Quarterly Report

For the quarter ended March 31, 2021

BNCCORP, INC.

(OTCQX: BNCC)

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Financial Statements

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

	March 31, 2021	December 31, 2020
ASSETS	(unaudited)	
Cash and cash equivalents	$ 242,713	$ 12,443
Debt securities available for sale	171,755	183,717
Federal Reserve Bank and Federal Home Loan Bank stock	3,113	4,201
Loans held for sale-mortgage banking	179,453	250,083
Loans held for investment	588,974	570,890
Allowance for credit losses	(10,277)	(10,324)
Net loans held for investment	578,697	560,566
Premises and equipment, net	14,186	14,398
Operating lease right of use asset	2,394	2,451
Accrued interest receivable	3,665	4,721
Other	31,175	41,551
Total assets	$ 1,227,151	$ 1,074,131
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 195,798	$ 167,667
Interest-bearing –		
Savings, interest checking and money market	763,656	570,656
Time deposits	106,036	114,835
Total deposits	1,065,490	853,158
Short-term borrowings	3,295	6,385
Federal Home Loan Bank advances	-	30,900
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,003	15,004
Accrued interest payable	528	560
Accrued expenses	8,283	13,338
Operating lease liabilities	2,561	2,620
Other	5,485	33,937
Total liabilities	1,100,645	955,902
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,545,356 and 3,540,522 shares issued and outstanding	35	35
Capital surplus – common stock	26,005	25,871
Retained earnings	96,756	86,991
Treasury stock (123,297 and 128,131 shares, respectively)	(1,798)	(1,850)
Accumulated other comprehensive income, net	5,508	7,182
Total stockholders' equity	126,506	118,229
Total liabilities and stockholders' equity	$ 1,227,151	$ 1,074,131

See accompanying notes to consolidated financial statements.

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

	2021	2020
INTEREST INCOME:		
Interest and fees on loans	$ 8,783	$ 7,264
Interest and dividends on investments		
Taxable	841	1,641
Tax-exempt	58	59
Dividends	37	38
Total interest income	9,719	9,002
INTEREST EXPENSE:		
Deposits	600	1,439
Short-term borrowings	2	3
Federal Home Loan Bank advances	1	12
Subordinated debentures	59	124
Total interest expense	662	1,578
Net interest income	9,057	7,424
PROVISION FOR CREDIT LOSSES:	-	550
Net interest income after provision for credit losses	9,057	6,874
NON-INTEREST INCOME:		
Bank charges and service fees	554	631
Wealth management revenues	545	441
Mortgage banking revenues, net	16,058	8,616
Gains on sales of loans, net	97	3
Gains on sales of debt securities, net	-	975
Other	236	128
Total non-interest income	17,490	10,794
NON-INTEREST EXPENSE:		
Salaries and employee benefits	7,614	6,311
Professional services	1,772	1,278
Data processing fees	1,165	1,124
Marketing and promotion	999	1,426
Occupancy	550	535
Regulatory costs	115	56
Depreciation and amortization	328	356
Office supplies and postage	133	134
Other	945	787
Total non-interest expense	13,621	12,007
Income before income taxes	12,926	5,661
Income tax expense	3,161	1,359
NET INCOME	$ 9,765	$ 4,302
Basic earnings per common share	$ 2.73	$ 1.21
Diluted earnings per common share	$ 2.73	$ 1.21

See accompanying notes to consolidated financial statements.

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

	2021				2020			
NET INCOME			$	9,765			$	4,302
Unrealized (loss) gain on debt securities available for sale	$	(2,220)			$	4,483		
Reclassification adjustment for gains included in net income		-				(975)		
Other comprehensive (loss) income before tax		(2,220)				3,508		
Income tax benefit (expense) related to items of other comprehensive income		546				(863)		
Other comprehensive (loss) income	$	(1,674)		(1,674)	$	2,645		2,645
TOTAL COMPREHENSIVE INCOME			$	8,091			$	6,947

See accompanying notes to consolidated financial statements.

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

	Common Stock		Capital Surplus Common	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	**Amount**	**Stock**	**Earnings**	**Stock**	**Income**	**Total**
BALANCE, December 31, 2019	3,514,770	$ 35	$ 25,831	$ 71,057	$ (2,115)	$ 1,470	$ 96,278
Net income	-	-	-	4,302	-	-	4,302
Other comprehensive income	-	-	-	-	-	2,645	2,645
Impact of share-based compensation	25,880	-	(48)	-	270	-	222
BALANCE, March 31, 2020	3,540,650	$ 35	$ 25,783	$ 75,359	$ (1,845)	$ 4,115	$ 103,447
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229
Net income	-	-	-	9,765	-	-	9,765
Other comprehensive loss	-	-	-	-	-	(1,674)	(1,674)
Impact of share-based compensation	4,834	-	134	-	52	-	186
BALANCE, March 31, 2021	3,545,356	$ 35	$ 26,005	$ 96,756	$ (1,798)	$ 5,508	$ 126,506

See accompanying notes to consolidated financial statements.

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

	2021	2020
OPERATING ACTIVITIES:		
Net income	$ 9,765	$ 4,302
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for credit losses	-	550
Depreciation and amortization	328	356
Net amortization of premiums on debt securities and subordinated debentures	828	932
Share-based compensation	186	222
Change in accrued interest receivable and other assets, net	250	(5,999)
Loss on sale of bank premises and equipment	1	-
Gains on sales of debt securities, net	-	(975)
Change in other liabilities, net	185	(1,565)
Originations of loans held for sale, mortgage banking	(874,771)	(505,081)
Proceeds from sales of loans held for sale, mortgage banking	940,359	465,462
Fair value adjustment for loans held for sale, mortgage banking	5,041	(282)
Fair value adjustment on mortgage banking derivatives	6,135	(859)
Proceeds from sales of loans	887	-
Gains on sales of loans, net	(97)	(3)
Net cash provided by (used in) operating activities	89,097	(42,940)
INVESTING ACTIVITIES:		
Proceeds from sales of debt securities	-	37,453
Proceeds from maturities of debt securities	9,460	7,142
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(628)	(4,272)
Sales of Federal Reserve and Federal Home Loan Bank Stock	1,716	4,958
Net increase in loans held for investment	(18,921)	(7,610)
Purchases of premises and equipment	(116)	(106)
Net cash (used in) provided by investing activities	(8,489)	37,565

See accompanying notes to consolidated financial statements.

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

	2021	2020
FINANCING ACTIVITIES:		
Net increase in deposits	$ 212,332	$ 76,185
Net (decrease) increase in short-term borrowings	(3,090)	654
Repayments of Federal Home Loan Bank advances	(42,900)	(123,800)
Proceeds from Federal Home Loan Bank advances	12,000	106,800
Dividends paid on common stock	(28,680)	-
Net cash provided by financing activities	149,662	59,839
NET INCREASE IN CASH AND CASH EQUIVALENTS	230,270	54,464
CASH AND CASH EQUIVALENTS, beginning of period	12,443	10,523
CASH AND CASH EQUIVALENTS, end of period	$ 242,713	$ 64,987
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 693	$ 2,096
Income taxes paid	$ 20	$ 10

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. (BNCCORP or the Company) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank). BNC National Bank operates community banking and wealth management businesses in North Dakota and Arizona from 11 locations. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 11 locations in Arizona, North Dakota, Illinois, Kansas, Missouri and Michigan. The consumer direct channel emphasizes technology (internet leads and a call center) to originate mortgage loans throughout the United States. The retail channel is primarily relationship driven and originations are generally near mortgage banking locations.

