Quarterly Report

For the quarter ended September 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)

	September 30, 2022	December 31, 2021
ASSETS	(unaudited)	
Cash and cash equivalents	$ 75,495	$ 188,060
Debt securities available for sale	180,760	208,978
Federal Reserve Bank and Federal Home Loan Bank stock	3,063	3,096
Loans held for sale-mortgage banking	54,996	80,923
Loans held for investment	592,026	529,793
Allowance for credit losses	(8,617)	(9,080)
Net loans held for investment	583,409	520,713
Premises and equipment, net	12,038	12,502
Operating lease right of use asset	1,727	2,142
Accrued interest receivable	3,096	2,586
Other	31,590	28,372
Total assets	$ 946,174	$ 1,047,372
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 198,698	$ 186,598
Interest-bearing –		
Savings, interest checking and money market	563,717	644,641
Time deposits	61,277	75,429
Total deposits	823,692	906,668
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,000	15,001
Accrued interest payable	234	226
Accrued expenses	4,948	7,302
Operating lease liabilities	1,872	2,302
Other	2,355	887
Total liabilities	848,101	932,386
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,559,266 and 3,554,983 shares issued and outstanding	36	36
Capital surplus – common stock	26,356	26,068
Retained earnings	86,105	87,378
Treasury stock (109,387 and 113,670 shares, respectively)	(1,625)	(1,650)
Accumulated other comprehensive (loss) income	(12,799)	3,154
Total stockholders' equity	98,073	114,986
Total liabilities and stockholders' equity	$ 946,174	$ 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 September 30,		For the Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
INTEREST INCOME:				
Interest and fees on loans	$ 7,279	$ 6,732	$ 19,950	$ 22,609
Interest and dividends on investments				
Taxable	1,479	1,097	3,714	2,777
Tax-exempt	58	58	173	174
Dividends	37	38	110	112
Total interest income	8,853	7,925	23,947	25,672
INTEREST EXPENSE:				
Deposits	600	394	1,258	1,545
Short-term borrowings	1	-	1	3
Federal Home Loan Bank advances	2	-	3	1
Subordinated debentures	143	59	291	178
Total interest expense	746	453	1,553	1,727
Net interest income	8,107	7,472	22,394	23,945
PROVISION (CREDIT) FOR CREDIT LOSSES:	150	-	(400)	-
Net interest income after provision for credit losses	7,957	7,472	22,794	23,945
NON-INTEREST INCOME:				
Bank charges and service fees	1,215	572	2,568	1,697
Wealth management revenues	489	570	1,517	1,656
Mortgage banking revenues, net	2,468	8,249	10,392	32,096
Gains on sales of loans, net	3	175	242	271
Other	290	271	1,036	1,238
Total non-interest income	4,465	9,837	15,755	36,958
NON-INTEREST EXPENSE:				
Salaries and employee benefits	5,170	5,551	16,330	19,170
Professional services	954	1,226	2,870	4,565
Data processing fees	993	1,135	2,964	3,374
Marketing and promotion	1,596	1,251	4,388	3,227
Occupancy	499	547	1,609	1,621
Regulatory costs	120	119	360	352
Depreciation and amortization	310	312	927	956
Office supplies and postage	99	109	316	355
Other	658	921	2,210	2,736
Total non-interest expense	10,399	11,171	31,974	36,356
Income before income taxes	2,023	6,138	6,575	24,547
Income tax expense	475	1,410	1,545	5,887
NET INCOME	$ 1,548	$ 4,728	$ 5,030	$ 18,660
Basic earnings per common share	$ 0.43	$ 1.32	$ 1.41	$ 5.22
Diluted earnings per common share	$ 0.43	$ 1.32	$ 1.41	$ 5.22

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 September 30,				For the Nine Months Ended September 30,			
	2022		2021		2022		2021	
NET INCOME		$ 1,548		$ 4,728		$ 5,030		$ 18,660
Unrealized loss on debt securities available for sale	$ (6,660)		$ (1,318)		$ (21,158)		$ (2,933)	
Reclassification adjustment for gains included in net income	-		-		-		-	
Other comprehensive loss before tax	(6,660)		(1,318)		(21,158)		(2,933)	
Income tax benefit related to items of other comprehensive loss	1,638		323		5,205		721	
Other comprehensive loss	$ (5,022)	(5,022)	$ (995)	(995)	$ (15,953)	(15,953)	$ (2,212)	(2,212)
TOTAL COMPREHENSIVE (LOSS) INCOME		$ (3,474)		$ 3,733		$ (10,923)		$ 16,448

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the Nine Months Ended September 30,

(In thousands, except share data, unaudited)

	Common Stock		Capital Surplus Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229
Net income	-	-	-	18,660	-	-	18,660
Other comprehensive loss	-	-	-	-	-	(2,212)	(2,212)
Impact of share-based compensation	14,461	-	60	-	200	-	260
BALANCE, September 30, 2021	3,554,983	$ 35	$ 25,931	$ 105,651	$ (1,650)	$ 4,970	$ 134,937
BALANCE, December 31, 2021	3,554,983	$ 36	$ 26,068	$ 87,378	$ (1,650)	$ 3,154	$ 114,986
Net income	-	-	-	5,030	-	-	5,030
Other comprehensive loss	-	-	-	-	-	(15,953)	(15,953)
Impact of share-based compensation	4,283	-	288	-	25	-	313
Dividends declared on common stock ($1.75)	-	-	-	(6,303)	-	-	(6,303)
BALANCE, September 30, 2022	3,559,266	$ 36	$ 26,356	$ 86,105	(1,625)	$ (12,799)	$ 98,073

See accompanying notes to consolidated financial statements.

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

	2022	2021
OPERATING ACTIVITIES:		
Net income	$ 5,030	$ 18,660
Adjustments to reconcile net income to net cash provided by operating activities -		
Credit for credit losses	(400)	-
Depreciation and amortization	927	956
Net amortization of premiums on debt securities and subordinated debentures	2,565	2,430
Share-based compensation	313	260
Change in accrued interest receivable and other assets, net	2,784	41
Loss on sale of bank premises and equipment	2	13
Decrease in deferred taxes	230	-
Change in other liabilities, net	(1,905)	(4,757)
Originations of loans held for sale, mortgage banking	(888,700)	(1,935,160)
Proceeds from sales of loans held for sale, mortgage banking	913,793	2,075,283
Fair value adjustment for loans held for sale, mortgage banking	788	6,691
Fair value adjustment on mortgage banking derivatives	58	8,443
Proceeds from sales of loans	1,096	2,453
Gains on sales of loans, net	(242)	(271)
Gains on sale of assets held for sale	(532)	-
Net cash provided by operating activities	35,807	175,042
INVESTING ACTIVITIES:		
Purchases of debt securities	(19,562)	(54,393)
Proceeds from maturities of debt securities	24,051	26,425
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(1,717)	(651)
Sales of Federal Reserve and Federal Home Loan Bank Stock	1,750	1,737
Net (increase) decrease in loans held for investment	(63,150)	37,932
Proceeds from sales of premises and equipment	4	-
Purchases of premises and equipment	(469)	(762)
Net cash (used in) provided by provided by investing activities	(59,093)	10,288

See accompanying notes to consolidated financial statements.

