Quarterly Report

For the quarter ended June 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)

	June 30, 2021	December 31, 2020
ASSETS	(unaudited)	
Cash and cash equivalents	$ 152,310	$ 12,443
Debt securities available for sale	186,326	183,717
Federal Reserve Bank and Federal Home Loan Bank stock	3,114	4,201
Loans held for sale-mortgage banking	104,001	250,083
Loans held for investment	543,994	570,890
Allowance for credit losses	(10,293)	(10,324)
Net loans held for investment	533,701	560,566
Premises and equipment, net	12,916	14,398
Operating lease right of use asset	2,199	2,451
Accrued interest receivable	3,319	4,721
Other	31,023	41,551
Total assets	$ 1,028,909	$ 1,074,131
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 192,242	$ 167,667
Interest-bearing –		
Savings, interest checking and money market	588,658	570,656
Time deposits	89,528	114,835
Total deposits	870,428	853,158
Short-term borrowings	1,500	6,385
Federal Home Loan Bank advances	-	30,900
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,003	15,004
Accrued interest payable	343	560
Accrued expenses	6,813	13,338
Operating lease liabilities	2,364	2,620
Other	1,288	33,937
Total liabilities	897,739	955,902
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,545,356 and 3,540,522 shares issued and outstanding	35	35
Capital surplus – common stock	26,045	25,871
Retained earnings	100,923	86,991
Treasury stock (123,297 and 128,131 shares, respectively)	(1,798)	(1,850)
Accumulated other comprehensive income	5,965	7,182
Total stockholders' equity	131,170	118,229
Total liabilities and stockholders' equity	$ 1,028,909	$ 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 June 30, 2021	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2021	For the Six Months Ended June 30, 2020
INTEREST INCOME:				
Interest and fees on loans	$ 7,094	$ 8,257	$ 15,877	$ 15,521
Interest and dividends on investments				
Taxable	839	1,220	1,680	2,861
Tax-exempt	58	58	116	117
Dividends	37	36	74	74
Total interest income	8,028	9,571	17,747	18,573
INTEREST EXPENSE:				
Deposits	551	1,008	1,151	2,447
Short-term borrowings	1	3	3	6
Federal Home Loan Bank advances	-	-	1	12
Subordinated debentures	60	106	119	230
Total interest expense	612	1,117	1,274	2,695
Net interest income	7,416	8,454	16,473	15,878
PROVISION FOR CREDIT LOSSES:	-	1,500	-	2,050
Net interest income after provision for credit losses	7,416	6,954	16,473	13,828
NON-INTEREST INCOME:				
Bank charges and service fees	571	549	1,125	1,180
Wealth management revenues	541	414	1,086	855
Mortgage banking revenues, net	7,789	25,098	23,847	33,714
(Losses) gains on sales of loans, net	(1)	-	96	3
Gains on sales of debt securities, net	-	153	-	1,128
Other	731	119	967	247
Total non-interest income	9,631	26,333	27,121	37,127
NON-INTEREST EXPENSE:				
Salaries and employee benefits	6,005	7,961	13,619	14,272
Professional services	1,567	1,842	3,339	3,120
Data processing fees	1,074	1,199	2,239	2,323
Marketing and promotion	977	1,543	1,976	2,969
Occupancy	524	523	1,074	1,058
Regulatory costs	118	49	233	105
Depreciation and amortization	316	358	644	714
Office supplies and postage	113	116	246	250
Other	870	900	1,815	1,687
Total non-interest expense	11,564	14,491	25,185	26,498
Income before income taxes	5,483	18,796	18,409	24,457
Income tax expense	1,316	4,633	4,477	5,992
NET INCOME	$ 4,167	$ 14,163	$ 13,932	$ 18,465
Basic earnings per common share	$ 1.17	$ 3.97	$ 3.90	$ 5.18
Diluted earnings per common share	$ 1.17	$ 3.97	$ 3.90	$ 5.18

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands, unaudited)

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2021		2020		2021		2020	
NET INCOME		$ 4,167		$ 14,163		$ 13,932		$ 18,465
Unrealized gain (loss) on debt securities available for sale	$ 605		$ 3,318		$ (1,615)		$ 7,801	
Reclassification adjustment for gains included in net income	-		(153)		-		(1,128)	
Other comprehensive income (loss) before tax	605		3,165		(1,615)		6,673	
Income tax (expense) benefit related to items of other comprehensive income (loss)	(148)		(778)		398		(1,642)	
Other comprehensive income (loss)	$ 457	457	$ 2,387	2,387	$ (1,217)	(1,217)	$ 5,031	5,031
TOTAL COMPREHENSIVE INCOME		$ 4,624		$ 16,550		$ 12,715		$ 23,496

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Six Months Ended June 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	-	-	-	18,465	-	-	18,465
Other comprehensive income	-	-	-	-	-	5,031	5,031
Impact of share-based compensation	25,880	-	(19)	-	270	-	251
BALANCE, June 30, 2020	3,540,650	$ 35	$ 25,812	$ 89,522	$ (1,845)	$ 6,501	$ 120,025
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229
Net income	-	-	-	13,932	-	-	13,932
Other comprehensive loss	-	-	-	-	-	(1,217)	(1,217)
Impact of share-based compensation	4,834	-	174	-	52	-	226
BALANCE, June 30, 2021	3,545,356	$ 35	$ 26,045	$ 100,923	$ (1,798)	$ 5,965	$ 131,170

See accompanying notes to consolidated financial statements.

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

	2021	2020
OPERATING ACTIVITIES:		
Net income	$ 13,932	$ 18,465
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for credit losses	-	2,050
Depreciation and amortization	644	714
Net amortization of premiums on debt securities and subordinated debentures	1,623	1,709
Share-based compensation	226	251
Change in accrued interest receivable and other assets, net	(113)	985
Loss on sale of bank premises and equipment	1	7
Gains on sales of debt securities, net	-	(1,128)
Change in other liabilities, net	(5,694)	5,692
Originations of loans held for sale, mortgage banking	(1,411,072)	(1,249,046)
Proceeds from sales of loans held for sale, mortgage banking	1,550,735	1,195,822
Fair value adjustment for loans held for sale, mortgage banking	6,342	(5,058)
Fair value adjustment on mortgage banking derivatives	8,531	(10,795)
Proceeds from sales of loans	887	-
Gains on sales of loans, net	(96)	(3)
Net cash provided by (used in) operating activities	165,946	(40,335)
INVESTING ACTIVITIES:		
Purchases of debt securities	(23,073)	(6,722)
Proceeds from sales of debt securities	-	72,108
Proceeds from maturities of debt securities	17,624	14,639
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(629)	(4,272)
Sales of Federal Reserve and Federal Home Loan Bank Stock	1,716	4,958
Net decrease (increase) in loans held for investment	26,074	(101,646)
Proceeds from sales of premises and equipment	-	1
Purchases of premises and equipment	(596)	(218)
Net cash provided by (used in) provided by investing activities	21,116	(21,152)

See accompanying notes to consolidated financial statements.

