Quarterly Report

For the quarter ended September 30, 2021

BNCCORP, INC.

(OTCQX: BNCC)

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BNCCORP, INC.
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Financial Statements

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

	September 30, 2021	December 31, 2020
ASSETS	(unaudited)	
Cash and cash equivalents	$ 187,189	$ 12,443
Debt securities available for sale	207,044	183,717
Federal Reserve Bank and Federal Home Loan Bank stock	3,115	4,201
Loans held for sale-mortgage banking	103,171	250,083
Loans held for investment	530,702	570,890
Allowance for credit losses	(10,249)	(10,324)
Net loans held for investment	520,453	560,566
Premises and equipment, net	12,757	14,398
Operating lease right of use asset	2,015	2,451
Accrued interest receivable	3,251	4,721
Other	30,696	41,551
Total assets	$ 1,069,691	$ 1,074,131
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 191,948	$ 167,667
Interest-bearing –		
Savings, interest checking and money market	631,698	570,656
Time deposits	84,742	114,835
Total deposits	908,388	853,158
Short-term borrowings	151	6,385
Federal Home Loan Bank advances	-	30,900
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,002	15,004
Accrued interest payable	251	560
Accrued expenses	7,270	13,338
Operating lease liabilities	2,178	2,620
Other	1,514	33,937
Total liabilities	934,754	955,902
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,554,983 and 3,540,522 shares issued and outstanding	35	35
Capital surplus – common stock	25,931	25,871
Retained earnings	105,651	86,991
Treasury stock (113,670 and 128,131 shares, respectively)	(1,650)	(1,850)
Accumulated other comprehensive income	4,970	7,182
Total stockholders' equity	134,937	118,229
Total liabilities and stockholders' equity	$ 1,069,691	$ 1,074,131

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(In thousands, except per share data, unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
INTEREST INCOME:				
Interest and fees on loans	$ 6,732	$ 7,585	$ 22,609	$ 23,106
Interest and dividends on investments				
Taxable	1,097	1,056	2,777	3,917
Tax-exempt	58	58	174	175
Dividends	38	36	112	110
Total interest income	7,925	8,735	25,672	27,308
INTEREST EXPENSE:				
Deposits	394	758	1,545	3,205
Short-term borrowings	-	3	3	9
Federal Home Loan Bank advances	-	1	1	13
Subordinated debentures	59	65	178	295
Total interest expense	453	827	1,727	3,522
Net interest income	7,472	7,908	23,945	23,786
PROVISION FOR CREDIT LOSSES:	-	350	-	2,400
Net interest income after provision for credit losses	7,472	7,558	23,945	21,386
NON-INTEREST INCOME:				
Bank charges and service fees	572	581	1,697	1,761
Wealth management revenues	570	464	1,656	1,319
Mortgage banking revenues, net	8,249	23,913	32,096	57,627
Gains on sales of loans, net	175	96	271	99
Gains on sales of debt securities, net	-	-	-	1,128
Other	271	137	1,238	384
Total non-interest income	9,837	25,191	36,958	62,318
NON-INTEREST EXPENSE:				
Salaries and employee benefits	5,551	7,228	19,170	21,500
Professional services	1,226	2,140	4,565	5,260
Data processing fees	1,135	1,200	3,374	3,523
Marketing and promotion	1,251	998	3,227	3,967
Occupancy	547	522	1,621	1,580
Regulatory costs	119	77	352	182
Depreciation and amortization	312	352	956	1,066
Office supplies and postage	109	111	355	361
Other	921	1,975	2,736	3,662
Total non-interest expense	11,171	14,603	36,356	41,101
Income before income taxes	6,138	18,146	24,547	42,603
Income tax expense	1,410	4,446	5,887	10,438
NET INCOME	$ 4,728	$ 13,700	$ 18,660	$ 32,165
Basic earnings per common share	$ 1.32	$ 3.84	$ 5.22	$ 9.03
Diluted earnings per common share	$ 1.32	$ 3.84	$ 5.22	$ 9.02

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands, unaudited)

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2021		2020		2021		2020	
NET INCOME		$ 4,728		$ 13,700		$ 18,660		$ 32,165
Unrealized (loss) gain on debt securities available for sale	$ (1,318)		$ 1,936		$ (2,933)		$ 9,737	
Reclassification adjustment for gains included in net income	-		-		-		(1,128)	
Other comprehensive (loss) income before tax	(1,318)		1,936		(2,933)		8,609	
Income tax benefit (expense) related to items of other comprehensive income (loss)	323		(476)		721		(2,118)	
Other comprehensive (loss) income	$ (995)	(995)	$ 1,460	1,460	$ (2,212)	(2,212)	$ 6,491	6,491
TOTAL COMPREHENSIVE INCOME		$ 3,733		$ 15,160		$ 16,448		$ 38,656

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
For the Nine Months Ended September 30,
(In thousands, except share data, unaudited)

	Common Stock		Capital Surplus Common	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Earnings	Stock	Income	Total
BALANCE, December 31, 2019	3,514,770	$ 35	$ 25,831	$ 71,057	$ (2,115)	$ 1,470	$ 96,278
Net income	-	-	-	32,165	-	-	32,165
Other comprehensive income	-	-	-	-	-	6,491	6,491
Impact of share-based compensation	25,880	-	10	-	270	-	280
BALANCE, September 30, 2020	3,540,650	$ 35	$ 25,841	$ 103,222	$ (1,845)	$ 7,961	$ 135,214
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229
Net income	-	-	-	18,660	-	-	18,660
Other comprehensive loss	-	-	-	-	-	(2,212)	(2,212)
Impact of share-based compensation	14,461	-	60	-	200	-	260
BALANCE, September 30, 2021	3,554,983	$ 35	$ 25,931	$ 105,651	$ (1,650)	$ 4,970	$ 134,937

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30,
(In thousands, unaudited)

	2021	2020
OPERATING ACTIVITIES:		
Net income	$ 18,660	$ 32,165
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for credit losses	-	2,400
Depreciation and amortization	956	1,066
Net amortization of premiums on debt securities and subordinated debentures	2,430	2,458
Share-based compensation	260	280
Change in accrued interest receivable and other assets, net	41	504
Loss on sale of bank premises and equipment	13	8
Gains on sales of debt securities, net	-	(1,128)
Increase in deferred taxes	-	(900)
Change in other liabilities, net	(4,757)	2,733
Originations of loans held for sale, mortgage banking	(1,935,160)	(2,080,598)
Proceeds from sales of loans held for sale, mortgage banking	2,075,283	1,984,571
Fair value adjustment for loans held for sale, mortgage banking	6,691	(5,892)
Fair value adjustment on mortgage banking derivatives	8,443	(12,588)
Proceeds from sales of loans	2,453	12,625
Gains on sales of loans, net	(271)	(99)
Net cash provided by (used in) operating activities	175,042	(62,395)
INVESTING ACTIVITIES:		
Purchases of debt securities	(54,393)	(10,796)
Proceeds from sales of debt securities	-	72,108
Proceeds from maturities of debt securities	26,425	22,592
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(651)	(6,056)
Sales of Federal Reserve and Federal Home Loan Bank Stock	1,737	4,958
Net decrease (increase) in loans held for investment	37,932	(110,922)
Proceeds from sales of premises and equipment	-	1
Purchases of premises and equipment	(762)	(267)
Net cash provided by (used in) provided by investing activities	10,288	(28,382)

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
For the Nine Months Ended September 30,
(In thousands, unaudited)

	2021	2020
FINANCING ACTIVITIES:		
Net increase in deposits	$ 55,230	$ 60,435
Net (decrease) increase in short-term borrowings	(6,234)	1,640
Repayments of Federal Home Loan Bank advances	(42,910)	(123,800)
Proceeds from Federal Home Loan Bank advances	12,010	151,400
Dividends paid on common stock	(28,680)	-
Net cash (used in) provided by financing activities	(10,584)	89,675
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	174,746	(1,102)
CASH AND CASH EQUIVALENTS, beginning of period	12,443	10,523
CASH AND CASH EQUIVALENTS, end of period	$ 187,189	$ 9,421
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 2,036	$ 4,472
Income taxes paid	$ 7,400	$ 10,065
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of property classified as held for sale to other assets from premises and equipment	$ 1,434	$ -

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. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 11 locations in Arizona, North Dakota, Illinois, Kansas, Missouri and Michigan. The consumer-direct channel emphasizes technology (internet leads and a call center) to originate mortgage loans throughout the United States. The retail channel is primarily relationship driven and originations are generally near mortgage banking locations.

NOTE 2 – Basis of Presentation and Accounting Policies

The accounting and reporting policies of 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, 2020. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2020 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, 2020, 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 September 30, 2021, 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. This update requires the use of the modified retrospective adoption approach and the Company is currently evaluating the impact that this amended guidance will have on its consolidated financial statements and disclosures.

