BNCCORP

Quarterly Report

For the quarter ended June 30, 2017

BNCCORP, INC.

(OTCQX: BNCC)

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BNCCORP, INC.
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June 30, 2017

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FINANCIAL INFORMATION

Financial Statements

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

	June 30, 2017	December 31, 2016
ASSETS	(unaudited)	
CASH AND CASH EQUIVALENTS	$ 55,173	$ 11,113
INVESTMENT SECURITIES AVAILABLE FOR SALE	440,542	400,136
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	2,897	4,411
LOANS HELD FOR SALE-MORTGAGE BANKING	37,745	39,641
LOANS AND LEASES HELD FOR INVESTMENT	426,210	414,673
ALLOWANCE FOR CREDIT LOSSES	(7,898)	(8,285)
Net loans and leases held for investment	418,312	406,388
OTHER REAL ESTATE and REPOSSESSED ASSETS, net	13	218
PREMISES AND EQUIPMENT, net	19,604	19,381
ACCRUED INTEREST RECEIVABLE	4,460	4,444
OTHER	22,759	24,668
Total assets	$ 1,001,505	$ 910,400
LIABILITIES AND STOCKHOLDERS’ EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 160,063	$ 147,027
Interest-bearing –		
Savings, interest checking and money market	558,691	453,897
Time deposits under $100,000	61,689	58,789
Time deposits $100,000 and over	96,610	92,914
Total deposits	877,053	752,627
SHORT-TERM BORROWINGS	14,123	12,510
FEDERAL HOME LOAN BANK ADVANCES	-	38,000
LONG-TERM BORROWINGS	10,000	10,000
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY’S SUBORDINATED DEBENTURES	15,012	15,013
ACCRUED INTEREST PAYABLE	924	777
ACCRUED EXPENSES	4,981	6,685
OTHER	604	593
Total liabilities	922,697	836,205
STOCKHOLDERS’ EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,456,192 and 3,456,008 shares issued and outstanding	35	35
Capital surplus – common stock	26,042	25,996
Retained earnings	51,824	49,328
Treasury stock (212,461 and 212,645 shares, respectively)	(2,857)	(2,847)
Accumulated other comprehensive income, net	3,764	1,683
Total stockholders’ equity	78,808	74,195
Total liabilities and stockholders’ equity	$ 1,001,505	$ 910,400

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,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
INTEREST INCOME:				
Interest and fees on loans	$ 5,094	$ 5,136	$ 10,102	$ 9,964
Interest and dividends on investments				
Taxable	2,124	1,494	3,726	3,114
Tax-exempt	653	671	1,325	1,365
Dividends	30	45	62	78
Total interest income	7,901	7,346	15,215	14,521
INTEREST EXPENSE:				
Deposits	602	563	1,114	1,213
Short-term borrowings	5	6	10	11
Federal Home Loan Bank advances	-	61	16	74
Long-term borrowings	159	158	318	316
Subordinated debentures	96	76	185	149
Total interest expense	862	864	1,643	1,763
Net interest income	7,039	6,482	13,572	12,758
PROVISION FOR CREDIT LOSSES:	150	400	150	400
Net interest income after provision for credit losses	6,889	6,082	13,422	12,358
NON-INTEREST INCOME:				
Bank charges and service fees	671	689	1,359	1,363
Wealth management revenues	411	395	872	783
Mortgage banking revenues, net	3,072	5,354	5,576	9,729
Gains on sales of loans, net	69	178	612	223
Gains on sales of securities, net	177	437	447	437
Other	757	442	1,038	611
Total non-interest income	5,157	7,495	9,904	13,146
NON-INTEREST EXPENSE:				
Salaries and employee benefits	5,130	5,529	10,369	10,781
Professional services	1,116	1,266	2,169	2,224
Data processing fees	990	947	1,870	1,807
Marketing and promotion	1,057	979	1,783	1,902
Occupancy	574	545	1,194	1,069
Regulatory costs	131	167	263	334
Depreciation and amortization	409	378	809	721
Office supplies and postage	160	173	327	349
Other real estate costs	(23)	20	(21)	22
Other	587	624	1,226	1,265
Total non-interest expense	10,131	10,628	19,989	20,474
Income before income taxes	1,915	2,949	3,337	5,030
Income tax expense	480	914	841	1,580
Net income	$ 1,435	$ 2,035	$ 2,496	$ 3,450
Basic earnings per common share	$ 0.41	$ 0.59	$ 0.72	$ 1.00
Diluted earnings per common share	$ 0.41	$ 0.58	$ 0.70	$ 0.98

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,			
	2017		**2016**		**2017**		**2016**	
NET INCOME		$ 1,435		$ 2,035		$ 2,496		$ 3,450
Unrealized gain on securities available for sale	$ 3,156		$ 2,793		$ 3,804		$ 7,628	
Reclassification adjustment for gains included in net income	(177)		(437)		(447)		(437)	
Other comprehensive income before tax	2,979		2,356		3,357		7,191	
Income tax expense related to items of other comprehensive income	(1,132)		(895)		(1,276)		(2,733)	
Other comprehensive income	$ 1,847	1,847	$ 1,461	1,461	$ 2,081	2,081	$ 4,458	4,458
TOTAL COMPREHENSIVE INCOME		$ 3,282		$ 3,496		$ 4,577		$ 7,908

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, 2015	3,428,416	$ 34	$ 25,979	$ 42,172	$ (3,278)	$ 4,081	$ 68,988
Net income	-	-	-	3,450	-	-	3,450
Other comprehensive income	-	-	-	-	-	4,458	4,458
Impact of share-based compensation	18,645	1	(194)	-	344	-	151
BALANCE, June 30, 2016	3,447,061	$ 35	$ 25,785	$ 45,622	$ (2,934)	$ 8,539	$ 77,047
BALANCE, December 31, 2016	3,456,008	$ 35	$ 25,996	$ 49,328	$ (2,847)	$ 1,683	$ 74,195
Net income	-	-	-	2,496	-	-	2,496
Other comprehensive income	-	-	-	-	-	2,081	2,081
Impact of share-based compensation	184	-	46	-	(10)	-	36
BALANCE, June 30, 2017	3,456,192	$ 35	$ 26,042	$ 51,824	$ (2,857)	$ 3,764	$ 78,808

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)

	2017	2016
OPERATING ACTIVITIES:		
Net income	$ 2,496	$ 3,450
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for credit losses	150	400
(Reduction) provision for other real estate losses	(10)	17
Depreciation and amortization	809	721
Net amortization of premiums and (discounts) on investment securities and subordinated debentures	3,790	3,667
Share-based compensation	36	151
Change in accrued interest receivable and other assets, net	3,343	508
Gain on sale of other real estate	-	(4)
Gain on sale of bank premises and equipment	(18)	(12)
Net realized gain on sales of investment securities	(447)	(437)
Decrease (increase) in deferred taxes	79	(205)
Change in other liabilities, net	(2,893)	2,741
Funding of loans held for sale, mortgage banking	(335,496)	(478,580)
Proceeds from sales of loans held for sale, mortgage banking	337,068	470,454
Fair value adjustment for loans held for sale, mortgage banking	325	(560)
Fair value adjustment on mortgage banking derivatives	(192)	(1,429)
Proceeds from sales of loans	5,939	1,532
Gains on sales of loans, net	(612)	(223)
Net cash provided by operating activities	14,367	2,191
INVESTING ACTIVITIES:		
Purchases of investment securities	(100,704)	(38,424)
Proceeds from sales of investment securities	44,641	29,208
Proceeds from maturities of investment securities	14,396	14,291
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(2,340)	(10,506)
Sales of Federal Reserve and Federal Home Loan Bank Stock	3,854	9,134
Net increase in loans held for investment	(17,442)	(21,363)
Proceeds from sales of other real estate	264	4
Proceeds from sales of bank premises and equipment	50	13
Additions to bank premises and equipment	(1,065)	(1,856)
Net cash used in investing activities	(58,346)	(19,499)

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)

	2017	2016
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$ 124,426	$ (23,410)
Net increase in short-term borrowings	1,613	184
Repayments of Federal Home Loan Bank advances	(94,150)	(266,350)
Proceeds from Federal Home Loan Bank advances	56,150	301,550
Net cash provided by financing activities	88,039	11,974
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,060	(5,334)
CASH AND CASH EQUIVALENTS, beginning of period	11,113	15,189
CASH AND CASH EQUIVALENTS, end of period	$ 55,173	$ 9,855
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 1,596	$ 1,611
Income taxes paid	$ 35	$ 867
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in settlement of loans	$ 40	$ -

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. (BNCCORP or BNC) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank or BNC Bank). BNC operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 17 locations. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 14 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas and Missouri. The consumer direct channel emphasizes technology (internet leads and call center) to originate mortgage loans throughout the United States. The retail channel is more relationship driven and originations are generally near our mortgage banking locations.