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

	2021	2020
FINANCING ACTIVITIES:		
Net increase in deposits	$ 17,270	$ 117,152
Net (decrease) increase in short-term borrowings	(4,885)	2,602
Repayments of Federal Home Loan Bank advances	(42,900)	(123,800)
Proceeds from Federal Home Loan Bank advances	12,000	106,800
Dividends paid on common stock	(28,680)	-
Net cash (used in) provided by financing activities	(47,195)	102,754
NET DECREASE IN CASH AND CASH EQUIVALENTS	139,867	41,267
CASH AND CASH EQUIVALENTS, beginning of period	12,443	10,523
CASH AND CASH EQUIVALENTS, end of period	$ 152,310	$ 51,790
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 1,491	$ 3,338
Income taxes paid	$ 6,896	$ 10
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" or the "Company") 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 from 11 locations. 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 June 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 June 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 June 30, 2021			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. treasury securities	$ 4,998	$ 32	$ -	$ 5,030
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	13,501	136	(247)	13,390
U.S. government agency small business administration pools guaranteed by SBA	25,977	-	(869)	25,108
Collateralized mortgage obligations guaranteed by GNMA	15,032	967	-	15,999
Collateralized mortgage obligations issued by FNMA/FHLMC	76,393	3,222	(199)	79,416
Commercial mortgage-backed securities issued by FHLMC	18,041	1,539	(152)	19,428
Other commercial mortgage-backed securities	12,161	424	-	12,585
Asset-backed securities	136	-	-	136
State and municipal bonds	13,657	1,577	-	15,234
	$ 179,896	$ 7,897	$ (1,467)	$ 186,326

	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 June 30, 2021, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,998	$ 5,030
Due after one year through five years	-	-
Due after five years through 10 years	31,133	32,880
Due after 10 years	143,765	148,416
Total	$ 179,896	$ 186,326

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):

	June 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	3	$ 6,492	$ (247)	-	$ -	$ -	3	$ 6,492	$ (247)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	25,107	(869)	4	25,107	(869)
Collateralized mortgage obligations issued by FNMA/FHLMC	3	23,490	(199)	-	-	-	3	23,490	(199)
Commercial mortgage-backed securities issued by FHLMC	1	4,732	(152)	-	-	-	1	4,732	(152)
Asset-backed securities	1	136	-	-	-	-	1	136	-
Total temporarily impaired securities	8	$ 34,850	$ (598)	4	$ 25,107	$ (869)	12	$ 59,957	$ (1,467)

	December 31, 2020								
	Less Than 12 Months			12 Months or More			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. 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 June 30, 2021, or December 31, 2020.

NOTE 4 – Loans

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

	June 30, 2021	December 31, 2020
Loans held for sale-mortgage banking	$ 104,001	$ 250,083
Commercial and industrial	$ 148,366	$ 165,994
Commercial real estate	197,627	190,939
SBA	90,862	102,064
Consumer	80,846	81,783
Land and land development	7,835	8,603
Construction	18,999	21,748
Gross loans held for investment	544,535	571,131
Unearned income and net unamortized deferred fees and costs	(541)	(241)
Loans, net of unearned income and unamortized fees and costs	543,994	570,890
Allowance for credit losses	(10,293)	(10,324)
Net loans held for investment	$ 533,701	$ 560,566

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended June 30, 2021						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 3,224	$ 3,996	$ 1,761	$ 896	$ 168	$ 232	$ 10,277
Provision (reduction)	(79)	128	4	24	(39)	(38)	-
Loans charged off	-	-	-	(4)	-	-	(4)
Loan recoveries	3	1	1	14	1	-	20
Balance, end of period	$ 3,148	$ 4,125	$ 1,766	$ 930	$ 130	$ 194	$ 10,293

	Three Months Ended June 30, 2020						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,623	$ 3,659	$ 857	$ 918	$ 221	$ 136	$ 8,414
Provision (reduction)	521	350	474	130	(17)	42	1,500
Loans charged off	(36)	(187)	-	(13)	-	-	(236)
Loan recoveries	-	-	1	1	-	-	2
Balance, end of period	$ 3,108	$ 3,822	$ 1,332	$ 1,036	$ 204	$ 178	$ 9,680

	Six Months Ended June 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)	(92)	201	(15)	(16)	(43)	(35)	-
Loans charged off	(50)	-	-	(19)	-	-	(69)
Loan recoveries	15	1	2	17	3	-	38
Balance, end of period	$ 3,148	$ 4,125	$ 1,766	$ 930	$ 130	$ 194	$ 10,293

	Six Months Ended June 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)	804	756	198	205	11	76	2,050
Loans charged off	(62)	(437)	-	(25)	-	-	(524)
Loan recoveries	-	1	3	3	6	-	13
Balance, end of period	$ 3,108	$ 3,822	$ 1,332	$ 1,036	$ 204	$ 178	$ 9,680

The following table shows the balance in the allowance for credit losses at June 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
June 30, 2021						
Commercial and industrial	$ 767	$ 2,381	$ 3,148	$ 1,605	$ 146,761	$ 148,366
Commercial real estate	-	4,125	4,125	-	197,627	197,627
SBA	595	1,171	1,766	966	89,896	90,862
Consumer	3	927	930	30	80,816	80,846
Land and land development	-	130	130	-	7,835	7,835
Construction	-	194	194	-	18,999	18,999
Total	$ 1,365	$ 8,928	$ 10,293	$ 2,601	$ 541,934	$ 544,535
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):

	June 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	$ 55,114	$ 61	$ -	$ 55,175	$ 1,423	$ 56,598
Agriculture	28,692	-	-	28,692	-	28,692
Owner-occupied commercial real estate	62,894	-	-	62,894	182	63,076
Commercial real estate	197,627	-	-	197,627	-	197,627
SBA	89,896	-	-	89,896	966	90,862
Consumer:						
Automobile	18,198	74	-	18,272	19	18,291
Home equity	12,992	-	-	12,992	-	12,992
1st mortgage	10,938	-	-	10,938	-	10,938
Other	38,440	174	-	38,614	11	38,625
Land and land development	7,835	-	-	7,835	-	7,835
Construction	18,999	-	-	18,999	-	18,999
Total loans held for investment	541,625	309	-	541,934	2,601	544,535
Loans held for sale	104,000	1	-	104,001	-	104,001
Total gross loans	$ 645,625	$ 310	$ -	$ 645,935	$ 2,601	$ 648,536

	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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Interest income that would have been recorded	$ 43	$ 61	$ 86	$ 109
Interest income recorded	-	-	-	-
Effect on interest income on loans	$ 43	$ 61	$ 86	$ 109

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
June 30, 2021	$ 527,996	$ 7,879	$ 6,520	$ 2,140	$ 544,535
December 31, 2020	554,680	9,118	5,201	2,132	571,131

Impaired loans

Impaired loans include loans 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):

	June 30, 2021				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance (6-months)	Interest Income Recognized (6-months)
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,061	$ 1,423	$ 767	$ 1,443	$ -
SBA	754	717	595	718	-
Consumer:					
Automobile	19	19	3	19	-
Total impaired loans with an allowance recorded	$ 2,834	$ 2,159	$ 1,365	$ 2,180	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Owner-occupied commercial real estate	$ 196	$ 182	$ -	$ 187	$ -
SBA	338	249	-	255	-
Consumer:					
Other	28	11	-	13	-
Total impaired loans without an allowance recorded	$ 562	$ 442	$ -	$ 455	$ -
TOTAL IMPAIRED LOANS	$ 3,396	$ 2,601	$ 1,365	$ 2,635	$ -

	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):

	June 30, 2021			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 1,413	$ 1,413	$ 761
Owner-occupied commercial real estate	-	181	181	-
SBA	-	344	344	54
	$ -	$ 1,938	$ 1,938	$ 815

