Quarterly Report

For the quarter ended March 31, 2024

BNCCORP, INC.

(OTCQX: BNCC)

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Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2024	December 31, 2023
ASSETS	(unaudited)	
Cash and cash equivalents	$ 73,598	$ 102,454
Debt securities available for sale	139,484	159,772
Federal Reserve Bank and Federal Home Loan Bank stock	2,387	2,372
Loans held for investment	677,870	668,808
Allowance for credit losses	(9,463)	(9,284)
Net loans held for investment	668,407	659,524
Premises and equipment, net	10,836	10,955
Operating lease right of use asset	855	938
Accrued interest receivable	4,371	4,206
Other	28,316	27,984
Total assets	$ 928,254	$ 968,205
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 170,976	$ 184,442
Interest-bearing –		
Savings, interest checking and money market	565,151	582,855
Time deposits	69,984	69,906
Total deposits	806,111	837,203
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,464	15,464
Accrued interest payable	1,167	937
Accrued expenses	2,597	4,105
Operating lease liabilities	961	1,048
Other	1,557	1,030
Total liabilities	827,857	859,787
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,521,710 and 3,569,210 shares issued and outstanding	36	36
Capital surplus – common stock	26,800	26,572
Retained earnings	86,783	93,186
Treasury stock (146,943 and 99,443 shares, respectively)	(2,686)	(1,528)
Accumulated other comprehensive loss	(10,536)	(9,848)
Total stockholders' equity	100,397	108,418
Total liabilities and stockholders' equity	$ 928,254	$ 968,205

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)

	2024	2023
INTEREST INCOME:		
Interest and fees on loans	$ 9,215	$ 8,159
Interest and dividends on investments		
Taxable	2,429	1,792
Tax-exempt	-	19
Dividends	33	36
Total interest income	11,677	10,006
INTEREST EXPENSE:		
Deposits	3,556	1,328
Federal Home Loan Bank advances	-	6
Subordinated debentures	262	231
Total interest expense	3,818	1,565
Net interest income	7,859	8,441
PROVISION FOR CREDIT LOSSES:	215	240
Net interest income after provision for credit losses	7,644	8,201
NON-INTEREST INCOME:		
Bank charges and service fees	793	1,092
Wealth management revenues	498	487
Mortgage banking revenues, net	-	1,856
Gains on sales of loans, net	-	8
Gains on sales of debt securities, net	-	12
Other	247	176
Total non-interest income	1,538	3,631
NON-INTEREST EXPENSE:		
Salaries and employee benefits	4,043	4,943
Professional services	255	897
Data processing fees	845	989
Marketing and promotion	188	1,369
Occupancy	390	512
Regulatory costs	135	106
Depreciation and amortization	266	293
Office supplies and postage	96	96
Other	689	701
Total non-interest expense	6,907	9,906
Income before income taxes	2,275	1,926
Income tax expense	535	453
NET INCOME	$ 1,740	$ 1,473
Basic earnings per common share	$ 0.49	$ 0.41
Diluted earnings per common share	$ 0.49	$ 0.41

See accompanying notes to consolidated financial statements.

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

	2024				2023			
NET INCOME			$	1,740			$	1,473
Unrealized (loss) gain on debt securities available for sale	$	(913)			$	2,515		
Reclassification adjustment for gains included in net income		-				(12)		
Other comprehensive (loss) income before tax		(913)				2,503		
Income tax benefit (expense) related to items of other comprehensive income (loss)		225				(616)		
Other comprehensive (loss) income	$	(688)		(688)	$	1,887		1,887
TOTAL COMPREHENSIVE INCOME			$	1,052			$	3,360

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**	**Income (Loss)**	**Total**
BALANCE, December 31, 2022	3,559,334	$ 36	$ 26,399	$ 87,575	$ (1,622)	$ (12,042)	$ 100,346
Cumulative effect adjustment for adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments	-	-	-	(94)	-	-	(94)
Net income	-	-	-	1,473	-	-	1,473
Other comprehensive income	-	-	-	-	-	1,887	1,887
Impact of share-based compensation	2,000	-	200	-	(42)	-	158
BALANCE, March 31, 2023	3,561,334	$ 36	$ 26,599	$ 88,954	$ (1,664)	$ (10,155)	$ 103,770
BALANCE, December 31, 2023	3,569,210	$ 36	$ 26,572	$ 93,186	$ (1,528)	$ (9,848)	$ 108,418
Net income	-	-	-	1,740	-	-	1,740
Other comprehensive income	-	-	-	-	-	(688)	(688)
Impact of share-based compensation	2,500	-	228	-	5	-	233
Common stock repurchased	(50,000)	-	-	-	(1,163)	-	(1,163)
Dividends declared on common stock ($2.25)	-	-	-	(8,143)	-	-	(8,143)
BALANCE, March 31, 2024	3,521,710	$ 36	$ 26,800	$ 86,783	$ (2,686)	$ (10,536)	$ 100,397

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)

	2024	2023
OPERATING ACTIVITIES:		
Net income	$ 1,740	$ 1,473
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for credit losses	215	240
Depreciation	266	293
Amortization of right of use asset	83	229
Net amortization of premiums on debt securities and subordinated debentures	354	460
Share-based compensation	233	158
Change in accrued interest receivable and other assets, net	(272)	872
Loss on sale of bank premises and equipment	-	10
Net realized gain on sales of debt securities	-	(12)
Increase in deferred taxes	-	(31)
Change in other liabilities, net	(838)	(3,413)
Originations of loans held for sale, mortgage banking	-	(137,627)
Proceeds from sales of loans held for sale, mortgage banking	-	136,415
Fair value adjustment for loans held for sale, mortgage banking	-	(623)
Fair value adjustment on mortgage banking derivatives	-	(96)
Gains on sales of loans, net	-	(8)
Net cash provided by (used in) operating activities	1,781	(1,660)
INVESTING ACTIVITIES:		
Purchases of debt securities	-	(9,555)
Proceeds from sales of debt securities	-	9,483
Proceeds from maturities of debt securities	19,021	4,495
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(15)	(1,640)
Sales of Federal Reserve and Federal Home Loan Bank Stock	-	1,765
Net increase in loans held for investment	(9,098)	(13,692)
Purchases of premises and equipment	(147)	(65)
Net cash provided by (used in) investing activities	9,761	(9,209)

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)

	2024	2023
FINANCING ACTIVITIES:		
Net decrease in deposits	$ (31,092)	$ (47,206)
Net increase in short-term borrowings	-	9
Repayments of Federal Home Loan Bank advances	-	(41,000)
Proceeds from Federal Home Loan Bank advances	-	41,000
Dividends paid on common stock	(8,143)	-
Common stock repurchase	(1,163)	-
Net cash (used in) financing activities	(40,398)	(47,197)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,856)	(58,066)
CASH AND CASH EQUIVALENTS, beginning of period	102,454	73,968
CASH AND CASH EQUIVALENTS, end of period	$ 73,598	$ 15,902
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 3,588	$ 1,497
Income taxes paid	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to repossessed assets in the settlement of loans	$ 38	$ 15
Right of use assets obtained in exchange for lease obligations	$ -	$ 100

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. ("BNCCORP") is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the "Bank"). BNC National Bank operates community banking and wealth management businesses through 11 locations in North Dakota and Arizona.

NOTE 2 – Basis of Presentation and Accounting Policies

The accounting and reporting policies of BNCCORP 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 BNCCORP 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, 2023. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2023 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, 2023, and the notes thereto.

The accompanying interim consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles (GAAP) in the United States of America for interim financial information. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2024, 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

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.

The Company adopted the standard on January 1, 2023, and applied the standard as a cumulative effect adjustment to retained earnings. At adoption, the Company recorded a $125 thousand increase to the allowance for credit losses, which was comprised of a $64 thousand decrease in the allowance for loan losses and a $189 thousand increase to the allowance for unfunded commitments. The after-tax impact resulted in a $94 thousand decrease to retained earnings. The tax effect resulted in an increase to deferred tax assets.

ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, eliminates the accounting guidance for TDRs by creditors in ASC 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, in its entirety and requires entities to evaluate all receivable modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. For entities that have already adopted ASU 2016-13, the amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the amendments in ASU 2022-02 are effective upon adoption of ASU 2016-13. The Company adopted the standard on January 1, 2023 and the adoption did not have a material impact on the Company's consolidated financials.

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

	As of March 31, 2024			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. treasury securities	$ 10,909	$ -	$ (1,027)	$ 9,882
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	20,674	-	(3,394)	17,280
U.S. government agency small business administration pools guaranteed by SBA	11,390	-	(666)	10,724
Collateralized mortgage obligations guaranteed by GNMA	7,607	-	(324)	7,283
Collateralized mortgage obligations issued by FNMA/FHLMC	53,866	-	(5,489)	48,377
Commercial mortgage-backed securities issued by FHLMC	16,901	-	(1,365)	15,536
Other commercial mortgage-backed securities	25,532	-	(2,070)	23,462
State and municipal bonds	8,059	-	(1,119)	6,940
	$ 154,938	$ -	$ (15,454)	$ 139,484

	As of December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 25,872	$ -	$ (992)	$ 24,880
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	21,282	-	(3,187)	18,095
U.S. government agency small business administration pools guaranteed by SBA	12,020	-	(755)	11,265
Collateralized mortgage obligations guaranteed by GNMA	8,051	-	(287)	7,764
Collateralized mortgage obligations issued by FNMA/FHLMC	55,750	-	(4,860)	50,890
Commercial mortgage-backed securities issued by FHLMC	16,927	-	(1,213)	15,714
Other commercial mortgage-backed securities	26,349	-	(2,136)	24,213
State and municipal bonds	8,062	-	(1,111)	6,951
	$ 174,313	$ -	$ (14,541)	$ 159,772

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

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	28,927	26,847
Due after five years through 10 years	15,126	14,051
Due after 10 years	110,885	98,586
Total	$ 154,938	$ 139,484

The table above is not intended to reflect actual maturities, cash flows, or interest rate risk. Actual maturities may differ from the contractual maturities shown above as a result of prepayments.

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, 2024								
	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	-	$ -	$ -	3	$ 9,882	$ (1,027)	3	$ 9,882	$ (1,027)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	-	-	-	8	17,280	(3,394)	8	17,280	(3,394)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	10,724	(666)	4	10,724	(666)
Collateralized mortgage obligations guaranteed by GNMA	-	-	-	8	7,283	(324)	8	7,283	(324)
Collateralized mortgage obligations issued by FNMA/ FHLMC	-	-	-	19	48,377	(5,489)	19	48,377	(5,489)
Commercial mortgage-backed securities issued by FHLMC	-	-	-	3	15,536	(1,365)	3	15,536	(1,365)
Other commercial mortgage-backed securities	-	-	-	11	23,462	(2,070)	11	23,462	(2,070)
State and municipal bonds		-	-	2	6,940	(1,119)	2	6,940	(1,119)
Total temporarily impaired securities	-	$ -	$ -	58	$ 139,484	$ (15,454)	58	$ 139,484	$ (15,454)

	December 31, 2023								
	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	1	$ 9,963	$ (6)	4	$ 14,917	$ (986)	5	$ 24,880	$ (992)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	-	-	-	8	18,095	(3,187)	8	18,095	(3,187)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	11,265	(755)	4	11,265	(755)
Collateralized mortgage obligations guaranteed by GNMA	-	-	-	8	7,764	(287)	8	7,764	(287)
Collateralized mortgage obligations issued by FNMA/FHLMC	1	175	(2)	18	50,715	(4,858)	19	50,890	(4,860)
Commercial mortgage-backed securities issued by FHLMC	-	-	-	3	15,714	(1,213)	3	15,714	(1,213)
Other commercial mortgage-backed securities	-	-	-	11	24,213	(2,136)	11	24,213	(2,136)
State and municipal bonds	-	-	-	2	6,951	(1,111)	2	6,951	(1,111)
Total temporarily impaired securities	2	$ 10,138	$ (8)	58	$ 149,634	$ (14,533)	60	$ 159,772	$ (14,541)

The Financial Accounting Standards Board's (FASB) accounting standard updated No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, requires an evaluation of debt securities available for sale to determine if a credit loss exists.

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

The Company does not believe that the debt securities available for sale that were in an unrealized loss position as of March 31, 2024 and December 31, 2023 represent a credit loss impairment. For both periods presented, the gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a history of zero credit loss. Total gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the debt securities. The Company does not intend to sell the debt securities that were in an unrealized loss position and it is unlikely that the Company will be required to sell the debt securities before recovery of their amortized cost basis, which may be at maturity.

NOTE 4 – Loans

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

	March 31, 2024	December 31, 2023
Commercial and industrial	$ 217,108	$ 216,055
Commercial real estate	251,370	245,939
SBA	72,120	63,836
Consumer	111,584	111,872
Land and land development	10,165	8,416
Construction	14,447	21,648
Gross loans held for investment	676,794	667,766
Unearned income and net unamortized deferred fees and costs	1,076	1,042
Loans, net of unearned income and unamortized fees and costs	677,870	668,808
Allowance for credit losses	(9,463)	(9,284)
Net loans held for investment	$ 668,407	$ 659,524

NOTE 5 – Allowance for Credit Losses

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, requires the Company to estimate the credit losses expected over the life of the loan. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectability of the loan portfolio.

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

> **Collective Pools.** The Company makes a significant number of loans that, due to their underlying similar characteristics, are assessed for loss as "collective" pools. The Bank segments the pools by type of loan and using historical loss and peer group loss information estimates an expected credit loss for each individual loan or lease within the pool. Historical loss rates are derived by tracking the historical net charge-offs. The historical loss rates for each type of loan are then averaged to calculate an overall loss rate, which is applied

to the current loan balance. Loans of this nature are generally internally designated as a "pass" rated credit.

Collective Risk Grade. The Company has loans where the risk grade classification deteriorates below an internally assigned grade of "pass". In these cases, the Company generally experiences higher historical loss rates and expects the credit losses on the contractual balance to increase. Loans in this category are pooled by risk grade and historic loss rates are applied to the contractual balances of each individual loan or lease.

Individual Reserves. The Company estimates reserves for individually evaluated loans through a loan-by-loan analysis of problem loans that considers expected future cash flows, the value of collateral and other factors that may impact the borrower's ability to make payments when due. Included in this group are loans in nonaccrual status or modified loans.

Qualitative / Forecast Reserve. The Company also considers qualitative adjustments to the quantitative baseline. Utilizing a framework based on the Interagency Policy Statement on Allowance for Credit Losses, the Company considers prevailing and anticipated economic trends, such as current and forecasted economic conditions, economic trends, an assessment of credit risk inherent in the loan portfolio, and delinquency trends. The Company also considers information to the extent the Company expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The Company's forecast period is generally 1 to 2 years.