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

NOTE 2 – Basis of Presentation and Accounting Policies

The accompanying 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, 2016. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2016 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, 2016 and the notes thereto.

The accompanying interim consolidated financial statements have been prepared by the Company, in accordance with accounting principles generally accepted in the United States of America for interim financial information. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues 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, 2017 include, in the opinion of management, all adjustments, consisting solely 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.

The Company’s significant accounting policies are unchanged since December 31, 2016.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. Impact on the income statement will generally be through amortization of a right of use asset and recognition of expense for lease payments. This ASU is effective in annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements* was issued to improve financial reporting about expected credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The new standard will require financial institutions to forecast future conditions considering expected credit losses on the life of the asset and record a provision for credit losses at the origination of the asset. ASU 2016-13 is effective for public entities, who are non-SEC filers, for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is in the process of evaluating the impact that this new guidance will have on its consolidated financial statements and related disclosures.

NOTE 3 – Investment Securities Available for Sale

Investment 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, 2017 or December 31, 2016. The carrying amount of available-for-sale securities and their estimated fair values were as follows (in thousands):

	As of June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 29,983	$ -	$ (103)	$ 29,880
U.S. government agency mortgage-backed securities guaranteed by GNMA	26,304	8	(634)	25,678
U.S. government agency mortgage-backed securities issued by FNMA	4,570	-	(19)	4,551
U.S. government agency small business administration pools guaranteed by SBA	154,919	1,383	(115)	156,187
Collateralized mortgage obligations guaranteed by GNMA/VA	77,107	640	(1,411)	76,336
Collateralized mortgage obligations issued by FNMA or FHLMC	53,669	167	(937)	52,899
Asset-backed securities	12,560	-	(25)	12,535
State and municipal bonds	76,879	5,615	(18)	82,476
	$ 435,991	$ 7,813	$ (3,262)	$ 440,542

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 24,967	$ -	$ (252)	$ 24,715
U.S. government agency mortgage-backed securities guaranteed by GNMA	46,003	295	(1,028)	45,270
U.S. government agency small business administration pools guaranteed by SBA	122,519	731	(387)	122,863
Collateralized mortgage obligations guaranteed by GNMA/VA	85,462	607	(1,849)	84,220
Collateralized mortgage obligations issued by FNMA or FHLMC	35,849	180	(687)	35,342
State and municipal bonds	84,143	3,918	(335)	87,726
	$ 398,943	$ 5,731	$ (4,538)	$ 400,136

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at June 30, 2017 were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	22,424	22,852
Due after five years through ten years	58,331	59,449
Due after ten years	355,236	358,241
Total	$ 435,991	$ 440,542

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

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

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

	June 30, 2017								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. Treasury securities	2	$ 29,880	$ (103)	-	$ -	$ -	2	$ 29,880	$ (103)
U.S. government agency mortgage-backed securities guaranteed by GNMA	3	16,703	(634)	-	-	-	3	16,703	(634)
U.S. government agency mortgage-backed securities issued by FNMA	3	4,551	(19)	-	-	-	3	4,551	(19)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	9	24,717	(115)	9	24,717	(115)
Collateralized mortgage obligations guaranteed by GNMA/VA	5	18,890	(420)	3	32,249	(991)	8	51,139	(1,411)
Collateralized mortgage obligations issued by FNMA or FHLMC	6	30,807	(795)	2	6,934	(142)	8	37,741	(937)
Asset-backed securities	2	12,535	(25)	-	-	-	2	12,535	(25)
State and municipal bonds	1	5,577	(18)	-	-	-	1	5,577	(18)
Total temporarily impaired securities	22	$ 118,943	$ (2,014)	14	$ 63,900	$ (1,248)	36	$ 182,843	$ (3,262)

	December 31, 2016								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. Treasury securities	2	$ 24,715	$ (252)	-	$ -	$ -	2	$ 24,715	$ (252)
U.S. government agency mortgage-backed securities guaranteed by GNMA	5	28,357	(1,028)	-	-	-	5	28,357	(1,028)
U.S. government agency small business administration pools guaranteed by SBA	7	31,123	(182)	7	13,152	(205)	14	44,275	(387)
Collateralized mortgage obligations guaranteed by GNMA/VA	6	44,257	(1,849)	-	-	-	6	44,257	(1,849)
Collateralized mortgage obligations issued by FNMA or FHLMC	3	16,618	(649)	1	2,330	(38)	4	18,948	(687)
State and municipal bonds	7	15,643	(335)	-	-	-	7	15,643	(335)
Total temporarily impaired securities	30	$ 160,713	$ (4,295)	8	$ 15,482	$ (243)	38	$ 176,195	$ (4,538)

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

There were no securities that management concluded were other-than-temporarily impaired at June 30, 2017 or December 31, 2016.

NOTE 4 – Loans and Leases

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

	June 30, 2017	December 31, 2016
Loans held for sale-mortgage banking	$ 37,745	$ 39,641
Commercial and industrial	$ 128,711	$ 123,604
Commercial real estate	176,210	171,972
SBA	27,446	31,518
Consumer	66,902	59,183
Land and land development	15,178	15,982
Construction	11,365	12,215
Gross loans and leases held for investment	425,812	414,474
Unearned income and net unamortized deferred fees and costs	398	199
Loans, net of unearned income and unamortized fees and costs	426,210	414,673
Allowance for credit losses	(7,898)	(8,285)
Net loans and leases held for investment	$ 418,312	$ 406,388

NOTE 5 – Allowance for Credit Losses

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

Three Months Ended June 30, 2017	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,151	$ 3,268	$ 1,276	$ 818	$ 420	$ 107	$ 8,040
Provision (reduction)	101	(45)	(6)	39	63	(2)	150
Loans charged off	-	-	(193)	(41)	(103)	-	(337)
Loan recoveries	-	4	26	13	2	-	45
Balance, end of period	$ 2,252	$ 3,227	$ 1,103	$ 829	$ 382	$ 105	$ 7,898

Three Months Ended June 30, 2016	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,978	$ 2,279	$ 1,574	$ 589	$ 960	$ 99	$ 8,479
Provision (reduction)	465	202	7	77	(383)	32	400
Loans charged off	(100)	-	(37)	(37)	-	-	(174)
Loan recoveries	-	2	13	5	-	-	20
Balance, end of period	$ 3,343	$ 2,483	$ 1,557	$ 634	$ 577	$ 131	$ 8,725

Six Months Ended June 30, 2017	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,323	$ 3,231	$ 1,433	$ 772	$ 413	$ 113	$ 8,285
Provision (reduction)	13	(11)	(42)	128	70	(8)	150
Loans charged off	(84)	-	(315)	(88)	(103)	-	(590)
Loan recoveries	-	7	27	17	2	-	53
Balance, end of period	$ 2,252	$ 3,227	$ 1,103	$ 829	$ 382	$ 105	$ 7,898

Six Months Ended June 30, 2016	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 3,205	$ 1,999	$ 1,578	$ 640	$ 1,041	$ 148	$ 8,611
Provision (reduction)	337	479	34	31	(464)	(17)	400
Loans charged off	(199)	-	(69)	(45)	-	-	(313)
Loan recoveries	-	5	14	8	-	-	27
Balance, end of period	$ 3,343	$ 2,483	$ 1,557	$ 634	$ 577	$ 131	$ 8,725

The following table shows the balance in the allowance for credit losses at June 30, 2017, and December 31, 2016, and the related loan balances, segregated on the basis of impairment methodology (in thousands). Impaired loans are loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment.

	Allowance For Credit Losses			Gross Loans and Leases Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
June 30, 2017						
Commercial and industrial	$ 423	$ 1,829	$ 2,252	$ 1,735	$ 126,976	$ 128,711
Commercial real estate	263	2,964	3,227	1,524	174,686	176,210
SBA	261	842	1,103	331	27,115	27,446
Consumer	12	817	829	319	66,583	66,902
Land and land development	-	382	382	52	15,126	15,178
Construction	-	105	105	-	11,365	11,365
Total	$ 959	$ 6,939	$ 7,898	$ 3,961	$ 421,851	$ 425,812
December 31, 2016						
Commercial and industrial	$ 514	$ 1,809	$ 2,323	$ 1,909	$ 121,695	$ 123,604
Commercial real estate	286	2,945	3,231	1,547	170,425	171,972
SBA	376	1,057	1,433	481	31,037	31,518
Consumer	14	758	772	333	58,850	59,183
Land and land development	-	413	413	-	15,982	15,982
Construction	-	113	113	-	12,215	12,215
Total	$ 1,190	$ 7,095	$ 8,285	$ 4,270	$ 410,204	$ 414,474

Performing and non-accrual loans

The Bank's key credit quality indicator is the loan's performance status, defined as accrual or non-accrual. Performing loans are considered to have a lower risk of loss and are on accrual status. Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when the Bank believes that the borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed on non-accrual status when it becomes 90 days or more past due unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, accrued but uncollected interest income applicable to the current reporting period is reversed against interest income. Accrued but uncollected interest income applicable to previous reporting periods is charged against the allowance for credit losses. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. Delinquent balances are determined based on the contractual terms of the loan adjusted for charge-offs and payments applied to principal.