	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 six month periods ended June 30, 2021. There was one new TDR for the three and six month periods ended June 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Interest income that would have been recorded	$ 36	$ 54	$ 72	$ 106
Interest income recorded	-	-	-	9
Effect on interest income on loans	$ 36	$ 54	$ 72	$ 97

There were no additional funds committed to borrowers who are in TDR status at June 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 June 30, 2021, and June 30, 2020, and had a payment default (i.e. 90 days delinquent) during the three and six months ended June 30, 2021, and June 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 six-month period ended June 30, 2021, and June 30, 2020, were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Operating lease costs	$ 262	$ 249	$ 522	$ 486
Variable lease costs	13	12	29	23
Short-term lease costs	4	4	8	8
Total lease costs	$ 279	$ 265	$ 559	$ 517

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

	As of June 30, 2021	**As of December 31, 2020**
Operating lease right of use asset	$ 2,199	$ 2,451
Operating lease liabilities	2,364	2,620

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities	$ 283	$ 248	$ 565	$ 493
ROU assets obtained in exchange for lease obligations	-	47	159	63
Reductions to ROU assets resulting from reduction in lease obligations	197	192	415	370

	As of June 30, 2021	**As of December 31, 2020**
Weighted average remaining lease term	3.52 years	3.93 years
Weighted average discount rate	6.00%	6.00%

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

	Operating Leases
2021	$ 375
2022	757
2023	555
2024	357
2025	170
Thereafter	150
Total lease liabilities	$ 2,364

NOTE 7 – Earnings Per Share

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

	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,572,229	3,571,823
Dilutive effect of stock compensation	549	480
Denominator for diluted earnings per share	3,572,778	3,572,303
Numerator (in thousands):		
Net income	$ 4,167	$ 13,932
Basic earnings per common share	$ 1.17	$ 3.90
Diluted earnings per common share	$ 1.17	$ 3.90

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,567,980	3,562,072
Dilutive effect of stock compensation	2,676	5,249
Denominator for diluted earnings per share	3,570,656	3,567,321
Numerator (in thousands):		
Net income	$ 14,163	$ 18,465
Basic earnings per common share	$ 3.97	$ 5.18
Diluted earnings per common share	$ 3.97	$ 5.18

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	31,104	77,055

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

	Six Months Ended June 30, 2021		**Six Months Ended June 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 June 30, 2021, and $14 thousand for the six-month period ended June 30, 2021. The Company recognized share-based compensation expense of $7 thousand related to restricted stock for the three-month period ended June 30, 2020, and $14 thousand for the six-month period ended June 30, 2020.

At June 30, 2021, the Company had $33 thousand of unamortized restricted stock compensation expense. The cost of a restricted stock grant is recognized over the vesting period, which is generally four years.

NOTE 9 – Revenue from Contracts with Customers

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Service charges on deposits	$ 117	$ 112	$ 235	$ 306
Bankcard fees	270	235	518	462
Bank charges and service fees not within scope of ASC 606	184	202	372	412
Total bank charges and service fees	571	549	1,125	1,180
Wealth management revenue	541	414	1,086	855
Wealth management revenue not within the scope of ASC 606	-	-	-	-
Total wealth management revenues	541	414	1,086	855
Other	9	10	20	20
Other not within the scope of ASC 606 (a)	722	109	947	227
Total other	731	119	967	247
Other non-interest income not within the scope of ASC 606 (a)	7,788	25,251	23,943	34,845
Total non-interest income	$ 9,631	$ 26,333	$ 27,121	$ 37,127

(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 June 30, 2021. Total receivables from revenue recognized under the scope of ASC 606 were $555 thousand as of June 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 June 30, 2021				Six Months Ended June 30, 2021
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
ASSETS					
Debt securities available for sale	$ 186,326	$ 5,030	$ 181,296	$ -	$ -
Loans held for sale	104,001	-	104,001	-	(6,342)
Commitments to originate mortgage loans	5,332	-	5,332	-	(11,778)
Commitments to sell mortgage loans	37	-	37	-	227
Total assets at fair value	$ 295,696	$ 5,030	$ 290,666	$ -	$ (17,893)
LIABILITIES					
Mortgage banking short positions	$ 427	$ -	$ 427	$ -	$ 3,020
Total liabilities at fair value	$ 427	$ -	$ 427	$ -	$ 3,020

	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 June 30, 2021				Six Months Ended June 30, 2021
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Impaired loans(1)	$ 794	$ -	$ -	$ 794	$ (43)
Total	$ 794	$ -	$ -	$ 794	$ (43)

	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	June 30, 2021				December 31, 2020			
		Carrying Amount		Fair Value		Carrying Amount		Fair Value	
Assets:									
Cash and cash equivalents	Level 1	$	152,310	$	152,310	$	12,443	$	12,443
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2		3,114		3,114		4,201		4,201
Gross loans held for investment	Level 2		541,934		546,524		568,519		577,323
Gross loans held for investment	Level 3		442		402		2,612		1,253
Accrued interest receivable	Level 2		3,319		3,319		4,721		4,721
		$	701,119	$	705,669	$	592,496	$	599,941
Liabilities and Stockholders' Equity:									
Deposits, noninterest-bearing	Level 2	$	192,242	$	192,242	$	167,667	$	167,667
Deposits, interest-bearing	Level 2		678,186		678,392		685,491		686,066
Borrowings and advances	Level 2		1,500		1,500		37,285		37,285
Accrued interest payable	Level 2		343		343		560		560
Accrued expenses	Level 2		6,813		6,813		13,338		13,338
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2		15,003		12,207		15,004		9,859
		$	894,087	$	891,497	$	919,345	$	914,775
Financial instruments with off-balance-sheet risk:									
Commitments to extend credit	Level 2	$	-	$	225	$	-	$	181
Standby and commercial letters of credit	Level 2	$	-	$	13	$	-	$	11

NOTE 12 – Federal Home Loan Bank Advances

As of June 30, 2021, the Bank had no Federal Home Loan Bank (FHLB) advances outstanding. At June 30, 2021, the Bank had loans with unamortized principal balances of approximately $282.5 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 June 30, 2021, the Bank has the ability to draw advances up to approximately $171.1 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):

June 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	$ 2,106	$ 1,074	$ -	$ 1,074
BNCCORP line	127,787	10,000	-	10,000
Total	$ 129,893	$ 11,074	$ -	$ 11,074

(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 June 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, the Company 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 June 30, 2021, and December 31, 2020, was 1.60% 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.

The Company is required to consult with the Federal Reserve Board prior to declaring a cash dividend to stockholders. In December 2020, the Company's Board of Directors declared an $8.00 per share special cash dividend that was paid on February 1, 2021.