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

		2022		2021
FINANCING ACTIVITIES:				
Net (decrease) increase in deposits	$	(82,976)	$	55,230
Net decrease in short-term borrowings		-		(6,234)
Repayments of Federal Home Loan Bank advances		(42,910)		(42,910)
Proceeds from Federal Home Loan Bank advances		42,910		12,010
Dividends paid on common stock		(6,303)		(28,680)
Net cash used in financing activities		(89,279)		(10,584)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(112,565)		174,746
CASH AND CASH EQUIVALENTS, beginning of period		188,060		12,443
CASH AND CASH EQUIVALENTS, end of period	$	75,495	$	187,189
SUPPLEMENTAL CASH FLOW INFORMATION:				
Interest paid	$	1,545	$	2,036
Income taxes paid	$	565	$	7,400
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	$	167	$	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 8 locations in Arizona, North Dakota, Illinois, and Kansas. 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 September 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 September 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 September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 19,857	$ -	$ (1,972)	$ 17,855
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	24,351	-	(3,591)	20,760
U.S. government agency small business administration pools guaranteed by SBA	18,012	-	(1,066)	16,946
Collateralized mortgage obligations guaranteed by GNMA	10,677	-	(361)	10,316
Collateralized mortgage obligations issued by FNMA/FHLMC	66,653	-	(5,776)	60,877
Commercial mortgage-backed securities issued by FHLMC	17,724	-	(1,579)	16,145
Other commercial mortgage-backed securities	28,363	-	(2,748)	25,615
State and municipal bonds	13,578	271	(1,633)	12,216
	$ 199,215	$ 271	$ (18,726)	$ 180,760

	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 September 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	18,264	17,212
Due after five years through 10 years	29,893	27,645
Due after 10 years	151,058	135,903
Total	$ 199,215	$ 180,760

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

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

	September 30, 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	$ 17,884	$ (1,972)	-	$ -	$ -	4	$ 17,884	$ (1,972)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	4	10,483	(1,239)	4	10,276	(2,352)	8	20,759	(3,591)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	16,946	(1,006)	4	16,946	(1,066)
Collateralized mortgage obligations guaranteed by GNMA	8	10,317	(361)	-	-	-	8	10,317	(361)
Collateralized mortgage obligations issued by FNMA/ FHLMC	14	35,594	(1,549)	5	25,284	(4,227)	19	60,878	(5,776)
Commercial mortgage-backed securities issued by FHLMC	2	12,230	(903)	1	3,915	(676)	3	16,145	(1,579)
Other commercial mortgage-backed securities	10	23,266	(2,507)	1	2,349	(241)	11	25,615	(2,748)
State and municipal bonds	3	9,402	(1,633)	-	-	-	3	9,402	(1,633)
Total temporarily impaired securities	45	$ 119,176	$ (10,164)	15	$ 58,770	$ (8,562)	60	$ 177,946	$ (18,726)

	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 September 30, 2022, or December 31, 2021.

NOTE 4 – Loans

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

	September 30, 2022	December 31, 2021
Loans held for sale-mortgage banking	$ 54,996	$ 80,923
Commercial and industrial	$ 188,238	$ 157,995
Commercial real estate	228,257	201,043
SBA	45,993	58,759
Consumer	96,793	78,297
Land and land development	11,341	17,185
Construction	20,319	16,121
Gross loans held for investment	590,941	529,400
Unearned income and net unamortized deferred fees and costs	1,085	393
Loans, net of unearned income and unamortized fees and costs	592,026	529,793
Allowance for credit losses	(8,617)	(9,080)
Net loans held for investment	$ 583,409	$ 520,713

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended September 30, 2022						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,429	$ 3,469	$ 1,435	$ 903	$ 99	$ 152	$ 8,487
Provision (credit)	(17)	56	(36)	117	(5)	35	150
Loans charged off	-	-	-	(25)	-	-	(25)
Loan recoveries	-	-	-	5	-	-	5
Balance, end of period	$ 2,412	$ 3,525	$ 1,399	$ 1,000	$ 94	$ 187	$ 8,617

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

	Nine Months Ended September 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)	239	(604)	(245)	250	(74)	34	(400)
Loans charged off	-	-	-	(99)	-	-	(99)
Loan recoveries	-	-	3	13	20	-	36
Balance, end of period	$ 2,412	$ 3,525	$ 1,399	$ 1,000	$ 94	$ 187	$ 8,617

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

The following table shows the balance in the allowance for credit losses at September 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
September 30, 2022						
Commercial and industrial	$ -	$ 2,412	$ 2,412	$ 671	$ 187,567	$ 188,238
Commercial real estate	-	3,525	3,525	-	228,257	228,257
SBA	479	920	1,399	751	45,242	45,993
Consumer	-	1,000	1,000	47	96,746	96,793
Land and land development	-	94	94	-	11,341	11,341
Construction	-	187	187	-	20,319	20,319
Total	$ 479	$ 8,138	$ 8,617	$ 1,469	$ 589,472	$ 590,941
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):

	September 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	$ 80,640	$ -	$ -	$ 80,640	$ 515	$ 81,155
Agriculture	33,275	32	-	33,307	-	33,307
Owner-occupied commercial real estate	73,776	-	-	73,776	-	73,776
Commercial real estate	228,257	-	-	228,257	-	228,257
SBA	45,200	36	6	45,242	751	45,993
Consumer:						
Automobile	14,866	-	-	14,866	-	14,866
Home equity	15,285	-	-	15,285	-	15,285
1st mortgage	16,416	-	-	16,416	-	16,416
Other	50,109	70	-	50,179	47	50,226
Land and land development	11,278	63	-	11,341	-	11,341
Construction	20,319	-	-	20,319	-	20,319
Total loans held for investment	589,421	201	6	589,628	1,313	590,941
Loans held for sale	54,996	-	-	54,996	-	54,996
Total gross loans	$ 644,417	$ 201	$ 6	$ 644,624	$ 1,313	$ 645,937

	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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest income that would have been recorded	$ 39	$ 43	$ 117	$ 129
Interest income recorded	-	-	-	-
Effect on interest income on loans	$ 39	$ 43	$ 117	$ 129

Credit Risk by Internally Assigned Grade

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

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

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

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

	Pass	Watch List	Substandard	Doubtful	Total Loans Held for Investment
September 30, 2022	$ 586,741	$ 654	$ 2,481	$ 1,065	$ 590,941
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):