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

	June 30, 2017					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 52,218	$ -	$ -	$ 52,218	$ 1,735	$ 53,953
Agriculture	25,240	-	-	25,240	-	25,240
Owner-occupied commercial real estate	49,518	-	-	49,518	-	49,518
Commercial real estate	176,210	-	-	176,210	-	176,210
SBA	27,115	-	-	27,115	331	27,446
Consumer:						
Automobile	10,990	-	-	10,990	24	11,014
Home equity	8,617	-	-	8,617	-	8,617
1st mortgage	14,534	-	-	14,534	-	14,534
Other	32,689	48	-	32,737	-	32,737
Land and land development	15,126	-	-	15,126	52	15,178
Construction	11,365	-	-	11,365	-	11,365
Total loans held for investment	423,622	48	-	423,670	2,142	425,812
Loans held for sale	37,745	-	-	37,745	-	37,745
Total gross loans	$ 461,367	$ 48	$ -	$ 461,415	$ 2,142	$ 463,557

	December 31, 2016					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 52,107	$ -	$ 20	$ 52,127	$ 1,909	$ 54,036
Agriculture	20,206	67	-	20,273	-	20,273
Owner-occupied commercial real estate	49,295	-	-	49,295	-	49,295
Commercial real estate	171,972	-	-	171,972	-	171,972
SBA	31,037	-	-	31,037	481	31,518
Consumer:						
Automobile	7,098	15	-	7,113	35	7,148
Home equity	8,787	-	-	8,787	-	8,787
1st mortgage	13,472	-	-	13,472	-	13,472
Other	29,722	54	-	29,776	-	29,776
Land and land development	15,827	155	-	15,982	-	15,982
Construction	12,215	-	-	12,215	-	12,215
Total loans held for investment	411,738	291	20	412,049	2,425	414,474
Loans held for sale	39,637	4	-	39,641	-	39,641
Total gross loans	$ 451,375	$ 295	$ 20	$ 451,690	$ 2,425	$ 454,115

The following table indicates the effect on income 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,	
	2017	2016	2017	2016
Interest income that would have been recorded	$ 42	$ 6	$ 82	$ 11
Interest income recorded	-	-	-	-
Effect on interest income	$ 42	$ 6	$ 82	$ 11

Credit Risk by Internally Assigned Grade

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

At June 30, 2017, the Company had $406.8 million of loans categorized as pass rated loans compared to $393.4 million at December 31, 2016.

Loans designated as watch list are loans that possess some credit deficiency that deserves close attention due to emerging problems. Such loans pose unwarranted financial risk that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. At June 30, 2017, the Company had $7.3 million of loans categorized as watch list loans compared to $8.1 million at December 31, 2016.

Loans graded as substandard or doubtful are considered “Classified” loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. At June 30, 2017, the Company had $9.6 million of substandard loans and $2.1 million of doubtful loans. This compares to $10.5 million of substandard loans and $2.4 million of doubtful loans as of December 31, 2016.

Impaired loans

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

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

	June 30, 2017				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance**	**Interest Income Recognized (6 months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,635	$ 1,735	$ 423	$ 1,793	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,823	1,524	263	1,535	39
SBA	295	287	261	287	-
Consumer:					
Automobile	26	24	12	26	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 4,779	$ 3,570	$ 959	$ 3,641	$ 39
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	72	44	-	44	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	1,878	295	-	296	6
Other	-	-	-	-	-
Land and land development	155	52	-	52	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 2,105	$ 391	$ -	$ 392	$ 6
TOTAL IMPAIRED LOANS	$ 6,884	$ 3,961	$ 959	$ 4,033	$ 45

	December 31, 2016				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance**	**Interest Income Recognized (12 months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,714	$ 1,909	$ 514	$ 2,128	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,846	1,547	286	1,569	80
SBA	510	481	376	489	-
Consumer:					
Automobile	30	28	14	33	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 5,100	$ 3,965	$ 1,190	$ 4,219	$ 80
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	-	-	-	-	-
Consumer:					
Automobile	10	7	-	7	-
Home equity		-	-	-	-
1st mortgage	1,878	298	-	302	12
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 1,888	$ 305	$ -	$ 309	$ 12
TOTAL IMPAIRED LOANS	$ 6,988	$ 4,270	$ 1,190	$ 4,528	$ 92

Troubled Debt Restructuring (TDRs)

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

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

	June 30, 2017			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,524	-	1,524	263
SBA	-	113	113	113
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	295	-	295	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,819	$ 113	$ 1,932	$ 376

	December 31, 2016			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,547	-	1,547	286
SBA	-	308	308	308
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	298	-	298	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,845	$ 308	$ 2,153	$ 594

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. Loan modifications are not reported as TDR's after 12 months if the loan was modified at a market rate of interest for comparable risk loans, and the loan is performing in accordance with the terms of the restructured agreement for at least six months.

When a loan is modified as a TDR, there may be a direct, material impact on the loans within the Balance Sheet, as principal balances may be partially forgiven. There were no new TDRs for the three or six month period ended June 30, 2017. There was one new TDR's for the three and six month period ended June 30, 2016 with a pre-modification and post-modification balance of $119 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 income 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,	
	2017	**2016**	**2017**	**2016**
Interest income that would have been recorded	$ 56	$ 56	$ 111	$ 112
Interest income recorded	22	23	45	43
Effect on interest income	$ 34	$ 33	$ 66	$ 69

There were no additional funds committed to borrowers who are in TDR status at June 30, 2017 and December 31, 2016.

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, 2017 and June 30, 2016 and defaulted during the three and six months ended June 30, 2017 and June 30, 2016.

NOTE 6 – Other Real Estate

Other real estate (ORE) includes property acquired through foreclosure, property in judgment and in-substance foreclosures. ORE is carried at fair value less estimated selling costs. Each property is evaluated regularly and the amounts provided to decrease the carrying amount are included in non-interest expense. A summary of the activity related to ORE is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance, beginning of period	$ 214	$ 242	$ 214	$ 242
Transfers from nonperforming loans	40	-	40	-
Real estate sold	(264)	-	(264)	(4)
Net gains on sale of assets	-	-	-	4
Provision	10	(17)	10	(17)
Balance, end of period	$ -	$ 225	$ -	$ 225

	June 30, 2017	December 31, 2016	June 30, 2016
Other real estate	$ -	$ 954	$ 954
Valuation allowance	-	(740)	(729)
Other real estate, net	$ -	$ 214	$ 225

NOTE 7 – Earnings Per Share

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

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Denominator for basic earnings per share:		
Average common shares outstanding	3,473,025	3,472,379
Dilutive effect of stock compensation	67,239	68,042
Denominator for diluted earnings per share	3,540,264	3,540,421
Numerator (in thousands):		
Net income	$ 1,435	$ 2,496
Basic earnings per common share	$ 0.41	$ 0.72
Diluted earnings per common share	$ 0.41	$ 0.70

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Denominator for basic earnings per share:		
Average common shares outstanding	3,447,687	3,444,242
Dilutive effect of stock compensation	74,346	74,702
Denominator for diluted earnings per share	3,522,033	3,518,944
Numerator (in thousands):		
Net income	$ 2,035	$ 3,450
Basic earnings per common share	$ 0.59	$ 1.00
Diluted earnings per common share	$ 0.58	$ 0.98

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 four 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	2002	2010	2015	Total
Total Shares in Plan	250,000	125,000	250,000	50,000	675,000
Total Shares Available for Issuance	48,751	-	250,000	43,513	342,264

Following is a summary of fully vested stock options and options expected to vest as of June 30, 2017:

	Stock Options Outstanding	Stock Options Currently Exercisable	Stock Options Vested and Expected to Vest
Number	75,600	75,600	75,600
Weighted-average exercise price	$3.00	$3.00	$3.00
Weighted-average remaining contractual term	2.71 years	2.71 years	2.71 years

The stock options currently outstanding can be exercised until they expire on March 17, 2020.

The Company recognized share-based compensation expense of $3,000 related to restricted stock for the three month period ended June 30, 2017, and $12,000 for the six month period ended June 30, 2017. The Company recognized share-based compensation expense of $25,000 related to restricted stock for the three month period ended June 30, 2016, and $59,000 for the six month period ended June 30, 2016.

At June 30, 2017, the Company had $6,000 of unamortized restricted stock compensation expense. All of this expense will be amortized by December 31, 2017. The cost of restricted stock granted is recognized over the vesting period, which is generally three or more years.