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 June 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 June 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 June 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
June 30, 2021								
Total Risk-Based Capital:								
Consolidated	$ 148,017	22.74%	$ 52,074	≥8.00%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	129,499	19.91	52,025	≥8.00	65,032	10.00	64,467	9.91
Tier 1 Risk-Based Capital:								
Consolidated	139,854	21.49	39,055	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	121,343	18.66	39,019	≥6.00	52,025	8.00	69,318	10.66
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	124,851	19.18	29,291	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	121,343	18.66	29,264	≥4.50	42,271	6.50	79,072	12.16
Tier 1 Leverage Capital:								
Consolidated	139,854	12.10	46,221	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	121,343	10.51	46,179	≥4.00	57,724	5.00	63,619	5.51
Tangible Common Equity (to total assets): (a)								
Consolidated	131,156	12.75	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	127,773	12.43	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 June 30, 2021				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 7,189	$ 803	$ 5	$ 31	$ 8,028
Interest expense	557	(36)	60	31	612
Net interest income (expense)	6,632	839	(55)	-	7,416
Provision for credit losses	-	-	-	-	-
Net interest income after provision for credit losses	6,632	839	(55)	-	7,416
Non-interest Income	2,448	7,787	420	(1,024)	9,631
Non-interest Expense	6,030	5,945	613	(1,024)	11,564
Income (loss) before income taxes	3,050	2,681	(248)	-	5,483
Income tax expense (benefit)	706	670	(60)	-	1,316
Net income (loss)	$ 2,344	$ 2,011	$ (188)	$ -	$ 4,167
Total Assets at June 30, 2021	$ 916,892	$ 111,017	$ 19,138	$ (18,138)	$ 1,028,909

	Three Months Ended June 30, 2020				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 8,625	$ 1,017	$ 6	$ (77)	$ 9,571
Interest expense	1,016	71	107	(77)	1,117
Net interest income (expense)	7,609	946	(101)	-	8,454
Provision for credit losses	1,500	-	-	-	1,500
Net interest income after provision for credit losses	6,109	946	(101)	-	6,954
Non-interest Income	1,816	25,096	514	(1,093)	26,333
Non-interest Expense	7,114	7,616	854	(1,093)	14,491
Income (loss) before income taxes	811	18,426	(441)	-	18,796
Income tax expense (benefit)	138	4,606	(111)	-	4,633
Net income (loss)	$ 673	$ 13,820	$ (330)	$ -	$ 14,163
Total Assets at June 30, 2020	$ 885,031	$ 217,869	$ 8,931	$ (7,878)	$ 1,103,953

(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.

	Six Months Ended June 30, 2021				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 15,752	$ 1,993	$ 15	$ (13)	$ 17,747
Interest expense	1,170	(2)	119	(13)	1,274
Net interest income (expense)	14,582	1,995	(104)	-	16,473
Provision for credit losses	-	-	-	-	-
Net interest income after provision for credit losses	14,582	1,995	(104)	-	16,473
Non-interest Income	4,488	23,840	780	(1,987)	27,121
Non-interest Expense	12,323	13,694	1,155	(1,987)	25,185
Income (loss) before income taxes	6,747	12,141	(479)	-	18,409
Income tax expense (benefit)	1,555	3,038	(116)	-	4,477
Net income (loss)	$ 5,192	$ 9,103	$ (363)	$ -	$ 13,932
Total Assets at June 30, 2021	$ 916,892	$ 111,017	$ 19,138	$ (18,138)	$ 1,028,909

	Six Months Ended June 30, 2020				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 17,053	$ 2,041	$ 12	$ (533)	$ 18,573
Interest expense	2,477	521	230	(533)	2,695
Net interest income (expense)	14,576	1,520	(218)	-	15,878
Provision for credit losses	2,050	-	-	-	2,050
Net interest income after provision for credit losses	12,526	1,520	(218)	-	13,828
Non-interest Income	4,574	33,709	938	(2,094)	37,127
Non-interest Expense	13,578	13,346	1,668	(2,094)	26,498
Income (loss) before income taxes	3,522	21,883	(948)	-	24,457
Income tax expense (benefit)	753	5,471	(232)	-	5,992
Net income (loss)	$ 2,769	$ 16,412	$ (716)	$ -	$ 18,465
Total Assets at June 30, 2020	$ 885,031	$ 217,869	$ 8,931	$ (7,878)	$ 1,103,953

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

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

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

Comparison of Results for the Three Months Ended June 30, 2021, and 2020

Summary for the Three Months Ended June 30, 2021, and 2020

Net income was $4.2 million, or $1.17 per diluted share, for the quarter ended June 30, 2021. This compared to net income of $14.2 million, or $3.97 per diluted share, in the same period of 2020.

Net interest income for the second quarter of 2021 was $7.4 million, a decrease of $1.0 million, or 12.3%, from $8.5 million in the second quarter of 2020. The decrease primarily reflected lower loan and debt security balances, yields and PPP fees, offset by lower cost of deposits and borrowing, and a reduction in certificates of deposit. The net interest margin for the current period decreased to 2.72% from 3.30% a year ago.

Interest income decreased by $1.6 million, or 16.1%, for the quarter ended June 30, 2021, to $8.0 million in 2021, compared to $9.6 million for the second quarter of 2020. The decrease is the result of lower loan balances, yields and PPP fees in addition to lower balances and yields on debt securities. The yield on average interest-earning assets was 2.95% in the second quarter of 2021, compared to 3.72% in the 2020 second quarter.

The average balance of interest-earning assets in the 2021 second quarter increased by $59.9 million versus the same period of 2020, primarily due to a $132.9 million increase in interest-bearing cash offset by decreases in average loans held for sale, loans held for investment including PPP loans, and debt securities. Interest income for loans held for investment decreased $949 thousand with $512 thousand due to a reduction in PPP fees. The average balance of loans held for investment decreased by $22.3 million with PPP loans accounting for $10.0 million of the decrease. The average balance of mortgage loans held for sale was $117.3 million, $13.2 million lower than the same period of 2020. Interest income from loans held for sale decreased $214 thousand due to lower average balances and a lower average yield on loans held for sale due to the year-over-year decrease in mortgage rates. The average balance of debt securities in the second quarter of 2021 was $169.9 million, $35.8 million lower than in the second quarter of 2020, resulting in a $416 thousand decrease in interest income.

Interest expense in the second quarter of 2021 was $612 thousand, a decrease of $505 thousand, or 45.2%, from the 2020 period. The cost of interest-bearing liabilities was 0.30% during the quarter, compared to 0.56% in the same period of 2020. The cost of core deposits in the second quarters of 2021 and 2020 was 0.22% and 0.42%, respectively.

At June 30, 2021, credit metrics remained stable with $2.6 million of nonperforming assets, representing a 0.25% nonperforming assets-to-total-asset ratio, compared to 0.24% at December 31, 2020. The Company did not record a provision for credit losses in the second quarter of 2021, compared to a $1.5 million provision recorded in the second quarter of 2020. The Company continues to monitor the loan portfolio and will prudently evaluate its allowance for credit losses as appropriate.

Non-interest income for the second quarter of 2021 was $9.6 million, a decrease of $16.7 million, from $26.3 million in the 2020 second quarter. Mortgage banking revenues were $7.8 million in the second quarter of 2021, compared to $25.1 million in the second quarter of 2020. The decrease was driven by the expected cyclical transition to purchase originations versus refinance activity in the prior-year period. This resulted in lower mortgage banking origination activity and margins relative to the historically high margins of the prior year. In the second quarter of 2021, BNC funded 1,499 mortgage loans with combined balances of $536.3 million, compared to 2,029 mortgage loans with combined balances of $743.9 million in the second quarter of 2020. Wealth management revenues increased $127 thousand, or 30.7%, as assets under administration increased relative to the 2020 period. There were no gains on sales of debt securities in the second quarter of 2021, compared to gains of $153 thousand in the same period of 2020. During the quarter, the Company closed the sale of its Golden Valley, Minnesota, branch and recorded a gain of $589 thousand.