NOTE 2 – Basis of Presentation and Accounting Policies

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

The accompanying unaudited interim consolidated financial statements have been prepared under the presumption that users of the interim consolidated financial information have either read or have access to the audited consolidated financial statements of BNCCORP, INC. and subsidiaries for the year ended December 31, 2020. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2020 audited consolidated financial statements have been omitted from these interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020, and the notes thereto.

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

The unaudited consolidated financial statements as of March 31, 2021, include, in the opinion of management, all adjustments, consisting primarily of normal recurring adjustments, necessary for a fair presentation of the financial results for the respective interim periods and are not necessarily indicative of results of operations to be expected for the entire fiscal year.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS & INTERPRETATIONS

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

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

NOTE 3 – Debt Securities Available for Sale

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

	As of March 31, 2021			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. treasury securities	$ 4,997	$ 50	$ -	$ 5,047
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	14,070	126	(340)	13,856
U.S. government agency small business administration pools guaranteed by SBA	27,843	-	(939)	26,904
Collateralized mortgage obligations guaranteed by GNMA	16,224	1,135	-	17,359
Collateralized mortgage obligations issued by FNMA/FHLMC	62,501	2,858	(53)	65,306
Commercial mortgage-backed securities issued by FHLMC	13,161	1,313	-	14,474
Other commercial mortgage-backed securities	12,421	380	-	12,801
Asset-backed securities	1,041	1	(1)	1,041
State and municipal bonds	13,672	1,295	-	14,967
	$ 165,930	$ 7,158	$ (1,333)	$ 171,755

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

The amortized cost and estimated fair value of debt securities available for sale classified according to their contractual maturities at March 31, 2021, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,997	$ 5,047
Due after one year through five years	-	-
Due after five years through 10 years	32,648	34,141
Due after 10 years	128,285	132,567
Total	$ 165,930	$ 171,755

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

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

	March 31, 2021								
	Less Than 12 Months			12 Months or More			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	3	$ 6,448	$ (340)	-	$ -	$ -	3	$ 6,448	$ (340)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	26,905	(939)	4	26,905	(939)
Collateralized mortgage obligations issued by FNMA/FHLMC	1	5,821	(53)	-	-	-	1	5,821	(53)
Asset-backed securities	2	549	(1)	-	-	-	2	549	(1)
Total temporarily impaired securities	6	$ 12,818	$ (394)	4	$ 26,905	$ (939)	10	$ 39,723	$ (1,333)

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

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

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

NOTE 4 – Loans

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

	March 31, 2021	December 31, 2020
Loans held for sale-mortgage banking	$ 179,453	$ 250,083
Commercial and industrial	$ 160,803	$ 165,994
Commercial real estate	196,271	190,939
SBA	119,953	102,064
Consumer	80,271	81,783
Land and land development	9,795	8,603
Construction	22,803	21,748
Gross loans held for investment	589,896	571,131
Unearned income and net unamortized deferred fees and costs	(922)	(241)
Loans, net of unearned income and unamortized fees and costs	588,974	570,890
Allowance for credit losses	(10,277)	(10,324)
Net loans held for investment	$ 578,697	$ 560,566

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended March 31, 2021						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 3,275	$ 3,923	$ 1,779	$ 948	$ 170	$ 229	$ 10,324
Provision (reduction)	(13)	73	(19)	(40)	(4)	3	-
Loans charged off	(50)	-	-	(15)	-	-	(65)
Loan recoveries	12	-	1	3	2	-	18
Balance, end of period	$ 3,224	$ 3,996	$ 1,761	$ 896	$ 168	$ 232	$ 10,277

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

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

	Allowance For Credit Losses			Gross Loans Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
March 31, 2021						
Commercial and industrial	$ 762	$ 2,462	$ 3,224	$ 1,610	$ 159,193	$ 160,803
Commercial real estate	-	3,996	3,996	-	196,271	196,271
SBA	597	1,164	1,761	973	118,980	119,953
Consumer	-	896	896	22	80,249	80,271
Land and land development	-	168	168	-	9,795	9,795
Construction	-	232	232	-	22,803	22,803
Total	$ 1,359	$ 8,918	$ 10,277	$ 2,605	$ 587,291	$ 589,896
December 31, 2020						
Commercial and industrial	$ 762	$ 2,513	$ 3,275	$ 1,606	$ 164,388	$ 165,994
Commercial real estate	-	3,923	3,923	-	190,939	190,939
SBA	597	1,182	1,779	982	101,082	102,064
Consumer	-	948	948	24	81,759	81,783
Land and land development	-	170	170	-	8,603	8,603
Construction	-	229	229	-	21,748	21,748
Total	$ 1,359	$ 8,965	$ 10,324	$ 2,612	$ 568,519	$ 571,131

Performing and Non-Accrual Loans

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

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

	March 31, 2021					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 63,451	$ -	$ -	$ 63,451	$ 1,423	$ 64,874
Agriculture	28,517	-	-	28,517	-	28,517
Owner-occupied commercial real estate	67,225	-	-	67,225	187	67,412
Commercial real estate	196,271	-	-	196,271	-	196,271
SBA	118,980	-	-	118,980	973	119,953
Consumer:						
Automobile	19,887	19	-	19,906	9	19,915
Home equity	12,721	-	-	12,721	-	12,721
1st mortgage	10,902	-	-	10,902	-	10,902
Other	36,677	43	-	36,720	13	36,733
Land and land development	9,795	-	-	9,795	-	9,795
Construction	22,803	-	-	22,803	-	22,803
Total loans held for investment	587,229	62	-	587,291	2,605	589,896
Loans held for sale	179,445	8	-	179,453	-	179,453
Total gross loans	$ 766,674	$ 70	$ -	$ 766,744	$ 2,605	$ 769,349

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

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

	Three Months Ended March 31,	
	2021	2020
Interest income that would have been recorded	$ 43	$ 48
Interest income recorded	-	-
Effect on interest income on loans	$ 43	$ 48

Credit Risk by Internally Assigned Grade

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

At March 31, 2021, the Company had $573.5 million of loans held for investment categorized as pass-rated loans compared to $554.7 million at December 31, 2020.

Loans designated as watch list are loans that possess some credit deficiency that deserves close attention due to emerging problems. Such loans pose unwarranted financial risk that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. At March 31, 2021, and December 31, 2020, the Company had $9.1 million of loans categorized as watch list loans.

Loans graded as substandard or doubtful are considered "Classified" loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a higher probability of loss. At March 31, 2021, and December 31, 2020, the Company had $5.2 million of substandard loans and $2.1 million of doubtful loans.

