2021
ANNUAL REPORT

Committed, Confident & Resolute

BNCCORP

BNCCORP, INC. (BNCCORP or the Company) is a bank holding company registered under the Bank Holding Company Act of 1956 headquartered in Bismarck, North Dakota. It is the parent company of BNC National Bank (the Bank). The Company operates community banking and wealth management businesses in North Dakota and Arizona from eleven locations. BNC also conducts mortgage banking from nine locations in Arizona, North Dakota, Illinois, Kansas, and Michigan.

CORPORATE PROFILE

BNCCORP, INC. (or the Company) is a diversified community bank with three primary areas of focus: commercial banking, retail and mortgage banking and wealth management.

Commercial Banking.

We meet the needs of small- to middle-market businesses with a range of commercial banking services, including business financing, commercial real estate lending, SBA loans, business checking, cash management, corporate credit cards and merchant services. Our commercial banking relationships are primarily in North Dakota, mainly in the capital region of Bismarck/Mandan. From Bismarck, and locations to the north and west, we serve communities in North Dakota that are economically influenced by oil and energy, and to a lesser extent, we serve the agricultural communities of central North Dakota.

Retail and Mortgage Banking.

BNC's services to consumers include retail banking, provided through a network of locations in North Dakota and Arizona. Among our broad array of retail banking services are personal checking and savings products, personal loans, and card services. Our branch network is concentrated in North Dakota, where we are responsive to the preference of our customers for convenient face-to-face transactional banking. BNC has been rewarded with our customers' loyalty. Our mortgage banking operations generate residential loans through a consumer-direct channel with locations in Kansas and Michigan, as well as a retail channel with locations in Arizona, North Dakota, Illinois, and Kansas. The consumer direct channel emphasizes the use of technology, including internet-generated leads and a call center, to originate loans throughout the U.S. The retail channel is more traditional and emphasizes relationships to originate loans near our branch network.

Wealth Management.

A trusted partner for our clients as they plan for retirement and manage their investments, BNC's wealth management solutions include personal wealth advisory services, 401(k) and other retirement plan administration, and trust services. Many of our wealth management clients are derived from commercial banking relationships. For example, we administer retirement savings plans for the employees of our business clients. We are positioned well to help clients manage wealth and transfer assets in a manner that enables them to accomplish their business and financial goals.

Michael M. Vekich
Chairman, Board of Directors

TO OUR SHAREHOLDERS, CUSTOMERS, EMPLOYEES, AND COMMUNITY:

Our global community continues to experience unprecedented times, yet we move forward ***Committed, Confident and Resolute*** to securing a bright future. In 2021, our collective lives continued to be impacted by the COVID-19 while we also shouldered the uncertainties of inflation, and ongoing supply chain disruption. Our world continues to watch as the human and economic toll unfolds because of the war in Ukraine.

Chaos in the world requires keen focus on the part of organizations such as ours to remain strong. We are extremely pleased to share that as an organization, BNC continues to grow and in 2021our talented employees provided extraordinary customer-focused service and high-quality products to meet the ever-evolving needs of our customers and the communities we serve. We accomplished this by remaining Committed, Confident and Resolute. Our investment in our digital evolution while amplifying BNC's unique strengths in the marketplace continued to serve us well.

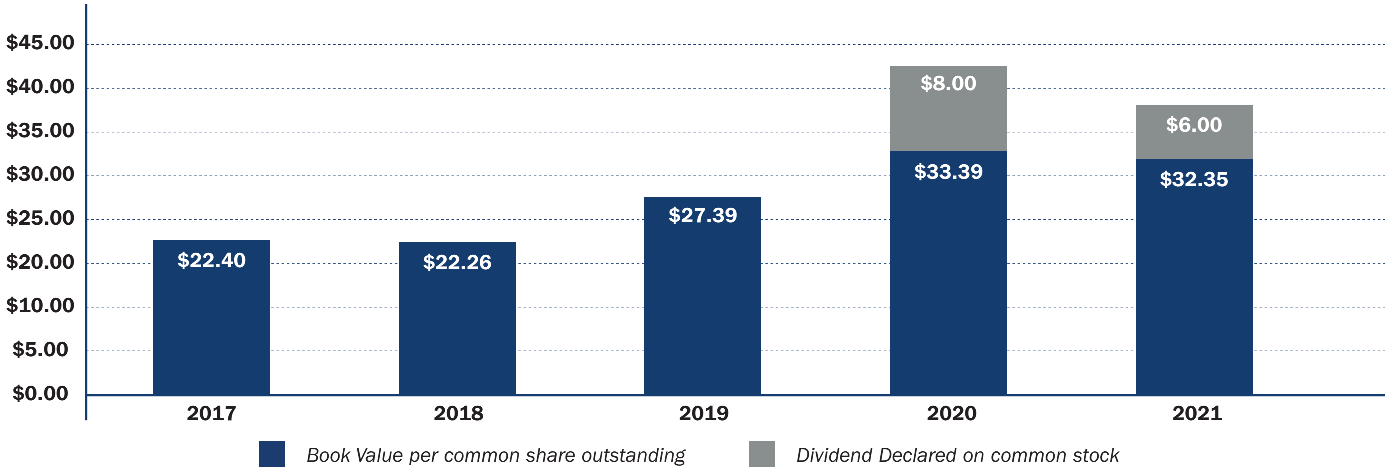
Thanks to the dedication and resiliency of our team, and their tireless service and steadfast commitment to these key areas, we're succeeding. In 2020 and 2021, we achieved strong levels of net income, and returns on assets and equity. Equally important, we were able to reward shareholders with special dividends declared in 2020 and 2021, while still maintaining our position of financial strength.