NOTE 9 – 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, 2017				Six Months Ended June 30, 2017
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 440,542	$ 29,880	$ 410,662	$ -	$ 447
Loans held for sale	37,745	-	37,745	-	(325)
Commitments to originate mortgage loans	1,505	-	1,505	-	(35)
Commitments to sell mortgage loans	227	-	227	-	(32)
Mortgage banking short positions	206	-	206	-	259
Total assets at fair value	$ 480,225	$ 29,880	$ 450,345	$ -	$ 314
LIABILITIES					
Mortgage banking short positions	$ -	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -	$ -

	Carrying Value at December 31, 2016				Twelve Months Ended December 31, 2016
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 400,136	$ 24,715	$ 375,421	$ -	$ 729
Loans held for sale	39,641	-	39,641	-	(23)
Commitments to originate mortgage loans	1,414	-	1,414	-	(379)
Commitments to sell mortgage loans	259	-	259	-	342
Total assets at fair value	$ 441,450	$ 24,715	$ 416,735	$ -	$ 669
LIABILITIES					
Mortgage banking short positions	$ 53	$ -	$ 53	$ -	$ (30)
Total liabilities at fair value	$ 53	$ -	$ 53	$ -	$ (30)

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

For the periods presented, Treasury Securities were considered to be Level 1 while all other assets and liabilities 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 Company may also be required from time to time to measure certain other financial assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. For assets measured at fair value on a nonrecurring basis, the following tables provide the level of valuation assumptions used to determine the carrying value (in thousands):

	Carrying Value at June 30, 2017				**Six Months Ended June 30, 2017**
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
Impaired loans[1]	$ 3,002	$ -	$ 3,002	$ -	$ (149)
Other real estate[2]	-	-	-	-	10
Total	$ 3,002	$ -	$ 3,002	$ -	$ (139)

	Carrying Value at December 31, 2016				**Twelve Months Ended December 31, 2016**
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
Impaired loans[1]	$ 3,080	$ -	$ 3,080	$ -	$ (1,714)
Other real estate[2]	214	-	214	-	4
Total	$ 3,294	$ -	$ 3,294	$ -	$ (1,710)

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

For the periods presented, all assets and liabilities valued at fair value on a nonrecurring basis were considered to be Level 2. There were no transfers into or out of Level 2 during the periods presented.

NOTE 10 – 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, 2017		December 31, 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 55,173	$ 55,173	$ 11,113	$ 11,113
Investment securities available for sale	Level 1	29,880	29,880	24,715	24,715
Investment securities available for sale	Level 2	410,662	410,662	375,421	375,421
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,897	2,897	4,411	4,411
Loans held for sale-mortgage banking	Level 2	37,745	37,745	39,641	39,641
Commitments to originate mortgage loans	Level 2	1,505	1,505	1,414	1,414
Commitments to sell mortgage loans	Level 2	227	227	259	259
Mortgage banking short positions	Level 2	206	206	-	-
Loans and leases held for investment, net	Level 2	418,312	419,138	406,388	405,302
Accrued interest receivable	Level 2	4,460	4,460	4,444	4,444
		$ 961,067	$ 961,893	$ 867,806	$ 866,720
Liabilities and Stockholders’ Equity:					
Deposits, noninterest-bearing	Level 2	$ 160,063	$ 160,063	$ 147,027	$ 147,027
Deposits, interest-bearing	Level 2	716,990	716,171	605,600	604,823
Borrowings and advances	Level 2	24,123	24,727	60,510	60,748
Accrued interest payable	Level 2	824	824	777	777
Accrued expenses	Level 2	4,981	4,981	6,685	6,685
Mortgage banking short positions	Level 2	-	-	53	53
Guaranteed preferred beneficial interests in Company’s subordinated debentures	Level 2	15,012	10,738	15,013	10,292
		$ 921,993	$ 917,504	$ 835,665	$ 830,405
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 125	$ -	$ 132
Standby and commercial letters of credit	Level 2	$ -	$ 9	$ -	$ 10

NOTE 11. Federal Home Loan Bank Advances

As of June 30, 2017, the Bank had no FHLB advances outstanding. At June 30, 2017, BNC Bank had mortgage loans with unamortized principal balances of approximately $138.2 million and investment securities with unamortized principal value of approximately $44.6 million pledged as collateral to the FHLB. The Bank had the ability to draw advances up to approximately $143.7 million based upon the aggregate collateral that was pledged, subject to a requirement to purchase additional FHLB stock.

As of December 31, 2016, the Bank had $38.0 million of FHLB advances outstanding. At December 31, 2016, the Bank has mortgage loans with unamortized principal balances of approximately $158.2 million and securities with unamortized principal balances of approximately $49.2 million pledged as collateral to the FHLB. The Bank had the ability to draw advances up to approximately $122.6 million based upon the aggregate collateral that was pledged, subject to a requirement to purchase additional FHLB stock.

NOTE 12. Long-Term Borrowings

The following table sets forth selected information for long-term borrowings (borrowings with an original maturity of greater than one year) (in thousands):

	June 30, 2017	December 31, 2016
Note payable, interest due quarterly beginning on April 1, 2016 and ending October 19, 2025, interest payable at a fixed rate of 6.35%	$ 10,000	$ 10,000

On October 19, 2015, the Company entered into a $10.0 million term loan agreement with another bank. The long term borrowing is subordinated debt that qualifies as Tier 2 capital for the Company. The loan agreement includes various covenants that are primarily operational rather than financial in nature. As of June 30, 2017, the Company was in compliance with these covenants. The note may be repaid, in whole or in part, by the Company at par beginning October 19, 2020.

NOTE 13 – Other Borrowings

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

June 30, 2017

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	$ 545	$ 380	$ -	$ 380
BNC Line	96,621	10,000	-	10,000
Total	$ 97,166	$ 10,380	$ -	$ 10,380

(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 June 30, 2017, the pledged collateral for the BNC National Bank Line was comprised of commercial loans and the pledged collateral for the BNC Line was the common stock of BNC National Bank.

December 31, 2016

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	$ 575	$ 406	$ -	$ 406
BNC Line	91,435	10,000	-	10,000
Total	$ 92,010	$ 10,406	$ -	$ 10,406

(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, 2016, the pledged collateral for the BNC National Bank Line was comprised of collateralized mortgage obligations and the pledged collateral for the BNC Line was the common stock of BNC National Bank.

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

In July 2007, BNC issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at June 30, 2017 and December 31, 2016 was 2.55% and 2.05%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 15 – Stockholders' Equity

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

On May 30, 2001, BNCCORP's Board of Directors adopted a rights plan intended to protect stockholder interests in the event BNCCORP becomes the subject of a takeover initiative that BNCCORP's Board believes could deny BNCCORP's stockholders the full value of their investment. This plan does not prohibit the Board from considering any offer that it deems advantageous to its stockholders.

Pursuant to the rights plan, the rights are issued to each common stockholder of record, and are exercisable only if a person acquires, or announces a tender offer, that would result in ownership of 15% or more of BNCCORP's outstanding common stock. The rights plan was amended in 2011 such that it now expires on May 30, 2021.

NOTE 16 – Regulatory Capital and Current Operating Environment

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

At June 30, 2017, our 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, 2017 and December 31, 2016 our 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, 2017								
Total Risk Based Capital:								
Consolidated	$ 106,554	19.77 %	$ 43,123	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	98,903	18.37	43,073	≥8.0	53,904	10.0	45,000	8.36
Tier 1 Risk Based Capital:								
Consolidated	89,802	16.66	32,342	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	92,158	17.12	32,304	≥6.0	43,073	8.0	49,085	9.12
Common Equity Tier 1 Risk Based Capital:								
Consolidated	74,790	13.87	24,257	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	92,158	17.12	24,228	≥4.5	34,997	6.5	57,161	10.62
Tier 1 Leverage Capital:								
Consolidated	89,802	8.90	40,341	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	92,158	9.15	40,289	≥4.0	50,361	5.0	41,797	4.15
Tangible Common Equity (to total assets):								
Consolidated	78,575	7.85	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	96,388	9.63	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2016								
Total Risk Based Capital:								
Consolidated	$ 103,887	19.96 %	$ 41,646	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	95,655	18.41	41,558	≥8.0	51,947	10.0	43,708	8.41
Tier 1 Risk Based Capital:								
Consolidated	87,358	16.78	31,235	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	89,139	17.16	31,168	≥6.0	41,558	8.0	47,581	9.16
Common Equity Tier 1 Risk Based Capital:								
Consolidated	72,345	13.90	23,426	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	89,139	17.16	23,376	≥4.5	33,766	6.5	55,373	10.66
Tier 1 Leverage Capital:								
Consolidated	87,358	9.47	36,902	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	89,139	9.67	36,873	≥4.0	46,092	5.0	43,048	4.67
Tangible Common Equity (to total assets):								
Consolidated	74,048	8.13	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	91,288	9.71	N/A	N/A	N/A	N/A	N/A	N/A

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

Due to significant deposit growth and related increase in funds held at the Federal Reserve, our Tier 1 leverage ratios and tangible common equity decreased since the beginning of the year. Risk based capital ratios did not experience similar decreases as funds held at the Federal Reserve are assigned a zero percent risk weighting in determining risk-weighted assets.