Impaired Loans

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

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

	March 31, 2021				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance (3-months)	Interest Income Recognized (3-months)
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,004	$ 1,413	$ 762	$ 1,413	$ -
SBA	753	718	597	719	-
Total impaired loans with an allowance recorded	$ 2,757	$ 2,131	$ 1,359	$ 2,132	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 58	$ 10	$ -	$ 46	$ -
Owner-occupied commercial real estate	200	187	-	190	-
SBA	338	255	-	259	-
Consumer:					
Automobile	20	9	-	9	-
Other	29	13	-	13	-
Total impaired loans without an allowance recorded	$ 645	$ 474	$ -	$ 517	$ -
Total impaired loans	$ 3,402	$ 2,605	$ 1,359	$ 2,649	$ -

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

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

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

	March 31, 2021			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 1,412	$ 1,412	$ 762
Owner-occupied commercial real estate	-	187	187	-
SBA	-	352	352	56
	$ -	$ 1,951	$ 1,951	$ 818

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

TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of real estate or other assets in full or partial satisfaction of the debt. A loan modification is not reported as a TDR after 12 months if the loan was modified at a market rate of interest for comparable risk loans, and the loan 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 loan balance, as the principal balance may be partially forgiven. There were no new TDR for the three-month periods ended March 31, 2021, and March 31, 2020.

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

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

	Three Months Ended March 31,	
	2021	2020
Interest income that would have been recorded	$ 36	$ 46
Interest income recorded	-	9
Effect on interest income on loans	$ 36	$ 37

There were no additional funds committed to borrowers who had a loan in TDR status at March 31, 2021, and December 31, 2020.

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

The Bank had no loans that were restructured within the 12 months preceding March 31, 2021, and March 31, 2020, and had a payment default (i.e. 90 days delinquent) during the three months ended March 31, 2021, and March 31, 2020.

NOTE 6 – Leases

The Company has operating leases, primarily for office space, that expire over the next six years. These leases generally contain renewal options for periods ranging from one to five years. The Company has evaluated each individual lease to determine if exercising the renewal option was probable and considered the renewal into determining the lease term and associated payments. The Company's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include both fixed and variable payments. The variable payments are for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

The components of lease cost for the three-month period ended March 31, 2021, and March 31, 2020, were as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Operating lease costs	$ 260	$ 237
Variable lease costs	16	11
Short-term lease costs	4	4
Total lease costs	$ 280	$ 252

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

	As of March 31, 2021	As of December 31, 2020
Operating lease right of use asset	$ 2,394	$ 2,451
Operating lease liabilities	2,561	2,620

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

	Three Months Ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities	$ 282	$ 245
ROU Assets obtained in exchange for lease obligations	159	16
Reductions to ROU assets resulting from reduction in lease obligations	217	178

	As of March 31, 2021	As of December 31, 2020
Weighted average remaining lease term	3.66 years	3.93 years
Weighted average discount rate	6.00%	6.00%

Maturities of lease liabilities under non-cancellable leases as of March 31, 2021, are as follows (in thousands):

	Operating Leases
2021	$ 572
2022	757
2023	555
2024	357
2025	170
Thereafter	150
Total lease liabilities	$ 2,561

NOTE 7 – Earnings Per Share

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,573,257	3,558,702
Dilutive effect of stock compensation	410	7,821
Denominator for diluted earnings per share	3,573,667	3,566,523
Numerator (in thousands):		
Net income	$ 9,765	$ 4,302
Basic earnings per common share	$ 2.73	$ 1.21
Diluted earnings per common share	$ 2.73	$ 1.21

NOTE 8 – Share-Based Compensation

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

	1995	2015	Total
Total Shares in Plan	250,000	50,000	300,000
Total Shares Available for Issuance	45,951	31,947	77,898

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

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	-	$ -	21,000	$ 3.00
Granted	-	-	-	-
Exercised	-	-	(21,000)	3.00
Forfeited	-	-	-	-
Outstanding, end of period	-	-	-	-

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

The Company recognized share-based compensation expense of $7 thousand related to restricted stock for the three-month period ended March 31, 2021. The Company recognized share-based compensation expense of $6 thousand related to restricted stock for the three-month period ended March 31, 2020.

At March 31, 2021, the Company had $40 thousand of unamortized restricted stock compensation expense. The cost of a restricted stock grant is recognized over the vesting period, which is generally four years.

NOTE 9 – Revenue from Contracts with Customers

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

	Three Months Ended March 31,	
	2021	2020
Service charges on deposits	$ 118	$ 194
Bankcard fees	248	227
Bank charges and service fees not within scope of ASC 606	188	210
Total bank charges and service fees	554	631
Wealth management revenue	545	441
Wealth management revenue not within the scope of ASC 606	-	-
Total wealth management revenues	545	441
Other	11	10
Other not within the scope of ASC 606 (a)	225	118
Total other	236	128
Other non-interest income not within the scope of ASC 606 (a)	16,155	9,594
Total non-interest income	$ 17,490	$ 10,794

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

The Company had no material contract assets or remaining performance obligations as of March 31, 2021. Total receivables from revenue recognized under the scope of ASC 606 were $529 thousand as of March 31, 2021, and $487 thousand as of December 31, 2020. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

NOTE 10 – Fair Value Measurements

FASB ASC 820, *Fair Value Measurement,* defines fair value and establishes a framework for measuring fair value of assets and liabilities using a hierarchy system consisting of three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market.

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

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

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

	Carrying Value at March 31, 2021				Three Months Ended March 31, 2021
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains (Losses)**
ASSETS:					
Debt securities available for sale	$ 171,755	$ 5,047	$ 166,708	$ -	$ -
Loans held for sale	179,453	-	179,453	-	(5,041)
Commitments to originate mortgage loans	4,612	-	4,612	-	(13,018)
Commitments to sell mortgage loans	237	-	237	-	6,456
Mortgage banking short positions	3,009	-	3,009	-	427
Total assets at fair value	$ 359,066	$ 5,047	$ 354,019	$ -	$ (11,176)
LIABILITIES:					
Commitments to sell mortgage loans	$ -	$ -	$ -	$ -	$ -
Mortgage banking short positions	-	-	-	-	-
Total liabilities at fair value	$ -	$ -	$ -	$ -	$ -

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

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

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

	Carrying Value at March 31, 2021				**Three Months Ended March 31, 2021**
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains (Losses)**
Impaired loans[(1)]	$ 1,246	$ -	$ -	$ 1,246	$ (48)
Total	$ 1,246	$ -	$ -	$ 1,246	$ (48)

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

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

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

NOTE 11 – Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	March 31, 2021		December 31, 2020	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 242,713	$ 242,713	$ 12,443	$ 12,443
Debt securities available for sale	Level 1	5,047	5,047	5,063	5,063
Debt securities available for sale	Level 2	166,708	166,708	178,654	178,654
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	3,113	3,113	4,201	4,201
Loans held for sale-mortgage banking	Level 2	179,453	179,453	250,083	250,083
Commitments to originate mortgage loans	Level 2	4,612	4,612	19,098	19,098
Commitments to sell mortgage loans	Level 2	237	237	-	-
Mortgage banking short positions	Level 2	3,009	3,009	-	-
Gross loans held for investment	Level 2	587,291	590,274	568,519	577,323
Gross loans held for investment	Level 3	2,605	1,246	2,612	1,253
Accrued interest receivable	Level 2	3,665	3,665	4,721	4,721
		$ 1,198,453	$ 1,200,077	$ 1,045,394	$ 1,052,839
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 195,798	$ 195,798	$ 167,667	$ 167,667
Deposits, interest-bearing	Level 2	869,692	870,071	685,491	686,066
Borrowings and advances	Level 2	3,295	3,295	37,285	37,285
Accrued interest payable	Level 2	528	528	560	560
Accrued expenses	Level 2	8,283	8,283	13,338	13,338
Commitments to sell mortgage loans	Level 2	-	-	189	189
Mortgage banking short positions	Level 2	-	-	3,448	3,448
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,003	11,493	15,004	9,859
		$ 1,092,599	$ 1,089,468	$ 922,982	$ 918,412
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 161	$ -	$ 181
Standby and commercial letters of credit	Level 2	$ -	$ 10	$ -	$ 11

NOTE 12 – Federal Home Loan Bank Advances

As of March 31, 2021, the Bank had no Federal Home Loan Bank (FHLB) advances outstanding. At March 31, 2021, the Bank had loans with unamortized principal balances of approximately $359.3 million pledged as collateral to the FHLB.