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

NOTE 3 – Debt Securities Available for Sale

Debt securities have been classified in the consolidated balance sheets according to management's intent. The Company had no securities designated as trading or held-to-maturity in its portfolio at September 30, 2021, or December 31, 2020. The carrying amount of available-for-sale debt securities and their estimated fair values were as follows (in thousands):

	As of September 30, 2021			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. treasury securities	$ 4,999	$ 12	$ -	$ 5,011
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	30,297	225	(349)	30,173
U.S. government agency small business administration pools guaranteed by SBA	24,945	-	(937)	24,008
Collateralized mortgage obligations guaranteed by GNMA	13,988	885	-	14,873
Collateralized mortgage obligations issued by FNMA/FHLMC	84,927	2,653	(393)	87,187
Commercial mortgage-backed securities issued by FHLMC	18,020	1,443	(176)	19,287
Other commercial mortgage-backed securities	11,115	361	-	11,476
State and municipal bonds	13,641	1,388	-	15,029
	$ 201,932	$ 6,967	$ (1,855)	$ 207,044

	As of December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 4,996	$ 67	$ -	$ 5,063
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	14,727	72	(153)	14,646
U.S. government agency small business administration pools guaranteed by SBA	29,478	-	(1,155)	28,323
Collateralized mortgage obligations guaranteed by GNMA	17,422	1,288	-	18,710
Collateralized mortgage obligations issued by FNMA/FHLMC	66,258	3,618	-	69,876
Commercial mortgage-backed securities issued by FHLMC	13,165	2,012	-	15,177
Other commercial mortgage-backed securities	12,878	493	-	13,371
Asset-backed securities	3,062	17	-	3,079
State and municipal bonds	13,687	1,785	-	15,472
	$ 175,673	$ 9,352	$ (1,308)	$ 183,717

The amortized cost and estimated fair market value of available-for-sale debt securities classified according to their contractual maturities at September 30, 2021, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,999	$ 5,011
Due after one year through five years	-	-
Due after five years through 10 years	30,128	31,734
Due after 10 years	166,805	170,299
Total	$ 201,932	$ 207,044

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):

	September 30, 2021								
	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. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	2	$ 10,366	$ (135)	2	$ 4,537	$ (214)	4	$ 14,903	$ (349)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	24,008	(937)	4	24,008	(937)
Collateralized mortgage obligations issued by FNMA/FHLMC	3	21,403	(393)	-	-	-	3	21,403	(393)
Commercial mortgage-backed securities issued by FHLMC	1	4,693	(176)	-	-	-	1	4,693	(176)
Total temporarily impaired securities	6	$ 36,462	$ (704)	6	$ 28,545	$ (1,151)	12	$ 65,007	$ (1,855)

Description of Securities	December 31, 2020 Less Than 12 Months #	Fair Value	Unrealized Loss	12 Months or More #	Fair Value	Unrealized Loss	Total #	Fair Value	Unrealized Loss
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	4	$ 10,507	$ (153)	-	$ -	$ -	4	$ 10,507	$ (153)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	28,323	(1,155)	4	28,323	(1,155)
Total temporarily impaired securities	4	$ 10,507	$ (153)	4	$ 28,323	$ (1,155)	8	$ 38,830	$ (1,308)

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

There were no debt securities that management concluded were other-than-temporarily impaired at September 30, 2021, or December 31, 2020.

NOTE 4 – Loans

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

	September 30, 2021	December 31, 2020
Loans held for sale-mortgage banking	$ 103,171	$ 250,083
Commercial and industrial	$ 152,232	$ 165,994
Commercial real estate	196,329	190,939
SBA	71,771	102,064
Consumer	81,536	81,783
Land and land development	8,086	8,603
Construction	20,708	21,748
Gross loans held for investment	530,662	571,131
Unearned income and net unamortized deferred fees and costs	40	(241)
Loans, net of unearned income and unamortized fees and costs	530,702	570,890
Allowance for credit losses	(10,249)	(10,324)
Net loans held for investment	$ 520,453	$ 560,566

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended September 30, 2021						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 3,148	$ 4,125	$ 1,766	$ 930	$ 130	$ 194	$ 10,293
Provision (reduction)	54	(30)	(67)	41	(2)	4	-
Loans charged off	-	-	-	(50)	-	-	(50)
Loan recoveries	-	-	-	4	2	-	6
Balance, end of period	$ 3,202	$ 4,095	$ 1,699	$ 925	$ 130	$ 198	$ 10,249

	Three Months Ended September 30, 2020						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 3,108	$ 3,822	$ 1,332	$ 1,036	$ 204	$ 178	$ 9,680
Provision (reduction)	196	45	68	34	(12)	19	350
Loans charged off	(26)	-	-	(6)	-	-	(32)
Loan recoveries	1	-	1	3	2	-	7
Balance, end of period	$ 3,279	$ 3,867	$ 1,401	$ 1,067	$ 194	$ 197	$ 10,005

	Nine Months Ended September 30, 2021						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 3,275	$ 3,923	$ 1,779	$ 948	$ 170	$ 229	$ 10,324
Provision (reduction)	(38)	171	(82)	25	(45)	(31)	-
Loans charged off	(50)	-	-	(69)	-	-	(119)
Loan recoveries	15	1	2	21	5	-	44
Balance, end of period	$ 3,202	$ 4,095	$ 1,699	$ 925	$ 130	$ 198	$ 10,249

	Nine Months Ended September 30, 2020						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,366	$ 3,502	$ 1,131	$ 853	$ 187	$ 102	$ 8,141
Provision (reduction)	1,000	801	266	239	(1)	95	2,400
Loans charged off	(88)	(437)	-	(31)	-	-	(556)
Loan recoveries	1	1	4	6	8	-	20
Balance, end of period	$ 3,279	$ 3,867	$ 1,401	$ 1,067	$ 194	$ 197	$ 10,005

The following table shows the balance in the allowance for credit losses at September 30, 2021, and December 31, 2020, and the related loan balances, segregated on the basis of impairment methodology (in thousands). Impaired loans are loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment.

	Allowance For Credit Losses			Gross Loans Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
September 30, 2021						
Commercial and industrial	$ 767	$ 2,435	$ 3,202	$ 1,598	$ 150,634	$ 152,232
Commercial real estate	-	4,095	4,095	-	196,329	196,329
SBA	584	1,115	1,699	898	70,873	71,771
Consumer	3	922	925	25	81,511	81,536
Land and land development	-	130	130	-	8,086	8,086
Construction	-	198	198	-	20,708	20,708
Total	$ 1,354	$ 8,895	$ 10,249	$ 2,521	$ 528,141	$ 530,662
December 31, 2020						
Commercial and industrial	$ 762	$ 2,513	$ 3,275	$ 1,606	$ 164,388	$ 165,994
Commercial real estate	-	3,923	3,923	-	190,939	190,939
SBA	597	1,182	1,779	982	101,082	102,064
Consumer	-	948	948	24	81,759	81,783
Land and land development	-	170	170	-	8,603	8,603
Construction	-	229	229	-	21,748	21,748
Total	$ 1,359	$ 8,965	$ 10,324	$ 2,612	$ 568,519	$ 571,131

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):

	September 30, 2021					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 55,031	$ -	$ -	$ 55,031	$ 1,423	$ 56,454
Agriculture	30,816	-	-	30,816	-	30,816
Owner-occupied commercial real estate	64,787	-	-	64,787	175	64,962
Commercial real estate	196,329	-	-	196,329	-	196,329
SBA	70,170	703	-	70,873	898	71,771
Consumer:						
Automobile	16,956	59	-	17,015	-	17,015
Home equity	14,004	-	-	14,004	-	14,004
1st mortgage	11,155	-	-	11,155	-	11,155
Other	39,194	143	-	39,337	25	39,362
Land and land development	8,086	-	-	8,086	-	8,086
Construction	20,421	287	-	20,708	-	20,708
Total loans held for investment	526,949	1,192	-	528,141	2,521	530,662
Loans held for sale	103,169	1	1	103,171	-	103,171
Total gross loans	$ 630,118	$ 1,193	$ 1	$ 631,312	$ 2,521	$ 633,833

	December 31, 2020					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 70,033	$ 58	$ -	$ 70,091	$ 1,412	$ 71,503
Agriculture	27,079	13	-	27,092	-	27,092
Owner-occupied commercial real estate	67,206	-	-	67,206	193	67,399
Commercial real estate	190,939	-	-	190,939	-	190,939
SBA	101,082	-	-	101,082	982	102,064
Consumer:						
Automobile	21,087	-	-	21,087	10	21,097
Home equity	12,144	-	-	12,144	-	12,144
1st mortgage	11,694	-	-	11,694	-	11,694
Other	36,829	4	1	36,834	14	36,848
Land and land development	8,603	-	-	8,603	-	8,603
Construction	21,748	-	-	21,748	-	21,748
Total loans held for investment	568,444	75	1	568,520	2,611	571,131
Loans held for sale	249,880	203	-	250,083	-	250,083
Total gross loans	$ 818,324	$ 278	$ 1	$ 818,603	$ 2,611	$ 821,214

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest income that would have been recorded	$ 43	$ 67	$ 129	$ 176
Interest income recorded	-	-	-	-
Effect on interest income on loans	$ 43	$ 67	$ 129	$ 176

Credit Risk by Internally Assigned Grade

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

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.