	September 30, 2022				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance (9-months)	Interest Income Recognized (9-months)
Impaired loans with an allowance recorded:					
SBA	$ 678	$ 550	$ 479	$ 591	$ -
Total impaired loans with an allowance recorded	$ 678	$ 550	$ 479	$ 591	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,062	$ 515	$ -	$ 536	$ -
Owner-occupied commercial real estate	177	156	-	162	5
SBA	338	201	-	216	-
Consumer: Other	77	47	-	50	-
Total impaired loans without an allowance recorded	$ 2,654	$ 919	$ -	$ 964	$ 5
Total impaired loans	$ 3,332	$ 1,469	$ 479	$ 1,555	$ 5

	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):

	September 30, 2022			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 504	$ 504	$ -
Owner-occupied commercial real estate	156	-	156	-
SBA	-	292	292	49
	$ 156	$ 796	$ 952	$ 49

	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 nine month periods ended September 30, 2022. There were no new TDRs for the three and nine month periods ended September 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest income that would have been recorded	$ 35	$ 36	$ 105	$ 108
Interest income recorded	2	-	5	-
Effect on interest income on loans	$ 33	$ 36	$ 100	$ 108

There were no additional funds committed to borrowers who are in TDR status at September 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 September 30, 2022, and September 30, 2021, and had a payment default (i.e. 90 days delinquent) during the three and nine months ended September 30, 2022, and September 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 nine-month period ended September 30, 2022, and September 30, 2021, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease costs	$ 232	$ 263	$ 704	$ 785
Variable lease costs	1	7	12	36
Short-term lease costs	15	4	67	12
Total lease costs	$ 248	$ 274	$ 783	$ 833

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

	As of September 30, 2022	As of December 31, 2021
Operating lease right of use asset	$ 1,727	$ 2,142
Operating lease liabilities	1,872	2,302

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash paid for amounts included in the measurement of lease liabilities	$ 273	$ 279	$ 815	$ 844
ROU assets obtained in exchange for lease obligations	74	-	167	159
Reductions to ROU assets resulting from reduction in lease obligations	205	181	582	596

	As of September 30, 2022	As of December 31, 2021
Weighted average remaining lease term	3.67 years	4.05 years
Weighted average discount rate	5.58%	6.00%

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

	Operating Leases
2022	$ 237
2023	718
2024	478
2025	237
2026	193
Thereafter	207
Total future minimum lease payments	2,070
Amounts representing interest	(198)
Total lease liabilities	$ 1,872

NOTE 7 – Earnings Per Share

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

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,574,677	3,573,963
Dilutive effect of stock compensation	825	877
Denominator for diluted earnings per share	3,575,502	3,574,840
Numerator (in thousands):		
Net income	$ 1,548	$ 5,030
Basic earnings per common share	$ 0.43	$ 1.41
Diluted earnings per common share	$ 0.43	$ 1.41

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

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	23,116	69,067

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

	Nine Months Ended September 30, 2022		Nine Months Ended September 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	-	-	5,000	41.42
Vested	(250)	34.77	(250)	34.77
Forfeited	-	-	-	-
Outstanding, end of period	5,500	39.91	6,450	39.27

The Company recognized share-based compensation expense of $19 thousand related to restricted stock for the three-month period ended September 30, 2022, and $57 thousand for the nine-month period ended September 30, 2022. The Company recognized share-based compensation expense of $7 thousand related to restricted stock for the three-month period ended September 30, 2021, and $22 thousand for the nine-month period ended September 30, 2021.

At September 30, 2022, the Company had $146 thousand of unamortized restricted stock compensation expense. The cost of a restricted stock grant is recognized over the vesting period, which is generally three to four years.

NOTE 9 – Revenue from Contracts with Customers

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Service charges on deposits	$ 170	$ 126	$ 500	$ 361
Bankcard fees	288	265	829	783
Bank charges and service fees not within scope of ASC 606	757	181	1,239	553
Total bank charges and service fees	1,215	572	2,568	1,697
Wealth management revenue	489	570	1,517	1,656
Wealth management revenue not within the scope of ASC 606	-	-	-	-
Total wealth management revenues	489	570	1,517	1,656
Other	11	8	35	28
Other not within the scope of ASC 606 (a)	279	263	1,001	1,210
Total other	290	271	1,036	1,238
Other non-interest income not within the scope of ASC 606 (a)	2,471	8,424	10,634	32,367
Total non-interest income	$ 4,465	$ 9,837	$ 15,755	$ 36,958

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

The Company had no material contract assets or remaining performance obligations as of September 30, 2022. Total receivables from revenue recognized under the scope of ASC 606 were $499 thousand as of September 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 September 30, 2022				Nine Months Ended September 30, 2022
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
ASSETS					
Debt securities available for sale	$ 180,760	$ 17,885	$ 162,875	$ -	$ -
Loans held for sale	54,996	-	54,996	-	(788)
Commitments to sell mortgage loans	433	-	433	-	421
Mortgage banking short positions	2,628	-	2,628	-	2,631
Total assets at fair value	$ 238,817	$ 17,885	$ 220,932	$ -	$ 2,264
LIABILITIES					
Commitments to originate mortgage loans	$ 221	$ -	$ 221	$ -	$ (3,110)
Total liabilities at fair value	$ 221	$ -	$ 221	$ -	$ (3,110)

	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 September 30, 2022				Nine Months Ended September 30, 2022
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Impaired loans[(1)]	$ 71	$ -	$ -	$ 71	$ 61

	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	September 30, 2022		December 31, 2021	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 75,495	$ 75,495	$ 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	590,022	573,418	528,440	530,237
Gross loans held for investment	Level 3	919	620	960	625
Accrued interest receivable	Level 2	3,096	3,096	2,586	2,586
		$ 672,595	$ 655,692	$ 723,142	$ 724,604
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 198,698	$ 198,698	$ 186,598	$ 186,598
Deposits, interest-bearing	Level 2	624,994	622,571	720,070	719,701
Accrued interest payable	Level 2	234	234	226	226
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,000	12,742	15,001	13,084
		$ 838,926	$ 834,245	$ 921,895	$ 919,609
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 355	$ -	$ 381
Standby and commercial letters of credit	Level 2	$ -	$ 21	$ -	$ 14

NOTE 12 – Federal Home Loan Bank Advances

As of September 30, 2022, the Bank had no Federal Home Loan Bank (FHLB) advances outstanding. At September 30, 2022, the Bank had loans with unamortized principal balances of approximately $222.6 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 September 30, 2022, the Bank has the ability to draw advances up to approximately $155.4 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirements.

