Quarterly Report

For the quarter ended March 31, 2023

BNCCORP, INC.

(OTCQX: BNCC)

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Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2023	December 31, 2022
ASSETS	(unaudited)	
Cash and cash equivalents	$ 15,902	$ 73,968
Debt securities available for sale	172,507	174,876
Federal Reserve Bank and Federal Home Loan Bank stock	2,938	3,063
Loans held for sale-mortgage banking	39,599	37,764
Loans held for investment	630,209	616,645
Allowance for credit losses (1)	(8,936)	(8,831)
Net loans held for investment	621,273	607,814
Premises and equipment, net	11,527	11,764
Operating lease right of use asset	1,393	1,521
Accrued interest receivable	3,180	3,312
Other	28,971	29,239
Total assets	$ 897,290	$ 943,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 195,125	$ 207,232
Interest-bearing –		
Savings, interest checking and money market	525,644	554,577
Time deposits	51,609	57,775
Total deposits	772,378	819,584
Short-term borrowings	9	-
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,000	15,000
Accrued interest payable	380	312
Accrued expenses	3,801	5,482
Operating lease liabilities	1,525	1,660
Other	427	937
Total liabilities	793,520	842,975
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,561,334 and 3,559,334 shares issued and outstanding	36	36
Capital surplus – common stock	26,599	26,399
Retained earnings	88,954	87,575
Treasury stock (107,319 and 109,319 shares, respectively)	(1,664)	(1,622)
Accumulated other comprehensive loss	(10,155)	(12,042)
Total stockholders' equity	103,770	100,346
Total liabilities and stockholders' equity	$ 897,290	$ 943,321

(1) The Company adopted ASU 2016-13 as of January 1, 2023. The prior year amounts presented are calculated under the prior accounting standard.

See accompanying notes to consolidated financial statements.

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

	2023	2022
INTEREST INCOME:		
Interest and fees on loans	$ 8,159	$ 6,167
Interest and dividends on investments		
Taxable	1,792	1,040
Tax-exempt	19	58
Dividends	36	36
Total interest income	10,006	7,301
INTEREST EXPENSE:		
Deposits	1,328	333
Federal Home Loan Bank advances	6	-
Subordinated debentures	231	59
Total interest expense	1,565	392
Net interest income	8,441	6,909
PROVISION (CREDIT) FOR CREDIT LOSSES:	240	(550)
Net interest income after provision for credit losses	8,201	7,459
NON-INTEREST INCOME:		
Bank charges and service fees	1,092	600
Wealth management revenues	487	536
Mortgage banking revenues, net	1,856	4,142
Gains on sales of loans, net	8	20
Gains on sales of debt securities, net	12	-
Other	176	214
Total non-interest income	3,631	5,512
NON-INTEREST EXPENSE:		
Salaries and employee benefits	4,943	5,941
Professional services	897	950
Data processing fees	989	973
Marketing and promotion	1,369	1,355
Occupancy	512	583
Regulatory costs	106	119
Depreciation and amortization	293	311
Office supplies and postage	96	110
Other	701	703
Total non-interest expense	9,906	11,045
Income before income taxes	1,926	1,926
Income tax expense	453	453
NET INCOME	$ 1,473	$ 1,473
Basic earnings per common share	$ 0.41	$ 0.41
Diluted earnings per common share	$ 0.41	$ 0.41

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income

For the Three Months Ended March 31,

(In thousands, unaudited)

	2023		2022	
NET INCOME		$ 1,473		$ 1,473
Unrealized gain (loss) on debt securities available for sale	$ 2,515		$ (8,980)	
Reclassification adjustment for gains included in net income	(12)		-	
Other comprehensive income (loss) before tax	2,503		(8,980)	
Income tax (expense) benefit related to items of other comprehensive income (loss)	(616)		2,408	
Other comprehensive income (loss)	$ 1,887	1,887	$ (6,572)	(6,572)
TOTAL COMPREHENSIVE INCOME (LOSS)		$ 3,360		$ (5,099)

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

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

	Common Stock		Capital Surplus Common	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Earnings	Stock	Income (Loss)	Total
BALANCE, December 31, 2021	3,554,983	$ 36	$ 26,068	$ 87,378	$ (1,650)	$ 3,154	$ 114,986
Net income	-	-	-	1,473	-	-	1,473
Other comprehensive loss	-	-	-	-	-	(6,572)	(6,572)
Impact of share-based compensation	2,400	-	49	-	13	-	62
BALANCE, March 31, 2022	3,557,383	$ 36	$ 26,117	$ 88,851	$ (1,637)	$ (3,418)	$ 109,949
BALANCE, December 31, 2022	3,559,334	$ 36	$ 26,399	$ 87,575	$ (1,622)	$ (12,042)	$ 100,346
Cumulative effect adjustment for adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments	-	-	-	(94)	-	-	(94)
Net income	-	-	-	1,473	-	-	1,473
Other comprehensive income	-	-	-	-	-	1,887	1,887
Impact of share-based compensation	2,000	-	200	-	(42)	-	158
BALANCE, March 31, 2023	3,561,334	$ 36	$ 26,599	$ 88,954	$ (1,664)	$ (10,155)	$ 103,770

See accompanying notes to consolidated financial statements.

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

	2023	2022
OPERATING ACTIVITIES:		
Net income	$ 1,473	$ 1,473
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision (credit) for credit losses	240	(550)
Depreciation	293	311
Amortization of right of use asset	229	186
Net amortization of premiums on debt securities and subordinated debentures	460	901
Share-based compensation	158	62
Change in accrued interest receivable and other assets, net	872	610
Loss on sale of bank premises and equipment	10	1
Net realized gain on sales of debt securities	(12)	-
Increase in deferred taxes	(31)	-
Change in other liabilities, net	(3,413)	(2,934)
Originations of loans held for sale, mortgage banking	(137,627)	(300,242)
Proceeds from sales of loans held for sale, mortgage banking	136,415	318,501
Fair value adjustment for loans held for sale, mortgage banking	(623)	843
Fair value adjustment on mortgage banking derivatives	(96)	(587)
Proceeds from sales of loans	-	180
Gains on sales of loans, net	(8)	(20)
Net cash (used in) provided by operating activities	(1,660)	18,735
INVESTING ACTIVITIES:		
Purchases of debt securities	(9,555)	(5,003)
Proceed from sales of debt securities	9,483	-
Proceeds from maturities of debt securities	4,495	8,070
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(1,640)	-
Sales of Federal Reserve and Federal Home Loan Bank Stock	1,765	33
Net increase in loans held for investment	(13,692)	(2,603)
Proceeds from sales of premises and equipment	-	4
Purchases of premises and equipment	(65)	(39)
Net cash (used in) provided by provided by investing activities	(9,209)	462

See accompanying notes to consolidated financial statements.

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

	2023	2022
FINANCING ACTIVITIES:		
Net decrease in deposits	$ (47,206)	$ (52,263)
Net increase in short-term borrowings	9	26
Repayments of Federal Home Loan Bank advances	(41,000)	-
Proceeds from Federal Home Loan Bank advances	41,000	-
Net cash used in financing activities	(47,197)	(52,237)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(58,066)	(33,040)
CASH AND CASH EQUIVALENTS, beginning of period	73,968	188,060
CASH AND CASH EQUIVALENTS, end of period	$ 15,902	$ 155,020
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 1,497	$ 420
Income taxes paid	$ -	$ 7
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to repossessed assets in the settlement of loans	$ 15	$ -
Right of use assets obtained in exchange for lease obligations	$ 100	$ -

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 7 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, 2022. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2022 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, 2022, and the notes thereto.

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

The unaudited consolidated financial statements as of March 31, 2023, 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.

The Company adopted the standard on January 1, 2023, and applied the standard as a cumulative effect adjustment to retained earnings. At adoption, the Company recorded a $125 thousand increase to the allowance for credit losses, which was comprised of a $64 thousand decrease in the allowance for loan losses and a $189 thousand increase to the allowance for unfunded commitments. The after-tax impact resulted in a $94 thousand decrease to retained earnings. The tax effect resulted in an increase to deferred tax assets.

ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled 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. The Company adopted the standard on January 1, 2023 and the adoption did not have a material impact on the Company's consolidated financials.