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. 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 composition of loans by internally assigned grade is as follows (in thousands):

	Pass	Watch List	Substandard	Doubtful	Total Loans Held for Investment
September 30, 2021	$ 514,637	$ 6,603	$ 7,339	$ 2,083	$ 530,662
December 31, 2020	554,680	9,118	5,201	2,132	571,131

Impaired loans

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

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

	September 30, 2021				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance (9-months)**	**Interest Income Recognized (9-months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,062	$ 1,423	$ 767	$ 1,437	$ -
SBA	738	660	584	712	-
Consumer:					
Other	19	19	3	19	-
Total impaired loans with an allowance recorded	$ 2,819	$ 2,102	$ 1,354	$ 2,168	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Owner-occupied commercial real estate	$ 192	$ 175	$ -	$ 184	$ -
SBA	338	238	-	251	-
Consumer:					
Other	20	6	-	7	-
Total impaired loans without an allowance recorded	$ 550	$ 419	$ -	$ 442	$ -
TOTAL IMPAIRED LOANS	$ 3,369	$ 2,521	$ 1,354	$ 2,610	$ -

	December 31, 2020				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance (12-months)**	**Interest Income Recognized (12-months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,004	$ 1,413	$ 762	$ 1,417	$ -
SBA	753	719	597	729	-
Total impaired loans with an allowance recorded	$ 2,757	$ 2,132	$ 1,359	$ 2,146	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Owner-occupied commercial real estate	$ 203	$ 193	$ -	$ 217	$ -
SBA	338	263	-	273	-
Consumer:					
Automobile	21	10	-	11	-
Other	30	14	-	17	-
Total impaired loans without an allowance recorded	$ 592	$ 480	$ -	$ 518	$ -
Total impaired loans	$ 3,349	$ 2,612	$ 1,359	$ 2,664	$ -

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

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

	September 30, 2021			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 1,413	$ 1,413	$ 761
Owner-occupied commercial real estate	-	175	175	-
SBA	-	332	332	53
	$	$ 1,920	$ 1,920	$ 814

	December 31, 2020			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 1,413	$ 1,413	$ 762
Owner-occupied commercial real estate	-	193	193	-
SBA	-	360	360	56
	$ -	$ 1,966	$ 1,966	$ 818

TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of real estate or other assets in full or partial satisfaction of the debt. A loan modification is no longer reported as a TDR after 12 months if the loan was modified at a market rate of interest for comparable risk loans, and the loan has performed in accordance with the terms of the restructured agreement for at least six months.

When a loan is modified as a TDR, there may be a direct, material impact on the loan balance, as the principal balance may be partially forgiven. There were no new TDRs for the three or nine month periods ended September 30, 2021. There were no new TDR for the three-month period ended September 30, 2020 and one new TDR for the nine-month period ended September 30, 2020, with a pre-modification and post-modification balance of $230 thousand.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest income that would have been recorded	$ 36	$ 55	$ 108	$ 161
Interest income recorded	-	-	-	9
Effect on interest income on loans	$ 36	$ 55	$ 108	$ 152

There were no additional funds committed to borrowers who are in TDR status at September 30, 2021, and December 31, 2020.

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

The Bank had no loans that were restructured within the 12 months preceding September 30, 2021, and September 30, 2020, and had a payment default (i.e. 90 days delinquent) during the three and nine months ended September 30, 2021, and September 30, 2020.

NOTE 6 – Leases

The Company has operating leases, primarily for office space, that 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- and nine-month period ended September 30, 2021, and September 30, 2020, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Operating lease costs	$ 263	$ 246	$ 785	$ 731
Variable lease costs	7	1	36	25
Short-term lease costs	4	4	12	12
Total lease costs	$ 274	$ 251	$ 833	$ 768

Amounts reported in the consolidated balance sheet as of September 30, 2021, and December 31, 2020, are as follows (in thousands):

	As of September 30, 2021	**As of December 31, 2020**
Operating lease right of use asset	$ 2,015	$ 2,451
Operating lease liabilities	2,178	2,620

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities	$ 279	$ 253	$ 844	$ 745
ROU assets obtained in exchange for lease obligations	-	342	159	405
Reductions to ROU assets resulting from reduction in lease obligations	181	220	596	590

	As of September 30, 2021	**As of December 31, 2020**
Weighted average remaining lease term	3.23 years	3.93 years
Weighted average discount rate	6.00%	6.00%

Maturities of lease liabilities under non-cancellable leases as of September 30, 2021, are as follows (in thousands):

	Operating Leases
2021	$ 189
2022	757
2023	555
2024	357
2025	170
Thereafter	150
Total lease liabilities	$ 2,178

NOTE 7 – Earnings Per Share

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

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,571,192	3,571,615
Dilutive effect of stock compensation	648	535
Denominator for diluted earnings per share	3,571,840	3,572,150
Numerator (in thousands):		
Net income	$ 4,728	$ 18,660
Basic earnings per common share	$ 1.32	$ 5.22
Diluted earnings per common share	$ 1.32	$ 5.22

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,567,980	3,563,204
Dilutive effect of stock compensation	439	2,018
Denominator for diluted earnings per share	3,568,419	3,565,222
Numerator (in thousands):		
Net income	$ 13,700	$ 32,165
Basic earnings per common share	$ 3.84	$ 9.03
Diluted earnings per common share	$ 3.84	$ 9.02

NOTE 8 – Share-Based Compensation

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

	1995	2015	Total
Total Shares in Plan	250,000	50,000	300,000
Total Shares Available for Issuance	45,951	30,448	76,399

Following is a summary of stock option transactions for the nine-month periods ending September 30:

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	-	$ -	21,000	$ 3.00
Granted	-	-	-	-
Exercised	-	- -	(21,000)	3.00
Forfeited	-	-	-	-
Outstanding, end of period	-	-	-	-

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

The Company recognized share-based compensation expense of $7 thousand related to restricted stock for the three-month period ended September 30, 2021, and $22 thousand for the nine-month period ended September 30, 2021. The Company recognized share-based compensation expense of $7 thousand related to restricted stock for the three-month period ended September 30, 2020, and $21 thousand for the nine-month period ended September 30, 2020.

At September 30, 2021, the Company had $277 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Service charges on deposits	$ 126	$ 133	$ 361	$ 439
Bankcard fees	265	241	783	703
Bank charges and service fees not within scope of ASC 606	181	207	553	619
Total bank charges and service fees	572	581	1,697	1,761
Wealth management revenue	570	464	1,656	1,319
Wealth management revenue not within the scope of ASC 606	-	-	-	-
Total wealth management revenues	570	464	1,656	1,319
Other	8	10	28	30
Other not within the scope of ASC 606 (a)	263	127	1,210	354
Total other	271	137	1,238	384
Other non-interest income not within the scope of ASC 606 (a)	8,424	24,009	32,367	58,854
Total non-interest income	$ 9,837	$ 25,191	$ 36,958	$ 62,318

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

The Company had no material contract assets or remaining performance obligations as of September 30, 2021. Total receivables from revenue recognized under the scope of ASC 606 were $576 thousand as of September 30, 2021, and $487 thousand as of December 31, 2020. 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 September 30, 2021				Nine Months Ended September 30, 2021
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
ASSETS					
Debt securities available for sale	$ 207,044	$ 5,011	$ 202,033	$ -	$ -
Loans held for sale	103,171	-	103,171	-	(6,691)
Commitments to originate mortgage loans	3,888	-	3,888	-	(13,137)
Commitments to sell mortgage loans	16	-	16	-	205
Mortgage banking short positions	1,041	-	1,041	-	4,489
Total assets at fair value	$ 315,160	$ 5,011	$ 310,149	$ -	$ (15,134)
LIABILITIES					
Mortgage banking short positions	$ -	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -	$ -

	Carrying Value at December 31, 2020				Twelve Months Ended December 31, 2020
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
ASSETS					
Debt securities available for sale	$ 183,717	$ 5,063	$ 178,654	$ -	$ 1,128
Loans held for sale	250,083	-	250,083	-	5,698
Commitments to originate mortgage loans	19,098	-	19,098	-	12,370
Total assets at fair value	$ 452,898	$ 5,063	$ 447,835	$ -	$ 19,196
LIABILITIES					
Commitments to sell mortgage loans	$ 189	$ -	$ 189	$ -	$ (3,149)
Mortgage banking short positions	3,448	-	3,448	-	(168)
Total liabilities at fair value	$ 3,637	$ -	$ 3,637	$ -	$ (3,317)

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

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

	Carrying Value at September 30, 2021				Nine Months Ended September 30, 2021
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Impaired loans(1)	$ 748	$ -	$ -	$ 748	$ (56)
Total	$ 748	$ -	$ -	$ 748	$ (56)

	Carrying Value at December 31, 2020				Twelve Months Ended December 31, 2020
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Impaired loans(1)	$ 1,253	$ -	$ -	$ 1,253	$ (1,105)
Total	$ 1,253	$ -	$ -	$ 1,253	$ (1,105)

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

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

NOTE 11 – Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	September 30, 2021		December 31, 2020	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 187,189	$ 187,189	$ 12,443	$ 12,443
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	3,115	3,115	4,201	4,201
Gross loans held for investment	Level 2	530,243	529,702	568,519	577,323
Gross loans held for investment	Level 3	419	356	2,612	1,253
Accrued interest receivable	Level 2	3,251	3,251	4,721	4,721
		$ 724,217	$ 723,613	$ 592,496	$ 599,941
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 191,948	$ 191,948	$ 167,667	$ 167,667
Deposits, interest-bearing	Level 2	716,440	716,394	685,491	686,066
Borrowings and advances	Level 2	151	151	37,285	37,285
Accrued interest payable	Level 2	251	251	560	560
Accrued expenses	Level 2	7,270	7,270	13,338	13,338
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,002	12,640	15,004	9,859
		$ 931,062	$ 928,654	$ 919,345	$ 914,775
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 241	$ -	$ 181
Standby and commercial letters of credit	Level 2	$ -	$ 14	$ -	$ 11

NOTE 12 – Federal Home Loan Bank Advances

As of September 30, 2021, the Bank had no Federal Home Loan Bank (FHLB) advances outstanding. At September 30, 2021, the Bank had loans with unamortized principal balances of approximately $284.6 million pledged as collateral to the FHLB.