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

As of March 31, 2021, the Bank has the ability to draw advances up to approximately $224.8 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirements.

NOTE 13 – Other Borrowings

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

March 31, 2021

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

Secured Borrowing Lines:	Collateral Pledged	Line	Outstanding	Available
BNC National Bank line	$ 2,134	$ 1,088	$ -	$ 1,088
BNCCORP line	132,975	10,000	-	10,000
Total	$ 135,109	$ 11,088	$ -	$ 11,088

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

At March 31, 2021, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

December 31, 2020

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

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

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

At December 31, 2020, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

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

In July 2007, the Company issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at March 31, 2021, and December 31, 2020, was 1.64% and 1.63%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 15 – Stockholders' Equity

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

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

Also in December 2020, the Board of Directors approved a 175,000 share repurchase authorization with no expiration date set on the authorization. Share repurchases can be made through open market purchases, unsolicited and solicited privately negotiated transactions, or in accordance with terms of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. The Company will not repurchase shares from directors or officers of the Company. The Company would contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals. No share repurchases have been made under the authorization as of March 31, 2021.

NOTE 16 – Regulatory Capital and Current Operating Environment

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

At March 31, 2021, the Company's capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

At March 31, 2021, and December 31, 2020, the Company's regulatory capital amounts and ratios were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
March 31, 2021								
Total Risk-Based Capital:								
Consolidated	$ 143,661	20.14%	$ 57,077	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	135,909	19.08	56,995	≥8.00	71,244	10.00	64,665	9.08
Tier 1 Risk-Based Capital:								
Consolidated	134,726	18.88	42,807	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	126,987	17.82	42,746	≥6.00	56,995	8.00	69,992	9.82
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	119,723	16.78	32,106	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	126,987	17.82	32,060	≥4.50	46,308	6.50	80,679	11.32
Tier 1 Leverage Capital:								
Consolidated	134,726	12.17	44,268	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	126,987	11.49	44,212	≥4.00	55,265	5.00	71,722	6.49
Tangible Common Equity (to total assets): (a)								
Consolidated	126,492	10.31	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	132,961	10.85	N/A	N/A	N/A	N/A	N/A	N/A

December 31, 2020								
Total Risk-Based Capital:								
Consolidated	$ 135,496	17.88 %	$ 60,611	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	126,515	16.72	60,534	≥8.00	75,668	10.00	50,848	6.72
Tier 1 Risk-Based Capital:								
Consolidated	126,015	16.63	45,458	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	117,046	15.47	45,401	≥6.00	60,534	8.00	56,512	7.47
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,011	14.65	34,094	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	117,046	15.47	34,050	≥4.50	49,184	6.50	67,862	8.97
Tier 1 Leverage Capital:								
Consolidated	126,015	11.74	42,923	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	117,046	10.92	42,872	≥4.00	53,590	5.00	63,456	5.92
Tangible Common Equity (to total assets): (a)								
Consolidated	118,213	11.01	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	124,694	11.62	N/A	N/A	N/A	N/A	N/A	N/A

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

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

NOTE 17 – Segment Reporting

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

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

Mortgage Banking
The Mortgage Banking segment originates residential mortgage loans for the primary purpose of sale on the secondary market. The segment consists of both a consumer direct channel with locations in Kansas and Michigan utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complemented by a relationship based retail channel with 11 locations in North Dakota, Arizona, Kansas, Illinois and Missouri. Revenues for mortgage banking consist primarily of interest earned on mortgage loans held for sale, gains on sales of loans, unrealized gains or losses on mortgage financial instruments, and loan origination fees.

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

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

	Three Months Ended March 31, 2021				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 8,563	$ 1,190	$ 10	$ (44)	$ 9,719
Interest expense	613	34	59	(44)	662
Net interest income (expense)	7,950	1,156	(49)	-	9,057
Provision for credit losses	-	-	-	-	-
Net interest income after provision for credit losses	7,950	1,156	(49)	-	9,057
Non-interest Income	2,040	16,053	360	(963)	17,490
Non-interest Expense	6,293	7,749	542	(963)	13,621
Income (loss) before income taxes	3,697	9,460	(231)	-	12,926
Income tax expense (benefit)	849	2,368	(56)	-	3,161
Net income (loss)	$ 2,848	$ 7,092	$ (175)	$ -	$ 9,765
Total Assets at March 31, 2021	$ 1,036,769	$ 188,971	$ 9,263	$ (7,852)	$ 1,227,151

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

	Three Months Ended March 31, 2020				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 8,427	$ 1,024	$ 7	$ (456)	$ 9,002
Interest expense	1,460	450	124	(456)	1,578
Net interest income (expense)	6,967	574	(117)	-	7,424
Provision for credit losses	550	-	-	-	550
Net interest income after provision for credit losses	6,417	574	(117)	-	6,874
Non-interest Income	2,757	8,613	425	(1,001)	10,794
Non-interest Expense	6,465	5,730	813	(1,001)	12,007
Income (loss) before income taxes	2,709	3,457	(505)	-	5,661
Income tax expense (benefit)	616	864	(121)	-	1,359
Net income (loss)	$ 2,093	$ 2,593	$ (384)	$ -	$ 4,302
Total Assets at March 31, 2020	$ 839,243	$ 202,642	$ 9,161	$ (8,226)	$ 1,042,820

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

NOTE 18 – Subsequent Events

On December 30, 2020, the Company announced an agreement to sell loans and deposits held in its Golden Valley, Minnesota branch to another financial institution and that it intended to close that branch. On April 16, 2021, the Company closed on the sale of loans and deposits and closed its Golden Valley, Minnesota branch. Loans sold and deposits transferred as part of the transaction totaled $17.7 million and $15.9 million, respectively.

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

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

Comparison of Results for the Three Months Ended March 31, 2021, and 2020

Summary for the Three Months Ended March 31, 2021, and 2020

Net income was $9.8 million, or $2.73 per diluted share, for the quarter ended March 31, 2021. This compared to net income of $4.3 million, or $1.21 per diluted share, in the same period of 2020.

Net interest income for the first quarter of 2021 was $9.1 million, an increase of $1.7 million, or 22.0%, from $7.4 million in the first quarter of 2020. The increase primarily reflected the impact of increases in loans held for sale and loans held for investment, including PPP loans and fees, lower balances and yields of debt securities and reduced cost of deposits and borrowings. The net interest margin for the current period increased to 3.57% from 3.28% a year ago.

Interest income increased by $717 thousand, or 8.0%, for the quarter ended March 31, 2021, to $9.7 million in 2021, compared to $9.0 million for the first quarter of 2020. The increase is the result of the impact of higher average loan balances including PPP loans and fees, partially offset by a reduction in loan yields, due to the lower interest rate environment compared to the first quarter of 2020. Additionally, interest income from debt securities decreased due to lower balances and yields as a reduction in debt securities supported increased loan activity. The yield on average interest-earning assets was 3.83% in the first quarter of 2021, compared to 3.96% in the 2020 first quarter.