Non-interest expense for the second quarter of 2021 decreased $2.9 million, or 20.2%, to $11.6 million, from $14.5 million in the second quarter of 2020. Non-interest expenses related to lower mortgage operations activity decreased by $1.7 million, or 21.9%, as management adjusted the scale of operations based on the marketplace opportunity. Full-time equivalent employees related to mortgage operations were 139 at June 30, 2021, compared to 166 at December 31, 2020. Combined expenses for community banking and the holding company decreased by $1.3 million, or 16.6%, compared to the 2020 period primarily due to reduced salaries and incentive compensation.

In the second quarter of 2021, income tax expense was $1.3 million, compared to $4.6 million in the second quarter of 2020. The effective tax rate was 24.0% in the second quarter of 2021, compared to 24.7% in the same period of 2020.

Summary for the Six Months Ended June 30, 2021, and 2020

Net income was $13.9 million, or $3.90 per diluted share, for the six months ended June 30, 2021. This compared to net income of $18.5 million, or $5.18 per diluted share, in the first six months of 2020.

Net interest income in the first half of 2021 was $16.5 million, an increase of $595 thousand, or 3.7%, from $15.9 million in 2020. The increase was a result of increases in loans held for sale and held for investment, including PPP loans and fees, lower balances and yields of debt securities and reduced cost of deposits and borrowings. Net interest margin decreased to 3.13% in the 2021 six-month period, compared to 3.29% in 2020.

Interest income decreased $826 thousand, or 4.4%, to $17.7 million for the six-month period of 2021, compared to $18.6 million in 2020. The decrease is the result of the impact of higher average loan balances, including PPP loans and fees, offset by a reduction in loan yields. Additionally, interest income from debt securities decreased due to lower balances and yields. The yield on average interest-earning assets was 3.37% in the 2021 six-month period, compared to 3.85% in 2020.

The average balance of interest-earning assets in the first half of 2021 increased by $89.5 million versus the same period of 2020, primarily due to an increase in interest-bearing cash, loans held for sale and loans held for investment including PPP loans, offset by decreased average debt securities. The average balance of loans held for investment increased by $23.2 million, driven primarily by increases in PPP loans, yielding $404 thousand of additional interest income. PPP loan fees increased $1.3 million in the 2021 six-month period compared to 2020. The average balance of mortgage loans held for sale was $158.4 million, $31.8 million higher than the same period of 2020. Interest income from loans held for sale decreased $48 thousand as the higher average balance was offset by a lower average yield due to the year-over-year decrease in mortgage rates. The average balance of debt securities in the first half of 2021 was $174.5 million, $53.9 million lower than in the first half of 2020. Combined with lower average yields, this resulted in a $1.2 million decrease in interest income.

Interest expense in the first half of 2021 was $1.3 million, a decrease of $1.4 million, or 52.7%, from the 2020 period. The cost of interest-bearing liabilities was 0.33% in the first six months, compared to 0.72% in the same period of 2020. The cost of core deposits in the first six months of 2021 and 2020 was 0.24% and 0.55%, respectively.

At June 30, 2021, credit metrics remained stable with $2.6 million of nonperforming assets, representing a 0.25% nonperforming assets-to-total-assets ratio, compared to 0.24% at December 31, 2020. The Company did not record a provision for credit losses in the first six months of 2021, compared to a $2.1 million provision recorded in the first six months of 2020. The Company continues to monitor the loan portfolio and will prudently evaluate its allowance for credit losses as appropriate.

Non-interest income for the 2021 six months was $27.1 million, compared to $37.1 million in 2020. Mortgage banking revenues were $23.8 million in the first half of 2021, a decrease of $9.9 million, or 29.3%, compared to $33.7 million in the first half of 2020. The decrease was largely due to lower margins, relative to the historic high margins of the prior year, and the mortgage pipeline decrease during 2021 as refinance activity shifted to home purchase originations. In the first half of 2021, BNC funded 3,925 mortgage loans with combined balances of $1.4 billion, compared to 3,429 mortgage loans with combined balances of $1.2 billion in the first half of 2020. Wealth management revenues increased $231 thousand, or 27.0%, 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 $96 thousand, while other non-interest income increased $720 thousand as the Company closed on the sale of its Golden Valley, Minnesota, branch and received a Small Business Investment Company (SBIC) profit distribution. Gains on sales of assets and distributions from SBIC's can vary significantly from period to period.

Non-interest expense for the first six months of 2021 decreased $1.3 million, or 5.0%, to $25.2 million, from $26.5 million in 2020. Non-interest expenses related to mortgage operations increased by $348 thousand while combined expenses for the community banking and holding company segments decreased by $1.8 million, or 11.6%, compared to the 2020 period.

During the six-month period ended June 30, 2021, income tax expense was $4.5 million, compared to $6.0 million in the first half of 2020. The effective tax rate was 24.3% in the first half 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 June 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	$ 245,193	$ 60	0.10%	$ 112,287	$ 26	0.09%	$ 132,906	$ 34	0.01% (a)
FHLB Stock	1,307	10	3.14%	1,158	8	2.87%	149	2	0.27%
Federal Reserve Stock	1,807	27	6.10%	1,807	27	6.08%	-	-	0.02%
Debt securities – taxable	163,277	779	1.91%	199,148	1,195	2.41%	(35,871)	(416)	-0.50% (b)
Debt securities – tax exempt	6,578	58	3.54%	6,520	58	3.59%	58	-	-0.05% (b)
Loans held for sale – mortgage banking	117,259	803	2.75%	130,461	1,017	3.13%	(13,202)	(214)	-0.38% (c)
Loans held for investment	566,647	6,291	4.45%	588,909	7,240	4.89%	(22,262)	(949)	-0.44% (d)
Allowance for loan losses	(10,286)	-	0.00%	(8,406)	-	0.00%	(1,880)	-	0.00%
Total interest-earning assets	$ 1,091,782	$ 8,028	2.95%	$ 1,031,884	$ 9,571	3.72%	$ 59,898	$ (1,543)	-0.77%
Interest-bearing liabilities									
Interest checking and money market	$ 652,415	$ 345	0.21%	$ 584,695	$ 356	0.24%	$ 67,720	$ (11)	-0.03% (e)
Savings	47,146	5	0.04%	38,215	5	0.05%	8,931	-	-0.01% (e)
Certificates of deposit	98,655	201	0.82%	149,771	647	1.72%	(51,116)	(446)	-0.90% (e)
Total interest-bearing deposits	798,216	551	0.28%	772,681	1,008	0.52%	25,535	(457)	-0.24%
Short-term borrowings	2,558	1	0.16%	7,245	3	0.18%	(4,687)	(2)	-0.02% (f)
Federal Home Loan Bank advances	-	-	0.00%	-	-	0.00%	-	-	0.00%
Subordinated debentures	15,003	60	1.61%	15,005	106	2.82%	(2)	(46)	-1.21%
Total borrowings	17,561	61	1.42%	22,250	109	1.95%	(4,689)	(48)	-0.53%
Total interest-bearing liabilities	$ 815,777	612	0.30%	$ 794,931	1,117	0.56%	$ 20,846	(505)	-0.26%
Net interest income/spread		$ 7,416	2.65%		$ 8,454	3.16%		$ (1,038)	-0.51%
Net interest margin			2.72%			3.30%			-0.58%
Notation:									
Non-interest-bearing deposits	$ 192,060	-	0.00%	$ 178,264	-	0.00%	$ 13,796	-	0.00% (e)
Total deposits	$ 990,276	$ 550	0.22%	$ 950,945	$ 1,008	0.42%	$ 39,331	$ (458)	-0.20%
Taxable equivalents:									
Total interest-earning assets	$ 1,091,781	$ 8,078	2.97%	$ 1,031,884	$ 9,611	3.71%	$ 59,897	$ (1,533)	-0.74%
Net interest income/spread	-	$ 7,467	2.67%	-	$ 8,493	3.15%	-	$ (1,026)	-0.48%
Net interest margin	-	-	2.74%	-	-	3.27%	-	-	-0.53%