NOTE 3 – Debt Securities Available for Sale

Debt securities have been classified in the consolidated balance sheets according to management's intent. The Company had no securities designated as trading or held-to-maturity in its portfolio at March 31, 2023, or December 31, 2022. The carrying amount of available-for-sale debt securities and their estimated fair values were as follows (in thousands):

	As of March 31, 2023			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. treasury securities	$ 25,512	$ -	$ (1,179)	$ 24,333
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	22,971	-	(3,094)	19,877
U.S. government agency small business administration pools guaranteed by SBA	14,557	-	(964)	13,593
Collateralized mortgage obligations guaranteed by GNMA	9,573	-	(247)	9,326
Collateralized mortgage obligations issued by FNMA/FHLMC	62,118	-	(4,767)	57,351
Commercial mortgage-backed securities issued by FHLMC	17,251	-	(1,225)	16,026
Other commercial mortgage-backed securities	27,403	-	(2,396)	25,007
State and municipal bonds	8,070	-	(1,076)	6,994
	$ 187,455	$ -	$ (14,948)	$ 172,507

	As of December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 19,864	$ -	$ (1,828)	$ 18,036
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	23,485	-	(3,338)	20,147
U.S. government agency small business administration pools guaranteed by SBA	15,572	-	(1,191)	14,381
Collateralized mortgage obligations guaranteed by GNMA	10,096	-	(338)	9,758
Collateralized mortgage obligations issued by FNMA/FHLMC	64,285	-	(5,533)	58,752
Commercial mortgage-backed securities issued by FHLMC	17,557	-	(1,476)	16,081
Other commercial mortgage-backed securities	27,906	-	(2,617)	25,289
State and municipal bonds	13,562	341	(1,471)	12,432
	$ 192,327	$ 341	$ (17,792)	$ 174,876

The amortized cost and estimated fair market value of available-for-sale debt securities classified according to their contractual maturities at March 31, 2023, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 14,629	$ 14,473
Due after one year through five years	12,323	11,601
Due after five years through 10 years	27,500	25,357
Due after 10 years	133,003	121,076
Total	$ 187,455	$ 172,507

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

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

	March 31, 2023								
	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	$ 9,614	$ (14)	4	$ 14,719	$ (1,165)	5	$ 24,333	$ (1,179)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	1	1,780	(79)	7	18,097	(3,015)	8	19,877	(3,094)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	13,593	(964)	4	13,593	(964)
Collateralized mortgage obligations guaranteed by GNMA	5	5,921	(124)	3	3,405	(123)	8	9,326	(247)
Collateralized mortgage obligations issued by FNMA/ FHLMC	5	7,521	(185)	13	49,640	(4,582)	18	57,161	(4,767)
Commercial mortgage-backed securities issued by FHLMC	1	5,774	(208)	2	10,252	(1,017)	3	16,026	(1,225)
Other commercial mortgage-backed securities	3	6,775	(252)	8	18,232	(2,144)	11	25,007	(2,396)
State and municipal bonds	-	-	-	2	6,994	(1,076)	2	6,994	(1,076)
Total temporarily impaired securities	16	$ 37,385	$ (862)	43	$ 134,932	$ (14,086)	59	$ 172,317	$ (14,948)

	December 31, 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	1	$ 4,817	$ (185)	3	$ 13,219	$ (1,643)	4	$ 18,036	$ (1,828)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	2	2,092	(109)	6	18,055	(3,229)	8	20,147	(3,338)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	14,381	(1,191)	4	14,381	(1,191)
Collateralized mortgage obligations guaranteed by GNMA	8	9,758	(338)	-	-	-	8	9,758	(338)
Collateralized mortgage obligations issued by FNMA/FHLMC	14	34,501	(1,186)	5	24,251	(4,347)	19	58,752	(5,533)
Commercial mortgage-backed securities issued by FHLMC	2	12,312	(816)	1	3,769	(660)	3	16,081	(1,476)
Other commercial mortgage-backed securities	7	18,458	(1,157)	4	6,831	(1,460)	11	25,289	(2,617)
State and municipal bonds	3	9,550	(1,471)	-	-	-	3	9,550	(1,471)
Total temporarily impaired securities	37	$ 91,488	$ (5,262)	23	$ 80,506	$ (12,530)	60	$ 171,994	$ (17,792)

As identified in our recently issued or adopted accounting pronouncements and interpretations section, the Company's January 1, 2023, adoption of ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, requires an evaluation of debt securities available for sale to determine if a credit loss exists.

The Company's evaluation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit losses and can change over time.

The Company does not believe that the debt securities available for sale that were in an unrealized loss position as of March 31, 2023 represent a credit loss impairment. As of March 31, 2023, the gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a history of zero credit loss. Total gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the debt securities. The Company does not intend to sell the debt securities that were in an unrealized loss position and it is unlikely that the Company will be required to sell the debt securities before recovery of their amortized cost basis, which may be at maturity.

At December 31, 2022, management evaluated 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.

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

NOTE 4 – Loans

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

	March 31, 2023	December 31, 2022
Loans held for sale-mortgage banking	$ 39,599	$ 37,764
Commercial and industrial	$ 200,207	$ 205,429
Commercial real estate	241,313	230,243
SBA	53,360	48,638
Consumer	97,418	95,891
Land and land development	8,082	10,758
Construction	28,923	24,690
Gross loans held for investment	629,303	615,649
Unearned income and net unamortized deferred fees and costs	906	996
Loans, net of unearned income and unamortized fees and costs	630,209	616,645
Allowance for credit losses	(8,936)	(8,831)
Net loans held for investment	$ 621,273	$ 607,814

NOTE 5 – Allowance for Credit Losses

As identified in our recently issued or adopted accounting pronouncements and interpretations section, the Company's January 1, 2023 adoption of ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, resulted in changes to our methodology for estimating the allowance for credit losses. As a result of this adoption, the Company recorded a $125 thousand increase to the allowance for credit losses as a cumulative-effect adjustment on January 1, 2023.

The Company is required to estimate the credit losses expected over the life of the loan. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectability of the loan portfolio.

The Company's methodology for estimating the allowance for credit losses is applied consistently to the loan portfolio. The following identifies the methodology by which the Company estimates the allowance for credit losses:

Collective Pools. The Company makes a significant number of loans that, due to their underlying similar characteristics, are assessed for loss as "collective" pools. The Bank segments the pools by type of loan and using historical loss and peer group loss information estimates an expected credit loss for each individual loan or lease within the pool. Loans of this nature are generally internally designated as a "pass" rated credit.

Collective Risk Grade. The Company has loans where the risk grade classification deteriorates below an internally assigned grade of "pass". In these cases, the Company generally experiences higher historical loss rates and expects the credit losses on the contractual balance to increase. Loans in this category are pooled by risk grade and historic loss rates are applied to the contractual balances of each individual loan or lease.

Specific Reserves. The Company estimates specific reserves for individually evaluated loans through a loan-by-loan analysis of problem loans that considers expected future cash flows, the value of collateral and other factors that may impact the borrower's ability to make payments when due. Included in this group are loans in nonaccrual status or modified loans.

Qualitative Reserve. The Company also considers qualitative adjustments to the quantitative baseline. Utilizing a framework based on the Interagency Policy Statement on Allowance for Credit Losses, the Company considers prevailing and anticipated economic trends, such as current and forecasted economic conditions, economic trends, an assessment of credit risk inherent in the loan portfolio, and delinquency trends. The Company also considers information to the extent the Company expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The Company's forecast period is generally 1 to 2 years.

