Quarterly Report

For the quarter ended June 30, 2022

BNCCORP, INC.

(OTCQX: BNCC)

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BNCCORP, INC.
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Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2022	December 31, 2021
ASSETS	(unaudited)	
Cash and cash equivalents	$ 61,072	$ 188,060
Debt securities available for sale	192,743	208,978
Federal Reserve Bank and Federal Home Loan Bank stock	3,063	3,096
Loans held for sale-mortgage banking	65,616	80,923
Loans held for investment	558,281	529,793
Allowance for credit losses	(8,487)	(9,080)
Net loans held for investment	549,794	520,713
Repossessed assets, net	15	-
Premises and equipment, net	12,161	12,502
Operating lease right of use asset	1,858	2,142
Accrued interest receivable	2,767	2,586
Other	29,570	28,372
Total assets	$ 918,659	$ 1,047,372
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 192,640	$ 186,598
Interest-bearing –		
Savings, interest checking and money market	538,176	644,641
Time deposits	63,231	75,429
Total deposits	794,047	906,668
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,000	15,001
Accrued interest payable	184	226
Accrued expenses	5,225	7,302
Operating lease liabilities	2,009	2,302
Other	692	887
Total liabilities	817,157	932,386
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,557,383 and 3,554,983 shares issued and outstanding	36	36
Capital surplus – common stock	26,352	26,068
Retained earnings	84,557	87,378
Treasury stock (111,270 and 113,670 shares, respectively)	(1,666)	(1,650)
Accumulated other comprehensive (loss) income	(7,777)	3,154
Total stockholders' equity	101,502	114,986
Total liabilities and stockholders' equity	$ 918,659	$ 1,047,372

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
INTEREST INCOME:				
Interest and fees on loans	$ 6,504	$ 7,094	$ 12,671	$ 15,877
Interest and dividends on investments				
Taxable	1,195	839	2,235	1,680
Tax-exempt	57	58	115	116
Dividends	37	37	73	74
Total interest income	7,793	8,028	15,094	17,747
INTEREST EXPENSE:				
Deposits	325	551	658	1,151
Short-term borrowings	-	1	-	3
Federal Home Loan Bank advances	1	-	1	1
Subordinated debentures	89	60	148	119
Total interest expense	415	612	807	1,274
Net interest income	7,378	7,416	14,287	16,473
CREDIT FOR CREDIT LOSSES:	-	-	(550)	-
Net interest income after provision for credit losses	7,378	7,416	14,837	16,473
NON-INTEREST INCOME:				
Bank charges and service fees	753	571	1,353	1,125
Wealth management revenues	492	541	1,028	1,086
Mortgage banking revenues, net	3,782	7,789	7,924	23,847
Gains (losses) on sales of loans, net	219	(1)	239	96
Other	532	731	746	967
Total non-interest income	5,778	9,631	11,290	27,121
NON-INTEREST EXPENSE:				
Salaries and employee benefits	5,219	6,005	11,160	13,619
Professional services	966	1,567	1,916	3,339
Data processing fees	998	1,074	1,971	2,239
Marketing and promotion	1,437	977	2,792	1,976
Occupancy	527	524	1,110	1,074
Regulatory costs	121	118	240	233
Depreciation and amortization	306	316	617	644
Office supplies and postage	107	113	217	246
Other	849	870	1,552	1,815
Total non-interest expense	10,530	11,564	21,575	25,185
Income before income taxes	2,626	5,483	4,552	18,409
Income tax expense	617	1,316	1,070	4,477
NET INCOME	$ 2,009	$ 4,167	$ 3,482	$ 13,932
Basic earnings per common share	$ 0.56	$ 1.17	$ 0.97	$ 3.90
Diluted earnings per common share	$ 0.56	$ 1.17	$ 0.97	$ 3.90

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income

(In thousands, unaudited)

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2022		2021		2022		2021	
NET INCOME		$ 2,009		$ 4,167		$ 3,482		$ 13,932
Unrealized (loss) gain on debt securities available for sale	$ (5,518)		$ 605		$ (14,498)		$ (1,615)	
Reclassification adjustment for gains included in net income	-		-		-		-	
Other comprehensive (loss) income before tax	(5,518)		605		(14,498)		(1,615)	
Income tax benefit (expense) related to items of other comprehensive (loss) income	1,160		(148)		3,567		398	
Other (loss) comprehensive income	$ (4,358)	(4,358)	$ 457	457	$ (10,931)	(10,931)	$ (1,217)	(1,217)
TOTAL COMPREHENSIVE (LOSS) INCOME		$ (2,349)		$ 4,624		$ (7,449)		$ 12,715

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

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

	Common Stock		Capital Surplus Common	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Earnings	Stock	Income (Loss)	Total
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229
Net income	-	-	-	13,932	-	-	13,932
Other comprehensive loss	-	-	-	-	-	(1,217)	(1,217)
Impact of share-based compensation	4,834	-	174	-	52	-	226
BALANCE, June 30, 2021	3,545,356	$ 35	$ 26,045	$ 100,923	$ (1,798)	$ 5,965	$ 131,170
BALANCE, December 31, 2021	3,554,983	$ 36	$ 26,068	$ 87,378	$ (1,650)	$ 3,154	$ 114,986
Net income	-	-	-	3,482	-	-	3,482
Other comprehensive loss	-	-	-	-	-	(10,931)	(10,931)
Impact of share-based compensation	2,400	-	284	-	(16)	-	268
Dividends declared on common stock ($1.75)	-	-	-	(6,303)	-	-	(6,303)
BALANCE, June 30, 2022	3,557,383	$ 36	$ 26,352	$ 84,557	$ (1,666)	$ (7,777)	$ 101,502

See accompanying notes to consolidated financial statements.

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

	2022	2021
OPERATING ACTIVITIES:		
Net income	$ 3,482	$ 13,932
Adjustments to reconcile net income to net cash provided by operating activities -		
Credit for credit losses	(550)	-
Depreciation and amortization	617	644
Net amortization of premiums on debt securities and subordinated debentures	1,774	1,623
Share-based compensation	268	226
Change in accrued interest receivable and other assets, net	3,327	(113)
Loss on sale of bank premises and equipment	2	1
Change in other liabilities, net	(2,671)	(5,694)
Originations of loans held for sale, mortgage banking	(594,307)	(1,411,072)
Proceeds from sales of loans held for sale, mortgage banking	608,696	1,550,735
Fair value adjustment for loans held for sale, mortgage banking	901	6,342
Fair value adjustment on mortgage banking derivatives	(258)	8,531
Proceeds from sales of loans	1,096	887
Gains on sales of loans, net	(239)	(96)
Gains on sale of assets held for sale	(532)	-
Net cash provided by operating activities	21,606	165,946
INVESTING ACTIVITIES:		
Purchases of debt securities	(17,566)	(23,073)
Proceeds from maturities of debt securities	17,529	17,624
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(717)	(629)
Sales of Federal Reserve and Federal Home Loan Bank Stock	750	1,716
Net (increase) decrease in loans held for investment	(29,388)	26,074
Proceeds from sales of premises and equipment	4	-
Purchases of premises and equipment	(282)	(596)
Net cash (used in) provided by provided by investing activities	(29,670)	21,116

See accompanying notes to consolidated financial statements.

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

	2022	2021
FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	$ (112,621)	$ 17,270
Net (decrease) increase in short-term borrowings	-	(4,885)
Repayments of Federal Home Loan Bank advances	(17,910)	(42,900)
Proceeds from Federal Home Loan Bank advances	17,910	12,000
Dividends paid on common stock	(6,303)	(28,680)
Net cash used in financing activities	(118,924)	(47,195)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(126,988)	139,867
CASH AND CASH EQUIVALENTS, beginning of period	188,060	12,443
CASH AND CASH EQUIVALENTS, end of period	$ 61,072	$ 152,310
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 849	$ 1,491
Income taxes paid	$ 563	$ 6,896
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of property classified as held for sale to other assets from premises and equipment	$ -	$ 1,434
Additions to repossessed assets in the settlement of loans	$ 15	$ -
Right of use assets obtained in exchange for lease obligations	$ 93	$ 159

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. ("BNCCORP") is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the "Bank"). BNC National Bank operates community banking and wealth management businesses through 11 locations in North Dakota and Arizona. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 9 locations in Arizona, North Dakota, Illinois, Kansas, and Michigan. The consumer-direct channel emphasizes technology (internet leads and 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, 2021. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2021 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, 2021, and the notes thereto.

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

The unaudited consolidated financial statements as of June 30, 2022, 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.

ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Trouble Debt Restructurings and Vintage Disclosures*, eliminates the accounting guidance for TDRs by creditors in ASC 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, in its entirety and requires entities to evaluate all receivable modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. For entities that have already adopted ASU 2016-13, the amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the amendments in ASU 2022-02 are effective upon adoption of ASU 2016-13. Entities are permitted to early adopt these amendments, including adoption in any interim period, provided that the amendments are adopted as of the beginning of the annual reporting period that includes the interim period of adoption. The Company is currently evaluating this standard, and will adopt its provisions upon the adoption of ASU 2016-13.

