortgage warranty reserve expense and mortgage related recruiting costs.

Mortgage Banking Division Selected Data

The following table sets forth information related to mortgage banking products funded and sold with servicing released by the Bank. The following selected data is not intended to be interpreted as a statement of profit and loss as it excludes interest income, interest expense, shared service expenses, and tax expense.

(dollars in thousands)	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
Number of funded mortgage loans held for sale		1,400		488
Mortgage loans held for sale funded	$	505,081	$	154,361
Year-to-date average loans held for sale-mortgage banking	$	122,745	$	22,892
Loans held for sale-mortgage banking	$	177,015	$	40,806
Non-Interest Income:				
Gains on sale of loans held for sale, net of commission expense	$	7,475	$	1,839
Unrealized gain on mortgage financial instruments (1)	$	1,141	$	1,248
Direct non-interest income	$	8,616	$	3,087
Direct non-interest expense	$	5,182	$	2,795

(1) Includes changes in fair value of mortgage commitments, hedge instruments, and loans held for sale

The Company's mortgage banking division originates and sells a variety of conventional and government sponsored mortgage loan products with servicing released through two primary channels. The retail channel is predominantly relationship driven with originators capitalizing on local relationships to originate loans through four retail bank branches and seven midwest retail mortgage locations. The Consumer Direct channel is operated by use of a call-center with internet sales focused on both purchase and refinance transactions across the country from locations in Overland Park, Kansas and Farmington Hills, Michigan.

The current low interest rate environment has generated a significant increase in mortgage loan activity later in 2019 that has continued through the first quarter of 2020. Non-interest income includes gains on the sale of loans, changes in the fair value of loans held for sale, loans in the various stages of processing prior to funding, hedge instruments as well as commissions expense.

The increase in unemployment related to COVID-19 has put pressure on mortgage borrowers. In response, federal agencies such as Ginnie Mae and Fannie Mae have allowed borrowers to request loan payment deferrals for a period of time. While this program has not had a material impact on BNC in the first quarter of 2020, as we sell loans servicing released, it may impact the ability of mortgage loan servicers to purchase loans and will be monitored as conditions evolve.

Direct non-interest expenses include direct costs necessary to underwrite, process, fund and sell mortgage loans as well as the costs of technology and operational costs specifically identified as serving the mortgage division.

Mortgage Banking Division Selected Data above excludes interest income earned on loans held-for-sale, tax expense and costs typically allocated to the mortgage division related to internal services shared with other divisions of the Bank.

Income Taxes

In the first quarter of 2020, we recorded income tax expense of $1.359 million, which resulted in an effective tax rate of 24.0% for the quarter. Income tax expense of $337 thousand was recognized during the first quarter of 2019, which resulted in an effective tax rate of 19.0%. The increase in the effective tax rate in 2020 is due to higher pre-tax revenues and lower non-taxable interest income from municipal securities.

Comparison of Financial Condition at March 31, 2020 and December 31, 2019

Assets

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

	March 31, 2020	December 31, 2019	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 64,987	$ 10,523	$ 54,464	518 %	(a)
Debt securities available for sale	223,371	265,278	(41,907)	(16) %	(b)
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	2,965	3,651	(686)	(19) %	(c)
Loans held for sale-mortgage banking	177,015	137,114	39,901	29 %	(d)
Loans and leases held for investment, net	515,905	508,569	7,336	1 %	
Allowance for credit losses	(8,414)	(8,141)	(273)	3 %	
Repossessed assets, net	5	-	5	100 %	
Premises and equipment, net	16,151	16,401	(250)	(2) %	
Operating lease right of use asset	2,476	2,638	(162)	(6) %	(e)
Accrued interest receivable	3,443	3,681	(238)	(6) %	(f)
Other assets	44,916	27,036	17,880	66 %	(g)
Total assets	$ 1,042,820	$ 966,750	$ 76,070	8 %	

(a) Cash balances can fluctuate significantly from period to period based on liquidity sources and uses of the business.
(b) Investment balances have decreased to provide available liquidity for loan growth.
(c) Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock will vary based on the Company's utilization of Federal Home Loan Bank advances.
(d) Loans held for sale increased as balances will fluctuate with the timing of loan funding and sales. During 2020, mortgage banking loan funding increased due to interest rates favorable to mortgage refinancing activity.
(e) Operating lease right of use asset as required by ASC 842, *Leases* – See Note 6.
(f) Accrued interest receivable can fluctuate from period to period.
(g) Other assets increased primarily due to the increased value of commitments to fund mortgage loans, partially offset by a deferred tax asset decrease resulting from the increased value of available for sale debt securities in 2020.