The following table presents transactions in the allowance for credit losses by portfolio segment (in thousands):

	Three Months Ended March 31, 2023						
	Commercial and Industrial	**Commercial Real Estate**	**SBA**	**Consumer**	**Land and Land Development**	**Construction**	**Total**
Balance, beginning of period	$ 2,519	$ 3,621	$ 1,396	$ 982	$ 87	$ 226	$ 8,831
Cumulative effect-CECL adoption	511	(300)	(467)	(13)	66	139	(64)
Provision (credit)	(29)	223	34	14	(24)	2	220
Loans charged off	(43)	-	-	(14)	-	-	(57)
Loan recoveries	-	-	-	6	-	-	6
Balance, end of period	$ 2,958	$ 3,544	$ 963	$ 975	$ 129	$ 367	$ 8,936

	Three Months Ended March 31, 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)	(5)	(277)	(285)	14	(24)	27	(550)
Loans charged off	-	-	-	(69)	-	-	(69)
Loan recoveries	-	-	1	3	10	-	14
Balance, end of period	$ 2,168	$ 3,852	$ 1,357	$ 784	$ 134	$ 180	$ 8,475

The Company recorded a $240 thousand provision for credit losses in the first quarter of 2023. A provision of $220 thousand was recorded as an allowance for loan losses and $20 thousand was recorded as an allowance for unfunded commitments. At March 31, 2023, the Company maintained an allowance for unfunded commitments of $209 thousand. The allowance for unfunded commitments are included as part of the Other liabilities line on the Company's Consolidated Balance Sheets.

Impaired loans are loans on non-accrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. With the adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, this disclosure is no longer a required disclosure after December 31, 2022.

The following table shows the balance in the allowance for credit losses at December 31, 2022, and the related loan balances, segregated on the basis of impairment methodology (in thousands).

	Allowance For Credit Losses			**Gross Loans Held for Investment**		
	Impaired	**Other**	**Total**	**Impaired**	**Other**	**Total**
December 31, 2022						
Commercial and industrial	$ -	$ 2,519	$ 2,519	$ 644	$ 204,785	$ 205,429
Commercial real estate	-	3,621	3,621	-	230,243	230,243
SBA	457	939	1,396	830	47,808	48,638
Consumer	-	982	982	34	95,857	95,891
Land and land development	-	87	87	-	10,758	10,758
Construction	-	226	226	-	24,690	24,690
Total	$ 457	$ 8,374	$ 8,831	$ 1,508	$ 614,141	$ 615,649

Credit Quality Indicators

The Company maintains an internal risk rating process in order to increase the precision and effectiveness of credit risk management. Loans are assigned one of the following four internally assigned grades: pass, watch list, substandard, and doubtful. The following are the definitions of the Company's credit quality indicators:

Pass. Loans designated as pass are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan or lease agreement. Management believes that there is a low likelihood of loss related to those loans and leases that are considered Pass.

Watch list. 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.

Substandard. 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.

Doubtful. 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 following presents by credit quality indicator, loan class, and year of origination, the amortized cost basis of the Company's loans as of March 31, 2023 (in thousands):

	Term Loans by Origination Year							
March 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total**
Commercial and industrial								
Pass	$ 3,533	$ 74,165	$ 30,644	$ 21,917	$ 9,948	$ 31,197	$ 25,965	$ 197,369
Watch List	-	22	-	125	-	-	-	147
Substandard	32	43	190	337	680	818	100	2,200
Doubtful	-	491	-	-	-	-	-	491
Total commercial and industrial	$ 3,565	$ 74,721	$ 30,834	$ 22,379	$ 10,628	$ 32,015	$ 26,065	$ 200,207
Commercial and industrial loans:								
Current period gross write-offs:	$ -	$ -	$ 43	$ -	$ -	$ -	$ -	$ 43
Commercial Real Estate								
Pass	$ 12,033	$ 57,432	$ 36,850	$ 18,774	$ 10,245	$ 98,519	$ 5,539	$ 239,392
Watch List	-	-	1,921	-	-	-	-	1,921
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate	$ 12,033	$ 57,432	$ 38,771	$ 18,774	$ 10,245	$ 98,519	$ 5,539	$ 241,313
Commercial real estate:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Small Business Administration								
Pass	$ 3,783	$ 14,257	$ 9,553	$ 1,969	$ 9,150	$ 10,191	$ 432	$ 49,335
Watch List	-	-	-	197	-	-	-	197
Substandard	-	-	50	51	2,760	354	110	3,325
Doubtful	-	-	-	-	-	503	-	503
Total small business administration	$ 3,783	$ 14,257	$ 9,603	$ 2,217	$ 11,910	$ 11,048	$ 542	$ 53,360
Small business administration loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer								
Pass	$ 6,018	$ 36,213	$ 15,200	$ 11,634	$ 5,388	$ 8,008	$ 14,894	$ 97,355
Watch List	-	-	-	-	-	-	-	-
Substandard	-	-	-	12	22	29	-	63
Doubtful	-	-	-	-	-	-	-	-
Total consumer	$ 6,018	$ 36,213	$ 15,200	$ 11,646	$ 5,410	$ 8,037	$ 14,894	$ 97,418
Consumer loans:								
Current period gross write-offs:	$ 7	$ -	$ -	$ 1	$ -	$ 6	$ -	$ 14
Land and Land Development								
Pass	$ 1,329	$ 1,756	$ 2,126	$ 286	$ -	$ 326	$ 2,259	$ 8,082
Watch List	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total land and land development	$ 1,329	$ 1,756	$ 2,126	$ 286	$ -	$ 326	$ 2,259	$ 8,082
Land and land development loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction								
Pass	$ 388	$ 1,191	$ -	$ -	$ -	$ -	$ 27,344	$ 28,923
Watch List	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction	$ 388	$ 1,191	$ -	$ -	$ -	$ -	$ 27,344	$ 28,923
Construction loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total gross loans	$ 27,116	$ 185,570	$ 96,534	$ 55,302	$ 38,193	$ 149,945	$ 76,643	$ 629,303

The following presents by credit quality indicator and the amortized cost basis of the Company's loans as of December 31, 2022 (in thousands):

	December 31, 2022				
	Pass	Watch List	Substandard	Doubtful	Total Loans Held for Investment
Commercial and industrial	$ 203,059	$ 238	$ 1,641	$ 491	$ 205,429
Commercial real estate	228,309	1,934	-	-	230,243
SBA	46,936	300	876	526	48,638
Consumer	95,810	-	81	-	95,891
Land and land development	10,758	-	-	-	10,758
Construction	24,690	-	-	-	24,690
Total gross loans	$ 609,562	$ 2,472	$ 2,598	$ 1,017	$ 615,649

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):

	March 31, 2023					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 95,541	$ 196	$ -	$ 95,737	$ 646	$ 96,383
Agriculture	27,609	-	-	27,609	-	27,609
Owner-occupied commercial real estate	76,215	-	-	76,215	-	76,215
Commercial real estate	241,313	-		241,313	-	241,313
SBA	51,586	963	-	52,549	811	53,360
Consumer:						
Automobile	12,387	55	-	12,442	-	12,442
Home equity	13,256	-	-	13,256	-	13,256
1st mortgage	21,130	-	-	21,130	-	21,130
Other	50,350	228	-	50,578	12	50,590
Land and land development	7,866	216	-	8,082	-	8,082
Construction	28,923	-	-	28,923	-	28,923
Total loans held for investment	626,176	1,658	-	627,834	1,469	629,303
Loans held for sale	39,540	59	-	39,599	-	39,599
Total gross loans	$ 665,716	$ 1,717	$ -	$ 667,433	$ 1,469	$ 668,902

	December 31, 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	$ 95,844	$ 54	$ -	$ 95,898	$ 491	$ 96,389
Agriculture	30,850	-	-	30,850	-	30,850
Owner-occupied commercial real estate	78,190	-	-	78,190	-	78,190
Commercial real estate	230,243	-	-	230,243	-	230,243
SBA	47,757	52	-	47,809	829	48,638
Consumer:						
Automobile	13,879	81	-	13,960	-	13,960
Home equity	13,555	-	-	13,555	-	13,555
1st mortgage	18,862	-	-	18,862	-	18,862
Other	49,434	45	1	49,480	34	49,514
Land and land development	10,758	-	-	10,758	-	10,758
Construction	24,690	-	-	24,690	-	24,690
Total loans held for investment	614,062	232	1	614,295	1,354	615,649
Loans held for sale	37,704	60	-	37,764	-	37,764
Total gross loans	$ 651,766	$ 292	$ 1	$ 652,059	$ 1,354	$ 653,413

The following table sets forth information on non-accrual loans as of March 31, 2023, and December 31, 2022 (in thousands):

	March 31, 2023			December 31, 2022
	Non-accrual loans with a related ACL	Non-accrual loans without a related ACL	Total Non-Accrual Loans	Total Non-Accrual Loans
Commercial and industrial: Business loans	$ 646	$ -	$ 646	$ 491
SBA	811	-	811	829
Consumer: Other	12	-	12	34
Total	$ 1,469	$ -	$ 1,469	$ 1,354

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

	Three Months Ended March 31,	
	2023	2022
Interest income that would have been recorded	$ 39	$ 40
Interest income recorded	-	-
Effect on interest income on loans	$ 39	$ 40

Impaired loans
As identified in our recently issued or adopted accounting pronouncements and interpretations section, the Company adopted ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, on January 1, 2023. As a result of adoption, the Company is no longer required to provide information on impaired loans. Information on impaired loans as of December 31, 2022 is being provided for comparative purposes.