NOTE 3 – Debt Securities Available for Sale

Debt securities have been classified in the consolidated balance sheets according to management's intent. The Company had no securities designated as trading or held-to-maturity in its portfolio at June 30, 2022, or December 31, 2021. The carrying amount of available-for-sale debt securities and their estimated fair values were as follows (in thousands):

	As of June 30, 2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. treasury securities	$ 19,850	$ -	$ (1,298)	$ 18,552
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	25,295	-	(2,587)	22,708
U.S. government agency small business administration pools guaranteed by SBA	19,746	-	(1,035)	18,711
Collateralized mortgage obligations guaranteed by GNMA	11,372	28	(101)	11,299
Collateralized mortgage obligations issued by FNMA/FHLMC	69,811	48	(3,849)	66,010
Commercial mortgage-backed securities issued by FHLMC	17,803	25	(677)	17,151
Other commercial mortgage-backed securities	27,066	-	(1,778)	25,288
State and municipal bonds	13,594	387	(957)	13,024
	$ 204,537	$ 488	$ (12,282)	$ 192,743

	As of December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 14,833	$ 38	$ (16)	$ 14,855
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	28,524	99	(466)	28,157
U.S. government agency small business administration pools guaranteed by SBA	22,794	-	(931)	21,863
Collateralized mortgage obligations guaranteed by GNMA	12,998	753	-	13,751
Collateralized mortgage obligations issued by FNMA/FHLMC	79,538	1,579	(814)	80,303
Commercial mortgage-backed securities issued by FHLMC	17,999	1,218	(228)	18,989
Other commercial mortgage-backed securities	15,963	233	(115)	16,081
State and municipal bonds	13,626	1,353	-	14,979
	$ 206,275	$ 5,273	$ (2,570)	$ 208,978

The amortized cost and estimated fair market value of available-for-sale debt securities classified according to their contractual maturities at June 30, 2022, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	15,891	15,006
Due after five years through 10 years	33,035	32,310
Due after 10 years	155,611	145,427
Total	$ 204,537	$ 192,743

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

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

	June 30, 2022								
	Less Than 12 Months			12 Months or More			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. treasury securities	4	$ 18,552	$ (1,298)	-	$ -	$ -	4	$ 18,552	$ (1,298)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	5	17,736	(1,538)	3	4,972	(1,049)	8	22,708	(2,587)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	18,711	(1,035)	4	18,711	(1,035)
Collateralized mortgage obligations guaranteed by GNMA	6	7,853	(101)	-	-	-	6	7,853	(101)
Collateralized mortgage obligations issued by FNMA/ FHLMC	13	53,717	(3,269)	1	5,895	(580)	14	59,612	(3,849)
Commercial mortgage-backed securities issued by FHLMC	1	6,986	(173)	1	4,161	(504)	2	11,147	(677)
Other commercial mortgage-backed securities	10	25,288	(1,778)	-	-	-	10	25,288	(1,778)
State and municipal bonds	3	10,092	(957)	-	-	-	3	10,092	(957)
Total temporarily impaired securities	42	$ 140,224	$ (9,114)	9	$ 33,739	$ (3,168)	51	$ 173,963	$ (12,282)

	December 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. treasury securities	1	$ 4,913	$ (16)	-	$ -	$ -	1	$ 4,913	$ (16)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	2	16,077	(153)	3	6,075	(313)	5	22,152	(466)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	21,863	(931)	4	21,863	(931)
Collateralized mortgage obligations guaranteed by GNMA	1	26	-	-	-	-	1	26	-
Collateralized mortgage obligations issued by FNMA/FHLMC	5	33,344	(814)	-	-	-	5	33,344	(814)
Commercial mortgage-backed securities issued by FHLMC	1	4,625	(228)	-	-	-	1	4,625	(228)
Other commercial mortgage-backed securities	3	6,621	(115)	-	-	-	3	6,621	(115)
Total temporarily impaired securities	13	$ 65,606	$ (1,326)	7	$ 27,938	$ (1,244)	20	$ 93,544	$ (2,570)

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

There were no debt securities that management concluded were other-than-temporarily impaired at June 30, 2022, or December 31, 2021.

NOTE 4 – Loans

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

	June 30, 2022	December 31, 2021
Loans held for sale-mortgage banking	$ 65,616	$ 80,923
Commercial and industrial	$ 186,526	$ 157,995
Commercial real estate	206,688	201,043
SBA	46,589	58,759
Consumer	88,564	78,297
Land and land development	12,005	17,185
Construction	16,994	16,121
Gross loans held for investment	557,366	529,400
Unearned income and net unamortized deferred fees and costs	915	393
Loans, net of unearned income and unamortized fees and costs	558,281	529,793
Allowance for credit losses	(8,487)	(9,080)
Net loans held for investment	$ 549,794	$ 520,713

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended June 30, 2022						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,168	$ 3,852	$ 1,357	$ 784	$ 134	$ 180	$ 8,475
Provision (credit)	261	(383)	76	119	(45)	(28)	-
Loans charged off	-	-	-	(5)	-	-	(5)
Loan recoveries	-	-	2	5	10	-	17
Balance, end of period	$ 2,429	$ 3,469	$ 1,435	$ 903	$ 99	$ 152	$ 8,487

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

	Six Months Ended June 30, 2022						
	Commercial and Industrial	**Commercial Real Estate**	**SBA**	**Consumer**	**Land and Land Development**	**Construction**	**Total**
Balance, beginning of period	$ 2,173	$ 4,129	$ 1,641	$ 836	$ 148	$ 153	$ 9,080
Provision (credit)	256	(660)	(209)	133	(69)	(1)	(550)
Loans charged off	-	-	-	(74)	-	-	(74)
Loan recoveries	-	-	3	8	20	-	31
Balance, end of period	$ 2,429	$ 3,469	$ 1,435	$ 903	$ 99	$ 152	$ 8,487

	Six Months Ended June 30, 2021						
	Commercial and Industrial	**Commercial Real Estate**	**SBA**	**Consumer**	**Land and Land Development**	**Construction**	**Total**
Balance, beginning of period	$ 3,275	$ 3,923	$ 1,779	$ 948	$ 170	$ 229	$ 10,324
Provision (credit)	(92)	201	(15)	(16)	(43)	(35)	-
Loans charged off	(50)	-	-	(19)	-	-	(69)
Loan recoveries	15	1	2	17	3	-	38
Balance, end of period	$ 3,148	$ 4,125	$ 1,766	$ 930	$ 130	$ 194	$ 10,293

The following table shows the balance in the allowance for credit losses at June 30, 2022, and December 31, 2021, and the related loan balances, segregated on the basis of impairment methodology (in thousands). Impaired loans are loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment.

	Allowance For Credit Losses			**Gross Loans Held for Investment**		
	Impaired	**Other**	**Total**	**Impaired**	**Other**	**Total**
June 30, 2022						
Commercial and industrial	$ -	$ 2,429	$ 2,429	$ 694	$ 185,832	$ 186,526
Commercial real estate	-	3,469	3,469	-	206,688	206,688
SBA	496	939	1,435	784	45,805	46,589
Consumer	6	897	903	88	88,476	88,564
Land and land development	-	99	99	-	12,005	12,005
Construction	-	152	152	-	16,994	16,994
Total	$ 502	$ 7,985	$ 8,487	$ 1,566	$ 555,800	$ 557,366
December 31, 2021						
Commercial and industrial	$ -	$ 2,173	$ 2,173	$ 715	$ 157,280	$ 157,995
Commercial real estate	-	4,129	4,129	-	201,043	201,043
SBA	574	1,067	1,641	875	57,884	58,759
Consumer	10	826	836	83	78,214	78,297
Land and land development	-	148	148	-	17,185	17,185
Construction	-	153	153	-	16,121	16,121
Total	$ 584	$ 8,496	$ 9,080	$ 1,673	$ 527,727	$ 529,400

Performing and Non-Accrual Loans

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

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

	June 30, 2022					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 83,752	$ -	$ -	$ 83,752	$ 534	$ 84,286
Agriculture	28,501	-	-	28,501	-	28,501
Owner-occupied commercial real estate	73,739	-	-	73,739	-	73,739
Commercial real estate	206,688	-	-	206,688	-	206,688
SBA	45,745	60	-	45,805	784	46,589
Consumer:						
Automobile	14,475	29	-	14,504	-	14,504
Home equity	14,531	-	-	14,531	-	14,531
1st mortgage	15,443	-	-	15,443	-	15,443
Other	43,963	35	-	43,998	88	44,086
Land and land development	12,005	-	-	12,005	-	12,005
Construction	16,994	-	-	16,994	-	16,994
Total loans held for investment	555,836	124	-	555,960	1,406	557,366
Loans held for sale	65,616	-	-	65,616	-	65,616
Total gross loans	$ 621,452	$ 124	$ -	$ 621,576	$ 1,406	$ 622,982

	December 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	$ 61,955	$ -	$ -	$ 61,955	$ 546	$ 62,501
Agriculture	26,422	-	-	26,422	-	26,422
Owner-occupied commercial real estate	68,902	-	-	68,902	170	69,072
Commercial real estate	201,043	-	-	201,043	-	201,043
SBA	57,884	-	-	57,884	875	58,759
Consumer:						
Automobile	15,535	9	-	15,544	-	15,544
Home equity	14,826	-	-	14,826	-	14,826
1st mortgage	11,183	-	-	11,183	-	11,183
Other	36,525	137	-	36,662	82	36,744
Land and land development	17,185	-	-	17,185	-	17,185
Construction	16,121	-	-	16,121	-	16,121
Total loans held for investment	527,581	146	-	527,727	1,673	529,400
Loans held for sale	80,922	1	-	80,923	-	80,923
Total gross loans	$ 608,503	$ 147	$ -	$ 608,650	$ 1,673	$ 610,323

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest income that would have been recorded	$ 40	$ 43	$ 79	$ 86
Interest income recorded	-	-	-	-
Effect on interest income on loans	$ 40	$ 43	$ 79	$ 86

Credit Risk by Internally Assigned Grade

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

Loans designated as watch list are loans that possess some credit deficiency that deserves close attention due to emerging problems. Such loans pose unwarranted financial risk that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank’s credit position at some future date.