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

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

Comparison of Results for the Three and Six Months Ended June 30, 2017 and 2016

Summary for the Three Months Ended June 30, 2017 and 2016

Net income was $1.435 million, or $0.41 per diluted share, for the quarter ended June 30, 2017. This compared to net income of $2.035 million, or $0.58 per diluted share, in the second quarter of 2016.

Net interest income for the second quarter of 2017 was $7.039 million, an increase of $557 thousand, or 8.6%, from $6.482 million for the same period of 2016. The net interest margin for the current period decreased to 2.96% from 3.01% a year ago.

Interest income was $7.901 million for the quarter ended June 30, 2017 compared to $7.346 million for the second quarter of 2016. This increase is the result of higher yields and balances of taxable investments, loans held for investment, and funds held at the Federal Reserve resulting from successful deposit generation. The yield on average interest earning assets decreased to 3.34% from 3.42% in the same quarter of 2016. During the second quarter of 2017, the average balance of interest earning assets increased by $87.0 million when compared to the second quarter of 2016. Average loans held for investment increased $13.5 million, or 3.4%, and average loans held for sale decreased by $21.4 million, in the second quarter of 2017 compared to the same quarter in 2016. The average balance of investment securities increased by $16.7 million in the second quarter of 2017, compared to the same period a year ago. Yields on investment securities increased to 2.37% in the second quarter of 2017 from 2.11% in the same period of 2016.

Interest expense in the second quarter of 2017 was $862 thousand, a decrease of $2 thousand from the same period in 2016. The cost of interest bearing liabilities decreased to 0.46% in the current quarter from 0.50% in the second quarter 2016. The lower cost of funds is a product of redeeming brokered certificates of deposits in 2016 and no outstanding FHLB advances in the quarter, which collectively offset the impact of higher balances and rates on money market accounts and consumer certificates of deposits. The cost of core deposits was 0.27% in the second quarter of 2017 and 0.22% in the second quarter of 2016, due largely to higher balances of retail certificates of deposit, which generally have higher rates than non-maturity deposits. Average core deposits, which excludes brokered deposits, increased $153.6 million, or 20.6%, during the second quarter of 2017 compared to the second quarter of 2016.

Total loans held for investment increased by $26.5 million, or 6.6%, from June 30, 2016 and increased by $11.5 million, or 2.8%, from December 31, 2016. Mortgage loans held for sale decreased by $21.4 million, or 36.2%, from June 30, 2016 and $1.9 million from December 31, 2016.

Total deposits increased by $124.4 million to $877.1 million at June 30, 2017 from $752.6 million at December 31, 2016 as BNC grew deposits in all markets, particularly in North Dakota. Our growth in the non-Bakken branches was $101.4 million, or 26.4%, and a significant portion of this growth was predominantly the result of significant cash generating transactions by our customers during the first quarter of 2017. BNC anticipates that a substantial portion of these deposit balances will be redeployed by our customers as 2017 continues. Core deposits, which excludes brokered deposits, increased $126.0 million to $891.2 million at June 30, 2017 from December 31, 2016 and $134.7 million from June 30, 2016.

Other borrowings decreased $36.4 million at June 30, 2017 compared to December 31, 2016. In early 2017, Federal Home Loan Bank short-term advances were paid down as deposits increased and mortgage funding experienced seasonal declines. The short-term nature of Federal Home Loan Bank advances provide flexibility for the Company to manage the balance sheet.

Provision for credit losses was $150 thousand in the second quarter of 2017 compared to $400 thousand in the second quarter of 2016.

Non-interest income for the second quarter of 2017 was $5.157 million. This compares to non-interest income of $7.495 million for the same period in 2016, a decrease of $2.338 million, or 31.2%. Mortgage banking revenues aggregated $3.072 million in the current period compared to $5.354 million in the second quarter of 2016. During the second quarter 2017, periods of interest rate volatility had the dual effects of dampening mortgage volume and compressing loan margins. Mortgage volume and margins began to show improvement toward the latter part of the second quarter 2017. Gains on sales of loans and investment securities aggregated $246 thousand in the second quarter 2017, compared to $615 thousand in the prior year second quarter, as these revenues can vary significantly from period to period. Other income increased due to the confidential settlement of a litigation matter.

Non-interest expense for the second quarter of 2017 was $10.131 million compared to $10.628 million in the same period of 2016, a decrease of $497 thousand. Salaries and benefits decreased $399 thousand from the second quarter 2016. The number of full time equivalent employees ("FTEs") at June 30, 2017 was 268, down by 23 FTE's, or 7.9%, since December 31, 2016. Employee headcount decreased 15 during the second quarter of 2017 and 37, or 8.8%, since December 31, 2016. Much of the headcount decrease related to mortgage support staff as the business is being right-sized to fit current revenues. Professional services in the second quarter of 2017 were down $150 thousand, or 11.8%, due to reduced mortgage banking activities.

In the second quarter of 2017, we recorded tax expense of $480 thousand which resulted in an effective tax rate of 25.1% for the quarter. A tax expense of $914 thousand was recognized during the second quarter of 2016, which resulted in an effective tax rate of 31.0%. The decrease in the effective tax rate is primarily due to a higher percentage of pretax income from tax-exempt securities as compared to the prior year second quarter.

Summary for the Six Months Ended June 30, 2017 and 2016

Net income was $2.496 million, or $0.70 per diluted share, for the six months ended June 30, 2017. This compared to net income of $3.450 million, or $0.98 per diluted share, in the first six months of 2016.

Net interest income for the six months ended June 30, 2017 was $13.572 million, an increase of $814 thousand, or 6.4%, from $12.758 million for the same period of 2016. The net interest margin for the current period increased to 3.02% from 3.01% a year ago.

Interest income was $15.215 million for the first six months of 2017 compared to $14.521 million for the first six months of 2016. This increase is the result of higher yields on taxable investments, higher average balances of loans held for investment, and increased funds held at the Federal Reserve. The yield on average interest earning assets decreased to 3.41% from 3.43% in the first six months of 2016 due to the higher proportion of earning assets being held at the Federal Reserve compared to the prior year. During the first half of 2017, the average balance of interest earning assets increased by $52.9 million when compared to the first half of 2016. Average loans held for investment increased $22.9 million, or 5.8%, and average loans held for sale decreased by $17.2 million, in the first six months of 2017 compared to the same period in 2016. The average balance of investment securities decreased by $1.1 million in the six month period ended June 30, 2017, compared to the same period a year ago. Yields on investment securities increased to 2.32% in the first six months of 2017 from 2.17% in the same period of 2016.

Interest expense in the first half of 2017 was $1.643 million, a decrease of $120 thousand from the same period in 2016. The cost of interest bearing liabilities decreased to 0.46% in the first six months of 2017 from 0.52% in the first six months of 2016. In the first half of 2016, the Company redeemed the remaining balances of outstanding brokered certificates of deposit; thus, we incurred brokered certificate of deposit interest expense of $461 thousand during the first half of 2016 that did not recur in 2017. Interest expense increased in other categories of deposits, driven largely by increased volume and cost of consumer certificates of deposit and money market accounts. The cost of core deposits was 0.27% in the first half of 2017 and 0.21% in the first half of 2016, due largely to higher balances of retail certificates of deposit, which generally have higher rates than non-maturity deposits.

Provision for credit losses was $150 thousand in the first six months of 2017 compared to $400 thousand in 2016.

Non-interest income for the six months ended June 30, 2017 was $9.904 million. This compares to non-interest income of $13.146 million for the same period in 2016, a decrease of $3.242 million, or 24.7%. Mortgage banking revenues aggregated $5.576 million in the current period compared to $9.729 million in the first six months of 2016. During the first half of 2016, we experienced higher loan volume, as interest rates were favorable. Mortgage banking revenues were lower in the first half of 2017 as rates moved higher, dampening demand and compressing margins. Mortgage volume began to rise in the first quarter 2017, and margins began to show improvement toward the latter part of the second quarter of 2017. Gains on sales of loans and investment securities aggregated $1.059 million in the first half of 2017, compared to $660 thousand in the prior year first six months.

Non-interest expense for the six months ended June 30, 2017 was $19.989 million compared to $20.474 million in the same period of 2016, a decrease of $485 thousand. Salaries and benefits decreased $412 thousand from the first six months of 2016. The number of full time equivalent employees ("FTEs") at June 30, 2017 was 268, down by 23 FTE's, or 7.9%, since December 31, 2016. In the first half of 2017 employee headcount was reduced by 37 or 8.8%, as the company is reducing staff in the mortgage banking operations. Mortgage related professional expenses decreased compared to the first half of 2016 by approximately $392 thousand.