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):

	December 31, 2022				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance (12-months)**	**Interest Income Recognized (12-months)**
Impaired loans with an allowance recorded:					
SBA	$ 661	$ 527	$ 457	$ 578	$ -
Total impaired loans with an allowance recorded	$ 661	$ 527	$ 457	$ 578	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,004	$ 491	$ -	$ 519	$ -
Owner-occupied commercial real estate	175	153	-	160	7
SBA	450	303	-	324	-
Consumer: Other	57	34	-	37	-
Total impaired loans without an allowance recorded	$ 2,686	$ 981	$ -	$ 1,040	$ 7
Total impaired loans	$ 3,347	$ 1,508	$ 457	$ 1,618	$ 7

Loan Modifications
The Company adopted ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* on January 1, 2023. ASU 2022-02 requires the Company to evaluate all loan 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.

The Company individually evaluates all modification to loans where the borrower is experiencing financial difficulty. In cases where the modification is determined to be at least as favorable to the Company as the terms for comparable loans to other borrowers with similar risk characteristics the loan is considered a new origination. In the event the evaluation determines that the modification is not in-line with terms for comparable loans, the Company considers these loans to be a modified loan. These types of modifications generally take the form of principal forgiveness, interest rate reduction, other-than-insignificant payment delay, or a term extension.

The Company did not modify any loans during the first quarter of 2023 for borrowers experiencing financial difficulty.

Troubled Debt Restructuring (TDRs)
As identified in our recently issued or adopted accounting pronouncements and interpretations section, the Company adopted ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* on January 1, 2023. As a result of adoption, the Company is no longer required to provide information on troubled debt restructuring. Information on troubled debt restructuring as of December 31, 2022 is being provided for comparative purposes.

TDRs 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):

	December 31, 2022			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 491	$ 491	$ -
Owner-occupied commercial real estate	153	-	153	-
SBA	-	282	282	48
	$ 153	$ 773	$ 926	$ 48

NOTE 6 – Leases

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

The components of lease cost for the three-month period ended March 31, 2023, and March 31, 2022, were as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Operating lease costs	$ 203	$ 235
Variable lease costs	23	7
Short-term lease costs	4	26
Total lease costs	$ 230	$ 268

Amounts reported in the consolidated balance sheet as of March 31, 2023, and December 31, 2022, are as follows (in thousands):

	As of March 31, 2023	As of December 31, 2022
Operating lease right of use (ROU) asset	$ 1,393	$ 1,521
Operating lease liabilities	1,525	1,660

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

	Three Months Ended March 31,	
	2023	2022
Cash paid for lease liabilities	$ 225	$ 272
Amortization of ROU assets	229	186

	As of March 31, 2023	As of December 31, 2022
Weighted average remaining lease term	3.62 years	3.64 years
Weighted average discount rate	5.48%	5.55%

Maturities of lease liabilities under non-cancellable leases as of March 31, 2023, are as follows (in thousands):

	Operating Leases
2023	$ 545
2024	515
2025	275
2026	193
2027	41
Thereafter	167
Total future minimum lease payments	1,736
Amounts representing interest	(211)
Total lease liabilities	$ 1,525

NOTE 7 – Earnings Per Share

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,575,520	3,572,405
Dilutive effect of stock compensation	2,317	960
Denominator for diluted earnings per share	3,577,837	3,573,365
Numerator (in thousands):		
Net income	$ 1,473	$ 1,473
Basic earnings per common share	$ 0.41	$ 0.41
Diluted earnings per common share	$ 0.41	$ 0.41

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	21,484	67,435

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

	Three Months Ended March 31, 2023		Three Months Ended March 31, 2022	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grand Date Fair Value
Outstanding, beginning of period	5,500	$ 39.91	5,750	$ 39.68
Granted	-	-	-	-
Vested	(250)	34.77	(250)	34.77
Forfeited			-	-
Outstanding, end of period	5,250	40.15	5,500	39.91

The Company recognized share-based compensation expense of $19 thousand related to restricted stock for the three-month period ended March 31, 2023. The Company recognized share-based compensation expense of $19 thousand related to restricted stock for the three-month period ended March 31, 2022.

At March 31, 2023, the Company had $108 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 March 31,	
	2023	2022
Service charges on deposits	$ 166	$ 166
Bankcard fees	280	263
Bank charges and service fees not within scope of ASC 606	646	171
Total bank charges and service fees	1,092	600
Wealth management revenue	487	536
Wealth management revenue not within the scope of ASC 606	-	-
Total wealth management revenues	487	536
Other	11	11
Other not within the scope of ASC 606 (a)	165	203
Total other	176	214
Other non-interest income not within the scope of ASC 606 (a)	1,876	4,162
Total non-interest income	$ 3,631	$ 5,512

(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 March 31, 2023. Total receivables from revenue recognized under the scope of ASC 606 were $480 thousand as of March 31, 2023, and $478 thousand as of December 31, 2022. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

NOTE 10 – Fair Value Measurements

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

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

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

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

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

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

	Carrying Value at March 31, 2023				Three Months Ended March 31, 2023
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains/(Losses)**
ASSETS					
Debt securities available for sale	$ 172,507	$ 24,333	$ 148,174	$ -	$ 12
Loans held for sale	39,599	-	39,599	-	623
Commitments to originate mortgage loans	1,801	-	1,801	-	1,349
Commitments to sell mortgage loans	26	-	26	-	(6)
Total assets at fair value	$ 213,933	$ 24,333	$ 189,600	$ -	$ 1,978
LIABILITIES					
Mortgage banking short positions	$ 813	$ -	$ 813	$ -	$ (1,247)
Total liabilities at fair value	$ 813	$ -	$ 813	$ -	$ (1,247)

	Carrying Value at December 31, 2022				Twelve Months Ended December 31, 2022
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains/(Losses)**
ASSETS					
Debt securities available for sale	$ 174,876	$ 18,036	$ 156,840	$ -	$ -
Loans held for sale	37,764	-	37,764	-	(1,592)
Commitments to originate mortgage loans	205	-	205	-	(1,534)
Commitments to sell mortgage loans	32	-	32	-	20
Mortgage banking short positions	434	-	434	-	437
Total assets at fair value	$ 213,311	$ 18,036	$ 195,275	$ -	$ (2,669)

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.

NOTE 11 – Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	March 31, 2023		December 31, 2022	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 15,902	$ 15,902	$ 73,968	$ 73,968
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,938	2,938	3,063	3,063
Gross loans held for investment	Level 2	629,303	617,501	614,668	597,644
Gross loans held for investment	Level 3	-	-	981	674
Accrued interest receivable	Level 2	3,180	3,180	3,312	3,312
		$ 651,323	$ 639,521	$ 695,922	$ 678,661
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 195,125	$ 195,125	$ 207,232	$ 207,232
Deposits, interest-bearing	Level 2	577,253	575,378	612,352	610, 000
Borrowings and advances	Level 2	9	9	-	-
Accrued interest payable	Level 2	380	380	312	312
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,000	11,704	15,000	12,760
		$ 787,767	$ 782,596	$ 834,896	$ 830,304
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 330	$ -	$ 339
Standby and commercial letters of credit	Level 2	$ -	$ 42	$ -	$ 25

NOTE 12 – Federal Home Loan Bank Advances

As of March 31, 2023, the Bank had no Federal Home Loan Bank (FHLB) advances outstanding. At March 31, 2023, the Bank had loans with unamortized principal balances of approximately $221.9 million pledged as collateral to the FHLB.