The following table presents transactions in the allowance for credit losses by portfolio segment (in thousands):

	Three Months Ended March 31, 2024						
	Commercial and Industrial	**Commercial Real Estate**	**SBA**	**Consumer**	**Land and Land Development**	**Construction**	**Total**
Balance, beginning of period	$ 3,378	$ 3,368	$ 1,014	$ 1,092	$ 169	$ 263	$ 9,284
Provision (credit)	38	8	123	122	40	(101)	230
Loans charged off	-	-	-	(55)	-	-	(55)
Loan recoveries	-	-	-	4	-	-	4
Balance, end of period	$ 3,416	$ 3,376	$ 1,137	$ 1,163	$ 209	$ 162	$ 9,463

	Three Months Ended March 31, 2023						
	Commercial and Industrial	**Commercial Real Estate**	**SBA**	**Consumer**	**Land and Land Development**	**Construction**	**Total**
Balance, beginning of period	$ 2,519	$ 3,621	$ 1,396	$ 982	$ 87	$ 226	$ 8,831
Cumulative effect- CECL adoption	511	(300)	(467)	(13)	66	139	(64)
Provision (credit)	(29)	223	34	14	(24)	2	220
Loans charged off	(43)	-	-	(14)	-	-	(57)
Loan recoveries	-	-	-	6	-	-	6
Balance, end of period	$ 2,958	$ 3,544	$ 963	$ 975	$ 129	$ 367	$ 8,936

The Company recorded a $215 thousand provision for credit losses in the first quarter of 2024. A provision of $230 thousand was recorded as an allowance for loan losses and $15 thousand was recorded as a reduction in the allowance for unfunded commitments. This compares to a $240 thousand provision for credit losses in the first quarter of 2023. A provision of $220 thousand was recorded as an allowance for loan losses and $20 thousand was recorded as an allowance for unfunded commitments.

At March 31, 2024, the Company maintained an allowance for unfunded commitments of $160 thousand. At December 31, 2023, the Company maintained an allowance for unfunded commitments of $175 thousand. The allowance for unfunded commitments are included as part of the Other Liabilities line on the Company's Consolidated Balance Sheets.

Credit Quality Indicators

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

> **Pass.** Loans designated as pass are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans and leases that are considered Pass.
>
> **Watch list.** 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.
>
> **Substandard.** Loans graded as substandard or doubtful are considered "Classified" loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
>
> **Doubtful.** Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a higher probability of loss.

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

	Term Loans by Origination Year							
March 31, 2024	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving Loans**	**Total**
Commercial and industrial								
Pass	$ 11,080	$ 28,209	$ 72,327	$ 24,383	$ 18,244	$ 33,128	$ 23,615	$ 210,986
Watch List	-	-	12	1,194	22	570	745	2,543
Substandard	-	25	36	57	120	2,635	-	2,873
Doubtful	-	-	573	-	-	133	-	706
Total commercial and industrial	$ 11,080	$ 28,234	$ 72,948	$ 25,634	$ 18,386	$ 36,466	$ 24,360	$ 217,108
Commercial and industrial loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate								
Pass	$ 660	$ 31,110	$ 54,046	$ 36,625	$ 18,353	$ 97,771	$ 10,934	$ 249,499
Watch List	-	-	-	1,871	-	-	-	1,871
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate	$ 660	$ 31,110	$ 54,046	$ 38,496	$ 18,353	$ 97,771	$ 10,934	$ 251,370
Commercial real estate:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Small Business Administration								
Pass	$ 7,862	$ 11,811	$ 20,365	$ 9,015	$ 1,795	$ 18,688	$ 594	$ 70,130
Watch List	-	-	188	-	190	86	-	464
Substandard	-	-	583	-	-	193	-	776
Doubtful	84	-	-	31	-	635	-	750
Total small business administration	$ 7,946	$ 11,811	$ 21,136	$ 9,046	$ 1,985	$ 19,602	$ 594	$ 72,120
Small business administration loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer								
Pass	$ 6,457	$ 28,916	$ 30,592	$ 12,524	$ 8,971	$ 9,334	$ 13,562	$ 110,356
Watch List	-	-	-	-	-	-	50	50
Substandard	185	899	14	22	11	47	-	1,178
Doubtful	-	-	-	-	-	-	-	-
Total consumer	$ 6,642	$ 29,815	$ 30,606	$ 12,546	$ 8,982	$ 9,381	$ 13,612	$ 111,584
Consumer loans:								
Current period gross write-offs:	$ 6	$ 12	$ 25	$ -	$ 12	$ -	$ -	$ 55
Land and Land Development								
Pass	$ 220	$ 2,536	$ 1,310	$ 1,612	$ 273	$ 211	$ 4,003	$ 10,165
Watch List	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total land and land development	$ 220	$ 2,536	$ 1,310	$ 1,612	$ 273	$ 211	$ 4,003	$ 10,165
Land and land development loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction								
Pass	$ -	$ 2,507	$ -	$ -	$ -	$ -	$ 11,940	$ 14,447
Watch List	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction	$ -	$ 2,507	$ -	$ -	$ -	$ -	$ 11,940	$ 14,447
Construction loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total gross loans	$ 26,548	$ 106,013	$ 180,046	$ 87,334	$ 47,979	$ 163,431	$ 65,443	$ 676,794
Total gross write-offs:	$ 6	$ 12	$ 25	$ -	$ 12	$ -	$ -	$ 55

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

Performing and Non-Accrual Loans

The Bank's key credit quality indicator is a loan's performance status, defined as accrual or non-accrual. Performing loans are considered to have a lower risk of loss and are on accrual status. Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when the Bank believes that the borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed on non-accrual status when it becomes 90 days or more past due unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, accrued but uncollected interest income 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, 2024					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 93,300	$ 220	$ -	$ 93,520	$ 837	$ 94,357
Agriculture	36,514	-	-	36,514	-	36,514
Owner-occupied commercial real estate	86,237	-	-	86,237	-	86,237
Commercial real estate	251,370	-	-	251,370	-	251,370
SBA	70,346	124	-	70,470	1,650	72,120
Consumer:						
Automobile	8,566	23	-	8,589	-	8,589
Home equity	12,533	-	-	12,533	-	12,533
1st mortgage	26,280	-	882	27,162	-	27,162
Other	62,894	342	-	63,236	64	63,300
Land and land development	10,165	-	-	10,165	-	10,165
Construction	13,840	607	-	14,447	-	14,447
Total loans held for investment	$ 672,045	$ 1,316	$ 882	$ 674,243	$ 2,551	$ 676,794

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

The following table sets forth information on non-accrual loans (in thousands):

	March 31, 2024		
	Non-accrual loans with a related ACL	Non-accrual loans without a related ACL	Total Non-Accrual Loans
Commercial and industrial: Business loans	$ 837	$ -	$ 837
SBA	1,650	-	1,650
Consumer: Other	64	-	64
Total	$ 2,551	$ -	$ 2,551

	December 31, 2023		
	Non-accrual loans with a related ACL	Non-accrual loans without a related ACL	Total Non-Accrual Loans
Commercial and industrial: Business loans	$ 837	$ -	$ 837
SBA	1,617	-	1,617
Consumer: Other	65	-	65
Total	$ 2,519	$ -	$ 2,519

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,	
	2024	2023
Interest income that would have been recorded	$ 73	$ 39
Interest income recorded	-	-
Effect on interest income on loans	$ 73	$ 39

Loan Modifications

ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, requires the Company to evaluate all loan modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The Company individually evaluates all modification to loans where the borrower is experiencing financial difficulty. In cases where the modification is determined to be at least as favorable to the Company as the terms for comparable loans to other borrowers with similar risk characteristics the loan is considered a new origination. In the event the evaluation determines that the modification is not in-line with terms for comparable loans, the Company considers these loans to be a modified loan. These types of modifications generally take the form of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension.

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

	March 31, 2024				
	Term Extension and Payment Deferment (1)	**Term Extension, Payment Modification, Interest Rate Reduction (2)**	**Term Extension, Payment Modification, Payment Deferment, and Interest Rate Reduction (3)**	**Total**	**Percentage of Total Loans**
Commercial and industrial	$ 133	$ 57	$ -	$ 190	- %
SBA	963	-	3,930	4,893	0.7
	$ 1,096	$ 57	$ 3,930	$ 5,083	0.7 %

(1) Modifications extended term by seven months and deferred payments up to seven months.
(2) Modifications extended term by eighteen months, reduced payment, and reduced interest rate by 8.75%.
(3) Modifications extended terms up to sixty-eight months, reduced payment, reduced interest rates to as low as 1.00%, deferred payment for up to eleven months.