NOTE 13 – Other Borrowings

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

September 30, 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	$ 3,389	$ 1,839	$ -	$ 1,839
BNCCORP line	107,932	10,000	-	10,000
Total	$ 111,321	$ 11,839	$ -	$ 11,839

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

At September 30, 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 September 30, 2022, and December 31, 2021, was 3.68% 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 currently has an outstanding 175,000 share repurchase authorization with no expiration date set on the authorization. Share repurchases can be made through open market purchases, unsolicited and solicited privately negotiated transactions, or in accordance with terms of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. The Company will not repurchase shares from directors or officers of the Company under the authorization. The Company would contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals. No share repurchases have been made under the authorization as of September 30, 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 September 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 September 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
September 30, 2022								
Total Risk-Based Capital:								
Consolidated	$ 134,044	17.45 %	$ 61,465	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	128,777	16.77	61,417	≥8.00	76,771	10.00	52,006	6.77
Tier 1 Risk-Based Capital:								
Consolidated	125,427	16.32	46,099	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	120,161	15.65	46,063	≥6.00	61,417	8.00	58,744	7.65
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	110,427	14.37	34,574	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	120,161	15.65	34,547	≥4.50	49,901	6.50	70,260	9.15
Tier 1 Leverage Capital:								
Consolidated	125,427	13.52	37,110	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	120,161	12.97	37,072	≥4.00	46,340	5.00	73,821	7.97
Tangible Common Equity (to total assets): (a)								
Consolidated	97,968	10.35	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	107,827	11.41	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 located in Kansas utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complemented by a relationship based retail channel with 8 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 September 30, 2022				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 8,463	$ 649	$ 2	$ (261)	$ 8,853
Interest expense	603	260	144	(261)	746
Net interest income (expense)	7,860	389	(142)	-	8,107
Provision for credit losses	150	-	-	-	150
Net interest income after provision for credit losses	7,710	389	(142)	-	7,957
Non-interest Income	2,489	2,468	641	(1,133)	4,465
Non-interest Expense	6,064	4,741	727	(1,133)	10,399
Income (loss) before income taxes	4,135	(1,884)	(228)	-	2,023
Income tax expense (benefit)	997	(468)	(54)	-	475
Net income (loss)	$ 3,138	$ (1,416)	$ (174)	$ -	$ 1,548
Total Assets at September 30, 2022	$ 885,803	$ 59,369	$ 6,094	$ (5,092)	$ 946,174

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

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

	Nine Months Ended September 30, 2022				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 22,666	$ 1,582	$ 10	$ (311)	$ 23,947
Interest expense	1,270	302	292	(311)	1,553
Net interest income (expense)	21,396	1,280	(282)	-	22,394
Credit for credit losses	(400)	-	-		(400)
Net interest income after provision for credit losses	21,796	1,280	(282)	-	22,794
Non-interest Income	6,982	10,389	1,689	(3,305)	15,755
Non-interest Expense	18,086	15,003	2,190	(3,305)	31,974
Income (loss) before income taxes	10,692	(3,334)	(783)	-	6,575
Income tax expense (benefit)	2,556	(827)	(184)	-	1,545
Net income (loss)	$ 8,136	$ (2,507)	$ (599)	$ -	$ 5,030
Total Assets at September 30, 2022	$ 885,803	$ 59,369	$ 6,094	$ (5,092)	$ 946,174

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

(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 September 30, 2022, and 2021

Net income was $1.5 million, or $0.43 per diluted share, for the quarter ended September 30, 2022. This compared to net income of $4.7 million, or $1.32 per diluted share, in the same period of 2021. The year-over-year decrease was primarily due to lower mortgage revenues, reduced gains on sale of loans, and provision for credit losses, partially offset by higher net interest income, bank fees and service charges, and lower non-interest expense.

Net interest income for the third quarter of 2022 was $8.1 million, an increase of $635 thousand, or 8.5%, from $7.5 million in the third quarter of 2021, primarily the result of growth in loans held for investment and higher yields, partially offset by reductions in PPP loans and associated fees and increased cost of deposits and subordinate debentures. PPP fees, which are included in interest income, were $12 thousand in the third quarter of 2022 compared to $517 thousand in the third quarter of 2021. Net interest margin increased to 3.66% in the 2022 third quarter, compared to 2.93% in the year-earlier period.

Interest income in the third quarter of 2022 increased by $928 thousand, or 11.7%, to $8.9 million, compared to $7.9 million for the third quarter of 2021. The increase is the result of higher yields on loans despite an $18.5 million decrease in average loan balances. The decrease in loans from period-to-period is a result of decreased loans held for sale and the forgiveness of PPP loans. The yield on average interest-earning assets was 3.99% in the third quarter of 2022, compared to 3.10% in the 2021 third quarter as the Company's variable rate assets have started to re-price in step with recent interest rate movements by the Federal Reserve combined with higher yields on new loan originations.

The average balance of interest-earning assets in the 2022 third quarter decreased by $134.1 million versus the same period of 2021, primarily due to a $113.9 million decrease in interest-bearing cash, by a $48.1 million decrease in average loans held for sale, and by a $29.6 million increase in average loans held for investment (including reductions in PPP loans). The forgiveness of PPP loans accounted for $41.1 million, which was offset by new origination activity. Interest income from loans held for investment increased $555 thousand on a quarter-over-quarter basis. The average balance of mortgage loans held for sale was $55.1 million, $48.1 million lower than the same period of 2021. Interest income from loans held for sale decreased $8 thousand primarily due to lower average balances and a 2.14% increase in yield. The average balance of debt securities in the third quarter of 2022 was $191.0 million, $3.4 million lower than in the third quarter of 2021. Interest income from debt securities was $62 thousand higher compared to the same period of 2021.

Interest expense in the third quarter of 2022 was $746 thousand, an increase of $293 thousand, or 64.7%, from the 2021 period. The average balance of deposits decreased by $101.3 million when comparing the third quarter of 2022 to 2021. The primary driver of the decrease was the movement of 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 certificate of deposit balances. The cost of interest-bearing liabilities was 0.47% during the third quarter of 2022, compared to 0.25% in the same period of 2021. The cost of core deposits in the third quarters of 2022 and 2021 was 0.29% and 0.17%, respectively, as the Company continues to manage its overall cost of deposits while indexed rates continue to substantially increase.

At September 30, 2022, credit metrics remained stable with $1.3 million of nonperforming assets, representing a 0.14% nonperforming assets-to-total-asset ratio, compared to $1.7 million and 0.16% at December 31, 2021. The Company recorded a $150 thousand provision for credit losses in the third quarter of 2022 compared to no provision recorded in the third quarter of 2021.

Non-interest income for the third quarter of 2022 was $4.5 million, compared to $9.8 million in the 2021 third quarter. The decrease was driven by a reduction in mortgage banking revenues to $2.5 million in the third quarter of 2022, versus $8.2 million in the prior-year period. Consistent with the overall performance of the industry, the Company's mortgage business has been negatively impacted by higher market interest rates and inflated home values in 2022 as these factors impact both origination and refinance activity. Reflective of the industry trends, in the third quarter of 2022, BNC funded 692 mortgage loans with combined balances of $294.4 million, compared to 1,376 mortgage loans with combined balances of $524.1 million in the third quarter of 2021. Bank charges and service fees were $643 thousand higher when comparing the third quarter of 2022 to 2021 due to higher fees from the issuance of letters of credit, deposit account charges, and from the movement of deposits to one-way sell positions. Wealth management revenues decreased $81 thousand, or 14.2%, as strong growth in new assets under administration have been more than offset by elevated distributions and overall market declines relative to the 2021 period. Gains on sales of loans were $3 thousand in the third quarter of 2022, compared to $175 thousand in the prior year period, reflecting a normal level of volatility.