As of December 31, 2022, the Bank had no FHLB advances outstanding. At December 31, 2022, the Bank had loans with unamortized principal balances of approximately $211.0 million pledged as collateral to the FHLB.

As of March 31, 2023, the Bank has the ability to draw advances up to approximately $149.1 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirements.

NOTE 13 – Other Borrowings

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

March 31, 2023

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	$ 3,330	$ 1,653	$ -	$ 1,653
BNCCORP line	100,557	10,000	-	10,000
Total	$ 103,887	$ 11,653	$ -	$ 11,653

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

At March 31, 2023, 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, 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	$ 3,359	$ 1,675	$ -	$ 1,675
BNCCORP line	96,959	10,000	-	10,000
Total	$ 100,318	$ 11,675	$ -	$ 11,675

(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, 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.

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 March 31, 2023, and December 31, 2022, was 6.15% and 5.14%, 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 will contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals. No share repurchases have been made under the authorization as of March 31, 2023.

NOTE 16 – Regulatory Capital and Current Operating Environment

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

At March 31, 2023, the Company's capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

At March 31, 2023, and December 31, 2022, 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
March 31, 2023								
Total Risk-Based Capital:								
Consolidated	$ 136,843	17.18 %	$ 63,707	≥8.00 %	$ N/A	N/A %	$ N/A	N/A %
BNC National Bank	119,092	14.96	63,669	≥8.00	79,587	10.00	39,506	4.96
Tier 1 Risk-Based Capital:								
Consolidated	127,907	16.06	47,780	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	110,156	13.84	47,752	≥6.00	63,669	8.00	46,487	5.84
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	112,907	14.18	35,835	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	110,156	13.84	35,814	≥4.50	51,731	6.50	58,425	7.34
Tier 1 Leverage Capital:								
Consolidated	127,907	14.12	36,235	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	110,156	12.17	36,200	≥4.00	45,250	5.00	64,906	7.17
Tangible Common Equity (to total assets): (a)								
Consolidated	103,679	11.55	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	100,466	11.21	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2022								
Total Risk-Based Capital:								
Consolidated	$ 135,744	17.57%	$ 61,814	≥8.00%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	117,267	15.19	61,776	≥8.00	77,219	10.00	40,048	5.19
Tier 1 Risk-Based Capital:								
Consolidated	126,913	16.43	46,360	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	108,436	14.04	46,332	≥6.00	61,776	8.00	46,660	6.04
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,913	14.48	34,770	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	108,436	14.04	34,749	≥4.50	50,193	6.50	58,243	7.54
Tier 1 Leverage Capital:								
Consolidated	126,913	13.99	36,279	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	108,436	11.97	36,237	≥4.00	45,297	5.00	63,139	6.97
Tangible Common Equity (to total assets): (a)								
Consolidated	100,246	10.63	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	96,860	10.28	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 7 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 March 31, 2023				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 9,851	$ 398	$ 20	$ (263)	$ 10,006
Interest expense	1,354	243	231	(263)	1,565
Net interest income (expense)	8,497	155	(211)	-	8,441
Provision for credit losses	240	-	-	-	240
Net interest income after provision for credit losses	8,257	155	(211)	-	8,201
Non-interest Income	2,227	1,847	550	(993)	3,631
Non-interest Expense	6,511	3,614	774	(993)	9,906
Income (loss) before income taxes	3,973	(1,612)	(435)	-	1,926
Income tax expense (benefit)	955	(400)	(102)	-	453
Net income (loss)	$ 3,018	$ (1,212)	$ (333)	$ -	$ 1,473
Total Assets at March 31, 2023	$ 854,154	$ 42,260	$ 19,192	$ (18,316)	$ 897,290

	Three Months Ended March 31, 2022				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 6,852	$ 449	$ 4	$ (4)	$ 7,301
Interest expense	337	-	59	(4)	392
Net interest income (expense)	6,515	449	(55)	-	6,909
Credit for credit losses	(550)	-	-	-	(550)
Net interest income after credit for credit losses	7,065	449	(55)	-	7,459
Non-interest Income	1,914	4,140	511	(1,053)	5,512
Non-interest Expense	6,117	5,268	713	(1,053)	11,045
Income (loss) before income taxes	2,862	(679)	(257)	-	1,926
Income tax expense (benefit)	681	(168)	(60)	-	453
Net income (loss)	$ 2,181	$ (511)	$ (197)	$ -	$ 1,473
Total Assets at March 31, 2022	$ 919,987	$ 66,253	$ 12,414	$ (11,498)	$ 987,156

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

NOTE 18 – Subsequent Events

On April 12, 2023, the Company announced a definitive agreement with First Federal Bank (First Federal) under which First Federal will purchase certain operating assets and assume certain liabilities of BNC National Bank's mortgage division as part of the Company's strategic decision to exit the residential mortgage origination business. BNC National Bank's mortgage division is principally composed of its Overland Park, Kansas based nationwide consumer direct mortgage platform. The purchase is subject to customary conditions and is expected to close in the second quarter of 2023.

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 March 31, 2023, and 2022

Net income was $1.5 million, or $0.41 per diluted share, unchanged from the same period of 2022. The first quarter of 2023 produced higher net interest income, higher bank charges and service fees, and lower non-interest expense compared to the same period of 2022. Results were offset by lower mortgage banking revenue and an increased provision for credit losses when compared to the 2022 period.

Net interest income for the first quarter of 2023 was $8.4 million, an increase of $1.5 million, or 22.2%, from $6.9 million in the first quarter of 2022. The year-over-year increase was primarily driven by growth in loans held for investment and overall higher yields that were partially offset by an increase in the cost of deposits and subordinated debentures. Net interest margin increased to 3.97% in the 2023 first quarter, compared to 2.80% in the year-earlier period.

Interest income in the first quarter of 2023 increased by $2.7 million, or 37.0%, to $10.0 million, compared to $7.3 million for the first quarter of 2022. The increase is the result of higher yields on interest-earning assets and a $63.1 million quarter-over-quarter increase in average loan balances. As a result of these improvements, the yield on average interest-earning assets substantially improved to 4.71% in the first quarter of 2023, compared to 2.96% in the 2022 first quarter. It is noteworthy that the Company's variable rate assets have started to re-price in step with interest rate movements by the Federal Reserve as well as in response to higher yields on new loan originations.

The average balance of interest-earning assets in the first quarter of 2023 decreased by $138.0 million versus the same period of 2022, primarily due to a $171.4 million decrease in interest-bearing cash, by a $31.0 million decrease in average loans held for sale, and by a $94.1 million increase in average loans held for investment. Interest income from loans held for investment increased $2.0 million on a quarter-over-quarter basis. The average balance of mortgage loans held for sale was $28.7 million, $31.0 million lower than the same period of 2022. Interest income from loans held for sale decreased $25 thousand primarily due to lower average balances, partially offset by a 2.72% increase in yield. The average balance of debt securities in the first quarter of 2023 was $174.5 million, $29.8 million lower than in the first quarter of 2022. Interest income from debt securities in the first quarter of 2023 was $365 thousand higher than the same period of 2022.

Interest expense in the first quarter of 2023 was $1.6 million, an increase of $1.2 million from the 2022 period. The average balance of deposits decreased by $123.8 million when comparing the first quarter of 2023 to 2022. The primary driver of the decrease in average balances 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. The cost of interest-bearing liabilities was 1.04% during the first quarter of 2023, compared to 0.21% in the same period of 2022. The cost of core deposits in the first quarters of 2023 and 2022 was 0.68% and 0.15%, respectively, as the Company continues to manage its overall cost of deposits while staying focused on maintaining liquidity.

At March 31, 2023, credit metrics remained stable with $1.5 million of nonperforming assets, representing a 0.17% nonperforming assets-to-total-asset ratio, compared to $1.4 million and 0.15% at December 31, 2022. The Company recorded a $240 thousand provision for credit losses in the first quarter of 2023 compared to a release of $550 thousand of its allowance for credit losses in the first quarter of 2022. The allowance for credit losses decreased slightly to 1.42% of loans held for investment on March 31, 2023, compared to 1.43% on December 31, 2022.