Loan Participations

Pursuant to our lending policy, loans may not exceed 85 percent of the Bank's legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits) unless the Bank's Chief Credit Officer or the Executive Credit Committee grant prior approval. To accommodate creditworthy customers whose financing needs exceed lending limits and internal restrictions, the Bank sells loan participations to outside participants without recourse. Loan participations sold on a nonrecourse basis to outside financial institutions were $149.6 million as of March 31, 2020 and $152.2 million as of December 31, 2019. The sales of participations are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Concentrations of Credit

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

	March 31, 2020		December 31, 2019	
North Dakota	$ 347,037	67 %	$ 347,179	68 %
Arizona	101,901	20 %	101,244	20 %
Minnesota	39,568	8 %	33,594	7 %
Other	27,005	5 %	26,180	5 %
Total gross loans and leases held for investment	$ 515,511	100 %	$ 508,197	100 %

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

	March 31, 2020		December 31, 2019	
North Dakota	$ 307,319	60 %	$ 306,609	60 %
Arizona	127,977	25 %	122,192	24 %
Minnesota	30,039	6 %	27,777	5 %
California	18,383	4 %	18,541	4 %
Colorado	14,537	3 %	15,297	3 %
Ohio	7,388	1 %	7,477	2 %
Other	9,868	1 %	10,304	2 %
Total gross loans and leases held for investment	$ 515,511	100 %	$ 508,197	100 %

BNC's loans and leases held for investment are concentrated geographically in North Dakota and Arizona. North Dakota and Arizona loans make up 60% and 25% of the total loan portfolio, respectively. The North Dakota economy is influenced by the energy sector and agriculture. Late in the first quarter of 2020, oil prices collapsed largely due to COVID-19 demand issues being further impacted by geopolitical disagreements. An extended period of low energy prices will negatively impact credit quality in North Dakota. The Arizona economy is influenced by leisure and travel. Late in the first quarter of 2020, these activities diminished, primarily due to pandemic-related travel restrictions. An extended slowdown in these industries will negatively impact credit quality in Arizona. BNC's portfolio is constructed of various sized loans spread over a large number of industry sectors, although concentrations of loans in hospitality and real estate make up notable percentages of the portfolio. The following table approximates our significant concentrations by industry (dollars are in thousands):

	March 31, 2020
Non-owner Occupied Commercial Real estate – not otherwise categorized	$ 139,383
Hotels	77,029
Consumer, not otherwise categorized	71,848
Healthcare and Social Assistance	38,598
Agriculture, Forestry, Fishing and Hunting	29,879
Non-Hotel Accommodation and Food Service	24,215
Transportation and Warehousing	23,946
Retail Trade	21,720
Mining, Oil and Gas Extraction	17,458
Construction Contractors	16,854
Manufacturing	13,075
Other Service	9,030
Art, Entertainment and Recreation	8,888
All Other	23,588
Total gross loans and leases held for investment	$ 515,511

The COVID-19 pandemic has impacted all markets as the country shelters in place to contain the spread of the virus. While BNC's primary markets are not currently considered "hot spots", business closures are negatively impacting our commercial customers' ability to generate earnings while our consumer customers are increasingly subject to employment uncertainty.

The hospitality industry is experiencing unprecedented low hotel occupancy and restaurant utilization. The oil and gas industry is experiencing low oil prices due to COVID-19 related demand issues that are further impacted by geopolitical disagreements. These COVID-19 influenced economic conditions are expected to negatively impact various industry sectors.

Loan Maturities(1)

The following table sets forth the maturities of loans in each major category of our portfolio as of March 31, 2020 (in thousands):

		Over 1 year through 5 years		Over 5 years		Total Loans and Leases
	One year or less	Fixed Rate	Indexed Rate	Fixed Rate	Indexed rate	Held for Investment
Commercial and industrial	$ 24,330	$ 6,854	$ 10,911	$ 59,230	$ 66,472	$ 167,797
Commercial real estate	1,264	2,618	1,524	33,698	148,719	187,823
SBA	2,132	3,387	9,915	3,981	28,634	48,049
Consumer	1,686	273	4,239	68,086	8,728	83,012
Land and land development	1,933	330	2,670	5,535	3,069	13,537
Construction	416	1,265	13,612	-	-	15,293
Total principal amount of loans	$ 31,761	$ 14,727	$ 42,871	$ 170,530	$ 255,622	$ 515,511

(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 the same manner as new credit applications.