(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 to support the increase in loan activity.
(c) The average balance of loans held for sale decreased in the second quarter of 2021 as mortgage origination activity began to moderate when compared to the second quarter of 2020.
(d) The decrease in average PPP loans contributed $10.0 million of the $22.3 million decrease in the average balances when compared to the second quarter of 2020.
(e) Overall, average deposit balances increased due to growth in the Company’s North Dakota branches in addition to PPP lending activity, the maintenance of liquidity by customers, and government stimulus payments. 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
(f) Short-term borrowings decreased based on customer’s use of repurchase agreements.

	Six Months Ended June 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	$ 161,115	$ 74	0.09%	$ 70,772	$ 71	0.20%	$ 90,343	$ 3	-0.11% (a)
FHLB Stock	1,281	20	3.17%	1,215	20	3.23%	66	-	-0.06%
Federal Reserve Stock	1,807	54	6.05%	1,807	54	6.03%	-	-	0.02%
Debt securities – taxable	167,864	1,606	1.93%	221,798	2,790	2.53%	(53,934)	(1,184)	-0.60% (b)
Debt securities – tax exempt	6,629	116	3.54%	6,571	117	3.57%	58	(1)	-0.03% (b)
Loans held for sale – mortgage banking	158,447	1,992	2.54%	126,603	2,040	3.23%	31,844	(48)	-0.69% (c)
Loans held for investment	573,579	13,885	4.88%	550,379	13,481	4.93%	23,200	404	-0.05% (d)
Allowance for loan losses	(10,296)	-	0.00%	(8,206)	-	0.00%	(2,090)	-	0.00%
Total interest-earning assets	$ 1,060,426	$ 17,747	3.37%	$ 970,939	$ 18,573	3.85%	$ 89,487	$ (826)	-0.48%
Interest-bearing liabilities									
Interest checking and money market	$ 615,686	$ 687	0.22%	$ 541,555	$ 1,020	0.38%	$ 74,131	$ (333)	-0.16% (e)
Savings	45,681	9	0.04%	37,014	12	0.06%	8,667	(3)	-0.02% (e)
Certificates of deposit	104,851	455	0.88%	156,186	1,415	1.82%	(51,335)	(960)	-0.94% (e)
Total interest-bearing deposits	766,218	1,151	0.30%	734,755	2,447	0.67%	31,463	(1,296)	-0.37%
Short-term borrowings	3,606	3	0.17%	6,204	6	0.20%	(2,598)	(3)	-0.03% (f)
Federal Home Loan Bank advances	990	1	0.30%	1,343	12	1.79%	(353)	(11)	-1.49%
Subordinated debentures	15,003	119	1.60%	15,006	230	3.04%	(3)	(111)	-1.44%
Total borrowings	19,599	123	1.28%	22,553	248	2.21%	(2,954)	(125)	-0.93%
Total interest-bearing liabilities	$ 785,817	1,274	0.33%	$ 757,308	2,695	0.72%	$ 28,509	(1,421)	-0.39%
Net interest income/spread		$ 16,473	3.05%		$ 15,878	3.12%		$ 595	-0.07%
Net interest margin			3.13%			3.29%			-0.16%
Notation:									
Non-interest-bearing deposits	$ 190,385	-	0.00%	$ 156,711	-	0.00%	$ 33,674	-	0.00% (e)
Total deposits	$ 956,603	$ 1,150	0.24%	$ 891,466	$ 2,447	0.55%	$ 65,137	$ (1,297)	-0.31%
Taxable equivalents:									
Total interest-earning assets	$ 1,060,426	$ 17,848	3.39%	$ 970,939	$ 18,678	3.87%	$ 89,487	$ (830)	-0.48%
Net interest income/spread	-	$ 16,575	3.07%	-	$ 15,982	3.15%	-	$ 593	-0.08%
Net interest margin	-	-	3.14%	-	-	3.32%	-	-	-0.18%

(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 to support the increase in loan activity.
(c) The average balance of loans held for sale increased in the first half of 2021 due to higher average balances in the first quarter of 2021.
(d) The increase in average PPP loans contributed $24.8 million of the $23.2 million increase in the average balances when compared to the first half of 2020.
(e) Overall, average deposit balances increased due to growth in the Company's North Dakota branches in addition to PPP lending activity, the maintenance of liquidity by customers, and government stimulus payments. 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
(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 June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)		
	2021	2020	$	%	2021	2020	$	%	
Bank charges and service fees	$ 571	$ 549	$ 22	4 %	$ 1,125	$ 1,180	$ (55)	(5) %	(a)
Wealth management revenues	541	414	127	31 %	1,086	855	231	27 %	(b)
Mortgage banking revenues	7,789	25,098	(17,309)	(69) %	23,847	33,714	(9,867)	(29) %	(c)
(Losses) gains on sales of loans, net	(1)	-	(1)	- %	96	3	93	3,100 %	(d)
Gains on sales of debt securities, net	-	153	(153)	(100) %	-	1,128	(1,128)	(100) %	(e)
Other	731	119	612	514 %	967	247	720	291 %	(f)
Total non-interest income	$ 9,631	$ 26,333	$ (16,702)	(63) %	$ 27,121	$ 37,127	$ (10,006)	(27) %	

(a) Bank charges and service fees decreased primarily due to decreases in letter of credit fees, loan servicing revenue, and overdraft charges partially offset by increases in commercial non-use fees and ATM income.
(b) Wealth management revenues increased as assets under administration and management increased relative to the 2020.
(c) Mortgage banking revenues decreased due to lower margins, relative to the historic high margins of the prior year, and decrease in mortgage production due to the shift from refinance to home purchase originations.
(d) Gains on sale of loans can vary significantly from period to period.
(e) 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.
(f) Increases are primarily due to a SBIC profit distribution and closing on the sale of the Company's Golden Valley, Minnesota, branch.

Non-interest Expense

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

	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)		
	2021	2020	$	%	2021	2020	$	%	
Salaries and employee benefits	$ 6,005	$ 7,961	$ (1,956)	(25) %	$ 13,619	$ 14,272	$ (653)	(5) %	(a)
Professional services	1,567	1,842	(275)	(15) %	3,339	3,120	219	7 %	(b)
Data processing fees	1,074	1,199	(125)	(10) %	2,239	2,323	(84)	(4) %	
Marketing and promotion	977	1,543	(566)	(37) %	1,976	2,969	(993)	(33) %	(c)
Occupancy	524	523	1	- %	1,074	1,058	16	2 %	
Regulatory costs	118	49	69	141 %	233	105	128	122 %	(d)
Depreciation and amortization	316	358	(42)	(12) %	644	714	(70)	(10) %	(e)
Office supplies and postage	113	116	(3)	(3) %	246	250	(4)	(2) %	
Other	870	900	(30)	(3) %	1,815	1,687	128	8 %	(f)
Total non-interest expense	$ 11,564	$ 14,491	$ (2,927)	(20) %	$ 25,185	$ 26,498	$ (1,313)	(5) %	
Efficiency ratio	67.8%	41.7%			57.8%	50.0%			

(a) Salaries and employee benefits decreased primarily due to lower salaries and incentive compensation.
(b) Professional services expense for the six-month period increased primarily due to increased mortgage loan closing costs and higher consulting fees partially offset by reductions in audit and legal expenses.
(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 increased primarily due to an increased provisions to the reserve for mortgage banking obligations, correspondent bank charges, and travel expense being partially offset by a reduction in recruitment cost for mortgage banking operations support staff.