The average balance of interest-earning assets in the 2021 first quarter increased by $118.7 million versus the same period of 2020, primarily due to an increase in interest-bearing cash, loans held for sale and loans held for investment including PPP loans, offset by decreased average debt securities. The average balance of loans held for investment increased by $68.7 million, yielding $1.4 million of additional interest income, with PPP loans accounting for $59.6 million of the $68.7 million increase. The average balance of mortgage loans held for sale was $200.1 million, $77.3 million higher than the same period of 2020. Interest income from loans held for sale increased $166 thousand as the higher average balance was largely offset by a lower average yield on loans held for sale due to the year-over-year decrease in mortgage interest rates. The average balance of debt securities in the first quarter of 2021 was $179.2 million, $71.9 million lower than in the first quarter of 2020, resulting in a $770 thousand decrease in interest income.

Interest expense in the first quarter of 2021 was $662 thousand, a decrease of $916 thousand, or 58.0%, from the 2020 period. The cost of interest bearing liabilities decreased to 0.35% in the current quarter from 0.88% in the same period of 2020. The cost of core deposits was 0.26% in the first quarter of 2021 and 0.69% in the same period of 2020.

At the end of the 2021 first quarter, credit metrics remained relatively stable with a 0.21% nonperforming loans-to-total-asset ratio, compared to 0.24% at year-end 2020. The Company did not record a provision for credit losses in the first quarter of 2021, compared to a $550 thousand provision recorded in the first quarter of 2020. The Company continues to monitor the loan portfolio and will prudently evaluate its allowance for credit losses as appropriate.

Non-interest income for the first quarter of 2021 was $17.5 million, an increase of $6.7 million, or 62.0%, from $10.8 million in the 2020 first quarter. Mortgage banking revenues were $16.1 million in the first quarter of 2021, an increase of $7.5 million, or 86.4%, compared to $8.6 million in the first quarter of 2020. The increase was driven by lower mortgage interest rates relative to the prior year period facilitating higher mortgage banking origination activity. In the first quarter of 2021, the Bank funded 2,426 mortgage loans with combined balances of $874.8 million, compared to 1,400 mortgage loans with combined balances of $505.1 million in the first quarter of 2020. Wealth management revenues increased $104 thousand, or 23.6%, as assets under administration increased relative to the 2020 period, which was impacted by pandemic related market challenges. There were no gains on sales of debt securities in the first quarter of 2021, compared to gains of $975 thousand in the same period of 2020. The sale of SBA loans resulted in gains on sales of loans of $97 thousand, while other non-interest income increased $108 thousand largely due to a Small Business Investment Company (SBIC) profit distribution. Gains on sales of assets and distributions from SBIC's can vary significantly from period to period.

Non-interest expense for the first quarter of 2021 was $13.6 million compared to $12.0 million in the same period of 2020, an increase of $1.6 million. Salaries and benefits increased $1.3 million, or 20.6%, from the first quarter 2020. The increase in salaries and employee benefits relates to mortgage operations due to elevated levels of loan production in the first quarter of 2021 compared to the same period in 2020. Professional services in the first quarter of 2021 were up $494 thousand, or 38.7%, from the first quarter 2020, due to increased mortgage loan closing costs partially offset by reductions in consulting, audit and legal expenses. Other expense increased by $158 thousand when compared to the same period of 2020 due primarily to an increase in the reserve for mortgage banking obligations. Non-interest expense related to the mortgage segment increased by $2.0 million while combined expenses for community banking and the holding company segments decreased by $443 thousand.

In the first quarter of 2021, the Company recorded tax expense of $3.2 million, which resulted in an effective tax rate of 24.5% for the quarter. Tax expense of $1.4 million was recognized during the same period of 2020, which resulted in an effective tax rate of 24.0%.

Net Interest Income

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

	Three Months Ended March 31,								
	2021			2020			Change		
	Average Balance	Interest Earned or Owed	Average Yield or Cost	Average Balance	Interest Earned or Owed	Average Yield or Cost	Average Balance	Interest Earned or Owed	Average Yield or Cost
Interest-earning assets:									
Federal funds sold/cash equivalents	$ 76,103	$ 14	0.08%	$ 29,257	$ 45	0.61%	$ 46,846	$ (31)	-0.53% (a)
FHLB Stock	1,255	10	3.20%	1,271	11	3.56%	(16)	(1)	-0.36%
Federal Reserve Stock	1,807	27	6.00%	1,807	27	5.99%	-	-	0.01%
Debt securities – taxable	172,502	827	1.92%	244,448	1,596	2.61%	(71,946)	(769)	-0.69% (b)
Debt securities – tax exempt	6,681	58	3.49%	6,621	59	3.54%	60	(1)	-0.05% (b)
Loans held for sale – mortgage banking	200,093	1,190	2.41%	122,745	1,024	3.35%	77,348	166	-0.94% (c)
Loans held for investment	580,588	7,593	5.30%	511,849	6,240	4.90%	68,739	1,353	0.40% (d)
Allowance for loan losses	(10,306)	-	0.00%	(8,006)	-	0.00%	(2,300)	-	0.00%
Total interest-earning assets	$ 1,028,723	$ 9,719	3.83%	$ 909,992	$ 9,002	3.96%	$ 118,731	$ 717	-0.13%
Interest-bearing liabilities:									
Interest checking and money market	$ 578,549	$ 341	0.24%	$ 498,414	$ 664	0.54%	$ 80,135	$ (323)	-0.30% (e)
Savings	44,200	5	0.04%	35,813	7	0.08%	8,387	(2)	-0.04% (e)
Certificates of deposit	111,117	254	0.97%	162,601	768	1.91%	(51,484)	(514)	-0.94% (e)
Total interest-bearing deposits	733,866	600	0.33%	696,828	1,439	0.83%	37,038	(839)	-0.50%
Short-term borrowings	4,665	2	0.17%	5,163	3	0.21%	(498)	(1)	-0.04% (f)
Federal Home Loan Bank advances	3,036	1	0.20%	2,687	12	1.79%	349	(11)	-1.59% (g)
Subordinated debentures	15,003	59	1.57%	15,006	124	3.26%	(3)	(65)	-1.69%
Total borrowings	22,704	62	1.11%	22,856	139	2.45%	(152)	(77)	-1.34%
Total interest-bearing liabilities	$ 756,570	662	0.35%	$ 719,684	1,578	0.88%	$ 36,886	(916)	-0.53%
Net interest income/spread		$ 9,057	3.48%		$ 7,424	3.06%		$ 1,633	0.42%
Net interest margin			3.57%			3.28%			0.29%
Notation:									
Non-interest-bearing deposits	$ 188,692	-	0.00%	$ 135,159	-	0.00%	$ 53,533	-	0.00% (h)
Total deposits	$ 922,558	$ 600	0.26%	$ 831,987	$ 1,439	0.70%	$ 90,571	$ (839)	-0.44%
Taxable equivalents:									
Total interest-earning assets	$ 1,028,723	$ 9,763	3.85%	$ 909,993	$ 9,059	4.00%	$ 118,730	$ 704	-0.15%
Net interest income/spread	-	$ 9,101	3.49%	-	$ 7,481	3.12%	-	$ 1,620	0.37%
Net interest margin	-	-	3.59%	-	-	3.31%	-	-	0.28%

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business.
(b) Average debt securities balances have decreased as debt securities were liquidated in 2020 to support the increase in loan activity.
(c) The average balance of loans held for sale increased in the first quarter of 2021 as the lower mortgage interest rate environment compared to the first quarter of 2020 supported increased mortgage loan originations activity.
(d) Average PPP loans contributed $59.6 million of the $68.7 million increase in the average balance of loans held for investment compared to the first quarter of 2020.
(e) Overall, average interest-bearing deposit balances increased due to growth in the Company's North Dakota branches by approximately $200.0 million during the quarter. The increase in interest checking and money market has been partially offset by a decrease in certificates of deposit as the Bank has reduced the rates offered on new certificates of deposit.
(f) Short-term borrowings decreased based on customers use of repurchase agreements.
(g) FHLB short-term advances have been utilized to flexibly manage the Company's balance sheet.
(h) Non-interest-bearing deposits increased due to PPP lending activity, the maintenance of liquidity by customers and government stimulus payments.