Allocation of the Allowance for Credit Losses

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

	March 31, 2020		December 31, 2019	
	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment
Commercial and industrial	$ 2,623	33 %	$ 2,366	32 %
Commercial real estate	3,659	36 %	3,502	38 %
SBA	857	9 %	1,131	9 %
Consumer	918	16 %	853	16 %
Land and land development	221	3 %	187	2 %
Construction	136	3 %	102	3 %
Total	$ 8,414	100 %	$ 8,141	100 %

Nonperforming Loans

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

	Three Months Ended March 31,		Twelve Months Ended December 31,
	2020	2019	2019
Balance, beginning of period	$ 2,033	$ 1,686	$ 1,686
Additions to nonperforming	1,231	537	1,179
Charge-offs	(10)	(12)	(148)
Reclassified back to performing	-	-	(242)
Principal payment received	(37)	(51)	(186)
Transferred to repossessed assets	(5)	(5)	(46)
Transferred to other real estate owned	-	-	(210)
Balance, end of period	$ 3,212	$ 2,155	$ 2,033

Nonperforming Assets

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

	March 31, 2020	December 31, 2019
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ -	$ -
Non-accrual loans	3,212	2,033
Total nonperforming loans	3,212	2,033
Repossessed assets, net	5	-
Total nonperforming assets	$ 3,217	$ 2,033
Allowance for credit losses	$ 8,414	$ 8,141
Ratio of total nonperforming loans to total loans	0.46%	0.31%
Ratio of total nonperforming loans to loans and leases held for investment	0.62%	0.40%
Ratio of total nonperforming assets to total assets	0.31%	0.21%
Ratio of nonperforming loans to total assets	0.31%	0.21%
Ratio of allowance for credit losses to nonperforming loans	262%	400%

Problem Loans

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

	Watch List			Substandard		
	Impaired	Other	Total	Impaired	Other	Total
March 31, 2020	$ -	$ 8,047	$ 8,047	$ 1,658	$ 7,821	$ 9,479
December 31, 2019	$ 1,448	$ 7,713	$ 9,161	$ 514	$ 7,247	$ 7,761

At March 31, 2020, the Bank had $11.0 million of classified loans and $3.2 million of loans on non-accrual. This compares to $9.3 million of classified loans and $2.0 million of loans on non-accrual at December 31, 2019 and $10.5 million of classified loans and $1.9 million of loans on non-accrual at March 31, 2019.

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

The COVID-19 pandemic has significantly increased credit risk. COVID-19 induced global reduction in the demand for oil, and geopolitical disagreements related to oil production are expected to adversely impact oil drilling, service, and employment metrics in North Dakota. It is expected that oil conditions when combined with the temporary closing of many businesses in all of BNC's markets has resulted in elevated credit stresses.

The extent and timing of the pandemic implications is not determinable at this point. Prolonged periods of COVID-19 pandemic disruption of business production, consumer goods and services consumption, and employment could have a material adverse impact on the Company's loan portfolio and operating results.

In the first quarter of 2020, in response to economic conditions related to the COVID-19 pandemic, new interim guidelines were issued jointly by regulatory authorities related to troubled debt restructuring loan treatment. The guidance allows banks to prudently modify loans such as the temporary deferral of principal and interest. Financial institutions have been encouraged to provide modifications in situations where it will provide time to allow otherwise performing borrowers the opportunity to financially recover from potentially short-term COVID-19 related economic conditions.

As of April 24, 2020, BNC has modified approximately $200 million of loans consistent with this inter-agency guidance, allowing customers to defer payments for periods from 90 to 180 days.

Liabilities

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

	March 31, 2020	December 31, 2019	Increase (Decrease) $	Increase (Decrease) %	
Deposits:					
Non-interest-bearing	$ 143,330	$ 136,313	$ 7,017	5 %	(a)
Interest-bearing-					
Savings, interest checking and money market	597,805	514,869	82,936	16 %	(a)
Time deposits	155,597	169,365	(13,768)	(8) %	(b)
Short-term borrowings	5,219	4,565	654	14 %	(c)
Federal Home Loan Bank advances	-	17,000	(17,000)	(100) %	(d)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,006	15,006	-	- %	
Accrued interest payable	1,167	1,685	(518)	(31) %	(e)
Accrued expenses	7,282	7,580	(298)	(4) %	
Operating lease liabilities	2,656	2,822	(166)	(6) %	(f)
Other liabilities	11,311	1,267	10,044	793 %	(g)
Total liabilities	$ 939,373	$ 870,472	$ 68,901	8 %	

(a) BNC reclaimed deposits previously moved off-balance sheet in the fourth quarter of 2019.
(b) Time deposits have decreased in the normal course of the renewal process as BNC has lowered offered rates on new certificates of deposit.
(c) Short-term borrowings will vary depending on our customers need to use repurchase agreements.
(d) The Company has borrowed on a short-term basis from the Federal Home Loan Bank as an efficient source of liquidity.
(e) Accrued interest payable decreased primarily as a result of lower time deposit balances in the first quarter of 2020.
(f) Operating lease liabilities established through adoption of ASC 842, *Leases* – See Note 6.
(g) The increase primarily relates to increased commitments to sell mortgage loans and increased taxes payable resulting from increased pre-tax income in 2020.