Loan modifications to borrowers experiencing financial difficulty during first three months of 2024 did not result in principal forgiveness.

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

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

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

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

	As of March 31, 2024			
	Current	**31-89 Days Past Due**	**90 Days or More Past Due**	**Total**
Commercial and industrial	$ 57	$ -	$ 133	$ 190
SBA	3,930	-	963	4,893
Total	$ 3,987	$ -	$ 1,096	$ 5,083

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

NOTE 6 – Leases

The Company has operating leases, primarily for office space, which expire over the next six 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 period ended March 31, 2024, and March 31, 2023, were as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Operating lease costs	$ 106	$ 203
Variable lease costs	10	23
Short-term lease costs	3	4
Total lease costs	$ 119	$ 230

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

	As of March 31, 2024	As of December 31, 2023
Operating lease right of use (ROU) assets	$ 855	$ 938
Operating lease liabilities	961	1,048

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

	Three Months Ended March 31,	
	2024	2023
Cash paid for lease liabilities	$ 123	$ 225
Amortization of ROU assets	83	229

	As of March 31, 2024	As of December 31, 2023
Weighted average remaining lease term	3.57 years	3.71 years
Weighted average discount rate	5.34%	5.79%

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

	Operating Leases
2024	$ 316
2025	340
2026	193
2027	41
2028	42
Thereafter	125
Total future minimum lease payments	1,057
Amounts representing interest	(96)
Total lease liabilities	$ 961

NOTE 7 – Earnings Per Share

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,581,466	3,575,520
Dilutive effect of stock compensation	5,517	2,317
Denominator for diluted earnings per share	3,586,983	3,577,837
Numerator (in thousands):		
Net income	$ 1,740	$ 1,473
Basic earnings per common share	$ 0.49	$ 0.41
Diluted earnings per common share	$ 0.49	$ 0.41

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	40,951	16,750	57,701

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

	Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grand Date Fair Value
Outstanding, beginning of period	10,250	$ 31.83	5,500	$ 39.91
Granted	-	-	-	-
Vested	(250)	34.77	(250)	34.77
Forfeited	-	-	-	-
Outstanding, end of period	10,000	31.76	5,250	40.15

The Company recognized share-based compensation expense of $25 thousand related to restricted stock for the three-month period ended March 31, 2024. The Company recognized share-based compensation expense of $19 thousand related to restricted stock for the three-month period ended March 31, 2023.

At March 31, 2024, the Company had $140 thousand of unamortized restricted stock compensation expense. The cost of a restricted stock grant is recognized over the vesting period, which is generally three to 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,	
	2024	2023
Service charges on deposits	$ 147	$ 166
Bankcard fees	267	280
Bank charges and service fees not within scope of ASC 606	379	646
Total bank charges and service fees	793	1,092
Wealth management revenue	498	487
Wealth management revenue not within the scope of ASC 606	-	-
Total wealth management revenues	498	487
Other	12	11
Other not within the scope of ASC 606 (a)	235	165
Total other	247	176
Other non-interest income not within the scope of ASC 606 (a)	-	1,876
Total non-interest income	$ 1,538	$ 3,631

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

The Company had no material contract assets or remaining performance obligations as of March 31, 2024. Total receivables from revenue recognized under the scope of ASC 606 were $496 thousand as of March 31, 2024, and $492 thousand as of December 31, 2023. 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, 2024				Three Months Ended March 31, 2024
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains/(Losses)**
ASSETS					
Debt securities available for sale	$ 139,484	$ 9,882	$ 129,602	$ -	$ -
Total assets at fair value	$ 139,484	$ 9,882	$ 129,602	$ -	$ -

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

During 2023, the Company sold 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.

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, 2024		December 31, 2023	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 73,598	$ 73,598	$ 102,454	$ 102,454
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,387	2,387	2,372	2,372
Gross loans held for investment	Level 2	676,794	655,334	667,766	654,919
Accrued interest receivable	Level 2	4,371	4,371	4,206	4,206
		$ 757,150	$ 735,690	$ 776,798	$ 763,951
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 170,976	$ 170,976	$ 184,442	$ 184,442
Deposits, interest-bearing	Level 2	635,135	634,154	652,761	651,581
Accrued interest payable	Level 2	1,167	1,167	937	937
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,464	12,707	15,464	12,678
		$ 822,742	$ 819,004	$ 853,604	$ 849,638
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 180	$ -	$ 224
Standby and commercial letters of credit	Level 2	$ -	$ 29	$ -	$ 30

NOTE 12 – Federal Home Loan Bank Advances

As of March 31, 2024, the Bank had no Federal Home Loan Bank (FHLB) advances outstanding. At March 31, 2024, the Bank had loans with unamortized principal balances of approximately $192.6 million pledged as collateral to the FHLB.

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

As of March 31, 2024, the Bank has the ability to draw advances up to approximately $122.7 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirements.

NOTE 13 – Other Borrowings

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

March 31, 2024

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	$ 3,209	$ 1,576	$ -	$ 1,576
BNCCORP line	107,421	10,000	-	10,000
Total	$ 110,630	$ 11,576	$ -	$ 11,576

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

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

December 31, 2023

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	$ 3,249	$ 1,509	$ -	$ 1,509
BNCCORP line	106,014	10,000	-	10,000
Total	$ 109,263	$ 11,509	$ -	$ 11,509

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

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

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

In July 2007, BNCCORP issued $15.5 million of floating rate subordinated debentures. During the third quarter of 2023 the index rate and spread converted from three-month LIBOR plus 1.40% to three-month SOFR plus 1.66%. The interest rate at March 31, 2024, and December 31, 2023, was 6.99% and 7.06%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

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

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

In December 2020, our Board of Directors approved a share repurchase program authorizing the Company to repurchase up to 175,000 of our outstanding common stock. During the first quarter of 2024, the Company repurchased 50,000 shares of common stock for a total cost of $1,162,500 excluding the cost of commissions, transaction charges and taxes. We repurchased no other shares of common stock during the first quarter of 2024. As of March 31, 2024, there was 125,000 shares remaining under the Board of Directors' current authorized share repurchase program. Share repurchases can be made through open market purchases, unsolicited and solicited privately negotiated transactions, or in accordance with terms of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. The Company will not repurchase shares from directors or officers of the Company under the authorization. The Company will contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals.

NOTE 16 – Regulatory Capital and Current Operating Environment

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

At March 31, 2024, the Company's 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, 2024, and December 31, 2023, 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, 2024								
Total Risk-Based Capital:								
Consolidated	$ 135,718	16.64 %	$ 65,230	≥8.00 %	$ N/A	N/A %	$ N/A	N/A %
BNC National Bank	126,869	15.58	65,152	≥8.00	81,440	10.00	45,429	5.58
Tier 1 Risk-Based Capital:								
Consolidated	126,255	15.48	48,922	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	117,406	14.42	48,864	≥6.00	65,152	8.00	52,254	6.42
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	110,791	13.59	36,692	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	117,406	14.42	36,648	≥4.50	52,936	6.50	64,470	7.92
Tier 1 Leverage Capital:								
Consolidated	126,255	13.41	37,668	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	117,406	12.49	37,612	≥4.00	47,015	5.00	70,391	7.49
Tangible Common Equity (to total assets): (a)								
Consolidated	100,311	10.81	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	107,335	11.58	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2023								
Total Risk-Based Capital:								
Consolidated	$ 142,868	17.64%	$ 64,806	≥8.00%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	124,592	15.40	64,726	≥8.00	80,908	10.00	43,684	5.40
Tier 1 Risk-Based Capital:								
Consolidated	133,584	16.49	48,605	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	115,308	14.25	48,545	≥6.00	64,726	8.00	50,582	6.25
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	118,120	14.58	36,453	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	115,308	14.25	36,409	≥4.50	52,590	6.50	62,718	7.75
Tier 1 Leverage Capital:								
Consolidated	133,584	14.52	36,813	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	115,308	12.54	36,778	≥4.00	45,973	5.00	69,335	7.54
Tangible Common Equity (to total assets): (a)								
Consolidated	108,329	11.19	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	105,926	10.96	N/A	N/A	N/A	N/A	N/A	N/A