As of December 31, 2020, the Bank had $30.9 million FHLB advances outstanding. At December 31, 2020, the Bank had loans with unamortized principal balances of approximately $172.0 million and debt securities with unamortized principal balances of approximately $13.0 million pledged as collateral to the FHLB.

As of September 30, 2021, the Bank has the ability to draw advances up to approximately $171.8 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):

September 30, 2021

Unsecured Borrowing Lines:		Line	Outstanding	Available
BNC National Bank lines (1)		$ 39,500	$ -	$ 39,500

Secured Borrowing Lines:	Collateral Pledged	Line	Outstanding	Available
BNC National Bank line	$ 2,078	$ 1,101	$ -	$ 1,101
BNCCORP line	116,633	10,000	-	10,000
Total	$ 118,711	$ 11,101	$ -	$ 11,101

(1) The unsecured BNC National Bank Lines consists of four separate lines with three institutions in individual amounts of $12.5 million, $10 million, $12 million, and $5 million.

At September 30, 2021, 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, 2020

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

Secured Borrowing Lines:	Collateral Pledged	Line	Outstanding	Available
BNC National Bank line	$ 2,161	$ 1,102	$ -	$ 1,102
BNCCORP line	124,709	10,000	-	10,000
Total	$ 126,870	$ 11,102	$ -	$ 11,102

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

At December 31, 2020, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured 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 $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at September 30, 2021, and December 31, 2020, was 1.54% and 1.63%, 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. In December 2020, BNCCORP's Board of Directors declared an $8.00 per share special cash dividend that was paid on February 1, 2021. See Note 18 – Subsequent Events for additional information on cash dividends to stockholders.

Also in December 2020, the Board of Directors approved a 175,000 share repurchase authorization with no expiration date set on the authorization. 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 would contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals. No share repurchases have been made under the authorization as of September 30, 2021.

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 September 30, 2021, 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 September 30, 2021, and December 31, 2020, 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**
September 30, 2021								
Total Risk-Based Capital:								
Consolidated	$ 152,926	23.07 %	$ 53,024	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	119,488	18.04	52,980	≥8.00	66,225	10.00	53,263	8.04
Tier 1 Risk-Based Capital:								
Consolidated	144,617	21.82	39,768	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	111,186	16.79	39,735	≥6.00	52,980	8.00	58,206	8.79
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	129,615	19.56	29,826	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	111,186	16.79	29,801	≥4.50	43,046	6.50	68,140	10.29
Tier 1 Leverage Capital:								
Consolidated	144,617	13.43	43,083	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	111,186	10.33	43,045	≥4.00	53,807	5.00	57,379	5.33
Tangible Common Equity (to total assets): (a)								
Consolidated	134,926	12.61	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	116,622	10.91	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2020								
Total Risk-Based Capital:								
Consolidated	$ 135,496	17.88%	$ 60,611	≥8.00%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	126,515	16.72	60,534	≥8.00	75,668	10.00	50,848	6.72
Tier 1 Risk-Based Capital:								
Consolidated	126,015	16.63	45,458	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	117,046	15.47	45,401	≥6.00	60,534	8.00	56,512	7.47
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,011	14.65	34,094	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	117,046	15.47	34,050	≥4.50	49,184	6.50	67,862	8.97
Tier 1 Leverage Capital:								
Consolidated	126,015	11.74	42,923	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	117,046	10.92	42,872	≥4.00	53,590	5.00	63,456	5.92
Tangible Common Equity (to total assets): (a)								
Consolidated	118,213	11.01	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	124,694	11.62	N/A	N/A	N/A	N/A	N/A	N/A

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

The most recent notifications from the 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 originates residential mortgage loans for the primary purpose of sale on the secondary market. The segment consists of both a consumer direct channel with locations in Kansas and Michigan utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complemented by a relationship based retail channel with 11 locations in North Dakota, Arizona, Kansas, Illinois and Missouri. Revenues for mortgage banking consist 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.

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 September 30, 2021				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 7,223	$ 704	$ 10	$ (12)	$ 7,925
Interest expense	404	2	59	(12)	453
Net interest income (expense)	6,819	702	(49)	-	7,472
Provision for credit losses	-	-	-	-	-
Net interest income after provision for credit losses	6,819	702	(49)	-	7,472
Non-interest Income	2,091	8,233	508	(995)	9,837
Non-interest Expense	5,873	5,689	604	(995)	11,171
Income (loss) before income taxes	3,037	3,246	(145)	-	6,138
Income tax expense (benefit)	662	781	(33)	-	1,410
Net income (loss)	$ 2,375	$ 2,465	$ (112)	$ -	$ 4,728
Total Assets at September 30, 2021	$ 958,874	$ 109,870	$ 34,037	$ (33,090)	$ 1,069,691

	Three Months Ended September 30, 2020				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 7,521	$ 1,251	$ 6	$ (43)	$ 8,735
Interest expense	767	38	65	(43)	827
Net interest income (expense)	6,754	1,213	(59)	-	7,908
Provision for credit losses	350	-	-	-	350
Net interest income after provision for credit losses	6,404	1,213	(59)	-	7,558
Non-interest Income	1,894	23,908	462	(1,073)	25,191
Non-interest Expense	7,106	7,458	1,112	(1,073)	14,603
Income (loss) before income taxes	1,192	17,663	(709)	-	18,146
Income tax expense (benefit)	204	4,416	(174)	-	4,446
Net income (loss)	$ 988	$ 13,247	$ (535)	$ -	$ 13,700
Total Assets at September 30, 2020	$ 838,877	$ 260,901	$ 23,399	$ (22,179)	$ 1,100,998

(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.

	Nine Months Ended September 30, 2021				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 22,975	$ 2,697	$ 25	$ (25)	$ 25,672
Interest expense	1,574	-	178	(25)	1,727
Net interest income (expense)	21,401	2,697	(153)	-	23,945
Provision for credit losses	-	-	-	-	-
Net interest income after provision for credit losses	21,401	2,697	(153)	-	23,945
Non-interest Income	6,579	32,073	1,288	(2,982)	36,958
Non-interest Expense	18,196	19,383	1,759	(2,982)	36,356
Income (loss) before income taxes	9,784	15,387	(624)	-	24,547
Income tax expense (benefit)	2,217	3,819	(149)	-	5,887
Net income (loss)	$ 7,567	$ 11,568	$ (475)	$ -	$ 18,660
Total Assets at September 30, 2021	$ 958,874	$ 109,870	$ 34,037	$ (33,090)	$ 1,069,691

	Nine Months Ended September 30, 2020				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 24,574	$ 3,292	$ 18	$ (576)	$ 27,308
Interest expense	3,244	559	295	(576)	3,522
Net interest income (expense)	21,330	2,733	(277)	-	23,786
Provision for credit losses	2,400	-	-	-	2,400
Net interest income after provision for credit losses	18,930	2,733	(277)	-	21,386
Non-interest Income	6,468	57,617	1,400	(3,167)	62,318
Non-interest Expense	20,684	20,804	2,780	(3,167)	41,101
Income (loss) before income taxes	4,714	39,546	(1,657)	-	42,603
Income tax expense (benefit)	957	9,887	(406)	-	10,438
Net income (loss)	$ 3,757	$ 29,659	$ (1,251)	$ -	$ 32,165
Total Assets at September 30, 2020	$ 838,877	$ 260,901	$ 23,399	$ (22,179)	$ 1,100,998

(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.

NOTE 18 – Subsequent Events

On October 28, 2021, the Company's Board of Directors declared a special cash dividend of $6.00 per share of BNCCORP, INC. common stock. The dividend is payable on December 15, 2021, to holders of record on November 24, 2021. The aggregate payment to be made in connection with the dividend will be approximately $21.6 million.

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 September 30, 2021, and 2020

Net income was $4.7 million, or $1.32 per diluted share, for the quarter ended September 30, 2021. This compared to net income of $13.7 million, or $3.84 per diluted share, in the same period of 2020.

Throughout 2020, the Company saw unprecedented levels of mortgage refinance activity that drove record results in its mortgage business. The historic performance makes year-over-year comparisons challenging. As the industry returns to more normalized mortgage origination levels in 2021, and BNC is transitioning from mortgage refinancing to purchase loan origination activity. Management has been very pleased with the performance of its mortgage business, as well as the overall performance, progress and health of BNC.

Net interest income for the third quarter of 2021 was $7.5 million, a decrease of $436 thousand, or 5.5%, from $7.9 million in the third quarter of 2020. The decrease primarily reflected lower loan balances and yields, partially offset by accretion of PPP fees, lower cost of deposits, and a reduction in certificates of deposit. The net interest margin for the current period decreased to 2.93% from 3.09% a year ago.