Non-interest expense for the third quarter of 2022 decreased $772 thousand, or 6.9%, to $10.4 million, from $11.2 million in the third quarter of 2021. Non-interest expenses related to mortgage operations decreased by $948 thousand, or 16.7%, as management continues to adjust its operations to match marketplace opportunity. There were 115 full-time equivalent employees engaged in mortgage operations as of September 30, 2022, compared to 141 on September 30, 2021. Combined expenses for community banking and the holding company increased by $175 thousand, or 3.2%, compared to the 2021 period primarily due to higher salary and professional service expense.

In the third quarter of 2022, income tax expense was $475 thousand, compared to $1.4 million in the third quarter of 2021. The effective tax rate was 23.5% in the third quarter of 2022, compared to 23.0% in the same period of 2021.

Comparison of Results for the Nine Months Ended September 30, 2022, and 2021

Net income was $5.0 million, or $1.41 per diluted share, for the nine months ended September 30, 2022. This compared to net income of $18.7 million, or $5.22 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 and a credit to provision expense.

Net interest income in the first nine months of 2022 was $22.4 million, a decrease of $1.5 million, or 6.5%, from $23.9 million in 2021. The decrease primarily reflects lower loans held for sale and loans held for investment balances partially offset by lower deposit balances and higher yield on interest bearing cash. Net interest margin increased to 3.24% in the 2022 nine-month period, compared to 3.06% in the year-earlier period.

Interest income decreased $1.8 million, or 6.7%, to $23.9 million for the nine-month period of 2022, compared to $25.7 million in 2021. The decrease is the result of lower loan balances, primarily lower balances of loans held for sale and PPP loans, partially offset by higher yields on interest bearing cash. PPP fees included in interest income were $294 thousand in the first nine months of 2022 compared to $3.0 million in the first nine months of 2021. The yield on average interest-earning assets was 3.47% in the 2022 nine-month period, compared to 3.29% in 2021.

The average balance of interest-earning assets in the first nine months of 2022 decreased by $121.1 million versus the same period of 2021, driven by decreases in interest-bearing cash of $40.3 million, a decrease in loans held for sale of $84.7 million, and in loans held for investment of $13.9 million (including PPP loans) partially offset by a $16.2 million increase in debt securities year-over-year. Interest income for loans held for investment decreased $1.6 million. The $13.9 million decrease in average balance of loans held for investment was comprised of a $55.7 million decrease in average PPP loans, partially offset by a $41.8 million increase in average loans held for investment. The average balance of mortgage loans held for sale was $55.1 million, $84.7 million lower than the same period of 2021. Interest income from loans held for sale decreased $1.1 million due to lower average balances, partially offset by higher yields. The average balance of debt securities in the first nine months of 2022 was $197.4 million, $16.2 million higher than in the first nine months of 2021. Interest income from debt securities was $388 thousand higher compared to the same period of 2021.

Interest expense in the first nine months of 2022 was $1.6 million, a decrease of $174 thousand, or 10.1%, from the 2021 period. The cost of interest-bearing liabilities was 0.31% in the first nine months, compared to 0.30% in the same period of 2021. The cost of core deposits in the first nine months of 2022 and 2021 were 0.20% and 0.22%, respectively.

As of September 30, 2022, credit metrics remained stable with $1.3 million of nonperforming assets, representing a 0.14% nonperforming assets-to-total-asset ratio, compared to $1.7 million and 0.16% at December 31, 2021. The Company credited provision expense to release $400 thousand of its allowance for credit losses in the first nine months of 2022, which was comprised of a $550 thousand credit to provision expense in the first quarter of 2022 and a provision of $150 thousand in the third quarter of 2022. By comparison, the Company had no provision for credit losses recorded in the first nine months of 2021.

Non-interest income for the first nine months of 2022 was $15.8 million compared to $37.0 million in the 2021 period, driven by a reduction in mortgage banking revenues to $10.4 million in the first nine months of 2022 versus $32.1 million in the prior-year period. The Company's mortgage business has been negatively impacted by higher market interest rates and inflated home values in 2022 as these factors impact both origination and refinance activity. Reflecting the overall industry, in the first nine months of 2022, BNC funded 2,170 mortgage loans with combined balances of $888.7 million, compared to 5,301 mortgage loans with combined balances of $1.9 billion in the first nine months of 2021. Bank charges and service fees were $2.6 million, or 51.3%, higher when comparing the third quarter of 2022 to 2021 due to higher fees from the issuance of letters of credit, deposit account charges, and from the movement of deposits to one-way sell positions. Wealth management revenues decreased $139 thousand, or 8.4%, as strong growth in new assets under administration have been more than offset by elevated distributions and 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 nine months of 2022 decreased $4.4 million, or 12.1%, to $32.0 million, from $36.4 million in the first nine months of 2021. Non-interest expenses related to mortgage operations activity decreased by $4.4 million, or 22.6%, as management continues to adjust its operations to match marketplace opportunity. Overall, combined expenses for community banking and the holding company have remained stable when compared to the 2021, but includes lower salary, data processing, and depreciation expense largely offset by higher marketing, professional services, and other expenses.