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

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

	Pass	Watch List	Substandard	Doubtful	Total Loans Held for Investment
June 30, 2022	$ 547,434	$ 6,227	$ 2,597	$ 1,108	$ 557,366
December 31, 2021	514,426	6,508	7,276	1,190	529,400

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-accrual loans and loans that have been modified in a troubled debt restructuring. All loans are individually reviewed for impairment.

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

	June 30, 2022				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance (6-months)	Interest Income Recognized (6-months)
Impaired loans with an allowance recorded:					
SBA	$ 692	$ 574	$ 496	$ 605	$ -
Consumer: Other	46	40	6	44	-
Total impaired loans with an allowance recorded	$ 738	$ 614	$ 502	$ 649	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,062	$ 534	$ -	$ 542	$ -
Owner-occupied commercial real estate	181	160	-	164	3
SBA	338	210	-	220	-
Consumer: Other	78	48	-	51	-
Total impaired loans without an allowance recorded	$ 2,659	$ 952	$ -	$ 977	$ 3
TOTAL IMPAIRED LOANS	$ 3,397	$ 1,566	$ 502	$ 1,626	$ 3

	December 31, 2021				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance (12-months)	Interest Income Recognized (12-months)
Impaired loans with an allowance recorded:					
SBA	$ 735	$ 644	$ 574	$ 698	$ -
Consumer: Other	69	69	10	69	-
Total impaired loans with an allowance recorded	$ 804	$ 713	$ 584	$ 767	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,062	$ 546	$ -	$ 1,366	$ -
Owner-occupied commercial real estate	188	169	-	181	-
SBA	338	231	-	247	-
Consumer: Other	30	14	-	17	-
Total impaired loans without an allowance recorded	$ 2,618	$ 960	$ -	$ 1,811	$ -
Total impaired loans	$ 3,422	$ 1,673	$ 584	$ 2,578	$ -

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):

	June 30, 2022			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 523	$ 523	$ -
Owner-occupied commercial real estate	160	-	160	-
SBA	-	302	302	50
	$ 160	$ 825	$ 985	$ 50

	December 31, 2021			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 535	$ 535	$ -
Owner-occupied commercial real estate	-	170	170	-
SBA	-	324	324	52
	$ -	$ 1,029	$ 1,029	$ 52

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

When a loan is modified as a TDR, there may be a direct, material impact on the loan balance, as the principal balance may be partially forgiven. There were no new TDRs for the three and six month periods ended June 30, 2022. There were no new TDRs for the three and six month periods ended June 30, 2021.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest income that would have been recorded	$ 35	$ 36	$ 70	$ 72
Interest income recorded	2	-	3	-
Effect on interest income on loans	$ 33	$ 36	$ 67	$ 72

There were no additional funds committed to borrowers who are in TDR status at June 30, 2022, and December 31, 2021.

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

The Bank had no loans that were restructured within the 12 months preceding June 30, 2022, and June 30, 2021, and had a payment default (i.e. 90 days delinquent) during the three and six months ended June 30, 2022, and June 30, 2021.

NOTE 6 – Leases

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

The components of lease cost for the three- and six-month period ended June 30, 2022, and June 30, 2021, were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Operating lease costs	$ 235	$ 262	$ 470	$ 522
Variable lease costs	5	13	12	29
Short-term lease costs	26	4	52	8
Total lease costs	$ 266	$ 279	$ 534	$ 559

Amounts reported in the consolidated balance sheet as of June 30, 2022, and December 31, 2021, are as follows (in thousands):

	As of June 30, 2022	**As of December 31, 2021**
Operating lease right of use asset	$ 1,858	$ 2,142
Operating lease liabilities	2,009	2,302

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Cash paid for amounts included in the measurement of lease liabilities	$ 270	$ 283	$ 541	$ 565
ROU assets obtained in exchange for lease obligations	93	-	93	159
Reductions to ROU assets resulting from reduction in lease obligations	191	197	377	415

	As of June 30, 2022	**As of December 31, 2021**
Weighted average remaining lease term	3.67 years	4.05 years
Weighted average discount rate	6.00%	6.00%

Maturities of lease liabilities under non-cancellable leases as of June 30, 2022, are as follows (in thousands):

	Operating Leases
2022	$ 460
2023	680
2024	455
2025	237
2026	193
Thereafter	207
Total future minimum lease payments	2,232
Amounts representing interest	(223)
Total lease liabilities	$ 2,009

NOTE 7 – Earnings Per Share

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

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Denominator for basic earnings per share:		
Average common shares outstanding	3,574,783	3,573,600
Dilutive effect of stock compensation	846	903
Denominator for diluted earnings per share	3,575,629	3,574,503
Numerator (in thousands):		
Net income	$ 2,009	$ 3,482
Basic earnings per common share	$ 0.56	$ 0.97
Diluted earnings per common share	$ 0.56	$ 0.97

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

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	24,138	70,089

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

	Six Months Ended June 30, 2022		Six Months Ended June 30, 2021	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grand Date Fair Value
Outstanding, beginning of period	5,750	$ 39.68	1,700	$ 32.30
Granted	-	-	-	-
Vested	(250)	34.77	(250)	34.77
Forfeited	-	-	-	-
Outstanding, end of period	5,500	39.68	1,450	31.88

The Company recognized share-based compensation expense of $19 thousand related to restricted stock for the three-month period ended June 30, 2022, and $38 thousand for the six-month period ended June 30, 2022. The Company recognized share-based compensation expense of $7 thousand related to restricted stock for the three-month period ended June 30, 2021, and $14 thousand for the six-month period ended June 30, 2021.

At June 30, 2022, the Company had $165 thousand of unamortized restricted stock compensation expense. The cost of a restricted stock grant is recognized over the vesting period, which is generally three to four years.

NOTE 9 – Revenue from Contracts with Customers

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

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Service charges on deposits	$ 164	$ 117	$ 330	$ 235
Bankcard fees	278	270	541	518
Bank charges and service fees not within scope of ASC 606	311	184	482	372
Total bank charges and service fees	753	571	1,353	1,125
Wealth management revenue	492	541	1,028	1,086
Wealth management revenue not within the scope of ASC 606	-	-	-	-
Total wealth management revenues	492	541	1,028	1,086
Other	13	9	24	20
Other not within the scope of ASC 606 (a)	519	722	722	947
Total other	532	731	746	967
Other non-interest income not within the scope of ASC 606 (a)	4,001	7,788	8,163	23,943
Total non-interest income	$ 5,778	$ 9,631	$ 11,290	$ 27,121

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

The Company had no material contract assets or remaining performance obligations as of June 30, 2022. Total receivables from revenue recognized under the scope of ASC 606 were $498 thousand as of June 30, 2022, and $542 thousand as of December 31, 2021. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

NOTE 10 – Fair Value Measurements

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

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

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

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

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

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

	Carrying Value at June 30, 2022				Six Months Ended June 30, 2022
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains/(Losses)**
ASSETS					
Debt securities available for sale	$ 192,743	$ 18,552	$ 174,191	$ -	$ -
Loans held for sale	65,616	-	65,616	-	(901)
Commitments to originate mortgage loans	2,298	-	2,298	-	(251)
Commitments to sell mortgage loans	140	-	140	-	381
Mortgage banking short positions	379	-	379	-	128
Total assets at fair value	$ 261,176	$ 18,552	$ 242,624	$ -	$ (643)
LIABILITIES					
Mortgage banking short positions	$ -	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -	$ -

	Carrying Value at December 31, 2021				Twelve Months Ended December 31, 2021
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains/(Losses)**
ASSETS					
Debt securities available for sale	$ 208,978	$ 14,855	$ 194,123	$ -	$ -
Loans held for sale	80,923	-	80,923	-	(7,191)
Commitments to originate mortgage loans	2,465	-	2,465	-	(14,009)
Commitments to sell mortgage loans	12	-	12	-	201
Total assets at fair value	$ 292,378	$ 14,855	$ 277,523	$ -	$ (20,999)
LIABILITIES					
Mortgage banking short positions	$ 3	$ -	$ 3	$ -	$ 3,444
Total liabilities at fair value	$ 3	$ -	$ 3	$ -	$ 3,444

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

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

	Carrying Value at June 30, 2022				Six Months Ended June 30, 2022
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains/(Losses)**
Impaired loans[(1)]	$ 112	$ -	$ -	$ 112	$ 53

	Carrying Value at December 31, 2021				Twelve Months Ended December 31, 2021
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Impaired loans(1)	$ 129	$ -	$ -	$ 129	$ (163)

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

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

NOTE 11 – Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	June 30, 2022		December 31, 2021	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 61,072	$ 61,072	$ 188,060	$ 188,060
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	3,063	3,063	3,096	3,096
Gross loans held for investment	Level 2	556,414	551,640	528,440	530,237
Gross loans held for investment	Level 3	952	643	960	625
Accrued interest receivable	Level 2	2,767	2,767	2,586	2,586
		$ 624,268	$ 619,185	$ 723,142	$ 724,604
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 192,640	$ 192,640	$ 186,598	$ 186,598
Deposits, interest-bearing	Level 2	601,407	599,539	720,070	719,701
Accrued interest payable	Level 2	184	184	226	226
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,000	13,087	15,001	13,084
		$ 809,231	$ 805,450	$ 921,895	$ 919,609
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 398	$ -	$ 381
Standby and commercial letters of credit	Level 2	$ -	$ 22	$ -	$ 14

NOTE 12 – Federal Home Loan Bank Advances

As of June 30, 2022, the Bank had no Federal Home Loan Bank (FHLB) advances outstanding. At June 30, 2022, the Bank had loans with unamortized principal balances of approximately $212.6 million pledged as collateral to the FHLB.