Interest income decreased by $810 thousand, or 9.3%, to $7.9 million in 2021, compared to $8.7 million for the third quarter of 2020 The decrease is the result of lower loan balances, primarily lower balances of loans held for sale and PPP loans, in addition to lower yields on loans held for sale and loans held for investment. The yield on average interest-earning assets was 3.10% in the third quarter of 2021, compared to 3.42% in the 2020 third quarter.

The average balance of interest-earning assets in the 2021 third quarter decreased by $3.4 million versus the same period of 2020, primarily due to $139.3 million and $6.4 million increases in interest-bearing cash and debt securities, respectively, more than offset by decreases in average loans held for sale and loans held for investment including PPP loans. Interest income for loans held for investment decreased $260 thousand including the impact of $239 thousand in accretion of PPP fees. The average balance of loans held for investment decreased by $63.4 million with PPP loans accounting for $47.8 million of the decrease. The average balance of mortgage loans held for sale was $103.2 million, $85.1 million lower than the same period of 2020. Interest income from loans held for sale decreased $593 thousand due to lower average balances and a lower average yield on loans held for sale. The average balance of debt securities in the third quarter of 2021 was $194.4 million, $6.4 million higher than in the third quarter of 2020. Interest income from debt securities was $19 thousand lower compared to the same period of 2020 due to a lower yield.

Interest expense in the third quarter of 2021 was $453 thousand, a decrease of $374 thousand, or 45.2%, from the 2020 period. The cost of interest-bearing liabilities was 0.25% during the quarter, compared to 0.43% in the same period of 2020. The cost of core deposits in the third quarters of 2021 and 2020 was 0.17% and 0.33%, respectively.

At September 30, 2021, credit metrics remained stable with $2.5 million of nonperforming assets, representing a 0.24% nonperforming assets-to-total-asset ratio, unchanged from December 31, 2020. The Company did not record a provision for credit losses in the third quarter of 2021, compared to a $350 thousand provision recorded in the third quarter of 2020.

Non-interest income for the third quarter of 2021 was $9.8 million, a decrease of $15.4 million, from $25.2 million in the 2020 third quarter. The decrease was driven by mortgage banking revenues of $8.2 million in the third quarter of 2021, versus $23.9 million in the prior-year period. The Company's mortgage business is managing through the ongoing cyclical transition to a lower level of originations compared to the historically high level of refinance activity and margins in the prior-year period. In the third quarter of 2021, BNC funded 1,376 mortgage loans with combined balances of $524.1 million, compared to 2,345 mortgage loans with combined balances of $831.6 million in the third quarter of 2020. Wealth management revenues increased $106 thousand, or 22.8%, as assets under administration increased relative to the 2020 period. The sale of SBA loans resulted in gains on sales of loans of $175 thousand in the third quarter of 2021.

Non-interest expense for the third quarter of 2021 decreased $3.4 million, or 23.5%, to $11.2 million, from $14.6 million in the third quarter of 2020. Non-interest expenses related to lower mortgage operations activity decreased by $1.8 million, or 23.7%, as management continues to adjust the scale of operations based on the marketplace opportunity. Full-time equivalent employees related to mortgage operations were 141 at September 30, 2021, compared to 166 at December 31, 2020. Combined expenses for community banking and the holding company decreased by $1.6 million, or 23.3%, compared to the 2020 period primarily due to reduced severance and legal expense and an impairment charge on property recorded in the 2020 period.

In the third quarter of 2021, income tax expense was $1.4 million, compared to $4.4 million in the third quarter of 2020. The effective tax rate was 23.0% in the third quarter of 2021, compared to 24.5% in the same period of 2020.

Comparison of Results for the Nine Months Ended September 30, 2021, and 2020

Net income was $18.7 million, or $5.22 per diluted share, for the nine months ended September 30, 2021. This compared to net income of $32.2 million, or $9.02 per diluted share, in the first nine months of 2020.

Net interest income in the first nine months of 2021 was $23.9 million, an increase of $159 thousand, or 0.7%, from $23.8 million in 2020. Net interest income was stable as the impact of lower balances and yields on loans and debt securities was offset by accretion of PPP fees, higher balances of interest-bearing cash, reduced cost of deposits and borrowings and reduced certificates of deposit balances. Net interest margin decreased to 3.06% in the 2021 nine-month period, compared to 3.22% in 2020.

Interest income decreased $1.6 million, or 6.0%, to $25.7 million for the nine-month period of 2021, compared to $27.3 million in 2020. The decrease is the result of the impact of lower average balances and yields of loans and debt securities offset by an increase in PPP fees and balances of interest- bearing cash. The yield on average interest-earning assets was 3.29% in the 2021 nine-month period, compared to 3.70% in 2020. Interest expense in the first nine months of 2021 was $1.7 million, a decrease of $1.8 million, or 51.0%, from the 2020 period. The cost of interest-bearing liabilities was 0.30% in the first nine months of 2021, compared to 0.62% in the same period of 2020. The cost of core deposits in the first nine months of 2021 and 2020 was 0.22% and 0.47%, respectively.

The average balance of interest-earning assets in the first nine months of 2021 increased by $58.3 million versus the same period of 2020, primarily due to an increase in interest-bearing cash offset by decreased average debt securities, loans held for sale and loans held for investment. The average balance of loans held for investment decreased by $5.9 million, driven by customer liquidity and the sale of the Company's Golden Valley, Minnesota branch location, yielding $145 thousand of additional interest income. PPP loan fees increased $1.5 million in the 2021 nine-month period compared to 2020. The average balance of mortgage loans held for sale was $139.8 million, $7.5 million lower than the same period of 2020. Interest income from loans held for sale decreased $642 thousand due to the lower average balance and average yield. The average balance of debt securities in the first nine months of 2021 was $181.2 million, $33.6 million lower than in the first nine months of 2020. Combined with lower average yields, this resulted in a $1.2 million decrease in interest income.

At September 30, 2021, credit metrics remained stable with $2.5 million of nonperforming assets, representing a 0.24% nonperforming assets-to-total-assets ratio at September 30, 2021 and December 31, 2020. The Company did not record a provision for credit losses in the first nine months of 2021, compared to a $2.4 million provision recorded in the first nine months of 2020.

Non-interest income for the 2021 nine months was $37.0 million, compared to $62.3 million in 2020. Mortgage banking revenues were $32.1 million in the first nine months of 2021, a decrease of $25.5 million, or 44.3%, compared to $57.6 million in the first nine months of 2020. The decrease was largely due to lower margins, relative to the historically high margins of the prior year, and the decrease in the mortgage pipeline during 2021 as refinance activity decreased and production shifted to home purchase originations. In the first nine months of 2021, BNC funded 5,301 mortgage loans with combined balances of $1.9 billion, compared to 5,774 mortgage loans with combined balances of $2.1 billion in the first nine months of 2020. Wealth management revenues increased $337 thousand, or 25.5%, as assets under administration increased relative to the 2020 period. There were no gains on sales of debt securities in the 2021 period, compared to gains of $1.1 million in 2020. The sale of SBA loans resulted in gains on sales of loans of $271 thousand, while other non-interest income increased $854 as the Company closed on the sale of its Golden Valley, Minnesota, branch during the nine months and received Small Business Investment Company (SBIC) profit distributions. Gains on sales of assets and distributions from SBIC's can vary significantly from period to period.

Non-interest expense for the first nine months of 2021 decreased $4.7 million, or 11.5%, to $36.4 million, from $41.1 million in 2020. Non-interest expenses related to mortgage operations decreased by $1.4 thousand while combined expenses for the community banking and holding company segments decreased by $3.3 million, or 16.4%, compared to the 2020 period.

During the nine-month period ended September 30, 2021, income tax expense was $5.9 million, compared to $10.4 million in the first nine months of 2020. The effective tax rate was 24.0% in the first nine months of 2021, compared to 24.5% in the same period of 2020.

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 September 30,								
	2021			2020			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	$ 181,708	$ 74	0.16%	$ 42,413	$ 14	0.13%	$ 139,295	$ 60	0.03% (a)
FHLB Stock	1,309	10	3.06%	1,193	9	2.96%	116	1	0.10%
Federal Reserve Stock	1,807	28	6.00%	1,807	27	6.02%	-	1	-0.02%
Debt securities – taxable	187,829	1,023	2.16%	181,339	1,042	2.30%	6,490	(19)	-0.14% (b)
Debt securities – tax exempt	6,562	58	3.50%	6,687	58	3.49%	(125)	-	0.01% (b)
Loans held for sale – mortgage banking	103,197	657	2.53%	188,311	1,250	2.63%	(85,114)	(593)	-0.10% (c)
Loans held for investment	541,113	6,075	4.45%	604,514	6,335	4.17%	(63,401)	(260)	0.29% (d)
Allowance for loan losses	(10,277)	-	0.00%	(9,664)	-	0.00%	(613)	-	0.00%
Total interest-earning assets	$ 1,013,248	$ 7,925	3.10%	$ 1,016,600	$ 8,735	3.42%	$ (3,352)	$ (810)	-0.32%
Interest-bearing liabilities									
Interest checking and money market	$ 576,777	$ 244	0.17%	$ 567,997	$ 304	0.21%	$ 8,780	$ (60)	-0.05% (e)
Savings	48,538	4	0.03%	39,840	4	0.04%	8,698	-	-0.01% (e)
Certificates of deposit	86,549	146	0.67%	133,173	450	1.35%	(46,624)	(304)	-0.68% (e)
Total interest-bearing deposits	711,864	394	0.22%	741,010	758	0.41%	(29,146)	(364)	-0.19%
Short-term borrowings	360	-	0.24%	6,964	3	0.16%	(6,604)	(3)	0.08% (f)
Federal Home Loan Bank advances	-	-	0.00%	873	1	0.26%	(873)	(1)	-0.26%
Subordinated debentures	15,002	59	1.55%	15,005	65	1.68%	(3)	(6)	-0.13%
Total borrowings	15,362	59	1.52%	22,842	69	1.20%	(7,480)	(10)	0.32%
Total interest-bearing liabilities	$ 727,226	453	0.25%	$ 763,852	827	0.43%	$ (36,626)	(374)	-0.18%
Net interest income/spread		$ 7,472	2.86%		$ 7,908	2.99%		$ (436)	-0.13%
Net interest margin			2.93%			3.09%			-0.16%
Notation:									
Non-interest-bearing deposits	$ 198,301	-	0.00%	$ 177,204	-	0.00%	$ 21,097	-	0.00% (e)
Total deposits	$ 910,165	$ 394	0.17%	$ 918,214	$ 758	0.33%	$ (8,049)	$ (364)	-0.16%
Taxable equivalents:									
Total interest-earning assets	$ 1,013,249	$ 7,979	3.12%	$ 1,016,600	$ 8,786	3.44%	$ (3,351)	$ (807)	-0.32%
Net interest income/spread	-	$ 7,524	2.88%	-	$ 7,959	3.01%	-	$ (435)	-0.13%
Net interest margin	-	-	2.95%	-	-	3.11%	-	-	-0.16%