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

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

NOTE 17 – Segment Reporting

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

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

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

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

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

	Three Months Ended March 31, 2024				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 11,677	$ -	$ 40	$ (40)	$ 11,677
Interest expense	3,596	-	262	(40)	3,818
Net interest income (expense)	8,081	-	(222)	-	7,859
Provision for credit losses	215	-	-	-	215
Net interest income after provision for credit losses	7,866	-	(222)	-	7,644
Non-interest Income	1,618	-	541	(621)	1,538
Non-interest Expense	6,745	-	783	(621)	6,907
Income (loss) before income taxes	2,739	-	(464)	-	2,275
Income tax expense (benefit)	644	-	(109)	-	535
Net income (loss)	$ 2,095	$ -	$ (355)	$ -	$ 1,740
Total Assets at March 31, 2024	$ 926,878	$ -	$ 9,513	$ (8,137)	$ 928,254

	Three Months Ended March 31, 2023				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 9,851	$ 398	$ 20	$ (263)	$ 10,006
Interest expense	1,354	243	231	(263)	1,565
Net interest income (expense)	8,497	155	(211)	-	8,441
Provision for credit losses	240	-	-	-	240
Net interest income after provision for credit losses	8,257	155	(211)	-	8,201
Non-interest Income	2,227	1,847	550	(993)	3,631
Non-interest Expense	6,511	3,614	774	(993)	9,906
Income (loss) before income taxes	3,973	(1,612)	(435)	-	1,926
Income tax expense (benefit)	955	(400)	(102)	-	453
Net income (loss)	$ 3,018	$ (1,212)	$ (333)	$ -	$ 1,473
Total Assets at March 31, 2023	$ 854,154	$ 42,260	$ 19,192	$ (18,316)	$ 897,290

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

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

References to "BNCCORP" or "the Company" refer to BNCCORP, INC. and its consolidated subsidiaries, collectively; references to "the Bank" only refer to BNC National Bank. Where not otherwise indicated below, financial condition and results of operations discussed are of BNCCORP, INC.

Comparison of Results for the Three Months Ended March 31, 2024, and 2023

The Community Banking Segment reported net income of $2.1 million, or $0.58 per diluted share, for the quarter compared to $3.0 million in the first quarter of 2023. Interest expense increased by $2.3 million when compared to the 2023 period due to the impact of rate changes made by the Federal Reserve in addition to the $48.3 million increase in average interest bearing deposits when compared to the prior year period. The increase in interest expense was offset by $1.7 million higher interest income from loan growth and increased yield on earning assets. The Community Banking Segment reported $609 thousand lower non-interest income primarily due to a $300 thousand decrease in off balance sheet deposit income and $376 thousand less in management fee income from the Mortgage Segment that was partially offset by higher SBIC revenues when compared to the first quarter of 2023. Non-interest expense was slightly higher in the 2024 period due to normal inflationary pressures on salaries and benefits, increased regulatory and other expense that was partially offset by lower professional services and depreciation compared to the same period in 2023. Additionally, the Company has lowered the number of its full-time equivalent employees by 2.8% when compared to December, 31, 2023.

The Mortgage Banking Segment reported no results for the first quarter of 2024 as the Company divested the Mortgage Banking Segment in 2023. The first quarter of 2023 reported a net loss of $1.2 million.

Consolidated net interest income for the first quarter of 2024 was $7.9 million, a decrease of $582 thousand, or 6.9%, from $8.4 million in the first quarter of 2023. Net interest margin was 3.52% in the first quarter of 2024 compared to 3.97% reported in the prior year period. The increase in loans held for investment at higher yields was more than offset by a lower volume of loans held for sale and a significant increase in the cost of deposits.

On a consolidated basis, first-quarter interest income increased $1.7 million, or 16.7%, from $10.0 million to $11.7 million. The 5.23% average yield on interest-earning assets in the quarter was higher than the 4.71% average yield in the first quarter of 2023 because of higher yields on interest-earning assets, a $48.8 million year-over-year increase in the average balance of loans held for investment and higher yields and balances of cash and cash equivalents. Those increases were offset by lower debt securities and loans held for sale. It is noteworthy that the Company's variable rate assets have continued to re-price with interest rate movements by the Federal Reserve. The weighted average interest rate on loans held for investment originated in the first quarter of 2024 was 7.60%, compared to 5.07% during the first quarter 2023.

Consolidated interest expense in the first quarter of 2024 was $3.8 million, an increase of $2.3 million from the 2023 period. As a result, the cost of core deposits in the first quarter of 2024 rose to 1.74% versus 0.68% in the first quarter of 2023.

The average balance of deposits increased by $30.0 million when comparing the first quarter of 2024 to the first quarter of 2023. The cost of interest-bearing liabilities was 2.33% during the first quarter of 2024, compared to 1.04% in the same period of 2023. The Company has managed its overall cost of deposits at levels well below the prevailing brokered deposit rates offered by national brokerage firms even while staying focused on maintaining strong liquidity levels.

As of March 31, 2024, nonperforming assets were $3.5 million, representing a ratio of nonperforming assets to total assets of 0.38%. These results are comparable to the $3.4 million in nonperforming assets, and a 0.35% ratio of nonperforming assets to total assets held on December 31, 2023. At March 31, 2024, $1.6 million of the nonperforming loans were SBA loans that are supported by material government guarantees. The Company recorded a $215 thousand provision for credit losses in the first quarter of 2024 compared to a $240 thousand provision in the first quarter of 2023. The allowance for credit losses increased slightly to 1.40% of loans held for investment on March 31, 2024 from 1.39% on December 31, 2023.

Non-interest income for the Community Banking Segment during the first quarter of 2024 was $1.6 million, compared to $2.2 million in the 2023 first quarter. Bank charges and service fees were $300 thousand lower quarter-over-quarter due to lower deposits held in one-way sell positions. Using an associated banking network, the Company is able to generate fee income on deposits not otherwise deployed by placing those deposits with another financial institution to meet their liquidity needs. The deposits can be reclaimed for future liquidity use by the Company at any time. Fees derived from the movement of deposits off the balance sheet began late in the first quarter of 2022 and can fluctuate significantly based on our customers' excess funding needs. As of March 31, 2024, off-balance sheet deposits amounted to $38.9 million compared to $34.8 million as of December 31, 2023. Consolidated other income in the first quarter of 2024 increased by $71 thousand compared to the first quarter of 2023 as the Company received higher SBIC and BOLI revenue in 2024.

Non-interest expense for the Community Banking Segment during the first quarter of 2024 increased just $234 thousand, or 3.6%, year-over-year. The increase is primarily due to higher salaries, data processing fees, regulatory costs, and other expenses being partially offset by lower professional service and occupancy expense.

In the first quarter of 2024, consolidated income tax expense was $535 thousand, compared to $453 thousand in the first quarter of 2023. The Company's effective tax rate was 23.5% in the first quarter of 2024, unchanged from the same period of 2023.

Tangible book value per common share on March 31, 2024, was $28.51, compared to $30.38 at December 31, 2023. The decrease in tangible book value per common share was driven by the $2.25 dividend declared on February 2, 2024 and the repurchase by the Company of 50,000 shares of the Company's stock during the first quarter of 2024 at a total cost of $1,162,500 excluding the cost of commissions, transaction charges, and taxes. The Company's tangible common equity capital ratio was 10.81% on March 31, 2024, compared to 11.19% on December 31, 2023.