As of December 31, 2021, the Bank had no FHLB advances outstanding. At December 31, 2021, the Bank had loans with unamortized principal balances of approximately $260.6 million pledged as collateral to the FHLB.

As of June 30, 2022, the Bank has the ability to draw advances up to approximately $148.9 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirements.

NOTE 13 – Other Borrowings

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

June 30, 2022

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	$ 3,407	$ 1,871	$ -	$ 1,871
BNCCORP line	111,231	10,000	-	10,000
Total	$ 114,638	$ 11,871	$ -	$ 11,871

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

At June 30, 2022, 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, 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	$ 2,050	$ 1,086	$ -	$ 1,086
BNCCORP line	118,256	10,000	-	10,000
Total	$ 120,306	$ 11,086	$ -	$ 11,086

(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 December 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.

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

In July 2007, BNCCORP issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at June 30, 2022, and December 31, 2021, was 2.37% and 1.53%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 15 – Stockholders’ Equity

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

BNCCORP is required to consult with the Federal Reserve Board prior to declaring a cash dividend to stockholders. On May 3, 2022, BNCCORP’s Board of Directors declared a $1.75 per share special cash dividend that was paid on June 21, 2022. In October of 2021, BNCCORP’s Board of Directors declared a $6.00 per share special cash dividend that was paid on December 15, 2021. In December 2020, BNCCORP’s Board of Directors declared an $8.00 per share special cash dividend that was paid on February 1, 2021.

The Company maintains a 175,000 share repurchase authorization with no expiration date set on the authorization. Share repurchases can be made through open market purchases, unsolicited and solicited privately negotiated transactions, or in accordance with terms of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. The Company will not repurchase shares from directors or officers of the Company under the authorization. The Company would contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals. No share repurchases have been made under the authorization as of June 30, 2022.

NOTE 16 – Regulatory Capital and Current Operating Environment

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

At June 30, 2022, the Company’s capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

At June 30, 2022, and December 31, 2021, the regulatory capital amounts and ratios were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
June 30, 2022								
Total Risk-Based Capital:								
Consolidated	$ 132,318	17.62 %	$ 60,062	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	126,922	16.92	60,019	≥8.00	75,023	10.00	51,899	6.92
Tier 1 Risk-Based Capital:								
Consolidated	123,831	16.49	45,046	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	118,435	15.79	45,014	≥6.00	60,019	8.00	58,416	7.79
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	108,831	14.50	33,785	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	118,435	15.79	33,761	≥4.50	48,765	6.50	69,670	9.29
Tier 1 Leverage Capital:								
Consolidated	123,831	13.13	37,728	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	118,435	12.57	37,691	≥4.00	47,114	5.00	71,321	7.57
Tangible Common Equity (to total assets): (a)								
Consolidated	101,394	11.04	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	111,124	12.11	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2021								
Total Risk-Based Capital:								
Consolidated	$ 134,914	20.02%	$ 53,906	≥8.00%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	123,051	18.27	53,868	≥8.00	67,334	10.00	55,717	8.27
Tier 1 Risk-Based Capital:								
Consolidated	126,483	18.77	40,429	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	114,626	17.02	40,401	≥6.00	53,868	8.00	60,758	9.02
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,482	16.54	30,322	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	114,626	17.02	30,300	≥4.50	43,767	6.50	70,859	10.52
Tier 1 Leverage Capital:								
Consolidated	126,483	11.74	43,095	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	114,626	10.65	43,055	≥4.00	53,819	5.00	60,807	5.65
Tangible Common Equity (to total assets): (a)								
Consolidated	114,976	10.98	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	118,246	11.30	N/A	N/A	N/A	N/A	N/A	N/A

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

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

NOTE 17 – Segment Reporting

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

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

Mortgage Banking
The Mortgage Banking segment 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 9 locations in North Dakota, Arizona, Kansas and Illinois. Revenues for mortgage banking consist primarily of interest earned on mortgage loans held for sale, gains on sales of loans, unrealized gains or losses on mortgage financial instruments, and loan origination fees.

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

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

	Three Months Ended June 30, 2022				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 7,351	$ 484	$ 4	$ (46)	$ 7,793
Interest expense	330	42	89	(46)	415
Net interest income (expense)	7,021	442	(85)	-	7,378
Provision for credit losses	-	-	-	-	-
Net interest income after provision for credit losses	7,021	442	(85)	-	7,378
Non-interest Income	2,579	3,781	537	(1,119)	5,778
Non-interest Expense	5,905	4,994	750	(1,119)	10,530
Income (loss) before income taxes	3,695	(771)	(298)	-	2,626
Income tax expense (benefit)	878	(191)	(70)	-	617
Net income (loss)	$ 2,817	$ (580)	$ (228)	$ -	$ 2,009
Total Assets at June 30, 2022	$ 848,102	$ 69,614	$ 6,040	$ (5,097)	$ 918,659

	Three Months Ended June 30, 2021				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 7,189	$ 803	$ 5	$ 31	$ 8,028
Interest expense	557	(36)	60	31	612
Net interest income (expense)	6,632	839	(55)	-	7,416
Provision for credit losses	-	-	-	-	-
Net interest income after provision for credit losses	6,632	839	(55)	-	7,416
Non-interest Income	2,448	7,787	420	(1,024)	9,631
Non-interest Expense	6,030	5,945	613	(1,024)	11,564
Income (loss) before income taxes	3,050	2,681	(248)	-	5,483
Income tax expense (benefit)	706	670	(60)	-	1,316
Net income (loss)	$ 2,344	$ 2,011	$ (188)	$ -	$ 4,167
Total Assets at June 30, 2021	$ 916,892	$ 111,017	$ 19,138	$ (18,138)	$ 1,028,909

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

	Six Months Ended June 30, 2022				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 14,203	$ 933	$ 8	$ (50)	$ 15,094
Interest expense	667	42	148	(50)	807
Net interest income (expense)	13,536	891	(140)	-	14,287
Provision for credit losses	(550)	-	-	-	(550)
Net interest income after provision for credit losses	14,086	891	(140)	-	14,837
Non-interest Income	4,493	7,921	1,048	(2,172)	11,290
Non-interest Expense	12,022	10,262	1,463	(2,172)	21,575
Income (loss) before income taxes	6,557	(1,450)	(555)	-	4,552
Income tax expense (benefit)	1,559	(359)	(130)	-	1,070
Net income (loss)	$ 4,998	$ (1,091)	$ (425)	$ -	$ 3,482
Total Assets at June 30, 2022	$ 848,102	$ 69,614	$ 6,040	$ (5,097)	$ 918,659

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

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

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

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

Comparison of Results for the Three Months Ended June 30, 2022, and 2021

Net income was $2.0 million, or $0.56 per diluted share, for the quarter ended June 30, 2022. This compared to net income of $4.2 million, or $1.17 per diluted share, in the same period of 2021. The year-over-year decrease was primarily due to lower mortgage revenues and net interest income, partially offset by lower non-interest expense.

Net interest income for the second quarter of 2022 was $7.4 million, a decrease of $38 thousand, or 0.5%, from $7.4 million in the second quarter of 2021. The decrease is primarily the result of lower balances and yields on loans, partially offset by higher balances and yields on debt securities, higher yields on interest-bearing cash, and lower deposit balances and cost of deposits. PPP fees were $55 thousand in second quarter of 2022 compared to $206 thousand in the second quarter of 2021. The net interest margin for the current period increased to 3.31% from 2.72% a year ago.

Interest income in the second quarter of 2022 decreased by $235 thousand, or 2.9%, to $7.8 million, compared to $8.0 million for the second quarter of 2021. The decrease is the result of lower balances and yields on loans. This decrease was partially offset by higher balances and yields on debt securities as well as higher yields on interest-bearing cash. PPP fees were $55 thousand in the second quarter of 2022 compared to $206 thousand in the second quarter of 2021. The yield on average interest-earning assets was 3.50% in the second quarter of 2022, compared to 2.95% in the 2021 second quarter.