During the six month period ended June 30, 2017, we recorded tax expense of $841 thousand, which resulted in an effective tax rate of 25.2% for the first six months. A tax expense of $1.580 million was recognized during the six month period ended June 30, 2016, which resulted in an effective tax rate of 31.4%. The decrease is primarily due to a higher percentage of pretax income from tax-exempt securities.

Net Interest Income

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

	Three Months Ended June 30,								
	2017			2016			Change		
	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost
Interest-earning assets									
Federal funds sold/cash equivalents	$ 80,959	$ 215	1.07%	$ 1,212	$ 1	0.33%	$ 79,747	$ 214	0.74% (a)
Investments - taxable	350,916	1,939	2.22%	331,550	1,538	1.86%	19,366	401	0.36% (b)
Investments - tax exempt	85,804	653	3.04%	90,500	671	2.98%	(4,696)	(18)	0.06% (b)
Loans held for sale – mortgage banking	28,667	262	4.62%	50,096	409	3.28%	(21,429)	(147)	1.34% (c)
Loans and leases held for investment	413,673	4,832	4.69%	400,158	4,727	4.75%	13,515	105	-0.06% (d)
Allowance for loan losses	(7,886)	-	0.00%	(8,353)	-	0.00%	467	-	0.00%
Total interest-earning assets	$ 952,133	$ 7,901	3.34%	$ 865,163	$ 7,346	3.42%	$ 86,970	$ 555	-0.08%
Interest-bearing liabilities									
Interest checking and money market	$ 520,334	$ 222	0.17%	$ 423,360	$ 136	0.13%	$ 96,974	$ 86	0.04% (e)
Savings	35,282	3	0.03%	32,002	2	0.03%	3,280	1	0.00% (e)
Certificates of deposit under $100,000	60,036	134	0.91%	81,503	310	1.53%	(21,467)	(176)	-0.62% (e)
Certificates of deposit $100,000 and over	97,870	243	1.01%	70,082	115	0.66%	27,788	128	0.35% (e)
Total interest-bearing deposits	713,522	602	0.34%	606,947	563	0.37%	106,575	39	-0.03%
Short-term borrowings	13,629	5	0.16%	13,580	6	0.15%	49	(1)	0.01%
Federal Home Loan Bank advances	-	-	0.00%	49,713	61	0.49%	(49,713)	(61)	-0.49% (f)
Long-term borrowings	10,000	159	6.35%	10,000	158	6.39%	-	1	-0.04%
Subordinated debentures	15,012	96	2.53%	15,015	76	2.04%	(3)	20	0.49%
Total borrowings	38,641	260	2.70%	88,308	301	1.37%	(49,667)	(41)	1.33%
Total interest-bearing liabilities	$ 752,163	862	0.46%	$ 695,255	864	0.50%	$ 56,908	(2)	-0.04%
Net interest income/spread		$ 7,039	2.88%		$ 6,482	2.92%		$ 557	-0.04%
Net interest margin			2.96%			3.01%			-0.05%
Notation:									
Non-interest-bearing deposits	$ 172,843	-		$ 141,102	-		$ 31,741	-	(e)
Total deposits	$ 886,365	$ 602	0.27%	$ 748,049	$ 563	0.30%	$ 138,316	$ 39	-0.03%
Taxable equivalents:									
Total interest-earning assets	$ 952,133	$ 8,258	3.52%	$ 865,163	$ 7,711	3.58%	$ 86,970	$ 547	-0.06%
Net interest income/spread	-	$ 7,396	3.05%	-	$ 6,847	3.08%	-	$ 549	-0.03%
Net interest margin	-	-	3.15%	-	-	3.18%	-	-	-0.03%

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business. Increase largely relates to significant deposits by customers.

(b) Average investment portfolio balances have increased as deposit balances increase and funding of mortgage loans remains low.

(c) The average balance of loans held for sale decreased in 2017 as volumes decreased due to low funding activity in mortgage banking.

(d) The average balance of loans held for investment rose in the second quarter of 2017 due to steady loan activity in our core market areas.

(e) Overall deposit balances have increased primarily due to higher money market and retail certificates of deposit being partially offset by decreased brokered certificates of deposits. In 2016, BNC redeemed $33.4 million of higher rate callable brokered certificates of deposit. Included in the second quarter of 2016 are costs of $92 thousand related to the redemption of the brokered certificates of deposit.

(f) Federal Home Loan Bank short term advances have been utilized to flexibly manage our balance sheet. In early 2017, the advances were paid down as deposits increased and the liquidity needs of the mortgage business decreased.

	Six Months Ended June 30,								
	2017			2016			Change		
	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost
Interest-earning assets									
Federal funds sold/cash equivalents	$ 51,650	$ 259	1.01%	$ 2,646	$ 9	0.68%	$ 49,004	$ 250	0.33% (a)
Investments - taxable	333,090	3,529	2.14%	330,024	3,183	1.94%	3,066	346	0.20% (b)
Investments - tax exempt	86,871	1,325	3.05%	92,169	1,365	2.98%	(5,298)	(40)	0.07% (b)
Loans held for sale – mortgage banking	26,462	494	4.66%	43,634	731	3.37%	(17,172)	(237)	1.29% (c)
Loans and leases held for investment	414,899	9,608	4.67%	391,976	9,233	4.74%	22,923	375	-0.07% (d)
Allowance for loan losses	(8,029)	-	0.00%	(8,435)	-	0.00%	406	-	0.00%
Total interest-earning assets	$ 904,943	$ 15,215	3.41%	$ 852,014	$ 14,521	3.43%	$ 52,929	$ 694	-0.02%
Interest-bearing liabilities									
Interest checking and money market	$ 483,332	$ 390	0.16%	$ 427,468	$ 272	0.13%	$ 55,864	$ 118	0.03% (e)
Savings	34,390	5	0.03%	32,086	5	0.03%	2,304	-	0.00% (e)
Certificates of deposit under $100,000	58,219	259	0.90%	79,273	740	1.88%	(21,054)	(481)	-0.98% (e)
Certificates of deposit $100,000 and over	95,060	460	0.98%	71,151	196	0.55%	23,909	264	0.43% (e)
Total interest-bearing deposits	671,001	1,114	0.33%	609,978	1,213	0.40%	61,023	(99)	-0.07%
Short-term borrowings	12,813	10	0.16%	13,771	11	0.16%	(958)	(1)	0.00%
Federal Home Loan Bank advances	3,791	16	0.83%	30,778	74	0.48%	(26,987)	(58)	0.35% (f)
Long-term borrowings	10,000	318	6.35%	10,000	316	6.35%	-	2	0.00%
Subordinated debentures	15,013	185	2.46%	15,015	149	2.00%	(2)	36	0.46%
Total borrowings	41,617	529	2.56%	69,564	550	1.59%	(27,947)	(21)	0.97%
Total interest-bearing liabilities	$ 712,618	1,643	0.46%	$ 679,542	1,763	0.52%	$ 33,076	(120)	-0.06%
Net interest income/spread		$ 13,572	2.94%		$ 12,758	2.91%		$ 814	0.03%
Net interest margin			3.02%			3.01%			0.01%
Notation:									
Non-interest-bearing deposits	$ 164,151	-		$ 144,602	-		$ 19,549	-	(e)
Total deposits	$ 835,152	$ 1,114	0.27%	$ 754,580	$ 1,213	0.32%	$ 80,572	$ (99)	-0.05%
Taxable equivalents:									
Total interest-earning assets	$ 904,943	$ 15,939	3.55%	$ 852,014	$ 15,264	3.60%	$ 52,929	$ 675	-0.05%
Net interest income/spread	-	$ 14,296	3.09%	-	$ 13,501	3.08%	-	$ 795	0.01%
Net interest margin	-	-	3.18%	-	-	3.19%	-	-	-0.01%

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business. Increase relates largely to significant deposits by customers.

(b) Average investment portfolio balances are slightly lower as the remaining brokered certificates of deposit were redeemed in the third quarter of 2016 and average cash balances are higher in the current period.

(c) The average balance of loans held for sale decreased in 2017 as volumes decreased due to low funding activity in mortgage banking.

(d) The average balance of loans held for investment rose in 2017 compared to the first half of 2016 due to increased loan activity in our core market areas throughout 2016.

(e) Overall deposit balances have increased primarily due to higher money market and retail certificates of deposit being partially offset by decreased brokered certificates of deposits. In 2016, BNC redeemed $33.4 million of higher rate callable brokered certificates of deposit. Included in the first half of 2016 are costs of $233 thousand related to the redemption of the brokered certificates of deposit.

(f) Federal Home Loan Bank short term advances have been utilized to flexibly manage our balance sheet. In early 2017, the advances were paid down as deposits increased and the liquidity needs of the mortgage business decreased.