Non-interest Income

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease) $	Increase (Decrease) %	
Bank charges and service fees	$ 554	$ 631	$ (77)	(12) %	(a)
Wealth management revenues	545	441	104	24	(b)
Mortgage banking revenues	16,058	8,616	7,442	86	(c)
Gains on sales of loans, net	97	3	94	3,133	(d)
Gains on sales of securities, net	-	975	(975)	(100)	(e)
Other	236	128	108	84	(f)
Total non-interest income	$ 17,490	$ 10,794	$ 6,696	62 %	

(a) Bank charges and service fees decreased primarily due to decreases in letter of credit fees and overdraft charges partially offset by increases in commercial non-use fees and ATM income.
(b) Wealth management revenues increased as assets under administration and management increased relative to the 2020 period when assets were impacted by pandemic related market challenges.
(c) Mortgage banking revenues increased as lower mortgage interest rates relative to the prior year period facilitated higher origination activity. In the first quarter of 2021, the Company's mortgage banking division funded 2,426 mortgage loans with combined balances of $874.8 million, compared to 1,400 mortgage loans with combined balances of $505.1 million in 2020.
(d) Gains on sale of loans can vary significantly from period to period.
(e) Gains and losses on sales of debt securities may vary significantly from period to period as the Company manages liquidity needs and the risk and return profile of its debt securities portfolio.
(f) Other income increased largely due to SBIC income received in the 2021 period.

Non-interest Expense

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Increase (Decrease) $	Increase (Decrease) %	
Salaries and employee benefits	$ 7,614	$ 6,311	$ 1,303	21 %	(a)
Professional services	1,772	1,278	494	39	(b)
Data processing fees	1,165	1,124	41	4	
Marketing and promotion	999	1,426	(427)	(30)	(c)
Occupancy	550	535	15	3	
Regulatory costs	115	56	59	105	(d)
Depreciation and amortization	328	356	(28)	(8)	(e)
Office supplies and postage	133	134	(1)	(1)	
Other	945	787	158	20	(f)
Total non-interest expense	$ 13,621	$ 12,007	$ 1,614	13 %	
Efficiency ratio	51.3%	65.9%			

(a) Salaries and employee benefits increased due to increased mortgage production compared to the same period in 2020.
(b) Professional services expense increased primarily due to increased mortgage loan closing costs partially offset by reductions in consulting, audit, and legal expenses.
(c) Marketing and promotion decreased due to decreased mortgage banking lead costs and lower expenses in the banking markets.
(d) Regulatory costs increased due to an increase in FDIC assessments as the Bank had no FDIC assessment expense in the comparable 2020 period due to utilization of credits.
(e) Depreciation and amortization decreased primarily as a result of impairment charges on a branch location in 2020.
(f) Other expenses increased primarily due to an increased provisions to the reserve for mortgage banking obligations partially offset by a reduction in recruitment cost for mortgage banking operations support staff.

Mortgage Banking Division Selected Data

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

	Three Months Ended March 31,			
	2021		2020	
Number of funded mortgage loans held for sale		2,426		1,400
Mortgage loans held for sale funded	$	874,771	$	505,081
Average loans held for sale-mortgage banking	$	200,093	$	122,745
Loans held for sale-mortgage banking	$	179,453	$	177,015
Non-Interest Income:				
Gains on sale of loans held for sale, net of commission expense	$	27,234	$	7,475
Change in fair value of mortgage banking instruments (1)	$	(11,176)	$	1,141

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

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

The low interest rate environment that began late in 2019 and continued throughout 2020, generated a significant increase in mortgage loan activity. Mortgage interest rates during the first quarter of 2021 were lower relative to the prior year period. As mortgage interest rates increased during the first quarter of 2021, mortgage origination activity began to moderate in the second half of the quarter and the Company's mortgage banking division began to transition from capitalizing on the refinancing opportunity of last year to supporting its mortgage customers' financing of home purchases. Non-interest income includes gains on the sale of loans, changes in the fair value of loans held for sale and loans in the various stages of processing prior to funding (net of commission expense) and hedge instruments.

Income Taxes

In the first quarter of 2021, the Company recorded income tax expense of $3.2 million, which resulted in an effective tax rate of 24.5% for the quarter. Income tax expense of $1.4 million was recognized during the first quarter of 2020, which resulted in an effective tax rate of 24.0%.

Comparison of Financial Condition at March 31, 2021, and December 31, 2020

Assets

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

	March 31, 2021	December 31, 2020	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 242,713	$ 12,443	$ 230,270	1,851 %	(a)
Debt securities available for sale	171,755	183,717	(11,962)	(7)	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	3,113	4,201	(1,088)	(26)	(c)
Loans held for sale-mortgage banking	179,453	250,083	(70,630)	(28)	(d)
Loans held for investment, net	588,974	570,890	18,084	3	(e)
Allowance for credit losses	(10,277)	(10,324)	47	-	
Premises and equipment, net	14,186	14,398	(212)	(1)	
Operating lease right of use asset	2,394	2,451	(57)	(2)	
Accrued interest receivable	3,665	4,721	(1,056)	(22)	(f)
Other assets	31,175	41,551	(10,376)	(25)	(g)
Total assets	$ 1,227,151	$ 1,074,131	$ 153,020	14 %	

(a) Cash balances increased due to deposit growth in the Company's North Dakota branches by approximately $200 million received near the end of the quarter.
(b) Investment balances have decreased to provide available liquidity for loan growth.
(c) Federal Reserve Bank and FHLB of Des Moines stock will vary based on the Company's utilization of FHLB advances.
(d) Loans held for sale decreased as balances will fluctuate with the timing of loan funding and sales. During 2021, loans held for sale decreased as mortgage activity began to moderate in the second half of the first quarter of 2021 in comparison to the activity during the fourth quarter of 2020.
(e) Loans held for investment increase primarily due to increases in PPP loans during the first quarter of 2021.
(f) Accrued interest receivable decreased as the Bank's borrowers resume payments that were previously deferred in 2020 on loans modified to provide assistance under Section 4013 of the CARES Act.
(g) Other assets decreased primarily due to a reduction in the fair value of mortgage banking instruments.