The average balance of interest-earning assets in the 2022 second quarter decreased by $198.6 million versus the same period of 2021, primarily due to a $139.7 million decrease in interest-bearing cash and by decreases in average loans held for sale and loans held for investment (including PPP loans). Interest income for loans held for investment decreased $267 thousand. The average balance of loans held for investment decreased by $20.7 million. The forgiveness of PPP loans accounting for $65.7 million of the decrease, which was partially offset by new origination activity. The average balance of mortgage loans held for sale was $50.2 million, $67.1million lower than the same period of 2021. Interest income from loans held for sale decreased $323 thousand due to lower average balances. The average balance of debt securities in the second quarter of 2022 was $196.9 million, $27.1 million higher than in the second quarter of 2021. Interest income from debt securities was $200 thousand higher during the second quarter of 2022 when compared to the same period of 2021.

Interest expense in the second quarter of 2022 was $415 thousand, a decrease of $197 thousand, or 32.2%, from the 2021 period. The average balance of deposits decreased by $173.4 million when comparing the second quarter of 2022 to 2021. The primary driver of the decrease was the movement of non-core deposits off the balance sheet at the end of the first quarter of 2022 through the use of an associated banking network coupled with managing the balances of certificates of deposit. The cost of interest-bearing liabilities was 0.26% during the second quarter of 2022, compared to 0.30% in the same period of 2021. The cost of core deposits in the second quarters of 2022 and 2021 was 0.16% and 0.22%, respectively, as the Company continues to manage its overall cost of deposits.

At June 30, 2022, credit metrics remained stable with $1.4 million of nonperforming assets, representing a 0.15% nonperforming assets-to-total-asset ratio, compared to $1.7 million and 0.16% at December 31, 2021. The Company had no provision for credit losses in the second quarters of 2022 and 2021.

Non-interest income for the second quarter of 2022 was $5.8 million, compared to $9.6 million in the 2021 second quarter. The decrease was driven by a reduction in mortgage banking revenues to $3.8 million in the second quarter of 2022, versus $7.8 million in the prior-year period. The Company's mortgage business has transitioned to a lower level of originations compared to the historically high level of refinance activity and margins in the prior-year period. In the second quarter of 2022, BNC funded 718 mortgage loans with combined balances of $294.1 million, compared to 1,499 mortgage loans with combined balances of $536.3 million in the second quarter of 2021. Bank charges and service fees were $182 thousand higher when comparing the second quarter of 2022 to 2021 due to higher fees from letters of credit, deposit account charges, and from the movement of deposits to one-way sell positions. Wealth management revenues decreased $49 thousand, or 9.1%, as assets under administration decreased as a result of overall market declines relative to the 2021 period. Other income was impacted by the sale of the Company's Golden Valley, MN property in the second quarter of 2022 compared to the sale of the loans and deposits from the same location in the second quarter of 2021.

Non-interest expense for the second quarter of 2022 decreased $1.1 million, or 8.9%, to $10.5 million, from $11.6 million in the second quarter of 2021. Non-interest expenses related to mortgage operations decreased by $951 thousand, or 16.0%, as management scaled operations to match the marketplace opportunity. There were 125 full-time equivalent employees engaged in mortgage operations as of June 30, 2022, compared to 139 on June 30, 2021. Combined expenses for community banking and the holding company decreased by $83 thousand, or 1.5%, compared to the 2021 period primarily due to reduced salary and professional service expense that was partially offset by higher marketing and other expenses.

In the second quarter of 2022, income tax expense was $617 thousand, compared to $1.3 million in the second quarter of 2021. The effective tax rate was 23.5% in the second quarter of 2022, compared to 24.0% in the same period of 2021.

Comparison of Results for the Six Months Ended June 30, 2022, and 2021

Net income was $3.5 million, or $0.97 per diluted share, for the six months ended June 30, 2022. This compared to net income of $13.9 million, or $3.90 per diluted share, in the same period of 2021. The year-over-year decrease was primarily due to lower mortgage revenues and lower net interest income, partially offset by lower non-interest expense and a credit to provision expense.

Net interest income in the first half of 2022 was $14.3 million, a decrease of $2.2 million, or 13.3%, from $16.5 million in 2021. The decrease primarily reflects lower loan balances and lower yields on loans partially offset by higher yields on interest-bearing cash and balances of debt securities, lower cost of deposits, and a reduction in certificates of deposit. PPP fees were $282 thousand in the first half of 2022 compared to $2.5 million in the first half of 2021. Net interest margin decreased to 3.05% in the 2022 six-month period, compared to 3.13% in the year-earlier period.

Interest income for the six-month period of 2022 decreased by $2.6 million, or 14.9%, to $15.1 million, compared to $17.7 million in 2021. The decrease is the result of lower loan balances, primarily lower balances of loans held for sale and PPP loans, in addition to lower yields on loans held for investment. The yield on average interest-earning assets was 3.22% in the six-month period of 2022, compared to 3.37% in 2021.

The average balance of interest-earning assets in the first half of 2022 decreased by $114.5 million versus the same period of 2021, driven by decreases in interest-bearing cash, loans held for sale, and loans held for investment (including PPP loans) partially offset by a $26.1 million increase in debt securities year-over-year. Interest income for loans held for investment decreased $2.1 million. The average balance of loans held for investment decreased by $36.0 million period-over-period with PPP loans accounting for $62.0 million of the decrease. The average balance of mortgage loans held for sale was $55.1 million, $103.4 million lower than the same period of 2021. Interest income from loans held for sale decreased $1.1 million due to lower average balances. The average balance of debt securities in the first half of 2022 was $200.6 million, $26.1 million higher than in the first half of 2021. Interest income from debt securities was $326 thousand higher compared to the same period of 2021.

Interest expense in the first half of 2022 was $807 thousand, a decrease of $467 thousand, or 36.7%, from the 2021 period. The cost of interest-bearing liabilities was 0.24% in the first six months of 2022, compared to 0.33% in the same period of 2021. The cost of core deposits in the first six months of 2022 and 2021 were 0.15% and 0.24%, respectively.

As of June 30, 2022, credit metrics remained stable with $1.4 million of nonperforming assets, representing a 0.15% nonperforming assets-to-total-asset ratio, compared to $1.7 million and 0.16% at December 31, 2021. The Company also credited provision expense to release $550 thousand of its allowance for credit losses in the first six months of 2022. By comparison, the Company had no provision for credit losses recorded in the first six months of 2021.

Non-interest income for the first six months of 2022 was $11.3 million compared to $27.1 million in the 2021 period. The decrease was driven by a reduction in mortgage banking revenues to $7.9 million in the first half of 2022 versus $23.8 million in the prior-year period. The Company's mortgage business has transitioned its mortgage business to a lower level of originations compared to the historically high level of refinance activity and margins in the prior-year period. In the first half of 2022, BNC funded 1,478 mortgage loans with combined balances of $594.3 million, compared to 3,925 mortgage loans with combined balances of $1.4 billion in the first half of 2021. Bank charges and service fees were $228 thousand, or 20.3%, higher when comparing the second quarter of 2022 to 2021 due to higher fees from letters of credit, deposit account charges, and from the movement of deposits to one-way sell positions. Wealth management revenues decreased $58 thousand, or 5.3%, as assets under administration decreased as a result of overall market declines relative to the 2021 period. Other income was impacted by the sale of the Company's Golden Valley, MN property in 2022 compared to the sale of the loans and deposits from the same location in 2021.

Non-interest expense for the first half of 2022 decreased $3.6 million, or 14.3%, to $21.6 million, from $25.2 million in the first half of 2021. Non-interest expenses related to mortgage operations activity decreased by $3.4 million, or 25.1%, as management scaled its operations to match the marketplace opportunity. Combined expenses for community banking and the holding company decreased by $178 thousand, or 1.5%, compared to the 2021 period primarily due to reduced salary and data processing expense that was partially offset by higher marketing, occupancy, and other expenses.

During the six-month period ended June 30, 2022, income tax expense was $1.1 million, compared to $4.5 million in the first half of 2021. The Company's effective tax rate was 23.5% in the first half of 2022, compared to 24.3% in the same period of 2021.