Non-interest Income

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

	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)		
	2017	2016	$	%	2017	2016	$	%	
Bank charges and service fees	$ 671	$ 689	$ (18)	(3) %	$ 1,359	$ 1,363	$ (4)	- %	
Wealth management revenues	411	395	16	4 %	872	783	89	11 %	(a)
Mortgage banking revenues	3,072	5,354	(2,282)	(43) %	5,576	9,729	(4,153)	(43) %	(b)
Gains on sales of loans, net	69	178	(109)	(61) %	612	223	389	174 %	(c)
Gains on sales of securities, net	177	437	(260)	(59) %	447	437	10	2 %	
Other	757	442	315	71 %	1,038	611	427	70 %	(d)
Total non-interest income	$ 5,157	$ 7,495	$ (2,338)	(31) %	$ 9,904	$ 13,146	$ (3,242)	(25) %	

(a) Wealth management revenues increased as assets under management increased.
(b) Mortgage banking revenues were lower in 2017 as increasing rates resulted in lower mortgage production and compressed margins.
(c) Gains on sales of loans were lower in the second quarter of 2017 when compared to 2016. Year-to-date gains on the sale of loans increased as a result of increased SBA loan production in the fourth quarter of 2016 and first quarter of 2017 resulting in higher gains during the first quarter of 2017. Gains on sale of loans can vary significantly from period to period.
(d) Other income increased due to the confidential settlement of a litigation matter.

Non-interest Expense

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

	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)		
	2017	2016	$	%	2017	2016	$	%	
Salaries and employee benefits	$ 5,130	$ 5,529	$ (399)	(7) %	$ 10,369	$ 10,781	$ (412)	(4) %	(a)
Professional services	1,116	1,266	(150)	(12) %	2,169	2,224	(55)	(2) %	(b)
Data processing fees	990	947	43	5 %	1,870	1,807	63	3 %	
Marketing and promotion	1,057	979	78	8 %	1,783	1,902	(119)	(6) %	
Occupancy	574	545	29	5 %	1,194	1,069	125	12 %	(c)
Regulatory costs	131	167	(36)	(22) %	263	334	(71)	(21) %	(d)
Depreciation and amortization	409	378	31	8 %	809	721	88	12 %	
Office supplies and postage	160	173	(13)	(8) %	327	349	(22)	(6) %	
Other real estate costs	(23)	20	(43)	(215) %	(21)	22	(43)	(195) %	(e)
Other	587	624	(37)	(6) %	1,226	1,265	(39)	(3) %	
Total non-interest expense	$ 10,131	$ 10,628	$ (497)	(5) %	$ 19,989	$ 20,474	$ (485)	(2) %	
Efficiency ratio	83.2%	76.0%			85.2%	79.0%			

(a) Salaries and employee benefits decreased as we reduce mortgage support staff as the business is being right-sized to fit current revenues and decreased incentive compensation expense.
(b) Professional service expense is lower in the second quarter in line with reduced mortgage banking activity.
(c) Occupancy increased due to higher seasonal maintenance expense in banking locations and costs incurred to modify mortgage banking locations.
(d) Regulatory costs decreased due to a decrease in the FDIC assessment rate.
(e) Other real estate costs will vary from period to period depending on valuation adjustments on our foreclosed properties– see Note 6. At June 30, 2017, the Company held no properties in other real estate.

Income Taxes

In the second quarter of 2017, we recorded tax expense of $480 thousand, which resulted in an effective tax rate of 25.1% for the quarter. A tax expense of $914 thousand was recognized during the second quarter of 2016, which resulted in an effective tax rate of 31.0%. The decrease in the effective tax rate is primarily due to a higher percentage of pretax income from tax-exempt securities as compared to the prior year second quarter.

During the six month period ended June 30, 2017, we recorded a tax expense of $841 thousand, equating to an effective tax rate of 25.2%. We recorded tax expense of $1.580 million during the six month period ended June 30, 2016, which resulted in an effective tax rate of 31.4%. The decrease is primarily due to a higher percentage of pretax income from tax-exempt securities.

Comparison of Financial Condition at June 30, 2017 and December 31, 2016

Assets

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

	June 30, 2017	December 31, 2016	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 55,173	$ 11,113	$ 44,060	396 %	(a)
Investment securities available for sale	440,542	400,136	40,406	10 %	(b)
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	2,897	4,411	(1,514)	(34) %	(c)
Loans held for sale-mortgage banking	37,745	39,641	(1,896)	(5) %	
Loans and leases held for investment, net	426,210	414,673	11,537	3 %	
Allowance for credit losses	(7,898)	(8,285)	387	(5) %	
Other real estate and repossessed assets, net	13	218	(205)	(94) %	(d)
Premises and equipment, net	19,604	19,381	223	1 %	
Accrued interest receivable	4,460	4,444	16	- %	
Other assets	22,759	24,668	(1,909)	(8) %	
Total assets	$ 1,001,505	$ 910,400	$ 91,105	10 %	

(a) Cash balances can fluctuate significantly. This increase largely relates to significant deposits by customers experiencing large cash generating transactions in the first quarter 2017.
(b) Investment balances have increased as we deployed a portion of new deposits to investment securities.
(c) The change in FHLB stock varies in proportion to the level of FHLB advances outstanding.
(d) Decrease relates to the sale of other real estate. See Note 6.

Loan Participations

Pursuant to our lending policy, loans may not exceed 85 percent of the Bank’s legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits) unless the Bank’s Chief Credit Officer or the Executive Credit Committee grant prior approval. To accommodate creditworthy customers whose financing needs exceed lending limits and internal restrictions, the Bank sells loan participations to outside participants without recourse. Loan participations sold on a nonrecourse basis to outside financial institutions were $167.6 million as of June 30, 2017 and $182.2 million as of December 31, 2016. The sales of participations are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Concentrations of Credit

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

	June 30, 2017		December 31, 2016	
North Dakota	$ 304,496	71 %	$ 291,412	70 %
Arizona	66,118	16 %	67,751	16 %
Minnesota	22,363	5 %	23,083	6 %
Other	32,835	8 %	32,228	8 %
Total gross loans and leases held for investment	$ 425,812	100 %	$ 414,474	100 %

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

	June 30, 2017		December 31, 2016	
North Dakota	$ 285,886	67 %	$ 272,717	66 %
Arizona	88,013	21 %	88,196	21 %
Minnesota	14,483	4 %	14,628	4 %
California	10,187	2 %	10,422	3 %
Colorado	8,569	2 %	9,141	2 %
Ohio	8,288	2 %	8,440	2 %
Other	10,386	2 %	10,930	2 %
Total gross loans and leases held for investment	$ 425,812	100 %	$ 414,474	100 %

Loan Maturities[(1)]

The following table sets forth the remaining maturities of loans in each major category of our portfolio as of June 30, 2017 (in thousands):

		Over 1 year through 5 years		Over 5 years		Total Loans and Leases
	One year or less	Fixed Rate	Floating Rate	Fixed Rate	Floating rate	Held for Investment
Commercial and industrial	$ 17,982	$ 507	$ 25,036	$ 39,952	$ 45,234	$ 128,711
Commercial real estate	4,067	5,754	8,900	32,478	125,011	176,210
SBA	247	-	4,491	2,022	20,686	27,446
Consumer	1,433	322	5,063	51,698	8,386	66,902
Land and land development	350	538	1,896	6,575	5,819	15,178
Construction	4,159	3,794	3,412	-	-	11,365
Total principal amount of loans	$ 28,238	$ 10,915	$ 48,798	$ 132,725	$ 205,136	$ 425,812

(1) Maturities are based on contractual maturities. Floating rate loans include loans that would reprice prior to maturity if base rates change.

Actual maturities may differ from the contractual maturities shown above as a result of renewals and prepayments. Loan renewals are evaluated in the same manner as new credit applications.

Allocation of the Allowance for Credit Losses

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

	June 30, 2017		December 31, 2016	
	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment
Commercial and industrial	$ 2,252	30 %	$ 2,323	30 %
Commercial real estate	3,227	41 %	3,231	41 %
SBA	1,103	6 %	1,433	8 %
Consumer	829	16 %	772	14 %
Land and land development	382	4 %	413	4 %
Construction	105	3 %	113	3 %
Total	$ 7,898	100 %	$ 8,285	100 %

Nonperforming Loans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance, beginning of period	$ 2,672	$ 672	$ 2,445	$ 565
Additions to nonperforming	159	1,980	716	2,135
Charge-offs	(330)	(64)	(536)	(95)
Reclassified back to performing	-	(175)	-	(175)
Principal payment received	(319)	(72)	(443)	(89)
Transferred to other real estate owned	(40)	-	(40)	-
Balance, end of period	$ 2,142	$ 2,341	$ 2,142	$ 2,341

Nonperforming Assets

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

	June 30, 2017	December 31, 2016
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ -	$ 20
Non-accrual loans	2,142	2,425
Total nonperforming loans	2,142	2,445
Other real estate, net	13	218
Total nonperforming assets	$ 2,155	$ 2,663
Allowance for credit losses	$ 7,898	$ 8,285
Ratio of total nonperforming loans to total loans	0.46%	0.54%
Ratio of total nonperforming loans to loans and leases held for investment	0.50%	0.59%
Ratio of total nonperforming assets to total assets	0.22%	0.29%
Ratio of nonperforming loans to total assets	0.21%	0.27%
Ratio of allowance for credit losses to nonperforming loans	369%	339%

Potential Problem Loans

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

	Watch List			Substandard		
	Impaired	Other	Total	Impaired	Other	Total
June 30, 2017	$ -	$ 7,343	$ 7,343	$ 52	$ 9,521	$ 9,573
December 31, 2016	-	8,125	8,125	6	10,511	10,517

At June 30, 2017, the Bank had $11.7 million of classified loans and $2.1 million of loans on non-accrual. This compares to $12.9 million of classified loans and $2.4 million of loans on non-accrual at December 31, 2016 and $4.1 million of classified loans and $2.3 million of loans on non-accrual at June 30, 2016.