At March 31, 2020 and December 31, 2019, the Bank had $40.3 million and $45.7 million, respectively, in time deposits greater than $250 thousand.

Mortgage Banking Obligations

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations, which aggregated $898 thousand at March 31, 2020 and $906 thousand at December 31, 2019. Although the Company sells mortgage banking loans without recourse, industry standards require standard representations and warranties, which can 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 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 record the estimated obligation. The following is a summary of activity related to mortgage banking obligations (in thousands):

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019		Twelve Months Ended December 31, 2019	
Balance, beginning of period	$	906	$	982	$	982
Provision		100		-		200
Write offs, net		(108)		(61)		(276)
Balance, end of period	$	898	$	921	$	906

Stockholders' Equity

Our stockholders' equity increased $7.2 million from December 31, 2019 to March 31, 2020 primarily due to $4.3 million in additional retained earnings and an increase in accumulated other comprehensive income of $2.6 million. As presented in Note 16 – Regulatory Capital and Current Operating Environment, the Company maintains capital in excess of regulatory requirements.

The Company routinely evaluates the sufficiency of its capital in order to ensure compliance with regulatory capital standards and be a source of strength for the Bank. We manage capital by assessing the composition of capital and amounts available for growth, risk or other purposes. Management regularly evaluates capital requirements and prudent capital management opportunities.

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

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

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

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

1. Estimated liquid assets and certain off-balance sheet considerations less estimated volatile liabilities using the aforementioned methodology ($108.3 million as of March 31, 2020);
2. Borrowing capacity from the FHLB ($139.2 million as of March 31, 2020); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($140.5 million as of March 31, 2020).

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

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

Our liquidity assessment process segregates our balance sheet into liquid assets 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. We have a targeted range for our liquidity position over this horizon and manage operations to achieve these targets.

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Our primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes our assumptions regarding the changes in interest rates and the impact on our current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month end balances of the various balance sheet accounts are held constant at their March 31, 2020 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its March 31, 2020 level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

We monitor the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of March 31, 2020, the downward scenarios for interest rate movements is limited to -100bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 3.25% to 4.25% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

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

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 30,395	$ 30,559	$ 30,527	$ 30,504	$ 30,491
Dollar change from unchanged scenario	$ (164)	-	$ (32)	$ (55)	$ (68)
Percent change from unchanged scenario	(0.54)%	-	(0.10)%	(0.18)%	(0.22)%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of March 31, 2020 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate any actions we might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the "rate sensitivity position" or "gap position." The following table sets forth our rate sensitivity position as of March 31, 2020. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated Maturity or Repricing at March 31, 2020				
	0–3 Months	4–12 Months	1–5 Years	Over 5 years	Total
	(dollars are in thousands)				
Interest-earning assets:					
Interest-bearing deposits with banks	$ 64,987	$ -	$ -	$ -	$ 64,987
Debt securities (a)	49,633	19,329	59,820	74,867	203,649
FRB and FHLB stock	2,965	-	-	-	2,965
Loans held for sale-mortgage banking, fixed rate	177,015	-	-	-	177,015
Loans held for investment, fixed rate	27,047	41,765	107,221	19,628	195,661
Loans held for investment, indexed rate	115,265	55,099	144,162	5,718	320,244
Total interest-earning assets	$ 436,912	$ 116,193	$ 311,203	$ 100,213	$ 964,521
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 561,610	$ -	$ -	$ -	$ 561,610
Savings	36,195	-	-	-	36,195
Time deposits	39,694	81,027	34,711	165	155,597
Short-term borrowings	5,219	-	-	-	5,219
Subordinated debentures	-	15,000	-	6	15,006
Total interest-bearing liabilities	$ 642,718	$ 96,027	$ 34,711	$ 171	$ 773,627
Interest rate gap	$ (205,806)	$ 20,166	$ 276,492	$ 100,042	$ 190,894
Cumulative interest rate gap at March 31, 2020	$ (205,806)	$ (185,640)	$ 90,852	$ 190,894	
Cumulative interest rate gap to total assets	(19.74%)	(17.80%)	8.71%	18.31%	

(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 of our debt securities.

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

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of March 31, 2020 and do not contemplate any actions we might undertake in response to changes in market interest rates.

Legal Proceedings

From time to time in the ordinary course of business, we and our subsidiaries may be a party to legal proceedings arising out of our lending, deposit operations, or other activities. We engage in foreclosure proceedings and other collection actions as part of our loan collection activities. From time to time, borrowers may also bring actions against us, in some cases claiming damages.

Management is not aware of any material pending or threatening litigation as of March 31, 2020.

Signatures

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

BNCCORP, INC.

Date:	May 11, 2020	By:	/s/ Timothy J. Franz
			Timothy J. Franz President and Chief Executive Officer
		By:	/s/ Daniel J. Collins
			Daniel J. Collins Chief Financial Officer