Net Interest Income

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

	Three Months Ended June 30,								
	2022			2021			Change		
	Average Balance	Interest Earned or Owed	Average Yield or Cost	Average Balance	Interest Earned or Owed	Average Yield or Cost	Average Balance	Interest Earned or Owed	Average Yield or Cost
Interest-earning assets									
Cash and cash equivalents	$ 105,465	$ 215	0.82%	$ 245,193	$ 60	0.10%	$ (139,728)	$ 155	0.72% (a)
FHLB Stock	1,264	10	3.02%	1,307	10	3.14%	(43)	-	-0.12%
Federal Reserve Stock	1,807	27	6.10%	1,807	27	6.10%	-	-	0.00%
Debt securities – taxable	191,043	980	2.06%	163,277	779	1.91%	27,766	201	0.15% (b)
Debt securities – tax exempt	5,904	57	3.92%	6,578	58	3.54%	(674)	(1)	0.38% (b)
Loans held for sale – mortgage banking	50,196	480	3.84%	117,259	803	2.75%	(67,063)	(323)	1.09% (c)
Loans held for investment	545,953	6,024	4.43%	566,647	6,291	4.45%	(20,694)	(267)	-0.03% (d)
Allowance for loan losses	(8,484)	-	0.00%	(10,286)	-	0.00%	1,802	-	0.00%
Total interest-earning assets	$ 893,148	$ 7,793	3.50%	$ 1,091,782	$ 8,028	2.95%	$ (198,634)	$ (235)	0.55%
Interest-bearing liabilities									
Interest checking and money market	$ 506,920	$ 251	0.20%	$ 652,415	$ 345	0.21%	$ (145,495)	$ (94)	-0.01% (e)
Savings	51,396	5	0.04%	47,146	5	0.04%	4,250	-	0.00% (e)
Certificates of deposit	66,549	69	0.42%	98,655	201	0.82%	(32,106)	(132)	-0.40% (f)
Total interest-bearing deposits	624,865	325	0.21%	798,216	551	0.28%	(173,351)	(226)	-0.07%
Short-term borrowings	269	-	0.30%	2,558	1	0.16%	(2,289)	(1)	0.14% (g)
Federal Home Loan Bank advances	197	1	1.24%	-	-	0.00%	197	1	1.24%
Subordinated debentures	15,001	89	2.38%	15,003	60	1.61%	(2)	29	0.77%
Total borrowings	15,467	90	2.33%	17,561	61	1.42%	(2,094)	29	0.94%
Total interest-bearing liabilities	$ 640,332	415	0.26%	$ 815,777	612	0.30%	$ (175,445)	(197)	-0.04%
Net interest income/spread		$ 7,378	3.24%		$ 7,416	2.65%		$ (38)	0.59%
Net interest margin			3.31%			2.72%			0.59%
Notation:									
Non-interest-bearing deposits	$ 192,026	-		$ 192,060	-	0.00%	$ (34)	-	0.00% (e)
Total deposits	$ 816,891	$ 325	0.16%	$ 990,276	$ 550	0.22%	$ (173,385)	$ (226)	-0.06%
Taxable equivalents:									
Total interest-earning assets	$ 893,147	$ 7,843	3.52%	$ 1,091,781	$ 8,078	2.97%	$ (198,634)	$ (235)	0.55%
Net interest income/spread	-	$ 7,428	3.26%	-	$ 7,467	2.67%	-	$ (39)	0.59%
Net interest margin	-	-	3.34%	-	-	2.74%	-	-	0.60%

(a) Cash balances decreased as the Company was able to move deposit balances off the balance sheet at the end of the first quarter of 2022 through the use of an associated banking network.
(b) Average debt securities balances have increased as a portion of the cash flow from the reduction in loans held for sale and PPP loans has been redeployed into debt securities.
(c) The average balance of loans held for sale decreased in the second quarter of 2022 as mortgage origination activity decreased when compared to the pandemic-related historically high level of refinance activity in the second quarter of 2021.
(d) The total decrease of $20.7 million consisted of a $65.7 million decrease in average PPP loans period-over-period being offset by new origination activity when comparing the second quarters of 2022 to 2021.
(e) Overall, average deposit balances decreased as the Company was able to move deposit balances off the balance sheet at the end of the first quarter of 2022 through the use of an associated banking network.
(f) The Company continues to actively manage a reduction in certificates of deposits.
(g) Short-term borrowings decreased based on customer’s use of repurchase agreements.

	Six Months Ended June 30,								
	2022			2021			Change		
	Average Balance	Interest Earned or Owed	Average Yield or Cost	Average Balance	Interest Earned or Owed	Average Yield or Cost	Average Balance	Interest Earned or Owed	Average Yield or Cost
Interest-earning assets									
Cash and cash equivalents	$ 158,281	$ 302	0.38%	$ 161,115	$ 74	0.09%	$ (2,834)	$ 228	0.29%
FHLB Stock	1,276	19	3.01%	1,281	20	3.17%	(5)	(1)	-0.16%
Federal Reserve Stock	1,807	54	6.05%	1,807	54	6.05%	-	-	0.00%
Debt securities – taxable	194,514	1,933	2.00%	167,864	1,606	1.93%	26,650	327	0.07% (a)
Debt securities – tax exempt	6,120	115	3.80%	6,629	116	3.54%	(509)	(1)	0.26% (a)
Loans held for sale – mortgage banking	55,072	905	3.31%	158,447	1,992	2.54%	(103,375)	(1,087)	0.77% (b)
Loans held for investment	537,622	11,766	4.41%	573,579	13,885	4.88%	(35,957)	(2,119)	-0.47% (c)
Allowance for loan losses	(8,762)	-	0.00%	(10,296)	-	0.00%	1,534	-	0.00%
Total interest-earning assets	$ 945,930	$ 15,094	3.22%	$ 1,060,426	$ 17,747	3.37%	$ (114,496)	$ (2,653)	-0.15%
Interest-bearing liabilities									
Interest checking and money market	$ 555,069	$ 493	0.18%	$ 615,686	$ 687	0.22%	$ (60,617)	$ (194)	-0.05% (d)
Savings	51,088	10	0.04%	45,681	9	0.04%	5,407	1	0.00% (d)
Certificates of deposit	69,554	155	0.45%	104,851	455	0.88%	(35,297)	(300)	-0.43% (e)
Total interest-bearing deposits	675,711	658	0.20%	766,218	1,151	0.30%	(90,507)	(493)	-0.11%
Short-term borrowings	253	-	0.30%	3,606	3	0.17%	(3,353)	(3)	0.13% (f)
Federal Home Loan Bank advances	198	1	0.62%	990	1	0.30%	(792)	-	0.32%
Subordinated debentures	15,001	148	1.99%	15,003	119	1.60%	(2)	29	0.39%
Total borrowings	15,452	149	1.94%	19,599	123	1.28%	(4,147)	26	0.68%
Total interest-bearing liabilities	$ 691,163	807	0.24%	$ 785,817	1,274	0.33%	$ (94,654)	(467)	-0.09%
Net interest income/spread		$ 14,287	2.98%		$ 16,473	3.05%		$ (2,186)	-0.07%
Net interest margin			3.05%			3.13%			-0.08%
Notation:									
Non-interest-bearing deposits	$ 190,183	-		$ 190,385	-	0.00%	$ (202)	-	0.00% (d)
Total deposits	$ 865,894	$ 658	0.15%	$ 956,603	$ 1,150	0.24%	$ (90,709)	$ (493)	-0.09%
Taxable equivalents:									
Total interest-earning assets	$ 945,929	$ 15,195	3.24%	$ 1,060,426	$ 17,848	3.39%	$ (114,497)	$ (2,653)	-0.15%
Net interest income/spread	-	$ 14,389	3.00%	-	$ 16,575	3.07%	-	$ (2,186)	-0.07%
Net interest margin	-	-	3.07%	-	-	3.14%	-	-	-0.07%

(a) Average debt securities balances have increased as a portion of the cash flow from the reduction loans held for sale and PPP loans has been redeployed into debt securities.
(b) The average balance of loans held for sale decreased in the first half of 2022 as mortgage origination activity decreased when compared to the pandemic-related historically high level of refinance activity in the first half of 2021.
(c) The total decrease of $36.0 million consisted of a $62.0 million decrease in average PPP loans period-over-period being offset by new origination activity when comparing 2022 to 2021.
(d) Overall, average deposit balances decreased as the Company was able to move deposit balances off the balance sheet at the end of the first quarter of 2022 through the use of an associated banking network.
(e) The Company continues to actively manage a reduction in certificates of deposits.
(f) Short-term borrowings decreased based on customer’s use of repurchase agreements.

Non-interest Income

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

	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)		
	2022	2021	$	%	2022	2021	$	%	
Bank charges and service fees	$ 753	$ 571	$ 182	32 %	$ 1,353	$ 1,125	$ 228	20 %	(a)
Wealth management revenues	492	541	(49)	(9)	1,028	1,086	(58)	(5)	(b)
Mortgage banking revenues	3,782	7,789	(4,007)	(51)	7,924	23,847	(15,923)	(67)	(c)
Gains (losses) on sales of loans, net	219	(1)	220	(22,000)	239	96	143	149	(d)
Other	532	731	(199)	(27)	746	967	(221)	(23)	(e)
Total non-interest income	$ 5,778	$ 9,631	$ (3,853)	(40) %	$ 11,290	$ 27,121	$ (15,831)	(58) %	

(a) Bank charges and services fees increased as customers have increased utilization of the Company’s products generating higher deposit account charges, letter of credit fees, and fees from movement of deposits to one-way sell positions.
(b) Wealth management revenues decreased as a result of overall market declines relative to the 2021 period.
(c) Mortgage banking revenues decreased compared to the 2021 period, during which the Company experienced a combination of historically high refinance originations and margins.
(d) Gains on sale of loans can vary significantly from period to period.
(e) Other income was impacted by the sale of the Golden Valley, MN property in the second quarter of 2022 compared to the sale of loans and deposits from the same location in the second quarter of 2021 along with lower valuation adjustment for the Company’s non-qualified deferred compensation plan.