During the nine-month period ended September 30, 2022, income tax expense was $1.5 million, compared to $5.9 million in the first nine months of 2021. The Company's effective tax rate was 23.5% in the first nine months of 2022, compared to 24.0% 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 September 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	$ 67,779	$ 394	2.31%	$ 181,708	$ 74	0.16%	$ (113,929)	$ 320	2.15% (a)
FHLB Stock	1,267	9	3.04%	1,309	10	3.06%	(42)	(1)	-0.02%
Federal Reserve Stock	1,807	28	6.00%	1,807	28	6.00%	-	-	0.00%
Debt securities – taxable	185,117	1,085	2.33%	187,829	1,023	2.16%	(2,712)	62	0.17%
Debt securities – tax exempt	5,873	58	3.89%	6,562	58	3.50%	(689)	-	0.39%
Loans held for sale – mortgage banking	55,127	649	4.67%	103,197	657	2.53%	(48,070)	(8)	2.14% (b)
Loans held for investment	570,702	6,630	4.61%	541,113	6,075	4.45%	29,589	555	0.16% (c)
Allowance for loan losses	(8,474)	-	0.00%	(10,277)	-	0.00%	1,803	-	0.00%
Total interest-earning assets	$ 879,198	$ 8,853	3.99%	$ 1,013,248	$ 7,925	3.10%	$ (134,050)	$ 928	0.89%
Interest-bearing liabilities									
Interest checking and money market	$ 497,430	$ 515	0.41%	$ 576,777	$ 244	0.17%	$ (79,347)	$ 271	0.24% (d)
Savings	51,338	5	0.04%	48,538	4	0.03%	2,800	1	0.01% (d)
Certificates of deposit	62,967	80	0.51%	86,549	146	0.67%	(23,582)	(66)	-0.16% (e)
Total interest-bearing deposits	611,735	600	0.39%	711,864	394	0.22%	(100,129)	206	0.17%
Short-term borrowings	213	1	0.30%	360	-	0.24%	(147)	1	0.06% (f)
Federal Home Loan Bank advances	833	2	3.32%	-	-	0.00%	833	2	3.32%
Subordinated debentures	15,000	143	3.80%	15,002	59	1.55%	(2)	84	2.25%
Total borrowings	16,046	146	3.61%	15,362	59	1.52%	684	87	2.09%
Total interest-bearing liabilities	$ 627,781	746	0.47%	$ 727,226	453	0.25%	$ (99,445)	293	0.22%
Net interest income/spread		$ 8,107	3.52%		$ 7,472	2.86%		$ 635	0.66%
Net interest margin			3.66%			2.93%			0.73%
Notation:									
Non-interest-bearing deposits	$ 197,123	-	0.00%	$ 198,301	-	0.00%	$ (1,178)	-	0.00% (d)
Total deposits	$ 808,858	$ 600	0.29%	$ 910,165	$ 394	0.17%	$ (101,307)	$ 206	0.12%
Taxable equivalents:									
Total interest-earning assets	$ 879,199	$ 8,903	4.02%	$ 1,013,249	$ 7,979	3.12%	$ (134,050)	$ 924	0.90%
Net interest income/spread	-	$ 8,156	3.55%	-	$ 7,524	2.88%	-	$ 632	0.67%
Net interest margin	-	-	3.68%	-	-	2.95%	-	-	0.73%

(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. Yields on cash has increased from rate increases by the Federal Reserve.

(b) The average balance of loans held for sale decreased as mortgage origination activity was significantly lower when compared to the pandemic-related historically high level of refinance activity in the third quarter of 2021.

(c) The total increase of $29.6 million consisted of $41.1 million in lower average PPP loans being offset by new origination activity when comparing the third quarter of 2022 to 2021. PPP fees in the third quarter of 2021 were $505 thousand higher during the same period in 2022.

(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. Cost of deposits increased as the rate increases at the federal have driven market demand for higher rates.

(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.

	Nine Months Ended September 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	$ 127,782	$ 696	0.73%	$ 168,055	$ 148	0.12%	$ (40,273)	$ 548	0.61% (a)
FHLB Stock	1,273	28	3.02%	1,291	30	3.13%	(18)	(2)	-0.11%
Federal Reserve Stock	1,807	82	6.03%	1,807	82	6.03%	-	-	0.00%
Debt securities – taxable	191,347	3,018	2.11%	174,592	2,629	2.01%	16,755	389	0.10% (b)
Debt securities – tax exempt	6,037	173	3.83%	6,606	174	3.53%	(569)	(1)	0.30% (b)
Loans held for sale – mortgage banking	55,091	1,554	3.77%	139,828	2,649	2.53%	(84,737)	(1,095)	1.24% (c)
Loans held for investment	548,769	18,396	4.48%	562,638	19,960	4.74%	(13,869)	(1,564)	-0.26% (d)
Allowance for loan losses	(8,665)	-	0.00%	(10,290)	-	0.00%	1,625	-	0.00%
Total interest-earning assets	$ 923,441	$ 23,947	3.47%	$ 1,044,527	$ 25,672	3.29%	$ (121,086)	$ (1,725)	0.18%
Interest-bearing liabilities									
Interest checking and money market	$ 535,645	$ 1,008	0.25%	$ 602,574	$ 931	0.21%	$ (66,929)	$ 77	0.04% (e)
Savings	51,173	15	0.04%	46,644	13	0.04%	4,529	2	0.00% (e)
Certificates of deposit	67,334	235	0.47%	98,684	601	0.81%	(31,350)	(366)	-0.34% (f)
Total interest-bearing deposits	654,152	1,258	0.26%	747,902	1,545	0.28%	(93,750)	(287)	-0.02%
Short-term borrowings	240	1	0.30%	2,512	3	0.17%	(2,272)	(2)	0.13% (g)
Federal Home Loan Bank advances	355	3	1.09%	2,012	1	0.10%	(1,657)	2	0.99%
Subordinated debentures	15,001	291	2.60%	15,003	178	1.58%	(2)	113	1.02%
Total borrowings	15,596	295	2.53%	19,527	182	1.25%	(3,931)	113	1.28%
Total interest-bearing liabilities	$ 669,748	1,553	0.31%	$ 767,429	1,727	0.30%	$ (97,681)	(174)	0.01%
Net interest income/spread		$ 22,394	3.16%		$ 23,945	2.99%		$ (1,551)	0.17%
Net interest margin			3.24%			3.06%			0.18%
Notation:									
Non-interest-bearing deposits	$ 192,522	-	0.00%	$ 193,053	-	0.00%	$ (531)	-	0.00% (e)
Total deposits	$ 846,674	$ 1,258	0.20%	$ 940,955	$ 1,545	0.22%	$ (94,281)	$ (287)	-0.02%
Taxable equivalents:									
Total interest-earning assets	$ 923,441	$ 24,098	3.49%	$ 1,044,528	$ 25,827	3.31%	$ (121,087)	$ (1,729)	0.18%
Net interest income/spread	-	$ 22,545	3.18%	-	$ 24,099	3.00%	-	$ (1,554)	0.18%
Net interest margin	-	-	3.26%	-	-	3.08%	-	-	0.18%

(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. Yields on cash has increased from rate increases by the Federal Reserve.

(b) Average debt securities balances have increased as a portion of the cash flow from the reduction loans held for sale and PPP loans has been redeployed into debt securities.

(c) The average balance of loans held for sale decreased in the first nine months of 2022 as mortgage origination activity is significantly lower when compared to the pandemic-related historically high level of refinance activity in the first nine months of 2021.

(d) The total decrease of $13.9 million consisted of a $55.7 million decrease in average PPP loans period-over-period being offset by new origination activity when comparing 2022 to 2021. PPP fees in the first nine months of 2021 were $2.7 million higher than the same period in 2022.

(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. Cost of deposits increased as the rate increases at the federal have driven market demand for higher rates.

(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.