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 our position as creditor is protected to the fullest extent possible.

Other Real Estate

See Note 6 of our Financial Statements for information on other real estate owned.

Liabilities

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

	June 30, 2017	December 31, 2016	Increase (Decrease) $	%	
Deposits:					
Non-interest-bearing	$ 160,063	$ 147,027	$ 13,036	9 %	(a)
Interest-bearing-					
Savings, interest checking and money market	558,691	453,897	104,794	23 %	(a)
Time deposits under $100,000	61,689	58,789	2,900	5 %	
Time deposits $100,000 and over	96,610	92,914	3,696	4 %	
Short-term borrowings	14,123	12,510	1,613	13 %	
Federal Home Loan Bank advances	-	38,000	(38,000)	(100) %	(b)
Long-term borrowings	10,000	10,000	-	- %	
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,012	15,013	(1)	- %	
Accrued interest payable	824	777	47	6 %	
Accrued expenses	4,981	6,685	(1,704)	(25) %	(c)
Other liabilities	704	593	111	19 %	
Total liabilities	$ 922,697	$ 836,205	$ 86,492	10 %	

(a) BNC markets have been successful in generating deposit growth throughout 2017. This increase largely relates to significant deposits by customers experiencing large cash generating transactions in the first quarter 2017.

(b) The Company has borrowed on a short-term basis from the Federal Home Loan Bank as an efficient source of liquidity. As deposits have increased, and mortgage funding levels decreased, the utilization of this liquidity option decreased.

(c) The decrease is primarily due to the timing of payroll and benefit accruals.

Mortgage Banking Obligations

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations, which aggregated $1.2 million at June 30, 2017 and $1.3 million at December 31, 2016. Although we sell mortgage banking loans without recourse, industry standards require standard representations and warranties which require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk is also evident within the mortgage banking industry as continued disputes arise between lenders and investors. Such requests for repurchase are commonly due to faulty representation and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the contingent obligation, we track historical reimbursements and calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, we estimate 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,	
	2017	2016	2017	2016
Balance, beginning of period	$ 1,039	$ 1,599	$ 1,339	$ 1,781
Provision	-	50	-	50
(Write offs) Recoveries, net	118	(9)	(182)	(191)
Balance, end of period	$ 1,157	$ 1,640	$ 1,157	$ 1,640

Stockholders’ Equity

Our stockholders’ equity increased $4.6 million between December 31, 2016 and June 30, 2017 primarily due to $2.5 million in additional retained earnings and an increase in unrealized gains and losses in our investment portfolio of $2.1 million. As presented in Note 16 – Regulatory Capital and Current Operating Environment, the Company maintains capital in excess of regulatory requirements.

The Company routinely evaluates the sufficiency of its capital in order to ensure compliance with regulatory capital standards and be a source of strength for the Bank. We manage capital by assessing the composition of capital and amounts available for growth, risk or other purposes. In recent periods, capital has grown through retention of earnings and the Company has reduced certain higher cost forms of capital such as the redemption in 2014 of $7.5 million in Guaranteed Preferred Beneficial Interests in Subordinated Debt costing 12.05% and the redemption in 2015 of $21.1 million of Series A and B Preferred Stock costing 9%. Management will continue to evaluate capital requirements and prudent capital management opportunities.

Liquidity Risk Management

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

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

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

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

1. Estimated liquid assets less estimated volatile liabilities using the aforementioned methodology ($140.8 million as of June 30, 2017);
2. Borrowing capacity from the FHLB ($143.7 million as of June 30, 2017); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($142.4 million as of June 30, 2017).

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

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

Our liquidity assessment process segregates our balance sheet into liquid assets and short-term liabilities assumed to be vulnerable to non-replacement over a 30 day horizon in abnormally stringent conditions. Assumptions for the vulnerable short-term liabilities are based upon historical factors. We have a targeted range for our liquidity position over this horizon and manage operations to achieve these targets.

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Our primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes our assumptions regarding the changes in interest rates and the impact on our current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month end balances of the various balance sheet accounts are held constant at their June 30, 2017 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, 2017 level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

We monitor the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of June 30, 2017, the downward scenarios for interest rate movements is limited to -100bp but a +400bp scenario has been added. 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 4.25% to 5.25% 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	+400bp
Projected 12-month net interest income	$ 30,167	$ 31,161	$ 30,828	$ 30,501	$ 30,168	$ 30,226
Dollar change from unchanged scenario	$ (994)	$ -	$ (333)	$ (660)	$ (993)	$ (935)
Percentage change from unchanged scenario	(3.19)%	-	(1.07)%	(2.12)%	(3.19)%	(3.00)%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of June 30, 2017 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate any actions we might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the “rate sensitivity position” or “gap position.” The following table sets forth our rate sensitivity position as of June 30, 2017. 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, 2017				
	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	$ 55,173	$ -	$ -	$ -	$ 55,173
Investment securities (a)	140,299	12,566	120,434	121,051	394,350
FRB and FHLB stock	2,897	-	-	-	2,897
Fed funds sold	-	-	-	-	-
Loans held for sale-mortgage banking, fixed rate	-	37,745	-	-	37,745
Loans held for sale-mortgage banking, floating rate	-	-	-	-	-
Loans held for investment, fixed rate	6,660	26,401	90,858	26,780	150,699
Loans held for investment, indexed rate	85,269	14,331	172,374	3,537	275,511
Total interest-earning assets	$ 290,298	$ 91,043	$ 383,666	$ 151,368	$ 916,375
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 522,291	$ -	$ -	$ -	$ 522,291
Savings	36,400	-	-	-	36,400
Time deposits under $100,000	18,497	20,663	22,251	278	61,689
Time deposits $100,000 and over	49,407	21,203	26,000	-	96,610
Short-term borrowings	14,123	-	-	-	14,123
FHLB advances	-	-	-	-	-
Long-term borrowings	-	-	-	10,000	10,000
Subordinated debentures	15,000	-	-	12	15,012
Total interest-bearing liabilities	$ 655,718	$ 41,866	$ 48,251	$ 10,290	$ 756,125
Interest rate gap	$ (365,420)	$ 49,177	$ 335,415	$ 141,078	$ 160,250
Cumulative interest rate gap at June 30, 2017	$ (365,420)	$ (316,243)	$ 19,172	$ 160,250	
Cumulative interest rate gap to total assets	(36.49)%	(31.58)%	1.91%	16.00%	

(a) Values for investment securities reflect the timing of the estimated principal cash flows from the securities based on par values, which vary from the amortized cost and fair value of our investments.

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

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of June 30, 2017 and do not contemplate any actions we might undertake in response to changes in market interest rates.

OTHER INFORMATION

Legal Proceedings

From time to time, we may be a party to legal proceedings arising out of our lending, deposit operations or other activities. We engage in foreclosure proceedings and other collection actions as part of our loan collection activities. From time to time, borrowers may also bring actions against us, in some cases claiming damages. Some financial services companies have been subjected to significant exposure in connection with litigation, including class action litigation and punitive damage claims. While we are not aware of any such actions or allegations that should reasonably give rise to any material adverse effect, it is possible that we could be subjected to such a claim in an amount that could be material. Based upon a review with our legal counsel, we believe that the ultimate disposition of such pending litigation will not have a material effect on our financial condition, results of operations or cash flows.

Annual Meeting of Stockholders

At the Annual Meeting of Stockholders of BNCCORP, INC. on June 21, 2017, the stockholders (i) elected Timothy J. Franz and Michael M. Vekich to serve as members of the Board of Directors of the Company until the Company's 2020 Annual Meeting of Stockholders, (ii) approved a Certificate of Amendment to the Company's Certificate of Incorporation to decrease the number of authorized shares of capital stock of the Company, and (iii) ratified the appointment of KPMG, LLP as the Company's independent auditor for 2017.

Signatures

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

BNCCORP, INC.

Date:	August 11, 2017	By:	/s/ Timothy J. Franz
			Timothy J. Franz President and Chief Executive Officer
		By:	/s/ Daniel J. Collins
			Daniel J. Collins Chief Financial Officer