Non-interest Expense

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

	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)		
	2022	2021	$	%	2022	2021	$	%	
Salaries and employee benefits	$ 5,219	$ 6,005	$ (786)	(13) %	$ 11,160	$ 13,619	$ (2,459)	(18) %	(a)
Professional services	966	1,567	(601)	(38)	1,916	3,339	(1,423)	(43)	(b)
Data processing fees	998	1,074	(76)	(7)	1,971	2,239	(268)	(12)	(c)
Marketing and promotion	1,437	977	460	47	2,792	1,976	816	41	(d)
Occupancy	527	524	3	1	1,110	1,074	36	3	
Regulatory costs	121	118	3	3	240	233	7	3	
Depreciation and amortization	306	316	(10)	(3)	617	644	(27)	(4)	
Office supplies and postage	107	113	(6)	(5)	217	246	(29)	(12)	(e)
Other	849	870	(21)	(2)	1,552	1,815	(263)	(14)	(f)
Total non-interest expense	$ 10,530	$ 11,564	$ (1,034)	(9) %	$ 21,575	$ 25,185	$ (3,610)	(14) %	
Efficiency ratio	80.0%	67.8%			84.4%	57.8%			

(a) Salaries and employee benefits decreased primarily due to lower salaries and incentive compensation.
(b) Professional services expense decreased primarily due to decreased mortgage loan closing costs as loan held for sale origination activity has decreased when compared to the 2021 period.
(c) Data processing fees decreased due to lower software maintenance and licensing costs when compared to the prior year period, and lower conversion costs related to the Golden Valley branch sale that transpired in 2021.
(d) Marketing and promotion expense increased primarily due to higher mortgage banking lead costs.
(e) Office supplies and postage decreased due to a reduction in paper and office supplies as the Company continues to make efficient use of technology.
(f) Other expenses decreased primarily due to a reduction in the provisions to the reserve for mortgage banking obligations being partially offset by higher insurance, other, and travel expense.

Mortgage Banking Division Selected Data

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Number of funded mortgage loans held for sale	718	1,499	1,478	3,925
Mortgage loans held for sale funded	$ 294,064	$ 536,301	$ 594,307	$ 1,411,072
Average loans held for sale-mortgage banking	$ 50,196	$ 117,259	$ 55,072	$ 158,447
Loans held for sale-mortgage banking	$ 65,616	$ 104,001	$ 65,616	$ 104,001
Non-Interest Income:				
Gains on sale of loans held for sale, net of commission expense	$ 4,169	$ 11,486	$ 8,567	$ 38,720
Change in fair value of mortgage banking instruments (1)	$ (387)	$ (3,697)	$ (643)	$ (14,873)

(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 five Midwest retail mortgage locations. The consumer direct channel is a nationwide mortgage platform operating from locations in Overland Park, Kansas, and Farmington Hills, Michigan, that uses a call center with internet sales focused on both purchase and refinance transactions.

The decrease in mortgage interest rates following the onset of the pandemic and implementation of the Federal Reserve's purchases of agency mortgage-backed securities in 2020, generated a significant increase in mortgage loan origination activity and margins. As mortgage interest rates increased from these historically low levels, starting in the first quarter of 2021, mortgage origination activity began to moderate. Over the last several quarters, the Company has transitioned our mortgage business from focusing on refinance transactions to purchase transactions, including adjusting our operations to match expected loan origination levels. Non-interest income includes gains on the sale of loans, changes in the fair value of loans held for sale and loans in the various stages of processing prior to funding (net of commission expense) and hedge instruments.

Income Taxes

In the second quarter of 2022, the Company recorded income tax expense of $617 thousand, which resulted in an effective tax rate of 23.5% for the quarter. Income tax expense of $1.3 million was recognized during the second quarter of 2021, which resulted in an effective tax rate of 24.0%.

During the six-month period ended June 30, 2022, income tax expense was $1.1 million, compared to $4.5 million in the first six months of 2021. The effective tax rate was 23.5% in the first six months of 2022, compared to 24.3% in the same period of 2021.

Comparison of Financial Condition at June 30, 2022 and December 31, 2021

Assets

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

	June 30, 2022	December 31, 2021	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 61,072	$ 188,060	$ (126,988)	(68) %	(a)
Debt securities available for sale	192,743	208,978	(16,235)	(8)	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	3,063	3,096	(33)	(1)	
Loans held for sale-mortgage banking	65,616	80,923	(15,307)	(19)	(c)
Loans held for investment, net	558,281	529,793	28,488	5	(d)
Allowance for credit losses	(8,487)	(9,080)	593	(7)	
Repossessed assets, net	15	-	15	100	
Premises and equipment, net	12,161	12,502	(341)	(3)	
Operating lease right of use asset	1,858	2,142	(284)	(13)	
Accrued interest receivable	2,767	2,586	181	7	(e)
Other assets	29,570	28,372	1,213	4	
Total assets	$ 918,659	$ 1,047,372	$ (128,713)	(12) %	

(a) Cash balances decreased as the Company moved non-core deposits off the balance sheet through the use of an associated banking network.

(b) Debt securities available for sale decreased as cash flows from the portfolio are being retained as liquidity and the impact of higher long-term rates on the fair value of debt securities.

(c) Loans held for sale decreased as mortgage origination activity slowed in the first half of 2022 as interest rates continued to rise.

(d) Excluding the impact of PPP loan forgiveness, the Company grew the loans held for investment portfolio by $39.7 million between December 31, 2021 and June 30, 2022.

(e) Accrued interest receivable increased primarily due to the impact of variable rates assets on the Company's balance sheet.

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 $97.9 million as of June 30, 2022, and $106.1 million as of December 31, 2021. The sales of participations are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Concentrations of Credit

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

	June 30, 2022		December 31, 2021	
North Dakota	$ 372,894	67 %	$ 360,077	68 %
Arizona	90,882	16	98,742	19
Minnesota	23,910	4	24,434	4
Other	69,680	13	46,147	9
Total gross loans held for investment	$ 557,366	100 %	$ 529,400	100 %

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

	June 30, 2022		December 31, 2021	
North Dakota	$ 337,345	61 %	$ 328,066	62 %
Arizona	125,302	22	126,242	24
California	22,905	4	19,644	4
Colorado	12,801	2	12,855	2
Minnesota	11,246	2	9,969	2
South Dakota	9,481	2	8,978	2
Texas	7,287	1	3,637	1
Ohio	6,916	1	7,103	1
Other	24,083	5	12,906	2
Total gross loans held for investment	$ 557,366	100 %	$ 529,400	100 %

BNC's loans held for investment are concentrated geographically in North Dakota and Arizona which comprise 61% and 22% of the Company's total loan portfolio, respectively. The North Dakota economy is influenced by the energy and agriculture industries. Energy supply and demand factors have recently increased oil prices, benefiting the oil industry and ancillary services. Legislation and economic conditions remain potential risks to energy markets and production activity and could present potential challenges to credit quality in North Dakota. The Arizona economy is influenced by the leisure and travel industries. Positive trends in both industries have been noted, but an extended slowdown in these industries may negatively impact credit quality in Arizona. BNC's portfolio is constructed of various sized loans spread over a large number of industry sectors, although the Company manages meaningful concentrations of loans in hospitality and commercial real estate.

The following table approximates the Company's concentrations by industry. The amounts presented therein exclude PPP loans of $709 thousand and $11.9 million as of June 30, 2022 and December 31, 2021, respectively (dollars are in thousands):

	June 30, 2022		December 31, 2021	
Non-owner occupied commercial real estate – not otherwise categorized	$ 160,866	29 %	$ 157,608	30 %
Hotels	83,300	15	78,473	15
Consumer, not otherwise categorized	82,181	15	75,519	14
Healthcare and social assistance	40,988	7	36,531	7
Retail trade	32,300	6	35,173	7
Agriculture, forestry, fishing and hunting	28,808	5	26,922	5
Transportation and warehousing	22,805	4	21,499	4
Non-hotel accommodation and food service	20,890	4	18,838	4
Construction contractors	12,492	2	11,458	2
Other service	11,582	2	12,543	2
Mining, oil and gas extraction	11,249	2	10,327	2
Art, entertainment and recreation	8,936	1	5,936	1
Professional, scientific, and technical services	7,236	1	3,738	1
Manufacturing	5,802	1	4,697	1
Educational services	4,860	1	1,724	-
Real estate and rental and leasing support services	4,603	1	3,750	1
Public administration	4,467	1	3,108	1
Finance and insurance	3,949	1	2,692	1
Wholesale trade	3,908	1	3,325	1
All other	5,435	1	3,644	1
Gross loans held for investment (excluding PPP loans)	$ 556,657	100 %	$ 517,505	100 %

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

While the Company's loan portfolio and credit risk may still be subject to pandemic related risks, management believes that this potential risk remains qualitatively captured in the Company's allowance for credit losses.