Non-interest Income

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

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)		
	2022	2021	$	%	2022	2021	$	%	
Bank charges and service fees	$ 1,215	$ 572	$ 643	112 %	$ 2,568	$ 1,697	$ 871	51 %	(a)
Wealth management revenues	489	570	(81)	(14)	1,517	1,656	(139)	(8)	(b)
Mortgage banking revenues	2,468	8,249	(5,781)	(70)	10,392	32,096	(21,704)	(68)	(c)
Gains on sales of loans, net	3	175	(172)	(98)	242	271	(29)	(11)	(d)
Other	290	271	19	7	1,036	1,238	(202)	(16)	(e)
Total non-interest income	$ 4,465	$ 9,837	$ (5,372)	(55) %	$ 15,755	$ 36,958	$ (21,203)	(57) %	

(a) Bank charges and services fees increased as customers have increased utilization of the Company's products generating higher deposit account charges, increase in the issuance of letter of credit, and fees from movement of deposits to a one-way sell positions.
(b) Wealth management revenues decreased as strong new growth in assets under administration have been more than offset by elevated distributions and overall market declines relative to the 2021 period.
(c) Mortgage banking revenues decreased as the industry has been negatively impacted by higher market interest rates in 2022 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 September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)		
	2022	2021	$	%	2022	2021	$	%	
Salaries and employee benefits	$ 5,170	$ 5,551	$ (381)	(7) %	$ 16,330	$ 19,170	$ (2,840)	(15) %	(a)
Professional services	954	1,226	(272)	(22)	2,870	4,565	(1,695)	(37)	(b)
Data processing fees	993	1,135	(142)	(13)	2,964	3,374	(410)	(12)	(c)
Marketing and promotion	1,596	1,251	345	28	4,388	3,227	1,161	36	(d)
Occupancy	499	547	(48)	(9)	1,609	1,621	(12)	(1)	
Regulatory costs	120	119	1	1	360	352	8	2	
Depreciation and amortization	310	312	(2)	(1)	927	956	(29)	(3)	
Office supplies and postage	99	109	(10)	(9)	316	355	(39)	(11)	(e)
Other	658	921	(263)	(29)	2,210	2,736	(526)	(19)	(f)
Total non-interest expense	$ 10,399	$ 11,171	$ (772)	(7) %	$ 31,974	$ 36,356	$ (4,382)	(12) %	
Efficiency ratio	82.7%	64.5%			83.8%	59.7%			

(a) Salaries and employee benefits decreased primarily due to lower salaries within the mortgage banking segment.
(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 September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Number of funded mortgage loans held for sale		692		1,376		2,170		5,301
Mortgage loans held for sale funded	$	294,393	$	524,088	$	888,700	$	1,935,160
Average loans held for sale-mortgage banking	$	55,127	$	103,197	$	55,091	$	139,828
Loans held for sale-mortgage banking	$	54,996	$	103,171	$	54,996	$	103,171
Non-Interest Income:								
Gains on sale of loans held for sale, net of commission expense	$	2,671	$	8,510	$	11,238	$	47,230
Change in fair value of mortgage banking instruments (1)	$	(203)	$	(261)	$	(846)	$	(15,134)

(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 Overland Park, Kansas, 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. During 2022, the Company's mortgage business has been negatively impacted by the effect of higher market interest rates and inflated home values on both origination and refinance activity. 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 third quarter of 2022, the Company recorded income tax expense of $475 thousand, which resulted in an effective tax rate of 23.5% for the quarter. Income tax expense of $1.4 million was recognized during the third quarter of 2021, which resulted in an effective tax rate of 23.0%.

During the nine-month period ended September 30, 2022, income tax expense was $1.5 million, compared to $5.9 million in the first nine months of 2021. The effective tax rate was 23.5% in the first nine months of 2022, compared to 24.0% in the same period of 2021.

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

Assets

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

	September 30, 2022	December 31, 2021	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 75,495	$ 188,060	$ (112,565)	(60) %	(a)
Debt securities available for sale	180,760	208,978	(28,218)	(14)	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	3,063	3,096	(33)	(1)	
Loans held for sale-mortgage banking	54,996	80,923	(25,927)	(32)	(c)
Loans held for investment, net	592,026	529,793	62,233	12	(d)
Allowance for credit losses	(8,617)	(9,080)	463	(5)	
Premises and equipment, net	12,038	12,502	(464)	(4)	
Operating lease right of use asset	1,727	2,142	(415)	(19)	(e)
Accrued interest receivable	3,096	2,586	510	20	(f)
Other assets	31,590	28,372	3,218	11	(g)
Total assets	$ 946,174	$ 1,047,372	$ (101,198)	(10) %	

(a) Cash balances decreased as the Company moved 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 nine months 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 $73.9 million between December 31, 2021 and September 30, 2022.
(e) Decrease is due to contractual extinguishment of right of use assets. See Note 6 – Leases for more detailed information.
(f) Accrued interest receivable increased primarily due to the impact of variable rates assets on the Company's balance sheet.
(g) Other assets increased due to higher deferred tax assets that were partially offset by the sale of the Golden Valley, MN location and other receivables.

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 $96.8 million as of September 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):

	September 30, 2022		December 31, 2021	
North Dakota	$ 373,063	63 %	$ 360,077	68 %
Arizona	111,781	19	98,742	19
Minnesota	29,865	5	24,434	4
Other	76,232	13	46,147	9
Total gross loans held for investment	$ 590,941	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):

	September 30, 2022		December 31, 2021	
North Dakota	$ 344,773	59 %	$ 328,066	62 %
Arizona	146,426	25	126,242	24
California	22,645	4	19,644	4
Colorado	13,194	2	12,855	2
Minnesota	15,712	2	9,969	2
South Dakota	10,491	2	8,978	2
Texas	7,186	1	3,637	1
Ohio	6,821	1	7,103	1
Other	23,693	4	12,906	2
Total gross loans held for investment	$ 590,941	100 %	$ 529,400	100 %

BNC's loans held for investment are concentrated geographically in North Dakota and Arizona which comprise 59% and 25% 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 $205 thousand and $11.9 million as of September 30, 2022 and December 31, 2021, respectively (dollars are in thousands):

	September 30, 2022		December 31, 2021	
Non-owner occupied commercial real estate – not otherwise categorized	$ 177,195	30 %	$ 157,608	30 %
Consumer, not otherwise categorized	88,469	15	75,519	14
Hotels	86,476	14	78,473	15
Healthcare and social assistance	33,901	6	36,531	7
Agriculture, forestry, fishing and hunting	33,586	6	26,922	5
Retail trade	32,907	5	35,173	7
Transportation and warehousing	22,365	4	21,499	4
Non-hotel accommodation and food service	21,270	3	18,838	4
Art, entertainment and recreation	18,144	3	5,936	1
Other service	11,690	2	12,543	2
Construction contractors	11,399	2	11,458	2
Mining, oil and gas extraction	11,005	2	10,327	2
Professional, scientific, and technical services	7,631	1	3,738	1
Real estate and rental and leasing support services	6,657	1	3,750	1
Manufacturing	6,166	1	4,697	1
Educational services	4,799	1	1,724	-
Public administration	4,220	1	3,108	1
Finance and insurance	4,056	1	2,692	1
Wholesale trade	3,294	1	3,325	1
All other	5,506	1	3,644	1
Gross loans held for investment (excluding PPP loans)	$ 590,736	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, and potential inflationary impacts on travel and leisure activities continue to be 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 September 30, 2022 (in thousands):