Non-interest income for the first quarter of 2023 was $3.6 million, compared to $5.5 million in the 2022 first quarter. The decrease was driven by a reduction in mortgage banking revenues to $1.9 million in the first quarter of 2023, versus $4.1 million in the prior-year period. Consistent with the overall performance of the industry, the Company's mortgage business was negatively impacted by higher interest rates and higher home values which impacted both purchase and refinance originations. Bank charges and service fees were $492 thousand higher quarter-over-quarter due to higher letter of credit fees and from the movement of deposits to one-way sell positions. Through the use of an associated banking network, the Company is able to generate fee income on deposits that are not otherwise deployed. The deposits are placed with another financial institution by the associated banking network to meet their liquidity needs, but can be recaptured for future liquidity use by the Company at any time. Despite healthy growth in new assets, wealth management revenues decreased $49 thousand, or 9.1%, largely due to elevated distributions and a decrease in asset values during 2022.

Non-interest expense for the first quarter of 2023 decreased $1.1 million, or 10.3%, to $9.9 million from $11.0 million in the first quarter of 2022. Non-interest expenses related to mortgage operations decreased by $1.7 million, or 31.4%, as management scaled down its operations to match marketplace opportunity. There were 68 full-time equivalent employees engaged in mortgage operations as of March 31, 2023, compared to 140 on March 31, 2022. Combined expenses for community banking and the holding company increased by $515 thousand, or 8.9%, in the first quarter of 2023 compared to the 2022 period primarily due to higher salary, data processing, and other expenses.

In the first quarter of 2023, income tax expense of $453 thousand was unchanged from the first quarter of 2022. Similarly, the effective tax rate in the first quarter of 2023 was 23.5%, unchanged from the same period of 2022.

Net Interest Income

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

	Three Months Ended March 31,								
	2023			2022			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	$ 40,235	$ 435	4.39%	$ 211,683	$ 87	0.17%	$ (171,448)	$ 348	4.22% (a)
FHLB Stock	1,271	10	3.06%	1,287	10	3.00%	(16)	-	0.06%
Federal Reserve Stock	1,807	26	6.00%	1,807	26	6.00%	-	-	0.00%
Debt securities – taxable	172,443	1,357	3.19%	198,023	953	1.95%	(25,580)	404	1.24% (b)
Debt securities – tax exempt	2,089	19	3.71%	6,339	58	3.69%	(4,250)	(39)	0.02% (b)
Loans held for sale – mortgage banking	28,989	399	5.58%	60,002	424	2.87%	(31,013)	(25)	2.71% (c)
Loans held for investment	623,266	7,760	5.05%	529,198	5,743	4.40%	94,068	2,017	0.65% (d)
Allowance for loan losses	(8,764)	-	0.00%	(9,042)	-	0.00%	278	-	0.00%
Total interest-earning assets	$ 861,336	$ 10,006	4.71%	$ 999,297	$ 7,301	2.96%	$ (137,961)	$ 2,705	1.75%
Interest-bearing liabilities									
Interest checking and money market	$ 488,887	$ 1,240	1.03%	$ 603,752	$ 243	0.16%	$ (114,865)	$ 997	0.87% (e)
Savings	52,961	11	0.08%	50,777	5	0.04%	2,184	6	0.04% (e)
Certificates of deposit	53,714	77	0.60%	72,592	85	0.48%	(18,878)	(8)	0.12% (f)
Total interest-bearing deposits	595,562	1,328	0.90%	727,121	333	0.19%	(131,559)	995	0.72%
Short-term borrowings	337	-	0.30%	234	-	0.30%	103	-	0.00%
Federal Home Loan Bank advances	456	6	4.87%	1	-	0.00%	455	6	4.87%
Subordinated debentures	15,000	231	6.24%	15,001	59	1.58%	(1)	172	4.66%
Total borrowings	15,793	237	6.09%	15,236	59	1.57%	557	178	4.52%
Total interest-bearing liabilities	$ 611,355	1,565	1.04%	$ 742,357	392	0.21%	$ (131,002)	1,173	0.83%
Net interest income/spread		$ 8,441	3.67%		$ 6,909	2.75%		$ 1,532	0.92%
Net interest margin			3.97%			2.80%			1.17%
Notation:									
Non-interest-bearing deposits	$ 196,070	-	0.00%	$ 188,320	-	0.00%	$ 7,750	-	0.00% (d)
Total deposits	$ 791,632	$ 1,328	0.68%	$ 915,441	$ 333	0.15%	$ (123,809)	$ 995	0.53%
Taxable equivalents:									
Total interest-earning assets	$ 861,336	$ 100,045	4.73%	$ 999,297	$ 7,346	2.98%	$ (137,961)	$ 92,699	1.75%
Net interest income/spread	-	$ 8,479	3.69%	-	$ 6,954	2.77%	-	$ 1,525	0.92%
Net interest margin	-	-	3.99%	-	-	2.82%	-	-	1.17%

(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 and the utilized of cash for loan growth. Yields on cash has increased from rate increases by the Federal Reserve.

(b) The average balance of debt securities decreased as the Company is utilizing the cash flow from the portfolio to provide liquidity for loan growth.

(c) The average balance of loans held for sale decreased as mortgage origination activity was significantly lower when compared to first quarter of 2022 due to significant rate increases that continued during 2022.

(d) The increase in average loans held for investment is due to the significant loan growth produced by the Company during 2022 and continuing through the first quarter of 2023.

(e) Overall, average deposit balances decreased as the Company began moving deposits off the balance sheet at the end of the first quarter of 2022 through the use of an associated banking network. As of March 31, 2023 and 2022, the Company had $124.9 million and $62.8 million, respectively, of such deposits off balance sheet.

(f) The Company continues to actively manage a reduction in certificates of deposits.

Non-interest Income

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

	Three Months Ended March 31,		Increase (Decrease)		
	2023	2022	$	%	
Bank charges and service fees	$ 1,092	$ 600	$ 492	82 %	(a)
Wealth management revenues	487	536	(49)	(9)	(b)
Mortgage banking revenues	1,856	4,142	(2,286)	(55)	(c)
Gains on sales of loans, net	8	20	(12)	(60)	(d)
Gains on sales of debt securities, net	12	-	12	100	(e)
Other	176	214	(38)	(18)	(f)
Total non-interest income	$ 3,631	$ 5,512	$ (1,881)	(34) %	

(a) Bank charges and services fees increased due increased fees associated with issuances of letters of credit and fees earned from the movement of deposits to a one-way sell position.
(b) Wealth management revenues decreased, despite healthy growth in new assets, largely due to elevated distributions and a decrease in asset values during 2022.
(c) Mortgage banking revenues decreased as the industry has been negatively impacted by higher interest rates and higher home values, which impacted both purchase and refinance transactions. This performance has been consistent with the overall industry.
(d) Gains on sales of loans can vary significantly from period to period.
(e) Gains on sales of debt securities may vary significantly from period to period as the Company manages its risk and return profile through changing economic conditions.
(f) Other income decreased primarily due to lower revenue from SBIC investments.

Non-interest Expense

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

	Three Months Ended March 31,		Increase (Decrease)		
	2023	2022	$	%	
Salaries and employee benefits	$ 4,943	$ 5,941	$ (998)	(17) %	(a)
Professional services	897	950	(53)	(6)	(b)
Data processing fees	989	973	16	2	
Marketing and promotion	1,369	1,355	14	1	
Occupancy	512	583	(71)	(12)	(c)
Regulatory costs	106	119	(13)	(11)	(d)
Depreciation and amortization	293	311	(18)	(6)	(e)
Office supplies and postage	96	110	(14)	(13)	(f)
Other	701	703	(2)	-	
Total non-interest expense	$ 9,906	$ 11,045	$ (1,139)	(10) %	
Efficiency ratio	82.1%	88.9%			

(a) Salaries and employee benefits decreased primarily due to a reduction of staff 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 2022 period, which was partially offset by higher legal and consulting expenses.
(c) Occupancy decreased due to fewer locations within the mortgage banking segment.
(d) Regulatory costs decreased primarily due to lower average asset balances.
(e) Depreciation and amortization decreased as groups of depreciable assets completed their estimated useful life.
(f) Office supplies and postage decreased due to a reduction in paper and office supplies as the Company continues to make efficient use of technology along with reduced staff and locations.