Loan Maturities[1]

The following table sets forth the maturities of loans in each major category of the Company's portfolio as of June 30, 2022 (in thousands):

	One Year or Less	Over 1 Year Through 5 Years Fixed Rate	Over 1 Year Through 5 Years Indexed Rate	Over 5 Years Fixed Rate	Over 5 Years Indexed Rate	Total Loans Held for Investment
Commercial and industrial	$ 25,141	$ 18,528	$ 3,957	$ 53,843	$ 85,057	$ 186,526
Commercial real estate	200	13,722	9,289	29,022	154,455	206,688
SBA	2,017	709	32	3,010	40,821	46,589
Consumer	920	5,902	5,189	60,748	15,805	88,564
Land and land development	4,560	2,015	1,438	862	3,130	12,005
Construction	1,624	3,319	2,724	2,513	6,814	16,994
Total principal amount of loans	$ 34,462	$ 44,195	$ 22,629	$ 149,998	$ 306,082	$ 557,366

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

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

Allocation of the Allowance for Credit Losses

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

	June 30, 2022		December 31, 2021	
	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	$ 2,429	34 %	$ 2,173	30 %
Commercial real estate	3,469	37	4,129	38
SBA	1,435	8	1,641	11
Consumer	903	16	836	15
Land and land development	99	2	148	3
Construction	152	3	153	3
Total	$ 8,487	100 %	$ 9,080	100 %

Nonperforming Loans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Balance, beginning of period	$ 1,466	$ 2,605	$ 1,673	$ 2,612
Additions to nonperforming	-	19	73	112
Charge-offs	-	-	(47)	(83)
Reclassified back to performing	-	-	(165)	-
Principal payment received	(45)	(23)	(113)	(40)
Transferred to repossessed assets	(15)	-	(15)	-
Balance, end of period	$ 1,406	$ 2,601	$ 1,406	$ 2,601

Nonperforming Assets

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

	June 30, 2022	December 31, 2021
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ -	$ -
Non-accrual loans	1,406	1,673
Total nonperforming loans	$ 1,406	$ 1,673
Repossessed assets, net	15	17
Total nonperforming assets	$ 1,421	$ 1,690
Allowance for credit losses	$ 8,487	$ 9,080
Ratio of total nonperforming loans to total loans	0.23%	0.27%
Ratio of total nonperforming loans to loans held for investment	0.25%	0.32%
Ratio of total nonperforming assets to total assets	0.15%	0.16%
Ratio of nonperforming loans to total assets	0.15%	0.16%
Ratio of allowance for credit losses to nonperforming loans	604%	543%

Problem Loans

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

	Watch List			Substandard			Doubtful
	Impaired	Other	Total	Impaired	Other	Total	Impaired
June 30, 2022	$ -	$ 6,227	$ 6,227	$ 298	$ 2,299	$ 2,597	$ 1,108
December 31, 2021	-	6,508	6,508	483	6,793	7,276	1,190

At June 30, 2022, the Bank had $3.7 million of classified loans and $1.4 million of loans on non-accrual. This compares to $8.5 million of classified loans and $1.7 million of loans on non-accrual at December 31, 2021, and $8.7 million of classified loans and $2.6 million of loans on non-accrual at June 30, 2021.

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.

At June 30, 2022 and December 31, 2021, the Company did not have any loans modified under Section 4013 of the CARES Act.

Liabilities

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

	June 30, 2022	December 31, 2021	Increase (Decrease) $	%	
Deposits:					
Non-interest-bearing	$ 192,640	$ 186,598	$ 6,042	3 %	(a)
Interest-bearing-					
Savings, interest checking and money market	538,176	644,641	(106,465)	(17) %	(a)
Time deposits	63,231	75,429	(12,198)	(16) %	(b)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,000	15,001	(1)	- %	
Accrued interest payable	184	226	(42)	(19) %	(c)
Accrued expenses	5,225	7,302	(2,077)	(28) %	(d)
Operating lease liabilities	2,009	2,302	(293)	(13) %	
Other liabilities	692	887	(195)	(22) %	(e)
Total liabilities	$ 817,157	$ 932,386	$ (115,229)	(12) %	

(a) Deposits decreased as the Company moved deposits off the balance sheet through the use of an associated banking network.
(b) Time deposits have decreased as the Company continues to actively manage the existing certificates of deposit rates.
(c) Accrued interest payable decreased primarily due to decreased time deposit balances and decreased cost of deposits.
(d) Accrued expenses decreased due to decreases in incentive accruals, 401k matching contributions, and mortgage banking commissions.
(e) The decrease relates to the timing of clearing customer payments.

At June 30, 2022, and December 31, 2021, the Bank had $14.7 million and $18.0 million, respectively, in time deposits greater than $250 thousand.

Mortgage Banking Obligations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Balance, beginning of period	$ 804	$ 1,010	$ 820	$ 1,025
Provision	30	211	60	520
Write offs, net	(188)	(377)	(234)	(701)
Balance, end of period	$ 646	$ 844	$ 646	$ 844

Stockholders' Equity

The Company's stockholders' equity decreased $13.5 million from December 31, 2021, to June 30, 2022, primarily due to declaring a $6.3 million dividend on common stock and a decrease in accumulated other comprehensive income of $10.9 million offset by net income of $3.5 million. The decrease in accumulated other comprehensive income was due to the negative impact the increase in long-term rates had on the debt securities available for sale portfolio. As presented in Note 16 – Regulatory Capital and Current Operating Environment, the Company maintains capital in excess of regulatory requirements.

The Company routinely evaluates the sufficiency of its capital in order to ensure compliance with regulatory capital standards and to provide a source of strength for the Bank. The Company manages capital by assessing the composition of capital and the amounts available for growth, risk, or other purposes. On May 3, 2022, BNCCORP's Board of Directors declared a $1.75 per share special cash dividend that was paid on June 21, 2022. In October of 2021, BNCCORP's Board of Directors declared a $6.00 per share special cash dividend that was paid on December 15, 2021. In December 2020, BNCCORP's Board of Directors declared an $8.00 per share special cash dividend that was paid on February 1, 2021.

Liquidity Risk Management

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

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

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

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

1. Estimated liquid assets and certain off-balance sheet considerations less estimated volatile liabilities using the aforementioned methodology ($295.0 million as of June 30, 2022);
2. Borrowing capacity from the FHLB ($148.9 million as of June 30, 2022); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($132.8 million as of June 30, 2022).

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

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

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

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

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

The Company's primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes assumptions regarding the changes in interest rates and the impact on the Company's current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month-end balances of the various balance sheet accounts are held constant at their June 30, 2022, levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its June 30, 2022, level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

The Company monitors the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of June 30, 2022, 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 4.75% to 5.75% 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	$ 31,481	$ 32,237	$ 32,026	$ 31,716	$ 31,379
Dollar change from unchanged scenario	$ (756)	$ -	$ (211)	$ (521)	$ (858)
Percent change from unchanged scenario	(2.35)%	-	(0.65)%	(1.62)%	(2.66)%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on assets and liabilities as of June 30, 2022 (without forward adjustments for planned growth and anticipated business activities) and do not reflect any actions the Company might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the “rate sensitivity position” or “gap position.” The following table sets forth the Company’s rate sensitivity position as of June 30, 2022. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated Maturity or Repricing at June 30, 2022				
	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	$ 51,501	$ -	$ -	$ -	$ 51,501
Debt securities (a)	22,681	16,385	75,915	76,872	191,853
FRB and FHLB stock	3,063	-	-	-	3,063
Loans held for sale-mortgage banking, fixed rate	65,616	-	-	-	65,616
Loans held for investment, fixed rate	17,708	42,671	118,586	26,417	205,382
Loans held for investment, indexed rate	93,400	31,341	210,337	17,821	352,899
Total interest-earning assets	$ 253,969	$ 90,397	$ 404,838	$ 121,110	$ 870,314
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 487,146	$ -	$ -	$ -	$ 487,146
Savings	51,030	-	-	-	51,030
Time deposits	10,209	28,607	24,324	91	63,231
Subordinated debentures	-	15,000	-	-	15,000
Total interest-bearing liabilities	$ 548,385	$ 43,607	$ 24,324	$ 91	$ 616,407
Interest rate gap	$ (294,416)	$ 46,790	$ 380,514	$ 121,019	$ 253,907
Cumulative interest rate gap at June 30, 2022	$ (294,416)	$ (247,626)	$ 132,888	$ 253,907	
Cumulative interest rate gap to total assets	(32.05%)	(26.96)%	14.47%	27.64%	

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

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

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on the Company's assets and liabilities as of June 30, 2022, and do not contemplate any actions the Company might undertake in response to changes in market interest rates.

Legal Proceedings

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

Management is not aware of any material pending or threatening litigation as of June 30, 2022.

Submission of Matters to a Vote of Stockholders

The Annual Meeting of Stockholders (the "Annual Meeting") of the Company was held on June 23, 2022. Proxies for matters to be voted on at the Annual Meeting were solicited by the Board of Directors of the Company. Two proposals were voted upon at the Annual Meeting. The proposals were described in detail in the Company's Proxy Statement. Of the 3,557,383 shares of common stock outstanding on the record date of April 25, 2022, 2,643,263 shares were voted at the Annual Meeting. The final results for the votes regarding each proposal are set forth below.

1. The following nominee was elected as member of the Board of Directors of the Company for a three-year term ending in 2025:

Name	For	Withheld	Broker Non-Votes
Nathan P. Brenna	1,683,537	390,691	569,035

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

2. The selection of CliftonLarsonAllen LLP as the Company's independent registered public accounting firm for fiscal 2022 was ratified:

For	Against	Abstain
2,594,557	6,352	42,354

Signatures

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

BNCCORP, INC.

Date:	August 11, 2022	By:	/s/ Daniel J. Collins
			Daniel J. Collins President and Chief Executive Officer
		By:	/s/ Justin C. Currie
			Justin C. Currie Chief Financial Officer