(a) Cash balances increased due to liquidity resulting from the decrease in loans held for sale and PPP loans.
(b) Average debt securities balances have increased as a portion of the cash flow from the reduction loans held for sale and PPP loans has been redeployed into debt securities.
(c) The average balance of loans held for sale decreased in the third quarter of 2021 as mortgage origination activity decreased when compared to the third quarter of 2020.
(d) The decrease in average PPP loans contributed $47.8 million of the $63.4 million decrease in the average balances when compared to the third quarter of 2020. The Company continues to actively assist its customers in successfully navigating the forgiveness process.
(e) Overall, average deposit balances decreased as the reduction in certificates of deposits more than offset the impact of the maintenance of customer liquidity in checking, money market, savings, and non-interest bearing deposits.
(f) Short-term borrowings decreased based on customer's use of repurchase agreements.

	Nine Months Ended September 30,								
	2021			2020			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	$ 168,055	$ 148	0.12%	$ 61,250	$ 85	0.19%	$ 106,805	$ 63	-0.07% (a)
FHLB Stock	1,291	30	3.13%	1,208	28	3.14%	83	2	-0.01%
Federal Reserve Stock	1,807	82	6.03%	1,807	82	6.03%	-	-	0.00%
Debt securities – taxable	174,592	2,629	2.01%	208,214	3,832	2.45%	(33,622)	(1,203)	-0.44% (b)
Debt securities – tax exempt	6,606	174	3.53%	6,610	175	3.55%	(4)	(1)	-0.02% (b)
Loans held for sale – mortgage banking	139,828	2,649	2.53%	147,323	3,291	2.98%	(7,495)	(642)	-0.45% (c)
Loans held for investment	562,638	19,960	4.74%	568,555	19,815	4.64%	(5,917)	145	0.10% (d)
Allowance for loan losses	(10,290)	-	0.00%	(8,696)	-	0.00%	(1,594)	-	0.00%
Total interest-earning assets	$ 1,044,527	$ 25,672	3.29%	$ 986,271	$ 27,308	3.70%	$ 58,256	$ (1,636)	-0.41%
Interest-bearing liabilities									
Interest checking and money market	$ 602,574	$ 931	0.21%	$ 550,433	$ 1,324	0.32%	$ 52,141	$ (393)	-0.11% (e)
Savings	46,644	13	0.04%	37,963	16	0.06%	8,681	(3)	-0.02% (e)
Certificates of deposit	98,684	601	0.81%	148,459	1,865	1.68%	(49,775)	(1,264)	-0.87% (e)
Total interest-bearing deposits	747,902	1,545	0.28%	736,855	3,205	0.58%	11,047	(1,660)	-0.30%
Short-term borrowings	2,512	3	0.17%	6,459	9	0.18%	(3,947)	(6)	-0.01% (f)
Federal Home Loan Bank advances	2,012	1	0.10%	1,185	13	1.43%	827	(12)	-1.33%
Subordinated debentures	15,003	178	1.58%	15,005	295	2.58%	(2)	(117)	-1.00%
Total borrowings	19,527	182	1.25%	22,649	317	1.86%	(3,122)	(135)	-0.62%
Total interest-bearing liabilities	$ 767,429	1,727	0.30%	$ 759,504	3,522	0.62%	$ 7,925	(1,795)	-0.32%
Net interest income/spread		$ 23,945	2.99%		$ 23,786	3.08%		$ 159	-0.09%
Net interest margin			3.06%			3.22%			-0.16%
Notation:									
Non-interest-bearing deposits	$ 193,053	-	0.00%	$ 163,592	-	0.00%	$ 29,461	-	0.00% (e)
Total deposits	$ 940,955	$ 1,545	0.22%	$ 900,447	$ 3,205	0.47%	$ 40,508	$ (1,660)	-0.25%
Taxable equivalents:									
Total interest-earning assets	$ 1,044,528	$ 25,827	3.31%	$ 986,271	$ 27,464	3.72%	$ 58,257	$ (1,637)	-0.41%
Net interest income/spread	-	$ 24,099	3.00%	-	$ 23,941	3.10%	-	$ 158	-0.10%
Net interest margin	-	-	3.08%	-	-	3.25%	-	-	-0.17%

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business.
(b) Average debt securities balances have decreased as debt securities were liquidated in 2020 in support of the increase in loan activity.
(c) The average balance of loans held for sale decreased in the first nine months of 2021 due to the moderation in origination activity that began late in the first half of 2021.
(d) The decrease in loans held for investment is due to customer liquidity, and the Golden Valley, Minnesota, branch sale.
(e) Overall, average deposit balances increased due to growth in the Company’s North Dakota branches and the maintenance of liquidity by customers. The increase in interest checking and money market has been partially offset by a decrease in certificates of deposit as the Bank has reduced rates offered on new certificates of deposit to reflect market conditions.
(f) Short-term borrowings decreased based on customers use of repurchase agreements.

Non-interest Income

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

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2021	2020	$	%	2021	2020	$	%
Bank charges and service fees	$ 572	$ 581	$ (9)	(2) %	$ 1,697	$ 1,761	$ (64)	(4) %
Wealth management revenues	570	464	106	23 %	1,656	1,319	337	26 % (a)
Mortgage banking revenues	8,249	23,913	(15,664)	(66) %	32,096	57,627	(25,531)	(44) % (b)
Gains on sales of loans, net	175	96	79	82 %	271	99	172	174 % (c)
Gains on sales of debt securities, net	-	-	-	- %	-	1,128	(1,128)	(100) % (d)
Other	271	137	134	98 %	1,238	384	854	222 % (e)
Total non-interest income	$ 9,837	$ 25,191	$ (15,354)	(61) %	$ 36,958	$ 62,318	$ (25,360)	(41) %

(a) Wealth management revenues increased as assets under administration and management increased relative to the 2020 period.
(b) Mortgage banking revenues decreased due to lower margins, relative to the historically high margins of the prior year, and decrease in the mortgage pipeline during 2021 due to the shift from refinance to home purchase originations.
(c) Gains on sale of loans can vary significantly from period to period.
(d) Gains and losses on sales of debt securities may vary significantly from period to period as the Company manages liquidity needs and the risk and return profile of its debt securities portfolio.
(e) Increases are primarily due to a SBIC profit distribution and closing on the sale of the Company's Golden Valley, Minnesota, branch during the nine months ended September 30, 2021.

Non-interest Expense

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

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2021	2020	$	%	2021	2020	$	%
Salaries and employee benefits	$ 5,551	$ 7,228	$ (1,677)	(23) %	$ 19,170	$ 21,500	$ (2,330)	(11) % (a)
Professional services	1,226	2,140	(914)	(43) %	4,565	5,260	(695)	(13) % (b)
Data processing fees	1,135	1,200	(65)	(5) %	3,374	3,523	(149)	(4) %
Marketing and promotion	1,251	998	253	25 %	3,227	3,967	(740)	(19) % (c)
Occupancy	547	522	25	5 %	1,621	1,580	41	3 %
Regulatory costs	119	77	42	55 %	352	182	170	93 % (d)
Depreciation and amortization	312	352	(40)	(11) %	956	1,066	(110)	(10) % (e)
Office supplies and postage	109	111	(2)	(2) %	355	361	(6)	(2) %
Other	921	1,975	(1,054)	(53) %	2,736	3,662	(926)	(25) % (f)
Total non-interest expense	$ 11,171	$ 14,603	$ (3,432)	(24) %	$ 36,356	$ 41,101	$ (4,745)	(12) %
Efficiency ratio	64.5%	44.1%			59.7%	47.7%		

(a) Salaries and employee benefits decreased primarily due to lower salaries and incentive compensation.
(b) Professional services expense for the nine-month period decreased primarily due to decreased mortgage loan closing costs, legal expense, and consulting fees.
(c) Marketing and promotion decreased due to lower mortgage banking lead costs.
(d) Regulatory costs increased due to an increase in FDIC assessments as the Bank had no FDIC assessment expense in the comparable 2020 period due to utilization of credits.
(e) Depreciation and amortization decreased primarily as a result of impairment charges on a branch location in 2020 along with other assets that have now fully depreciated.
(f) Other expenses decreased primarily due to a reduction in the provisions to the reserve for mortgage banking obligations and an impairment charge on property recorded in the 2020 period.