Loan Participations

Pursuant to the Company's lending policy, loans may not exceed 85 percent of the Bank's legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits) unless the Bank's Chief Credit Officer or the Executive Credit Committee grant prior approval. To accommodate creditworthy customers whose financing needs exceed lending limits and internal restrictions, the Bank sells loan participations to outside participants without recourse. Loan participations sold on a nonrecourse basis to outside financial institutions were $124.7 million as of March 31, 2021, and $130.4 million as of December 31, 2020. The sales of participations are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Concentrations of Credit

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

	March 31, 2021		December 31, 2020	
North Dakota	$ 378,221	64 %	$ 378,793	66 %
Arizona	129,228	22	121,797	21
Minnesota	42,435	7	30,599	6
Other	40,012	7	39,942	7
Total gross loans held for investment	$ 589,896	100 %	$ 571,131	100 %

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

	March 31, 2021		December 31, 2020	
North Dakota	$ 336,789	57 %	$ 331,824	58 %
Arizona	159,654	27	153,264	27
Minnesota	31,175	5	25,348	5
California	19,474	3	18,369	3
Colorado	14,265	3	13,858	3
Ohio	7,357	1	7,357	1
South Dakota	7,139	1	7,552	1
Other	14,043	3	13,559	2
Total gross loans held for investment	$ 589,896	100 %	$ 571,131	100 %

BNC National Bank's loans held for investment are concentrated geographically in North Dakota and Arizona which comprise 57% and 27% of the total loan portfolio, respectively. The North Dakota economy is influenced by the energy and agriculture industries. Legislation and other factors negatively impacting energy prices could present potential challenges to credit quality in North Dakota. Potential drought conditions, fluctuating input costs and lower commodity prices in the agriculture industry also present potential credit risks in North Dakota. The Arizona economy is influenced by the leisure and travel industries. An extended slowdown in these industries may negatively impact credit quality in Arizona. The Bank's portfolio is constructed of various sized loans spread over a large number of industry sectors, although concentrations of loans in hospitality and real estate make up notable percentages of the portfolio.

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

	March 31, 2021		December 31, 2020	
Non-owner occupied commercial real estate – not otherwise categorized	$ 153,747	30 %	$ 143,361	28 %
Hotels	75,966	15	76,335	15
Consumer, not otherwise categorized	74,344	14	76,363	15
Healthcare and social assistance	37,118	7	37,632	7
Agriculture, forestry, fishing and hunting	28,147	5	27,321	5
Non-hotel accommodation and food service	23,783	5	23,530	5
Retail trade	22,237	4	26,129	5
Transportation and warehousing	21,680	4	24,897	5
Mining, oil and gas extraction	15,527	3	20,223	4
Manufacturing	11,980	2	11,139	2
Construction contractors	11,236	2	12,235	2
Real estate and rental and leasing support	8,254	2	7,735	1
Other service	8,193	2	8,394	2
Art, entertainment and recreation	6,977	1	7,279	1
Wholesale trade	5,455	1	2,255	-
All other	15,172	3	15,719	3
Gross loans held for investment (excluding PPP loans)	$ 519,816	100 %	$ 520,547	100 %

The hospitality industry continues to experience challenges related to COVID-19, including hotel occupancy and restaurant utilization. While states and specific regions within the Company's core markets are relaxing restrictions, further issues may still remain either from fluctuating virus levels or lasting impacts from the past year on the economy and the Company's borrowers. The oil and gas industry, while still exposed to COVID-19 related effects, is also subject to the negative impact of government policy making and regulation on energy production and transportation. Oil prices have improved recently, but oil and gas well activity in North Dakota currently remains well off pre-COVID-19 levels.

The conclusion or lasting impact of the pandemic remains undefined. Positive developments through vaccination efforts and relaxed restrictions are noticeable, and government stimulus of the economy has helped the recovery efforts. However, the potential for lingering impacts from the pandemic on the economy related to development, business production, consumer strength and employment levels remain. The Company's loan portfolio and credit risk could still experience adversity as the direct impacts of the pandemic ease.

Loan Maturities[1]

The following table sets forth the maturities of loans in each major category of the Company's portfolio as of March 31, 2021 (in thousands):

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	Fixed Rate	Indexed Rate	Fixed Rate	Indexed rate	Total Loans Held for Investment
Commercial and industrial	$ 23,982	$ 21,198	$ 5,648	$ 36,768	$ 73,207	$ 160,803
Commercial real estate	1,255	10,538	8,934	40,525	135,019	196,271
SBA	1,349	70,079	2,393	5,331	40,801	119,953
Consumer	1,677	5,263	6,017	56,201	11,113	80,271
Land and land development	1,550	2,961	1,772	2,871	641	9,795
Construction	5,384	-	13,320	1,778	2,321	22,803
Total principal amount of loans	$ 35,197	$ 110,039	$ 38,084	$ 143,474	$ 263,102	$ 589,896

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

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

Allocation of the Allowance for Credit Losses

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

	March 31, 2021		December 31, 2020	
	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment
Commercial and industrial	$ 3,224	27 %	$ 3,275	29 %
Commercial real estate	3,996	33	3,923	33
SBA	1,761	20	1,779	18
Consumer	896	14	948	14
Land and land development	168	2	170	2
Construction	232	4	229	4
Total	$ 10,277	100 %	$ 10,324	100 %

Nonperforming Loans

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

	Three Months Ended March 31,		Twelve Months Ended December 31,
	2021	2020	2020
Balance, beginning of period	$ 2,612	$ 2,033	$ 2,033
Additions to nonperforming	93	1,231	2,535
Charge-offs	(83)	(10)	(235)
Reclassified back to performing	-	-	(349)
Principal payment received	(17)	(37)	(1,367)
Transferred to repossessed assets	-	(5)	(5)
Balance, end of period	$ 2,605	$ 3,212	$ 2,612

Nonperforming Assets

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

	March 31, 2021	December 31, 2020
Nonperforming loans:		
Loans 90 days or more delinquent and accruing interest	$ -	$ 1
Non-accrual loans	2,605	2,611
Total nonperforming loans	$ 2,605	$ 2,612
Total nonperforming assets	$ 2,605	$ 2,612
Allowance for credit losses	$ 10,277	$ 10,324
Ratio of total nonperforming loans to total loans	0.34%	0.32%
Ratio of total nonperforming loans to loans held for investment	0.44%	0.46%
Ratio of total nonperforming assets to total assets	0.21%	0.24%
Ratio of nonperforming loans to total assets	0.21%	0.24%
Ratio of allowance for credit losses to nonperforming loans	395%	395%

Problem Loans

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

	Watch List			Substandard		
	Impaired	Other	Total	Impaired	Other	Total
March 31, 2021	$ -	$ 9,060	$ 9,060	$ 464	$ 4,706	$ 5,170
December 31, 2020	$ -	$ 9,121	$ 9,121	$ 480	$ 4,721	$ 5,201

At March 31, 2021, the Bank had $7.3 million of classified loans and $2.6 million of loans on non-accrual. This compares to $8.2 million of classified loans and $2.6 million of loans on non-accrual at December 31, 2020, and $11.0 million of classified loans and $3.2 million of loans on non-accrual at March 31, 2020.

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

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

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

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

At March 31, 2021, loans modified consistent with Section 4013 of the CARES Act totaled $30.7 million, or 5.9% of gross loans held for investment excluding PPP loans, and a decrease of 26.7% from $42.0 million at December 31, 2020. The majority of these modified loans (75%) are in the hotel industry. The total balance of these modified loans will reach the end of their payment modification period by June 30, 2021. Economic conditions, including pandemic-related challenges, may result in the Company agreeing to additional loan modifications to assist borrowers consistent with CARES Act legislation extended through January 1, 2022.