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,								
	2024			2023			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									
Cash and cash equivalents	$ 85,534	$ 1,165	5.48%	$ 40,235	$ 435	4.39%	$ 45,299	$ 730	1.09% (a)
FHLB Stock	566	6	4.17%	1,271	10	3.06%	(705)	(4)	1.11%
Federal Reserve Stock	1,807	27	6.02%	1,807	26	6.00%	-	1	0.02%
Debt securities – taxable	147,843	1,264	3.44%	172,443	1,357	3.19%	(24,600)	(93)	0.25% (b)
Debt securities – tax exempt	-	-	0.00%	2,089	19	3.71%	(2,089)	(19)	-3.71% (b)
Loans held for sale – mortgage banking	-	-	0.00%	28,989	399	5.58%	(28,989)	(399)	-5.58% (c)
Loans held for investment	672,036	9,215	5.51%	623,266	7,760	5.05%	48,770	1,455	0.47% (d)
Allowance for loan losses	(9,282)	-	0.00%	(8,764)	-	0.00%	(518)	-	0.00%
Total interest-earning assets	$ 898,504	$ 11,677	5.23%	$ 861,336	$ 10,006	4.71%	$ 37,168	$ 1,671	0.52%
Interest-bearing liabilities									
Interest checking and money market	$ 531,236	$ 3,034	2.30%	$ 488,887	$ 1,240	1.03%	$ 42,349	$ 1,794	1.27% (e)
Savings	43,070	12	0.11%	52,961	11	0.08%	(9,891)	1	0.03% (e)
Certificates of deposit	69,515	510	2.93%	53,714	77	0.60%	15,801	433	2.33% (e)
Total interest-bearing deposits	643,821	3,556	2.22%	595,562	1,328	0.90%	48,259	2,228	1.32%
Short-term borrowings	-	-	0.00%	337	-	0.30%	(337)	-	-0.30%
Federal Home Loan Bank advances	-	-	0.00%	456	6	4.87%	(456)	(6)	-4.87%
Subordinated debentures	15,464	262	6.82%	15,000	231	6.24%	464	31	0.58%
Total borrowings	15,464	262	6.82%	15,793	237	6.09%	(329)	25	0.73%
Total interest-bearing liabilities	$ 659,285	3,818	2.33%	$ 611,355	1,565	1.04%	$ 47,930	2,253	1.29%
Net interest income/spread		$ 7,859	2.90%		$ 8,441	3.67%		$ (582)	-0.77%
Net interest margin			3.52%			3.97%			-0.45% (f)
Notation:									
Non-interest-bearing deposits	$ 177,843	-	0.00%	$ 196,070	-	0.00%	$ (18,227)	-	0.00% (e)
Total deposits	$ 821,664	$ 3,556	1.74%	$ 791,632	$ 1,328	0.68%	$ 30,032	$ 2,228	1.06%
Taxable equivalents:									
Total interest-earning assets	$ 898,504	$ 11,732	5.25%	$ 861,336	$ 10,045	4.73%	$ 37,168	$ 1,687	0.52%
Net interest income/spread	-	$ 7,914	2.92%	-	$ 8,479	3.69%	-	$ (565)	-0.77%
Net interest margin	-	-	3.54%	-	-	3.99%	-	-	-0.45%

(a) Cash balances increased as the Company's deposit balances increased when compared to the prior year period. Yields on cash have increased due to rate increases by the Federal Reserve.
(b) The average balance of debt securities decreased as the Company is utilizing the cash flow from the portfolio to provide liquidity for loan growth.
(c) Loans held for sale decreased as the Company divested of its mortgage segment in 2023.
(d) The increase in average loans held for investment is due to the significant loan growth produced by the Company during 2023 that continued through the first quarter of 2024.
(e) Overall, average deposit balances increased as the Company experienced an elevated level of deposits during the first quarter of 2024, which have subsequently left the Company.
(f) Cost of liabilities has increased due to interest rate increases by the Federal Reserve during 2023. These increased costs have been materially offset by higher yields from loan growth and increased yield on interest earning assets.

Non-interest Income

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Increase (Decrease) $	Increase (Decrease) %	
Bank charges and service fees	$ 793	$ 1,092	$ (299)	(27) %	(a)
Wealth management revenues	498	487	11	2	
Mortgage banking revenues	-	1,856	(1,856)	(100)	(b)
Gains on sales of loans, net	-	8	(8)	(100)	(c)
Gains on sales of debt securities, net	-	12	(12)	(100)	(d)
Other	247	176	71	40	(e)
Total non-interest income	$ 1,538	$ 3,631	$ (2,093)	(58) %	

(a) Bank charges and services fees decreased year-over-year due to lower fees earned from the movement of deposits to a one-way sell position
(b) Mortgage banking revenues decreased as the Company divested its mortgage business by selling certain assets to and assumption of certain operating liabilities by another financial institution during 2023.
(c) Gains on sales of loans decreased as the Company has elected to hold the guaranteed portion of SBA loans as premiums available have become less attractive in recent periods.
(d) Gains on sales of debt securities may vary significantly from period to period as the Company manages its risk and return profile through changing economic conditions.
(e) The increase in other income is primarily due to increased SBIC revenue and BOLI revenue when compared to the prior year period.

Non-interest Expense

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Increase (Decrease) $	Increase (Decrease) %	
Salaries and employee benefits	$ 4,043	$ 4,943	$ (900)	(18) %	(a)
Professional services	255	897	(642)	(72)	(b)
Data processing fees	845	989	(144)	(15)	(c)
Marketing and promotion	188	1,369	(1,181)	(86)	(d)
Occupancy	390	512	(122)	(24)	(e)
Regulatory costs	135	106	29	27	(f)
Depreciation and amortization	266	293	(27)	(9)	(g)
Office supplies and postage	96	96	-	-	
Other	689	701	(12)	(2)	
Total non-interest expense	$ 6,907	$ 9,906	$ (2,999)	(30) %	
Efficiency ratio	73.5%	82.1%			

(a) Salaries and employee benefits decreased primarily due to lower salaries within the mortgage banking segment as a result of the mortgage business divestiture.
(b) Professional services expense decreased due to lower mortgage operating costs in addition to lower legal and consulting expenses.
(c) Data processing fees decreased due to lower software and licensing fees associated with the mortgage banking segment being partially offset by increased core processor fees and card processing charges in the community banking segment.
(d) Marketing and promotion decreased primarily due to lower marketing costs within the mortgage segment.
(e) Occupancy expense decreased due to fewer locations within the mortgage banking segment.
(f) Regulatory costs increased primarily due to increased FDIC assessments.
(g) Depreciation and amortization expense decreased as groups of depreciable assets completed their estimated useful life.

Income Taxes

In the first quarter of 2024, income tax expense on a consolidated basis was $535 thousand, compared to $453 thousand in the first quarter of 2023. The effective tax rate was 23.5% in the first quarter of 2024, unchanged from the same period of 2023.

Comparison of Financial Condition at March 31, 2024 and December 31, 2023

Assets

The following table presents the Company's assets by category (dollars are in thousands):

	March 31, 2024	December 31, 2023	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 73,598	$ 102,454	$ (28,856)	(28) %	(a)
Debt securities available for sale	139,484	159,772	(20,288)	(13)	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	2,387	2,372	15	1	
Loans held for investment, net	677,870	668,808	9,062	1	
Allowance for credit losses	(9,463)	(9,284)	(179)	2	
Premises and equipment, net	10,836	10,955	(119)	(1)	
Operating lease right of use asset	855	938	(83)	(9)	(c)
Accrued interest receivable	4,371	4,206	165	4	
Other assets	28,316	27,984	332	1	
Total assets	$ 928,254	$ 968,205	$ (39,951)	(4) %	

(a) Cash balances decreased from an elevated cash position at year-end 2023 as a result of an increase in deposits that came in late in 2023 and moved out during the first quarter of 2024.