Mortgage Banking Division Selected Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Number of funded mortgage loans held for sale	1,376	2,345	5,301	5,774
Mortgage loans held for sale funded	$ 524,088	$ 831,552	$ 1,935,160	$ 2,080,598
Average loans held for sale-mortgage banking	$ 103,197	$ 188,311	$ 139,828	$ 147,323
Loans held for sale-mortgage banking	$ 103,171	$ 239,033	$ 103,171	$ 239,033
Non-Interest Income:				
Gains on sale of loans held for sale, net of commission expense	$ 8,510	$ 21,286	$ 47,230	$ 39,147
Change in fair value of mortgage banking instruments (1)	$ (261)	$ 2,627	$ (15,134)	$ 18,480

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

The Company's mortgage banking division originates and sells a variety of conventional and government sponsored mortgage loan products with servicing released through two primary channels. The retail channel is predominantly relationship driven with originators capitalizing on local relationships to originate loans through four retail bank branches and seven Midwest retail mortgage locations. The consumer direct channel is a nationwide mortgage platform operating from locations in Overland Park, Kansas, and Farmington Hills, Michigan, that uses a call center with internet sales focused on both purchase and refinance transactions.

The decrease in mortgage interest rates following the onset of the pandemic and implementation of the Federal Reserve's purchases of agency mortgage-backed securities in 2020, generated a significant increase in mortgage loan origination activity and margins. As mortgage interest rates increased from these historically low levels, starting in the first quarter of 2021, mortgage origination activity began to moderate and the Company's mortgage banking division began to transition from capitalizing on the refinancing opportunity of last year to supporting its mortgage customers' financing of home purchases. Non-interest income includes gains on the sale of loans, changes in the fair value of loans held for sale and loans in the various stages of processing prior to funding (net of commission expense) and hedge instruments.

The Company's mortgage business continued to successfully transition to more normalized performance and margins, it has adjusted its sales focus to a purchase loan model.

Income Taxes

In the third quarter of 2021, the Company recorded income tax expense of $1.4 million, which resulted in an effective tax rate of 23.0% for the quarter. Income tax expense of $4.4 million was recognized during the third quarter of 2020, which resulted in an effective tax rate of 24.5%.

During the nine-month period ended September 30, 2021, income tax expense was $5.9 million, compared to $10.4 million in the first nine months of 2020. The effective tax rate was 24.0% in the first nine months of 2021, compared to 24.5% in the same period of 2020.

Comparison of Financial Condition at September 30, 2021 and December 31, 2020

Assets

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

	September 30, 2021	December 31, 2020	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 187,189	$ 12,443	$ 174,746	1,404 %	(a)
Debt securities available for sale	207,044	183,717	23,327	13 %	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	3,115	4,201	(1,086)	(26) %	(c)
Loans held for sale-mortgage banking	103,171	250,083	(146,912)	(59) %	(d)
Loans held for investment, net	530,702	570,890	(40,188)	(7) %	(e)
Allowance for credit losses	(10,249)	(10,324)	75	(1) %	
Premises and equipment, net	12,757	14,398	(1,641)	(11) %	
Operating lease right of use asset	2,015	2,451	(436)	(18) %	
Accrued interest receivable	3,251	4,721	(1,470)	(31) %	(f)
Other assets	30,696	41,551	(10,855)	(26) %	(g)
Total assets	$ 1,069,691	$ 1,074,131	$ (4,440)	- %	

(a) Cash balances increased due to an increase in cash flow from operations as loans held for sale decreased in addition to the liquidity generated as PPP loans are forgiven.
(b) Debt securities available for sale increased as liquidity from the decrease in loans held for sale and PPP loans is redeployed.
(c) Federal Reserve Bank and FHLB stock will vary based on the Company's utilization of FHLB advances.
(d) Loans held for sale decreased as mortgage origination activity began to decrease during 2021.
(e) Loans held for investment decreased primarily due to PPP loan forgiveness, reductions in loans as a result of customer liquidity, and the Golden Valley, Minnesota, branch sale.
(f) Accrued interest receivable decreased as the Bank's borrowers resume payments that were previously deferred in 2020 on loans modified to provide assistance under Section 4013 of the CARES Act.
(g) Other assets decreased primarily due to a reduction in the fair value of mortgage banking instruments.

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 $114.4 million as of September 30, 2021, and $130.4 million as of December 31, 2020. 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):

	September 30, 2021		December 31, 2020	
North Dakota	$ 355,473	67 %	$ 378,793	66 %
Arizona	104,988	20	121,797	21
Minnesota	22,097	4	30,599	6
Other	48,104	9	39,942	7
Total gross loans held for investment	$ 530,662	100 %	$ 571,131	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):

	September 30, 2021			December 31, 2020		
North Dakota	$	317,557	60 %	$	331,824	58 %
Arizona		138,003	26		153,264	27
California		19,508	4		18,369	3
Minnesota		11,751	2		25,348	5
Colorado		13,618	3		13,858	3
Ohio		7,195	1		7,357	1
South Dakota		8,027	1		7,552	1
Other		15,003	3		13,559	2
Total gross loans held for investment	$	530,662	100 %	$	571,131	100 %

Loans held for investment are concentrated geographically in the Company's core markets of North Dakota and Arizona, and comprise 60% and 26% of the Company's total loan portfolio, respectively. The North Dakota economy is influenced by the energy and agriculture industries. Energy supply and demand factors have recently increased oil prices, benefiting the oil industry and ancillary services. Legislation and economic conditions remain potential risks to energy markets and production activity and can present potential challenges to credit quality in North Dakota. Drought conditions are the primary risk facing the North Dakota agriculture industry in the 2021 operating year and are anticipated entering 2022. North Dakota livestock and grain operators face challenges that require close monitoring, and could have an adverse impact on the state overall. The Arizona economy is influenced by the leisure and travel industries. Positive trends in both of these industries have been noted, but an extended slowdown in these industries may negatively impact credit quality in Arizona. BNC's portfolio is constructed of various sized loans spread over a large number of industry sectors, although the Company manages meaningful concentrations of loans in hospitality and commercial real estate.

The following table approximates the Company's significant concentrations by industry, excluding PPP loans (dollars are in thousands):

	September 30, 2021			December 31, 2020		
Non-owner occupied commercial real estate – not otherwise categorized	$	150,127	30 %	$	143,361	28 %
Consumer, not otherwise categorized		76,972	15		76,363	15
Hotels		75,508	15		76,335	15
Healthcare and social assistance		34,741	7		37,632	7
Agriculture, forestry, fishing and hunting		30,775	6		27,321	5
Retail trade		22,696	5		26,129	5
Transportation and warehousing		22,007	4		24,897	5
Non-hotel accommodation and food service		20,481	4		23,530	5
Manufacturing		12,542	3		11,139	2
Mining, oil and gas extraction		11,366	2		20,223	4
Construction contractors		11,004	2		12,235	2
Other service		6,120	1		8,394	2
Arts, entertainment and recreation		4,847	1		7,279	1
Real estate and rental and leasing support services		4,332	1		7,735	1
Finance and insurance		3,985	1		676	-
All other		11,513	3		17,298	3
Gross loans held for investment (excluding PPP loans)	$	499,016	100 %	$	520,547	100 %

The hospitality industry is still in the process of recovering from the economic effects of the COVID-19 pandemic with a primary focus on hotel occupancy and restaurant utilization trends. Hotel operators in BNC's loan portfolio are reporting positive trends, and in some cases stronger balance sheets. Despite positive trends within hospitality, caution remains as labor shortages limit capacity in some cases, and government and financial institution support is expiring.

The lasting impact of the pandemic remains uncertain. Vaccination efforts and relaxed government restrictions appear to be having a positive impact on economic activity. However, potential virus variants along with the potential for government mandated employee vaccinations create uncertainty and adverse impacts on the economy. The Company's loan portfolio and credit risk could still experience adversity from pandemic related risks, and this potential risk remains qualitatively captured in the Company's allowance for credit losses.

Loan Maturities(1)

The following table sets forth the maturities of loans in each major category of the Company's portfolio as of September 30, 2021 (in thousands):

	One Year or Less	Over 1 Year Through 5 Years Fixed Rate	Over 1 Year Through 5 Years Indexed Rate	Over 5 Years Fixed Rate	Over 5 Years Indexed Rate	Total Loans Held for Investment
Commercial and industrial	$ 19,080	$ 15,514	$ 6,524	$ 34,234	$ 76,880	$ 152,232
Commercial real estate	857	10,641	8,835	44,260	131,736	196,329
SBA	529	31,645	5	2,983	36,609	71,771
Consumer	1,131	5,895	5,467	56,655	12,388	81,536
Land and land development	1,481	2,456	410	2,521	1,218	8,086
Construction	5,383	888	10,401	985	3,051	20,708
Total principal amount of loans	$ 28,461	$ 67,039	$ 31,642	$ 141,638	$ 261,882	$ 530,662

(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).