Mortgage Banking Division Selected Data

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

	Three Months Ended March 31,	
	2023	2022
Number of funded mortgage loans held for sale	338	760
Mortgage loans held for sale funded	$ 137,627	$ 300,242
Average loans held for sale-mortgage banking	$ 28,989	$ 60,002
Loans held for sale-mortgage banking	$ 39,599	$ 61,821
Non-Interest Income:		
Gains on sale of loans held for sale, net of commission expense	$ 1,137	$ 4,398
Change in fair value of mortgage banking instruments (1)	$ 719	$ (256)

(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, which uses a call center with internet sales focused on both purchase and refinance transactions.

Beginning in 2022 and continuing through the first quarter of 2023, the Company's mortgage business was negatively affected by higher interest rates and higher home values which negatively impacted both purchase and refinance originations. This trend witnessed by the Company is consistent with overall performance of the industry.

On April 12, 2023 BNCCORP, INC. announced a definitive agreement with First Federal Bank (First Federal) under which First Federal will purchase certain operating assets and assume certain liabilities of BNC National Bank's mortgage division as part of the Company's strategic decision to exit the residential mortgage origination business. BNC National Bank's mortgage division is principally composed of its Overland Park, Kansas based nationwide consumer direct mortgage platform. The purchase is subject to customary conditions and is expected to close in the second quarter of 2023. See Note 18 – Subsequent Events for disclosure of information.

Income Taxes

In the first quarter of 2023, income tax expense of $453 thousand was unchanged from the first quarter of 2022. Similarly, the effective tax rate in the first quarter of 2023 was 23.5%, unchanged from the same period of 2022.

Comparison of Financial Condition at March 31, 2023 and December 31, 2022

Assets

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

	March 31, 2023	December 31, 2022	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 15,902	$ 73,968	$ (58,066)	(79) %	(a)
Debt securities available for sale	172,507	174,876	(2,369)	(1)	
Federal Reserve Bank and Federal Home Loan Bank stock	2,938	3,063	(125)	(4)	
Loans held for sale-mortgage banking	39,599	37,764	1,835	5	(b)
Loans held for investment, net	630,209	616,645	13,564	2	(c)
Allowance for credit losses	(8,936)	(8,831)	(105)	1	
Premises and equipment, net	11,527	11,764	(237)	(2)	
Operating lease right of use asset	1,393	1,521	(128)	(8)	(d)
Accrued interest receivable	3,180	3,312	(132)	(4)	
Other assets	28,971	29,239	(268)	(1)	
Total assets	$ 897,290	$ 943,321	$ (46,031)	(5) %	

(a) Cash balances decreased as the Company experienced normal seasonal reductions in deposits and utilized cash to fund loans.
(b) Loans held for sale increased slightly as mortgage origination activity continued to fluctuate with rate movements during the first quarter of 2023.
(c) Loans held for investment increased as the Company continues to experience organic growth in core markets.
(d) Decrease is due to contractual extinguishment of right of use assets. See Note 6 – Leases for more detailed information.

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 $122.6 million as of March 31, 2023, and $123.7 million as of December 31, 2022. The sales of participations are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Concentrations of Credit

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

	March 31, 2023		December 31, 2022	
North Dakota	$ 391,443	62 %	$ 390,006	63 %
Arizona	121,837	19	115,767	19
Minnesota	28,928	5	29,676	5
Other	87,095	14	80,200	13
Total gross loans held for investment	$ 629,303	100 %	$ 615,649	100 %

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

	March 31, 2023		December 31, 2022	
North Dakota	$ 368,672	59 %	$ 362,354	59 %
Arizona	156,437	25	149,973	24
California	22,182	4	22,154	4
South Dakota	18,157	3	16,088	3
Minnesota	14,667	2	15,248	2
Colorado	10,690	2	13,245	2
Montana	7,729	1	4,521	1
Ohio	6,626	1	6,725	1
Texas	6,304	1	7,086	1
Other	17,839	2	18,255	3
Total gross loans held for investment	$ 629,303	100 %	$ 615,649	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 approximately describes the Company's concentrations by industry as of March 31, 2023 and December 31, 2022, respectively (dollars are in thousands):

	March 31, 2023		December 31, 2022	
Non-owner occupied commercial real estate – not otherwise categorized	$ 190,282	30 %	$ 177,674	29 %
Hotels	88,361	14	91,388	15
Consumer, not otherwise categorized	86,564	14	85,648	14
Retail trade	36,461	6	36,607	6
Healthcare and social assistance	32,614	5	33,327	5
Agriculture, forestry, fishing and hunting	27,306	4	30,641	5
Transportation and warehousing	24,545	4	23,951	4
Non-hotel accommodation and food service	23,422	4	21,538	4
Mining, oil and gas extraction	22,957	4	22,480	4
Art, entertainment and recreation	18,267	3	19,024	3
Construction contractors	13,373	2	11,124	2
Other service	13,042	2	11,810	2
Real estate and rental and leasing support services	9,438	2	9,233	1
Professional, scientific, and technical services	9,014	1	8,209	1
Public administration	8,238	1	8,316	1
Manufacturing	8,000	1	7,572	1
Finance and insurance	5,287	1	5,022	1
Educational services	4,390	1	4,435	1
All other	7,742	1	7,650	1
Gross loans held for investment	$ 629,303	100 %	$ 615,649	100 %

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

Loan Maturities[(1)]

The following table sets forth the maturities of loans in each major category of the Company’s portfolio as of March 31, 2023 (in thousands):

	One Year or Less	Over 1 Year Through 5 Years: Fixed Rate	Over 1 Year Through 5 Years: Indexed Rate	Over 5 Years: Fixed Rate	Over 5 Years: Indexed Rate	Total Loans Held for Investment
Commercial and industrial	$ 20,368	$ 21,874	$ 3,224	$ 61,119	$ 93,622	$ 200,207
Commercial real estate	472	21,661	8,944	28,148	182,088	241,313
SBA	519	177	32	3,757	48,875	53,360
Consumer	1,096	5,419	4,813	67,531	18,559	97,418
Land and land development	1,545	2,683	200	210	3,444	8,082
Construction	2,116	500	10,311	5,014	10,982	28,923
Total principal amount of loans	$ 26,116	$ 52,314	$ 27,524	$ 165,779	$ 357,570	$ 629,303

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

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

Allocation of the Allowance for Credit Losses

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

	March 31, 2023		December 31, 2022	
	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	$ 2,958	32 %	$ 2,519	33 %
Commercial real estate	3,544	38	3,621	37
SBA	963	8	1,396	8
Consumer	975	16	982	16
Land and land development	129	1	87	2
Construction	367	5	226	4
Total	$ 8,936	100 %	$ 8,831	100 %

Nonperforming Loans

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Twelve Months Ended December 31, 2022
Balance, beginning of period	$ 1,355	$ 1,673	$ 1,673
Additions to nonperforming	211	73	226
Charge-offs	(7)	(47)	(86)
Reclassified back to performing	(1)	(165)	(165)
Principal payment received	(74)	(68)	(267)
Transferred to repossessed assets	(15)	-	(26)
Balance, end of period	$ 1,469	$ 1,466	$ 1,355

Nonperforming Assets

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

	March 31, 2023	December 31, 2022
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ -	$ 1
Non-accrual loans	1,469	1,354
Total nonperforming loans	$ 1,469	$ 1,355
Repossessed assets, net	64	64
Total nonperforming assets	$ 1,533	$ 1,419
Allowance for credit losses	$ 8,936	$ 8,831
Ratio of total nonperforming loans to total loans	0.22%	0.21%
Ratio of total nonperforming loans to loans held for investment	0.23%	0.22%
Ratio of total nonperforming assets to total assets	0.17%	0.15%
Ratio of nonperforming loans to total assets	0.16%	0.14%
Ratio of allowance for credit losses to nonperforming loans	608%	652%

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[(1)]	Other	Total	Impaired[(1)]	Other	Total	Impaired[(1)]
March 31, 2023	$ -	$ 2,265	$ 2,265	$ -	$ 3,136	$ 3,136	$ 994
December 31, 2022	-	2,472	2,472	336	2,262	2,598	1,018

(1) The Company adopted ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, on January 1, 2023. As a result of adoption, the Company is no longer required to provide information on impaired loans. Information on impaired loans as of December 31, 2022 is being provided for comparative purposes.