		Over 1 Year Through 5 Years		Over 5 Years		Total
	One Year or Less	Fixed Rate	Indexed Rate	Fixed Rate	Indexed Rate	Total Loans Held for Investment
Commercial and industrial	$ 25,862	$ 21,513	$ 2,791	$ 51,417	$ 86,655	$ 188,238
Commercial real estate	-	12,933	9,925	28,515	176,884	228,257
SBA	452	205	32	2,962	42,342	45,993
Consumer	1,026	6,136	5,856	67,803	15,972	96,793
Land and land development	4,130	1,902	1,773	218	3,318	11,341
Construction	1,362	4,023	4,417	3,195	7,322	20,319
Total principal amount of loans	$ 32,832	$ 46,712	$ 24,794	$ 154,110	$ 332,493	$ 590,941

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

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

Allocation of the Allowance for Credit Losses

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

	September 30, 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	$ 2,412	32 %	$ 2,173	30 %
Commercial real estate	3,525	39	4,129	38
SBA	1,399	8	1,641	11
Consumer	1,000	16	836	15
Land and land development	94	2	148	3
Construction	187	3	153	3
Total	$ 8,617	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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance, beginning of period	$ 1,406	$ 2,601	$ 1,673	$ 2,612
Additions to nonperforming	29	42	102	154
Charge-offs	(15)	(45)	(62)	(128)
Reclassified back to performing	-	-	(165)	-
Principal payment received	(101)	(76)	(214)	(116)
Transferred to repossessed assets	-	-	(15)	-
Balance, end of period	$ 1,319	$ 2,522	$ 1,319	$ 2,522

Nonperforming Assets

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

	September 30, 2022	December 31, 2021
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ 6	$ -
Non-accrual loans	1,313	1,673
Total nonperforming loans	$ 1,319	$ 1,673
Repossessed assets, net	-	17
Total nonperforming assets	$ 1,319	$ 1,690
Allowance for credit losses	$ 8,617	$ 9,080
Ratio of total nonperforming loans to total loans	0.20%	0.27%
Ratio of total nonperforming loans to loans held for investment	0.22%	0.32%
Ratio of total nonperforming assets to total assets	0.14%	0.16%
Ratio of nonperforming loans to total assets	0.14%	0.16%
Ratio of allowance for credit losses to nonperforming loans	653%	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
September 30, 2022	$ -	$ 654	$ 654	$ 248	$ 2,233	$ 2,481	$ 1,065
December 31, 2021	-	6,508	6,508	483	6,793	7,276	1,190

At September 30, 2022, the Bank had $3.5 million of classified loans and $1.3 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 $9.4 million of classified loans and $2.5 million of loans on non-accrual at September 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 September 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):

	September 30, 2022	December 31, 2021	Increase (Decrease) $	Increase (Decrease) %	
Deposits:					
Non-interest-bearing	$ 198,698	$ 186,598	$ 12,100	6 %	(a)
Interest-bearing-					
Savings, interest checking and money market	563,717	644,641	(80,924)	(13)	(a)
Time deposits	61,277	75,429	(14,152)	(19)	(b)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,000	15,001	(1)	-	
Accrued interest payable	234	226	8	4	
Accrued expenses	4,948	7,302	(2,354)	(32)	(c)
Operating lease liabilities	1,872	2,302	(430)	(19)	(d)
Other liabilities	2,355	887	1,468	166	(e)
Total liabilities	$ 848,101	$ 932,386	$ (84,285)	(9) %	

(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 expenses decreased due to decreases in incentive accruals, 401k matching contributions, and mortgage banking commissions.
(d) Decrease is due to contractual extinguishment of lease liabilities. See Note 6 – Leases for more detailed information.
(e) The increase primarily relates to higher mortgage derivatives and taxes payable.

At September 30, 2022, and December 31, 2021, the Bank had $14.1 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance, beginning of period	$ 646	$ 844	$ 820	$ 1,025
Provision	43	290	103	810
Write offs, net	(118)	(373)	(352)	(1,074)
Balance, end of period	$ 571	$ 761	$ 571	$ 761

Stockholders' Equity

The Company's stockholders' equity decreased $16.9 million from December 31, 2021, to September 30, 2022, primarily due to declaring a $6.3 million dividend on common stock and a decrease in accumulated other comprehensive income (loss) of $16.0 million offset by net income of $5.0 million. The decrease in accumulated other comprehensive income (loss) was due to the negative impact the increase in long-term rates had on the tax-effected fair value of 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 ($309.7 million as of September 30, 2022);
2. Borrowing capacity from the FHLB ($155.4 million as of September 30, 2022); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($133.1 million as of September 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 September 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 September 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 level of interest rates as of September 30, 2022, the downward scenarios for interest rate movements is limited to -200bp. 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 6.25% to 7.25% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

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

Net Interest Income Simulation

Movement in interest rates	-200bp	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 34,396	$ 35,105	$ 35,588	$ 35,286	$ 34,887	$ 34,444
Dollar change from unchanged scenario	$ (1,192)	$ (483)	$ -	$ (302)	$ (701)	$ (1,144)
Percentage change from unchanged scenario	(3.35)%	(1.36)%	-	(0.85)%	(1.97)%	(3.21)%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on assets and liabilities as of September 30, 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 September 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 September 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	$ 65,959	$ -	$ -	$ -	$ 65,959
Debt securities (a)	20,414	13,863	77,546	75,344	187,167
FRB and FHLB stock	3,063	-	-	-	3,063
Loans held for sale-mortgage banking, fixed rate	54,996	-	-	-	54,996
Loans held for investment, fixed rate	18,614	41,090	120,761	29,269	209,734
Loans held for investment, indexed rate	92,011	34,379	243,474	12,428	382,292
Total interest-earning assets	$ 255,057	$ 89,332	$ 441,781	$ 117,041	$ 903,211
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 512,244	$ -	$ -	$ -	$ 512,244
Savings	51,473	-	-	-	51,473
Time deposits	9,375	33,858	17,987	57	61,277
Subordinated debentures	-	15,000	-	-	15,000
Total interest-bearing liabilities	$ 573,092	$ 48,858	$ 17,987	$ 57	$ 639,994
Interest rate gap	$ (318,035)	$ 40,474	$ 423,794	$ 116,984	$ 263,217
Cumulative interest rate gap at September 30, 2022	$ (318,035)	$ (277,561)	$ 146,233	$ 263,217	
Cumulative interest rate gap to total assets	(33.61%)	(29.34)%	15.46%	27.82%	

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

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

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

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

Signatures

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

BNCCORP, INC.

Date:	November 10, 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