The following table provides a summary of loan modifications by industry made pursuant to Section 4013 of the CARES Act as of March 31, 2021 (in thousands):

	Principal Payment Deferral	Full Payment Deferral	Total
Hotels	$ 11,370	$ 11,667	$ 23,037
Non-owner occupied commercial real estate	2,368	-	2,368
Mining, oil and gas extraction	-	1,629	1,629
Educational services	1,535	-	1,535
Transportation and warehousing	867	-	867
Non-hotel accommodation and food service	752	-	752
Art, entertainment and recreation	-	478	478
Consumer, not otherwise categorized	-	75	75
Total	$ 16,892	$ 13,849	$ 30,741

Liabilities

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

	March 31, 2021	December 31, 2020	Increase (Decrease) $	%	
Deposits:					
Non-interest-bearing	$ 195,798	$ 167,667	$ 28,131	17 %	(a)
Interest-bearing-					
Savings, interest checking and money market	763,656	570,656	193,000	34	(a)
Time deposits	106,036	114,835	(8,799)	(8)	(b)
Short-term borrowings	3,295	6,385	(3,090)	(48)	(c)
FHLB advances	-	30,900	(30,900)	(100)	(d)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,003	15,004	(1)	-	
Accrued interest payable	528	560	(32)	(6)	(e)
Accrued expenses	8,283	13,338	(5,055)	(38)	(f)
Operating lease liabilities	2,561	2,620	(59)	(2)	
Other liabilities	5,485	33,937	(28,452)	(84)	(g)
Total liabilities	$ 1,100,645	$ 955,902	$ 144,743	15 %	

(a) Deposits increased due to growth in the Company's North Dakota branches by approximately $200 million. Deposit growth was further supported by PPP lending activity, the maintenance of liquidity by customers, and government stimulus payments.
(b) Time deposits have decreased as the Bank has lowered rates on new certificates of deposit.
(c) Short-term borrowings will vary depending on customers' use of repurchase agreements.
(d) The Company has borrowed on a short-term basis from the FHLB as an efficient source of liquidity.
(e) Accrued interest payable decreased primarily as a result of lower time deposit balances and lower cost of deposits.
(f) Accrued expenses decreased due to decreases in incentive accruals and mortgage banking commissions.
(g) The decrease primarily relates to the payment of a special cash dividend of $8.00 per share of BNCCORP, INC. common stock on February 1, 2021, previously recorded as a dividend payable of $28.7 million on the balance sheet as of December 31, 2020.

At March 31, 2021, and December 31, 2020, the Bank had $21.2 million and $24.6 million, respectively, in time deposits greater than $250 thousand.

Mortgage Banking Obligations

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Twelve Months Ended December 31, 2020
Balance, beginning of period	$ 1,025	$ 906	$ 906
Provision	309	100	1,744
Write offs, net	(324)	(108)	(1,625)
Balance, end of period	$ 1,010	$ 898	$ 1,025

Stockholders' Equity

The Company's stockholders' equity increased $8.3 million from December 31, 2020, to March 31, 2021, primarily due to $9.8 million in additional retained earnings and a decrease in accumulated other comprehensive income of $1.7 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. Capital is managed by assessing the composition of capital and amounts available for growth, risk or other purposes. Management regularly evaluates capital requirements and prudent capital management opportunities.

Liquidity Risk Management

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

The Consolidated Statements of Cash Flows in the Consolidated Financial Statements present data on cash and cash equivalents provided by and used in operating, investing, and financing activities. In addition to liquidity from core deposit growth, together with repayments and maturities of loans and debt securities, the Company may utilize brokered deposits, sell debt securities under agreements to repurchase and borrow overnight Federal funds. The Bank is a member of the FHLB of Des Moines. Advances from the FHLB are collateralized by the Bank's mortgage loans. The Bank has the ability to borrow from the Federal Reserve Bank, through its Discount Window, by pledging mortgage loans and/or through the Paycheck Protection Program Liquidity Facility (PPPLF) by pledging PPP loans. As of March 31, 2021, the Company has not utilized the PPPLF. Funding through the issuance of subordinated notes, subordinated debentures, and long-term borrowings also has been utilized.

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

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

1. Estimated liquid assets and certain off-balance sheet considerations less estimated volatile liabilities using the aforementioned methodology ($304.2 million as of March 31, 2021);
2. Borrowing capacity from the FHLB ($224.8 million as of March 31, 2021); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($164.4 million as of March 31, 2021).

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

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

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

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

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

The Company's primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes assumptions regarding the changes in interest rates and the impact on the Company's current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month-end balances of the various balance sheet accounts are held constant at their March 31, 2021, levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its March 31, 2021, level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

The Company monitors the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of March 31, 2021, the downward scenarios for interest rate movements is limited to -100bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 3.25% to 4.25% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

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

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 28,917	$ 29,715	$ 29,806	$ 29,932	$ 30,062
Dollar change from unchanged scenario	$ (798)	$ -	$ 91	$ 217	$ 347
Percent change from unchanged scenario	(2.69)%	-	0.31%	0.73%	1.17%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on assets and liabilities as of March 31, 2021 (without forward adjustments for planned growth and anticipated business activities) and do not reflect any actions the Company might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the "rate sensitivity position" or "gap position." The following table sets forth the Company's rate sensitivity position as of March 31, 2021. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated Maturity or Repricing at March 31, 2021				
	0–3 Months	**4–12 Months**	**1–5 Years**	**Over 5 years**	**Total**
	(dollars are in thousands)				
Interest-earning assets:					
Interest-bearing deposits with banks	$ 242,713	$ -	$ -	$ -	$ 242,713
Debt securities (a)	30,140	20,318	50,457	54,299	155,214
FRB and FHLB stock	3,113	-	-	-	3,113
Loans held for sale-mortgage banking, fixed rate	179,453	-	-	-	179,453
Loans held for investment, fixed rate	17,101	39,059	174,868	28,717	259,745
Loans held for investment, indexed rate	102,057	27,322	196,136	3,714	329,229
Total interest-earning assets	$ 574,577	$ 86,699	$ 421,461	$ 86,730	$ 1,169,467
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 717,918	$ -	$ -	$ -	$ 717,918
Savings	45,738	-	-	-	45,738
Time deposits	29,405	55,153	21,328	150	106,036
Short-term borrowings	3,295	-	-	-	3,295
FHLB advances	-	-	-	-	-
Subordinated debentures	-	15,000	-	3	15,003
Total interest-bearing liabilities	$ 796,356	$ 70,153	$ 21,328	$ 153	$ 887,990
Interest rate gap	$ (221,779)	$ 16,546	$ 400,133	$ 86,577	$ 281,477
Cumulative interest rate gap at March 31, 2021	$ (221,779)	$ (205,233)	$ 194,900	$ 281,477	
Cumulative interest rate gap to total assets	(18.07%)	(16.72%)	15.88%	22.94%	

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

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

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on the Company's assets and liabilities as of March 31, 2021, and do not contemplate any actions the Company might undertake in response to changes in market interest rates.

Legal Proceedings

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

Management is not aware of any material pending or threatening litigation as of March 31, 2021.

Signatures

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

BNCCORP, INC.

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