	September 30, 2021		December 31, 2020	
	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment
Commercial and industrial	$ 3,202	29 %	$ 3,275	29 %
Commercial real estate	4,095	37	3,923	33
SBA	1,699	14	1,779	18
Consumer	925	15	948	14
Land and land development	130	1	170	2
Construction	198	4	229	4
Total	$ 10,249	100 %	$ 10,324	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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Balance, beginning of period	$ 2,601	$ 4,163	$ 2,612	$ 2,033
Additions to nonperforming	42	-	154	2,528
Charge-offs	(45)	-	(128)	(235)
Reclassified back to performing	-	(349)	-	(349)
Principal payment received	(76)	(106)	(116)	(264)
Transferred to repossessed assets	-	-	-	(5)
Balance, end of period	$ 2,522	$ 3,708	$ 2,522	$ 3,708

Nonperforming Assets

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

	September 30, 2021	December 31, 2020
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ 1	$ 1
Non-accrual loans	2,521	2,611
Total nonperforming loans	$ 2,522	$ 2,612
Total nonperforming assets	$ 2,522	$ 2,612
Allowance for credit losses	$ 10,249	$ 10,324
Ratio of total nonperforming loans to total loans	0.40%	0.32%
Ratio of total nonperforming loans to loans held for investment	0.48%	0.46%
Ratio of total nonperforming assets to total assets	0.24%	0.24%
Ratio of nonperforming loans to total assets	0.24%	0.24%
Ratio of allowance for credit losses to nonperforming loans	406%	395%

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
	Impaired	Other	Total	Impaired	Other	Total	Impaired
September 30, 2021	$ -	$ 6,603	$ 6,603	$ 419	$ 6,920	$ 7,339	$ 2,083
December 31, 2020	$ -	$ 9,118	$ 9,118	$ 480	$ 4,721	$ 5,201	$ 2,132

At September 30, 2021, the Bank had $9.4 million of classified loans and $2.5 million of loans on non-accrual. This compares to $7.3 million of classified loans and $2.6 million of loans on non-accrual at December 31, 2020, and $10.6 million of classified loans and $3.7 million of loans on non-accrual at September 30, 2020.

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.

In the first quarter of 2020, United States Congress enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to economic conditions related to the COVID-19 pandemic. As a part of the CARES Act, Congress provided temporary relief from trouble debt restructurings under Section 4013. Specifically, financial institutions may elect to suspend US GAAP for loan modifications related to COVID-19 and suspend any loan modified as a result of the effects of COVID-19 as being a troubled debt restructure, including impairment so long as the subject loan was not more than 30 days past due as of December 31, 2019.

The Company continues to monitor the effects of COVID-19 on its customers and end markets. The Company also continues to assist borrowers through the COVID-19 pandemic. To this end, the Company modified loans consistent with Section 4013 of the CARES Act. These loans were current as of December 31, 2019, and as a result, are not currently subject to troubled debt restructuring accounting standards. The COVID-19 "Phase IV" Stimulus signed into law on December 27, 2020, extends the relief provided by Section 4013 of the CARES Act through January 1, 2022.

At September 30, 2021, the Company did not have any loans modified under Section 4013 of the CARES Act.

Liabilities

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

	September 30, 2021	December 31, 2020	Increase (Decrease) $	Increase (Decrease) %	
Deposits:					
Non-interest-bearing	$ 191,948	$ 167,667	$ 24,281	14 %	(a)
Interest-bearing-					
Savings, interest checking and money market	631,698	570,656	61,042	11 %	(a)
Time deposits	84,742	114,835	(30,093)	(26) %	(b)
Short-term borrowings	151	6,385	(6,234)	(98) %	(c)
FHLB advances	-	30,900	(30,900)	(100) %	(d)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,002	15,004	(2)	- %	
Accrued interest payable	251	560	(309)	(55) %	(e)
Accrued expenses	7,270	13,338	(6,068)	(45) %	(f)
Operating lease liabilities	2,178	2,620	(442)	(17) %	(g)
Other liabilities	1,514	33,937	(32,423)	(96) %	(h)
Total liabilities	$ 934,754	$ 955,902	$ (21,148)	(2) %	

(a) Deposits increased due to growth in the Company's North Dakota branches and the maintenance of liquidity by customers.
(b) Time deposits have decreased as the Bank has lowered rates on new certificates of deposit.
(c) Short-term borrowings will vary depending on customers' use of repurchase agreements.
(d) The Company has borrowed on a short-term basis from the FHLB as an efficient source of liquidity.
(e) Accrued interest payable decreased primarily as a result of lower time deposit balances and lower cost of deposits.
(f) Accrued expenses decreased due to decreases in incentive accruals and mortgage banking commissions.
(g) Operating lease liabilities as required by ASC 842, *Leases* – See Note 6.
(h) The decrease primarily relates to the payment of a special cash dividend of $8.00 per share of BNCCORP, INC. common stock on February 1, 2021, previously recorded as a dividend payable of $28.7 million on the balance sheet as of December 31, 2020 in addition to a reduction in mortgage banking forward commitments.

At September 30, 2021, and December 31, 2020, the Bank had $21.0 million and $24.6 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 sells mortgage banking loans without recourse, industry standards require standard representations and warranties, which can require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk is also evident within the mortgage banking industry as disputes arise between lenders and investors. Such requests for repurchase are commonly due to faulty representation and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the contingent obligation, the Company tracks historical reimbursements and calculates the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimates the future reimbursement amounts and record the estimated obligation. The following is a summary of activity related to mortgage banking obligations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Balance, beginning of period	$ 844	$ 1,017	$ 1,025	$ 906
Provision	290	450	810	850
Write offs, net	(373)	(359)	(1,074)	(648)
Balance, end of period	$ 761	$ 1,108	$ 761	$ 1,108

Stockholders' Equity

The Company's stockholders' equity increased $16.7 million from December 31, 2020, to September 30, 2021, primarily due to $18.7 million in additional retained earnings offset by a decrease in accumulated other comprehensive income of $2.2 million. As presented in Note 16 – Regulatory Capital and Current Operating Environment, the Company maintains capital in excess of regulatory requirements.

The Company routinely evaluates the sufficiency of its capital in order to ensure compliance with regulatory capital standards and 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. During the third quarter of 2021, BNC National Bank paid a dividend of $15.0 million to BNCCORP to provide partial support of the $6.00 per share special cash dividend that BNCCORP's board of directors declared on October 28, 2021. See Note 18 – Subsequent Events.

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 ($230.7 million as of September 30, 2021);
2. Borrowing capacity from the FHLB ($171.8 million as of September 30, 2021); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($155.0 million as of September 30, 2021).

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

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

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

The Company's primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes assumptions regarding the changes in interest rates and the impact on the Company's current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month-end balances of the various balance sheet accounts are held constant at their September 30, 2021, 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 September 30, 2021, 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 low absolute level of interest rates as of September 30, 2021, the downward scenarios for interest rate movements is limited to -100bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 3.25% to 4.25% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

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

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 26,963	$ 27,808	$ 27,851	$ 27,900	$ 27,953
Dollar change from unchanged scenario	$ (845)	$ -	$ 43	$ 92	$ 145
Percent change from unchanged scenario	(3.04)%	-	0.15%	0.33%	0.52%

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 September 30, 2021 (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 September 30, 2021. 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 September 30, 2021				
	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	$ 179,401	$ -	$ -	$ -	$ 179,401
Debt securities (a)	33,190	19,739	61,038	72,636	186,603
FRB and FHLB stock	3,115	-	-	-	3,115
Loans held for sale-mortgage banking, fixed rate	103,171	-	-	-	103,171
Loans held for investment, fixed rate	20,853	39,907	133,453	20,368	214,581
Loans held for investment, indexed rate	94,047	33,873	183,611	4,590	316,121
Total interest-earning assets	$ 433,777	$ 93,519	$ 378,102	$ 97,594	$ 1,002,992
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 582,334	$ -	$ -	$ -	$ 582,334
Savings	49,364	-	-	-	49,364
Time deposits	25,041	37,034	20,808	1,859	84,742
Short-term borrowings	151	-	-	-	151
FHLB advances	-	-	-	-	-
Subordinated debentures	-	15,000	-	2	15,002
Total interest-bearing liabilities	$ 656,890	$ 52,034	$ 20,808	$ 1,861	$ 731,593
Interest rate gap	$ (223,113)	$ 41,485	$ 357,294	$ 95,733	$ 271,399
Cumulative interest rate gap at September 30, 2021	$ (223,113)	$ (181,628)	$ 175,666	$ 271,399	
Cumulative interest rate gap to total assets	(20.86%)	(16.98%)	16.42%	25.37%	

(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. Managements view is supported by the fact that reductions in interest rates paid on these deposits historically have not caused notable reductions in balances in net interest income because the repricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, assets and liabilities indicated as repricing within the same period may in fact reprice at different times and at different rate levels.

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on the Company’s assets and liabilities as of September 30, 2021, 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 September 30, 2021.

Signatures

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

BNCCORP, INC.

Date:	November 12, 2021	By:	/s/ Daniel J. Collins
			Daniel J. Collins
			Interim President and Chief Executive Officer
		By:	/s/ Mark Peiler
			Mark Peiler
			Interim Chief Financial Officer