(b) Debt securities available for sale decreased as the Company is utilizing the cash flow from the portfolio to provide liquidity for loan growth.

(c) Decrease is a result of normal amortization of operating leases.

Loan Participations

Pursuant to the Company's 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 $117.4 million as of March 31, 2024, and $130.6 million as of December 31, 2023. 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 the Company's borrowers (dollars are in thousands):

	March 31, 2024		December 31, 2023	
North Dakota	$ 412,634	61 %	$ 411,971	62 %
Arizona	128,236	19	117,607	18
Minnesota	38,807	6	38,509	5
Other	97,117	14	99,679	15
Total gross loans held for investment	$ 676,794	100 %	$ 667,766	100 %

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

	March 31, 2024		December 31, 2023	
North Dakota	$ 385,218	57 %	$ 387,708	58 %
Arizona	160,088	24	151,401	23
Minnesota	29,754	4	28,918	4
California	24,510	4	24,212	4
South Dakota	23,361	3	24,332	4
Montana	12,121	2	10,435	1
Colorado	10,382	1	10,447	1
Other	31,360	5	30,313	5
Total gross loans held for investment	$ 676,794	100 %	$ 667,766	100 %

BNC's loans held for investment are concentrated geographically in North Dakota and Arizona which comprise 57% and 24% of the Company's total loan portfolio, respectively. The North Dakota economy is influenced by the energy and agriculture industries. Changes in energy supply and demand have recently caused an increase in oil prices to the benefit of the oil industry and ancillary services. Potential risks to North Dakota's energy industry include the possibility of adverse legislation and changes in economic conditions that reduce energy demand. Depending on the severity of their impact, these factors could present potential challenges to credit quality in North Dakota. The Arizona economy continues to diversify, but continues to be influenced by the leisure and travel industries. Positive trends in both industries have been noted, but an extended slowdown in these industries may negatively impact credit quality in Arizona. While the Company's portfolio includes various sized loans spread over a large number of industry sectors, it has meaningful concentrations of loans to the hospitality and commercial real estate industries.

The following table describes the Company's approximate concentrations by industry as of March 31, 2024 and December 31, 2023, respectively (dollars are in thousands):

	March 31, 2024		December 31, 2023	
Non-owner occupied commercial real estate – not otherwise categorized	$ 191,650	28 %	$ 198,428	30 %
Consumer, not otherwise categorized	99,268	15	99,702	15
Hotels	83,042	12	83,985	13
Retail trade	38,696	6	35,827	5
Healthcare and social assistance	35,238	5	32,011	5
Agriculture, forestry, fishing and hunting	32,732	5	33,503	5
Transportation and warehousing	28,460	4	27,905	4
Art, entertainment and recreation	28,130	4	27,507	4
Non-hotel accommodation and food service	25,593	4	24,637	4
Mining, oil and gas extraction	21,837	3	22,149	3
Construction contractors	16,591	3	16,082	3
Other service	13,007	2	11,940	2
Professional, scientific, and technical services	11,248	2	9,570	1
Manufacturing	9,729	1	7,801	1
Real estate and rental and leasing support services	9,126	1	9,804	1
Educational services	8,415	1	4,246	1
Finance and insurance	8,165	1	6,781	1
All other	15,867	3	15,888	2
Gross loans held for investment	$ 676,794	100 %	$ 667,766	100 %

The Company's loans within the hospitality industry have shown signs of improved credit quality that are reflected by improved hotel occupancy and restaurant utilization trends. Hotel operators in the Company's loan portfolio are reporting positive trends, and in some cases stronger balance sheets. Despite these positive indications, labor shortages limit the ability of the industry to fully capitalize on these trends and the potential for inflationary impacts on travel and leisure activities continue to be closely monitored.

Loan Maturities[1]

The following table sets forth the maturities of loans in each major category of the Company's portfolio as of March 31, 2024 (in thousands):

		Over 1 Year Through 5 Years		Over 5 Years		Total Loans
	One Year or Less	Fixed Rate	Indexed Rate	Fixed Rate	Indexed Rate	Held for Investment
Commercial and industrial	$ 17,240	$ 23,427	$ 6,703	$ 67,741	$ 101,997	$ 217,108
Commercial real estate	200	22,241	3,538	37,667	187,724	251,370
SBA	3,465	678	6,069	10,628	51,280	72,120
Consumer	428	4,222	6,589	81,592	18,753	111,584
Land and land development	78	4,483	1,012	196	4,396	10,165
Construction	2,313	758	6,734	-	4,642	14,447
Total principal amount of loans	$ 23,724	$ 55,809	$ 30,645	$ 197,824	$ 368,792	$ 676,794

(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 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, 2024		December 31, 2023	
	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment
Commercial and industrial	$ 3,416	32 %	$ 3,378	32 %
Commercial real estate	3,376	37	3,368	37
SBA	1,137	11	1,014	10
Consumer	1,163	16	1,092	17
Land and land development	209	2	169	1
Construction	162	2	263	3
Total	$ 9,463	100 %	$ 9,284	100 %

Nonperforming Loans

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Twelve Months Ended December 31, 2023
Balance, beginning of period	$ 3,351	$ 1,355	$ 1,355
Additions to nonperforming	966	211	2,393
Charge-offs	(1)	(7)	(145)
Reclassified back to performing	(832)	(1)	(1)
Principal payment received	(33)	(74)	(200)
Transferred to repossessed assets	(18)	(15)	(51)
Balance, end of period	$ 3,433	$ 1,469	$ 3,351

Nonperforming Assets

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

	March 31, 2024	December 31, 2023
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ 882	$ 832
Non-accrual loans	2,551	2,519
Total nonperforming loans	$ 3,433	$ 3,351
Repossessed assets, net	49	33
Total nonperforming assets	$ 3,482	$ 3,384
Allowance for credit losses	$ 9,463	$ 9,284
Ratio of total nonperforming loans to total loans	0.51%	0.50%
Ratio of total nonperforming loans to loans held for investment	0.51%	0.50%
Ratio of total nonperforming assets to total assets	0.38%	0.35%
Ratio of nonperforming loans to total assets	0.37%	0.35%
Ratio of allowance for credit losses to nonperforming loans	276%	277%

Problem Loans

Management attempts 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	Doubtful
March 31, 2024	$ 4,928	$ 4,827	$ 1,456
December 31, 2023	2,393	3,780	1,480

At March 31, 2024, the Bank had $6.3 million of classified loans and $2.6 million of loans on non-accrual. This compares to $5.3 million of classified loans and $2.5 million of loans on non-accrual at December 31, 2023, and $4.1 million of classified loans and $1.5 million of loans on non-accrual at March 31, 2023.

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

Liabilities

The following table presents the Company’s liabilities (dollars are in thousands):

	March 31, 2024	December 31, 2023	Increase (Decrease) $	%	
Deposits:					
Non-interest-bearing	$ 170,976	$ 184,442	$ (13,466)	(7) %	(a)
Interest-bearing-					
Savings, interest checking and money market	565,151	582,855	(17,704)	(3)	(a)
Time deposits	69,984	69,906	78	-	
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,464	15,464	-	-	
Accrued interest payable	1,167	937	230	25	(b)
Accrued expenses	2,597	4,105	(1,508)	(37)	(c)
Operating lease liabilities	961	1,048	(87)	(8)	(d)
Other liabilities	1,557	1,030	527	51	(e)
Total liabilities	$ 827,857	$ 859,787	$ (31,930)	(4) %	

(a) Deposits decreased as the Company maintained elevated levels of deposits at year-end 2023 that were deployed by customers during the first quarter of 2024. Deposit levels at March 31, 2024 are more consistent with levels experienced in the second and third quarters of 2023.
(b) Accrued interest payable increased primarily due to increased cost of deposits and subordinated debentures.
(c) Accrued expenses decreased primarily due to the payout of incentive accruals and reduction in 401k matching contributions.
(d) Decrease is due to normal amortization of operating leases.
(e) Increase primarily relates to increases in taxes payable.