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Number of funded mortgage loans held for sale	1,499	2,029	3,925	3,429
Mortgage loans held for sale funded	$ 536,301	$ 743,965	$ 1,411,072	$ 1,249,046
Average loans held for sale-mortgage banking	$ 117,259	$ 130,461	$ 158,447	$ 126,603
Loans held for sale-mortgage banking	$ 104,001	$ 195,330	$ 104,001	$ 195,330
Non-Interest Income:				
Gains on sale of loans held for sale, net of commission expense	$ 11,486	$ 10,386	$ 38,720	$ 17,861
Change in fair value of mortgage banking instruments (1)	$ (3,697)	$ 14,712	$ (14,873)	$ 15,853

(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 low interest rate environment that began late in 2019 and continued throughout 2020, generated a significant increase in mortgage loan activity. Mortgage interest rates during the first half of 2021 were lower relative to the prior year period. As mortgage interest rates increased during the first quarter of 2021, mortgage origination activity began to moderate in the second quarter of 2021 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.

Income Taxes

In the second quarter of 2021, the Company recorded income tax expense of $1.3 million, which resulted in an effective tax rate of 24.0% for the quarter. Income tax expense of $4.6 million was recognized during the second quarter of 2020, which resulted in an effective tax rate of 24.7%.

During the six-month period ended June 30, 2021, income tax expense was $4.5 million, compared to $6.0 million in the first six months of 2020. The effective tax rate was 24.3% in the first six months of 2020, compared to 24.5% in the same period of 2020.

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

Assets

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

	June 30, 2021	December 31, 2020	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 152,310	$ 12,443	$ 139,867	1,124 %	(a)
Debt securities available for sale	186,326	183,717	2,609	1 %	
Federal Reserve Bank and Federal Home Loan Bank stock	3,114	4,201	(1,087)	(26) %	(b)
Loans held for sale-mortgage banking	104,001	250,083	(146,082)	(58) %	(c)
Loans held for investment, net	543,994	570,890	(26,896)	(5) %	(d)
Allowance for credit losses	(10,293)	(10,324)	31	- %	
Premises and equipment, net	12,916	14,398	(1,482)	(10) %	
Operating lease right of use asset	2,199	2,451	(252)	(10) %	
Accrued interest receivable	3,319	4,721	(1,402)	(30) %	(e)
Other assets	31,023	41,551	(10,528)	(25) %	(f)
Total assets	$ 1,028,909	$ 1,074,131	$ (45,222)	(4) %	

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business.
(b) Federal Reserve Bank and FHLB stock will vary based on the Company's utilization of FHLB advances.
(c) Loans held for sale decreased as mortgage origination activity began to moderate in the first half of 2021.
(d) Loans held for investment decreased primarily due to loan reductions as a result of the excess liquidity in the marketplace and the Golden Valley, Minnesota, branch sale.
(e) 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.
(f) 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 $117.6 million as of June 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):

	June 30, 2021		December 31, 2020	
North Dakota	$ 356,195	65 %	$ 378,793	66 %
Arizona	116,455	21	121,797	21
Minnesota	25,361	5	30,599	6
Other	46,524	9	39,942	7
Total gross loans held for investment	$ 544,535	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):

	June 30, 2021			December 31, 2020		
North Dakota	$	317,667	58 %	$	331,824	58 %
Arizona		149,737	27		153,264	27
California		19,474	4		18,369	3
Minnesota		15,053	3		25,348	5
Colorado		13,650	3		13,858	3
Ohio		7,285	1		7,357	1
South Dakota		7,728	1		7,552	1
Other		13,941	3		13,559	2
Total gross loans held for investment	$	544,535	100 %	$	571,131	100 %

Loans held for investment are concentrated geographically in the Company's core markets of North Dakota and Arizona, and comprise 58% and 27% of the Company's total loan portfolio, respectively. The North Dakota economy is influenced by the energy and agriculture industries. Legislation and other factors negatively impacting energy prices could present potential challenges to credit quality in North Dakota. Potential drought conditions, fluctuating input costs and lower commodity prices in the agriculture industry also present potential credit risks in North Dakota. The Arizona economy is influenced by the leisure and travel industries. 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):

	June 30, 2021			December 31, 2020		
Non-owner occupied commercial real estate – not otherwise categorized	$	149,111	30 %	$	143,361	28 %
Hotels		75,402	15		76,335	15
Consumer, not otherwise categorized		74,460	15		76,363	15
Healthcare and social assistance		32,628	7		37,632	7
Agriculture, forestry, fishing and hunting		28,690	6		27,321	5
Retail trade		22,341	5		26,129	5
Non-hotel accommodation and food service		21,635	5		23,530	5
Transportation and warehousing		20,960	4		24,897	5
Mining, oil and gas extraction		11,797	2		20,223	4
Construction contractors		10,891	2		12,235	2
Manufacturing		9,383	2		11,139	2
Real estate and rental and leasing support services		7,208	2		7,735	1
Other service		6,694	1		8,394	2
Wholesale trade		4,103	1		2,255	-
All other		15,605	3		15,719	3
Gross loans held for investment (excluding PPP loans)	$	490,908	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 while government and financial institution support is expiring. The oil and gas industry is also witnessing positive price developments, but is still subject to the negative impact of government policy making and regulation on energy production and transportation.

Recovery from, or the lasting impact of the pandemic remains uncertain. The positive impact resulting from vaccination efforts and relaxed government restrictions on business activity is evident. Economic improvements continued during the second quarter of 2021. However, uncertainty remains about the duration and severity of the current pandemic and its impact on the economy related to development, business production, consumer strength and employment levels. The Company's loan portfolio and credit risk could still experience adversity as the direct impacts of the pandemic ease 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 June 30, 2021 (in thousands):

		Over 1 Year Through 5 Years		Over 5 Years		Total Loans
	One Year or Less	Fixed Rate	Indexed Rate	Fixed Rate	Indexed Rate	Held for Investment
Commercial and industrial	$ 19,725	$ 14,293	$ 9,067	$ 32,916	$ 72,365	$ 148,366
Commercial real estate	671	10,126	8,882	43,642	134,306	197,627
SBA	281	53,627	700	2,832	33,422	90,862
Consumer	1,105	6,012	5,659	57,005	11,065	80,846
Land and land development	1,344	2,125	417	2,697	1,252	7,835
Construction	4,724	-	11,044	636	2,595	18,999
Total principal amount of loans	$ 27,850	$ 86,183	$ 35,769	$ 139,728	$ 255,005	$ 544,535

(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).