At March 31, 2023, the Bank had $4.0 million of classified loans and $1.5 million of loans on non-accrual. This compares to $3.6 million of classified loans and $1.4 million of loans on non-accrual at December 31, 2022, and $8.0 million of classified loans and $1.5 million of loans on non-accrual at March 31, 2022.

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.

Liabilities

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

	March 31, 2023	December 31, 2022	Increase (Decrease) $	%	
Deposits:					
Non-interest-bearing	$ 195,125	$ 207,232	$ (12,107)	(6) %	(a)
Interest-bearing-					
Savings, interest checking and money market	525,644	554,577	(28,933)	(5)	(a)
Time deposits	51,609	57,775	(6,166)	(11)	(b)
Short-term borrowings	9	-	9	100	
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,000	15,000	-	-	
Accrued interest payable	380	312	68	22	(c)
Accrued expenses	3,801	5,482	(1,681)	(31)	(d)
Operating lease liabilities	1,525	1,660	(135)	(8)	(e)
Other liabilities	427	937	(510)	(54)	(f)
Total liabilities	$ 793,520	$ 842,975	$ (49,455)	(6) %	

(a) Deposits decreased as the Company witnessed normal levels of seasonal deposit fluctuations during the first quarter of 2023.
(b) Time deposits have decreased as the Company continues to actively manage the existing certificates of deposit rates.
(c) Accrued interest payable increased primarily due to increased cost of deposits and subordinate debentures.
(d) Accrued expenses decreased due to the payout of incentive accruals, 401k matching contributions, and decreased mortgage banking commissions.
(e) Decrease is due to contractual extinguishment of lease liabilities. See Note 6 – Leases for more detailed information.
(f) Decrease primarily relates to higher temporary liabilities awaiting posting that were offset by increased mortgage banking derivatives and taxes payable.

Deposits

Total deposits decreased $47.2 million to $772.4 million on March 31, 2023, from $819.6 million on December 31, 2022. The Company continues to focus on new deposit relationships and is keenly focused on the importance of liquidity.

The following table provides additional detail to the Company's total deposit relationships:

	As of		
(In thousands)	March 31, 2023	December 31, 2022	March 31, 2022
Deposits:			
Non-interest-bearing	$ 195,125	$ 207,232	$ 190,130
Interest-bearing –			
Savings, interest checking and money market	525,644	554,577	593,403
Time deposits	51,609	57,775	70,872
Total on balance sheet deposits	772,378	819,584	854,405
Off-balance sheet deposits	124,971	187,407	62,794
Total available deposits	$ 897,349	$ 1,006,991	$ 917,199

The Company communicated actively with deposit customers in the recent quarter partly in response to national news regarding rate increases, larger regional bank failures, and deposit insurance. We remain highly focused on meeting the service needs of our customers and ensuring our deposit rates reflect changing market conditions. We estimate that deposit insurance and other deposit protection programs secure greater than 70% of our customer's deposit balances. This combined with our strong balance sheet and relationship focused culture has effectively allowed us to maintain a significant deposit base.

In the first quarter of 2023, non-interest bearing deposit balances decreased due to normal seasonal utilization and increased $5.0 million, or 2.6%, when compared to the prior year quarter. Savings, interest checking and money market decreased in the first quarter of 2023 primarily due to normal first quarter cash utilization patterns. The decrease in interest bearing balances when compared to March 31, 2022 is primarily due to BNC's increased utilization of an associated banking network to migrate larger deposit balances off balance sheet. The Company began utilizing the program late in the first quarter of 2022. The decrease in time deposit balances reflect scheduled attrition of maturing time deposits, partially offset by depositors that agreed to renew their time deposits.

Off-balance sheet accounts are primarily utilized to custody larger business customer deposits that require daily access to funds and provide for FDIC insurance coverage. The Company maintained $62.8 million of off balance sheet deposits late in the first quarter of 2022 and proceeded to further expand its use throughout 2022. These off-balance sheet deposits grew to $187.4 million at year-end 2022 and were $125.0 million at March 31, 2023. Off-balance sheet deposits can fluctuate greatly as our customers balance utilization demands evolve. The Company earns non-interest income through the associated banking network for the utilization of these funds.

At March 31, 2023, and December 31, 2022, the Bank had $10.6 million and $14.9 million, respectively, in time deposits greater than $250 thousand.

Mortgage Banking Obligations

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Twelve Months Ended December 31, 2022
Balance, beginning of period	$ 656	$ 820	$ 820
Provision	30	30	375
Write offs, net	(105)	(46)	(539)
Balance, end of period	$ 581	$ 804	$ 656

Stockholders' Equity

The Company's stockholders' equity increased $3.4 million from December 31, 2022, to March 31, 2023, primarily driven by increased retained earnings and a positive adjustment to the tax-effected fair value of debt securities available for sale as evidenced in the reduction of accumulated other comprehensive losses. 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 ($152.5 million as of March 31, 2023);
2. Borrowing capacity from the FHLB ($149.1 million as of March 31, 2023); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($130.0 million as of March 31, 2023).

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

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

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

The Company's primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes assumptions regarding the changes in interest rates and the impact on the Company's current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month-end balances of the various balance sheet accounts are held constant at their March 31, 2023 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its March 31, 2023, 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 March 31, 2023, 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 8.00% to 9.00% 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	$ 35,598	$ 35,761	$ 35,510	$ 34,804	$ 34,104	$ 33,394
Dollar change from unchanged scenario	$ 88	$ 251	$ -	$ (706)	$ (1,406)	$ (2,116)
Percentage change from unchanged scenario	0.25%	0.71%	-	(1.99)%	(3.96)%	(5.96)%

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates, such as those indicated above on the Company. Further, these analyses are based on assets and liabilities as of March 31, 2023 (without forward adjustments for planned growth and anticipated business activities) and do not reflect any actions the Company might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the "rate sensitivity position" or "gap position." The following table sets forth the Company's rate sensitivity position as of March 31, 2023. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated Maturity or Repricing at March 31, 2023				
	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	$ 5,258	$ -	$ -	$ -	$ 5,258
Debt securities (a)	16,595	25,973	67,462	67,826	177,856
FRB and FHLB stock	2,938	-	-	-	2,938
Loans held for sale-mortgage banking, fixed rate	39,599	-	-	-	39,599
Loans held for investment, fixed rate	21,005	41,196	137,191	27,107	226,499
Loans held for investment, indexed rate	97,365	39,095	259,516	7,734	403,710
Total interest-earning assets	$ 182,760	$ 106,264	$ 464,169	$ 102,667	$ 855,860
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 477,484	$ -	$ -	$ -	$ 477,484
Savings	48,160	-	-	-	48,160
Time deposits	11,265	26,084	14,167	93	51,609
Short-term borrowings	9	-	-	-	9
Subordinated debentures	-	15,000	-	-	15,000
Total interest-bearing liabilities	$ 536,918	$ 41,084	$ 14,167	$ 93	$ 592,262
Interest rate gap	$ (354,158)	$ 65,180	$ 450,002	$ 102,574	$ 263,598
Cumulative interest rate gap at March 31, 2023	$ (354,158)	$ (288,978)	$ 161,024	$ 263,598	
Cumulative interest rate gap to total assets	(39.47%)	(32.21%)	17.95%	29.38%	

(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. Management's view is supported by historical non-maturity deposit studies, which indicate that the Company's deposit rates have largely lagged broader market rate changes and the fact that changes in interest rates paid on these deposits historically have not caused notable reductions in balances or net interest income because the repricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, assets and liabilities indicated as repricing within the same period may in fact reprice at different times and at different rate levels.

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on the Company's assets and liabilities as of March 31, 2023, and do not contemplate any actions the Company might undertake in response to changes in market interest rates.

Legal Proceedings

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

Management is not aware of any material pending or threatening litigation as of March 31, 2023.

Signatures

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

BNCCORP, INC.

Date:	May 09, 2023	By:	/s/ Daniel J. Collins
			Daniel J. Collins
			President and Chief Executive Officer
		By:	/s/ Justin C. Currie
			Justin C. Currie
			Chief Financial Officer