Deposits

Total deposits decreased $31.1 million to $806.1 million on March 31, 2024, from $837.2 million on December 31, 2023. The Company continues to focus on new deposit relationships and is keenly focused on the importance of liquidity.

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

	As of		
(In thousands)	March 31, 2024	December 31, 2023	March 31, 2023
Deposits:			
Non-interest-bearing	$ 170,976	$ 184,442	$ 195,125
Interest-bearing –			
Savings, interest checking and money market	565,151	582,855	525,644
Time deposits	69,984	69,906	51,609
Total on balance sheet deposits	806,111	837,203	772,378
Off-balance sheet deposits (1)	38,875	34,792	124,971
Total available deposits	$ 844,986	$ 871,995	$ 897,349

(1) The off-balance sheet deposits above do not include off-balance sheet time deposit that can be brought back on the balance sheet at various future maturity dates. As of March 31, 2024, the Company managed off-balance sheet time deposit balances of $19.7 million, compared to $18.7 million time deposit balances as of December 31, 2023 and $25.8 million as of March 31, 2023.

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

Off-balance sheet accounts are primarily utilized to custody larger business customer deposits that require daily access to funds and FDIC insurance coverage. These off-balance sheet deposits were $34.8 million at year-end 2023 and increased to $38.9 million at March 31, 2024. Off-balance sheet deposits can fluctuate greatly as customers balance utilization demands evolve. The Company earns non-interest income through the associated banking network for the utilization of these funds.

At March 31, 2024, and December 31, 2023, the Bank had $19.0 million and $20.6 million, respectively, in time deposits greater than $250 thousand.

Mortgage Banking Obligations

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations. Although the Company sold its 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, 2024		Three Months Ended March 31, 2023		Twelve Months Ended December 31, 2023	
Balance, beginning of period	$	644	$	656	$	656
Provision		-		30		91
Write offs, net		(81)		(105)		(103)
Balance, end of period	$	563	$	581	$	644

Stockholders' Equity

The Company's stockholders' equity decreased $8.0 million from December 31, 2023, to March 31, 2024, primarily driven by $8.1 million of common stock dividends declared on February 2, 2024 and $1.2 million of common stock repurchased during the first quarter of 2024 that was partially offset by $1.7 million of net income. 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 to provide a source of strength for the Bank. The Company manages capital by assessing the composition of capital and the amounts available for growth, risk, or other purposes. On February 2, 2024, BNCCORP's Board of Directors declared a $2.25 per share special cash dividend that was paid on March 25, 2024.

In December 2020, our Board of Directors approved a share repurchase program authorizing the Company to repurchase up to 175,000 of our outstanding common stock. On March 26, 2024, the Company repurchased 50,000 shares of common stock for a total cost of $1,162,500 excluding the cost of commissions, transaction charges and taxes. We repurchased no other shares of common stock during the first quarter of 2024. As of March 31, 2024, there was 125,000 shares remaining under the Board of Directors' current authorized share repurchase program. The Company will contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals.

Liquidity Risk Management

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

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

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

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

1. Estimated liquid assets and certain off-balance sheet considerations less estimated volatile liabilities using the aforementioned methodology ($98.8 million as of March 31, 2024);
2. Borrowing capacity from the FHLB ($122.7 million as of March 31, 2024); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($134.4 million as of March 31, 2024).

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

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

The Company's liquidity assessment process segregates its balance sheet into liquid assets along with certain off-balance sheet considerations and short-term liabilities assumed to be vulnerable to non-replacement over a 30-day horizon in abnormally stringent conditions. Assumptions for the vulnerable short-term liabilities are based upon historical factors. The Company has a targeted range for its liquidity position over this horizon and manage operations to achieve these targets.

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

The Company's interest rate risk exposure is actively managed with the objective of managing the level and potential volatility of net interest income in addition to the long-term growth of equity, bearing in mind that it will always be in the business of taking on rate risk and that rate risk immunization is not entirely possible. Also, it is recognized that as exposure to interest rate risk is reduced, so too may the overall level of net interest income and equity.

The Company's primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes assumptions regarding the changes in interest rates and the impact on the Company's current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month-end balances of the various balance sheet accounts are held constant at their March 31, 2024 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its March 31, 2024, level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

The Company monitors the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current level of interest rates as of March 31, 2024, the downward scenarios for interest rate movements is limited to -200bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 8.50% to 9.50% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

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

Net Interest Income Simulation

Movement in interest rates	-200bp	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 33,214	$ 32,935	$ 32,340	$ 31,488	$ 30,672	$ 29,850
Dollar change from unchanged scenario	$ 874	$ 595	$ -	$ (852)	$ (1,668)	$ (2,490)
Percentage change from unchanged scenario	2.70%	1.84%	-	(2.63)%	(5.16)%	(7.70)%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on assets and liabilities as of March 31, 2024 (without forward adjustments for planned growth and anticipated business activities) and do not reflect any actions the Company might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the "rate sensitivity position" or "gap position." The following table sets forth the Company's rate sensitivity position as of March 31, 2024. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated Maturity or Repricing at March 31, 2024				
	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	$ 62,811	$ -	$ -	$ -	$ 62,811
Debt securities (a)	13,251	8,524	72,104	52,628	146,507
FRB and FHLB stock	2,387	-	-	-	2,387
Loans held for investment, fixed rate	31,381	55,936	138,689	33,142	259,148
Loans held for investment, indexed rate	102,086	66,696	237,677	11,187	417,646
Total interest-earning assets	$ 211,916	$ 131,156	$ 448,470	$ 96,957	$ 888,499
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 521,074	$ -	$ -	$ -	$ 521,074
Savings	44,077	-	-	-	44,077
Time deposits	24,836	37,930	7,183	35	69,984
Subordinated debentures	-	15,464	-	-	15,464
Total interest-bearing liabilities	$ 589,987	$ 53,394	$ 7,183	$ 35	$ 650,599
Interest rate gap	$ (378,071)	$ 77,762	$ 441,287	$ 96,922	$ 237,900
Cumulative interest rate gap at March 31, 2024	$ (378,071)	$ (300,309)	$ 140,978	$ 237,900	
Cumulative interest rate gap to total assets	(40.73%)	(32.35%)	15.19%	25.63%	

(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 the debt securities.

The table assumes that all savings and interest-bearing demand deposits reprice in the earliest period presented, however, management believes that a significant portion of these accounts are generally not rate sensitive. Management's view is supported by historical non-maturity deposit studies, which indicate that the Company's deposit rates have largely lagged broader market rate changes and the fact that changes in interest rates paid on these deposits historically have not caused notable reductions in balances or net interest income because the repricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, assets and liabilities indicated as repricing within the same period may in fact reprice at different times and at different rate levels.

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on the Company's assets and liabilities as of March 31, 2024, and do not contemplate any actions the Company might undertake in response to changes in market interest rates.

Legal Proceedings

From time to time in the ordinary course of business, the Company and its subsidiaries may be a party to legal proceedings arising out of the Company's lending, deposit operations, or other activities. The Company engages in foreclosure proceedings and other collection actions as part of its loan collection activities. From time to time, borrowers may also bring actions against the Company, in some cases claiming damages.

Management is not aware of any material pending or threatening litigation as of March 31, 2024.

Signatures

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

BNCCORP, INC.

Date:	May 7, 2024	By:	/s/ Daniel J. Collins
			Daniel J. Collins President and Chief Executive Officer
		By:	/s/ Justin C. Currie
			Justin C. Currie Chief Financial Officer