	June 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	$ 3,148	27 %	$ 3,275	29 %
Commercial real estate	4,125	33	3,923	33
SBA	1,766	20	1,779	18
Consumer	930	14	948	14
Land and land development	130	2	170	2
Construction	194	4	229	4
Total	$ 10,293	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 June 30,				Six Months Ended June 30,			
	2021		2020		2021		2020	
Balance, beginning of period	$	2,605	$	3,212	$	2,612	$	2,033
Additions to nonperforming		19		1,297		112		2,528
Charge-offs		-		(225)		(83)		(235)
Principal payment received		(23)		(121)		(40)		(158)
Transferred to repossessed assets		-		-		-		(5)
Balance, end of period	$	2,601	$	4,163	$	2,601	$	4,163

Nonperforming Assets

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

	June 30, 2021		December 31, 2020	
Nonperforming loans:				
Loans 90 days or more delinquent and still accruing interest	$	-	$	1
Non-accrual loans		2,601		2,611
Total nonperforming loans	$	2,601	$	2,612
Total nonperforming assets	$	2,601	$	2,612
Allowance for credit losses	$	10,293	$	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		0.25%		0.24%
Ratio of nonperforming loans to total assets		0.25%		0.24%
Ratio of allowance for credit losses to nonperforming loans		396%		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	
June 30, 2021	$	-	$	7,879	$	7,879	$	441	$	6,079	$	6,520	$	2,140
December 31, 2020	$	-	$	9,118	$	9,118	$	480	$	4,721	$	5,201	$	2,132

At June 30, 2021, the Bank had $8.7 million of classified loans and $2.6 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 $10.8 million of classified loans and $3.8 million of loans on non-accrual at June 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.

Subsequently, guidance was issued jointly by regulatory authorities related to troubled debt restructuring loan treatment that is consistent with the CARES Act. The guidance allows banks to prudently modify loans such as the temporary deferral of principal and interest. Financial institutions have been encouraged to provide modifications in situations where it will provide time to allow otherwise performing borrowers the opportunity to financially recover from potentially short-term COVID-19 related economic conditions.

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 June 30, 2021, the Company had one multi-family loan modified consistent with Section 4013 of the CARES Act totaling $4.1 million. This loan will reach the end of its payment modification period by July 31, 2021.

Liabilities

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

	June 30, 2021	December 31, 2020	Increase (Decrease) $	Increase (Decrease) %	
Deposits:					
Non-interest-bearing	$ 192,242	$ 167,667	$ 24,575	15 %	(a)
Interest-bearing-					
Savings, interest checking and money market	588,658	570,656	18,002	3 %	(a)
Time deposits	89,528	114,835	(25,307)	(22) %	(b)
Short-term borrowings	1,500	6,385	(4,885)	(77) %	(c)
FHLB advances	-	30,900	(30,900)	(100) %	(d)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,003	15,004	(1)	- %	
Accrued interest payable	343	560	(217)	(39) %	(e)
Accrued expenses	6,813	13,338	(6,525)	(49) %	(f)
Operating lease liabilities	2,364	2,620	(256)	(10) %	(g)
Other liabilities	1,288	33,937	(32,649)	(96) %	(h)
Total liabilities	$ 897,739	$ 955,902	$ (58,163)	(6) %	

(a) Deposits increased due to growth in the Company's North Dakota branches in addition to PPP lending activity, the maintenance of liquidity by customers, and government stimulus payments.
(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. Other changes relate to reduced mortgage banking forward commitments.

At June 30, 2021, and December 31, 2020, the Bank had $19.1 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 June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Balance, beginning of period	$ 1,010	$ 898	$ 1,025	$ 906
Provision	211	300	520	400
Write offs, net	(377)	(181)	(701)	(289)
Balance, end of period	$ 844	$ 1,017	$ 844	$ 1,017

Stockholders' Equity

The Company's stockholders' equity increased $12.9 million from December 31, 2020, to June 30, 2021, primarily due to $13.9 million in additional retained earnings offset by a decrease in accumulated other comprehensive income of $1.2 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 second quarter of 2021, BNC National Bank paid a dividend of $10.0 million to the Holding Company to be utilized for general corporate purposes which may include dividends and/or common share repurchases.

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. The Bank has the ability to borrow from the Federal Reserve Bank, through its Discount Window, by pledging mortgage loans and/or through the Paycheck Protection Program Liquidity Facility (PPPLF) by pledging PPP loans. As of June 30, 2021, the Company has not utilized the PPPLF. 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 ($225.4 million as of June 30, 2021);
2. Borrowing capacity from the FHLB ($171.1 million as of June 30, 2021); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($152.9 million as of June 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 June 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 June 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 June 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	$ 27,058	$ 27,696	$ 27,674	$ 27,661	$ 27,654
Dollar change from unchanged scenario	$ (638)	$ -	$ (22)	$ (35)	$ (42)
Percent change from unchanged scenario	(2.30)%	-	(0.08)%	(0.13)%	(0.15)%

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 June 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 June 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 June 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	$ 152,310	$ -	$ -	$ -	$ 152,310
Debt securities (a)	29,058	22,427	56,239	60,304	168,028
FRB and FHLB stock	3,114	-	-	-	3,114
Loans held for sale-mortgage banking, fixed rate	104,001	-	-	-	104,001
Loans held for investment, fixed rate	16,310	44,215	147,771	22,253	230,549
Loans held for investment, indexed rate	97,001	25,954	187,444	3,046	313,445
Total interest-earning assets	$ 401,794	$ 92,596	$ 391,454	$ 85,603	$ 971,447
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 541,807	$ -	$ -	$ -	$ 541,807
Savings	46,851	-	-	-	46,851
Time deposits	18,051	50,906	20,388	183	89,528
Short-term borrowings	1,500	-	-	-	1,500
FHLB advances	-	-	-	-	-
Subordinated debentures	-	15,000	-	3	15,003
Total interest-bearing liabilities	$ 608,209	$ 65,906	$ 20,388	$ 186	$ 694,689
Interest rate gap	$ (206,415)	$ 26,690	$ 371,066	$ 85,417	$ 276,758
Cumulative interest rate gap at June 30, 2021	$ (206,415)	$ (179,725)	$ 191,341	$ 276,758	
Cumulative interest rate gap to total assets	(20.06%)	(17.47%)	18.60%	26.90%	

(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 June 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 June 30, 2021.

Submission of Matters to a Vote of Stockholders

The Annual Meeting of Stockholders (the "Annual Meeting") of the Company was held on June 24, 2021. Proxies for matters to be voted on at the Annual Meeting were solicited by the Board of Directors of the Company. Two proposals were voted upon at the Annual Meeting. The proposals were described in detail in the Company's Proxy Statement. Of the 3,545,356 shares of common stock outstanding on the record date of April 26, 2021, 2,942,096 shares were voted at the Annual Meeting. The final results for the votes regarding each proposal are set forth below.

1. The following nominees were elected as members of the Board of Directors of the Company for three-year terms ending in 2024:

Name	For	Withheld	Broker Non-Votes
Gaylen Ghylin	1,911,451	501,896	528,749
John W. Palmer	2,319,660	93,687	528,749

The Board of Directors of the Company now consists of Michael M. Vekich, Nathan P. Brenna, Gaylen Ghylin, John W. Palmer, Tom Redmann, and Tracy J. Scott.

2. The selection of CliftonLarsonAllen LLP as the Company's independent registered public accounting firm for fiscal 2021 was ratified:

For	Against	Abstain
2,936,225	4,346	1,525

Signatures

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

BNCCORP, INC.

Date:	August 11, 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