SHAREHOLDER COMMITMENT

As an organization, BNC has a strong commitment to shareholders. Our Board's management philosophy prioritizes returning capital to shareholders beyond that which is needed to grow the Company's businesses or retained as a capital reserve and liquidity buffer.

In 2021 we declared a special cash dividend of $6.00 per share, totaling an aggregate payment of approximately $21.6 million. Our actions highlight our continuing confidence in BNC's financial strength and flexibility. These actions follow on the heels of 2020, when we declared a special cash dividend of $8.00 per share, totaling an aggregate payment of approximately $28.7 million. Additionally, we approved a 175,000 share repurchase program.

BOOK VALUE PER SHARE



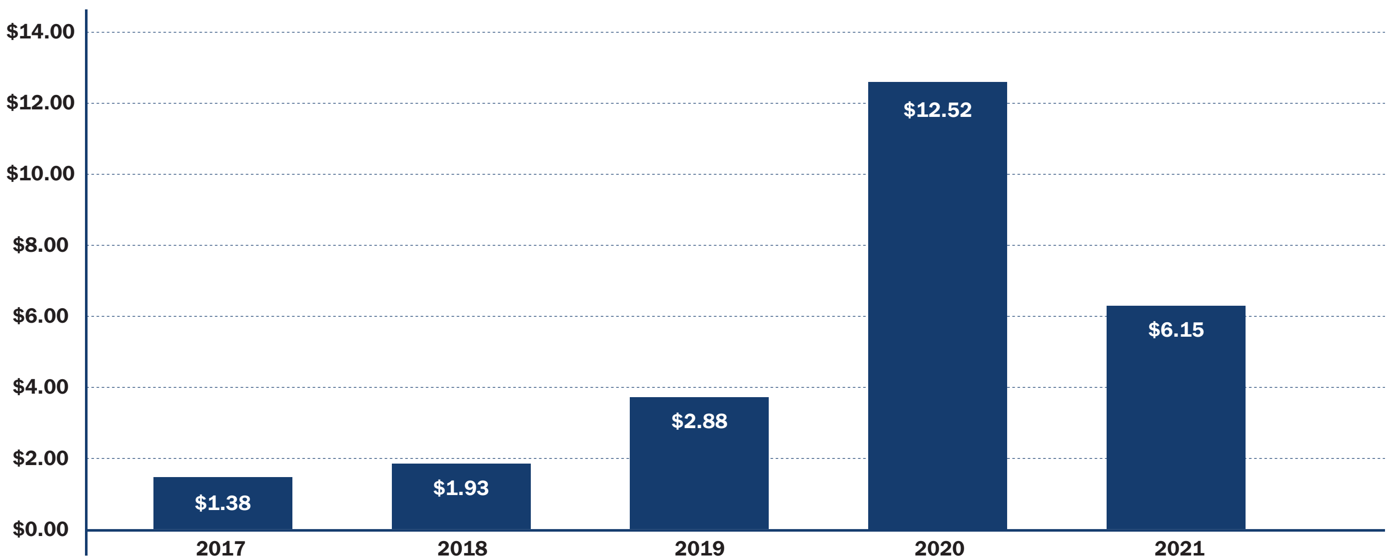
Daniel J. Collins
President & Chief Executive Officer

Our performance over the past five years also has resulted in significant shareholder value increases. As the chart above shows, BNC's tangible book value per common share rose more than 44% between 2017 and 2021 – from $22.40 to $32.35 after returning a cumulative $14.00 per share in cash dividends to our shareholders. We are pleased with our record of increasing shareholder value, yet we remain ever watchful of the changing world around us. As we look to the future, we will continue to closely monitor the economic environment and make prudent decisions regarding capital management and deployment to ensure the long-term health of the organization and shareholder value.

STRONG FINANCIAL PERFORMANCE

2021 was another year of robust performance for BNC. Record low mortgage rates and our scalable, national mortgage origination platform drove strong earnings in 2021. Net income of to $22.0 million, or $6.15 per diluted share, while below 2020 earnings reflecting record mortgage refinance revenue, compares very favorably against the 2017 through 2019 reporting periods earnings per share.

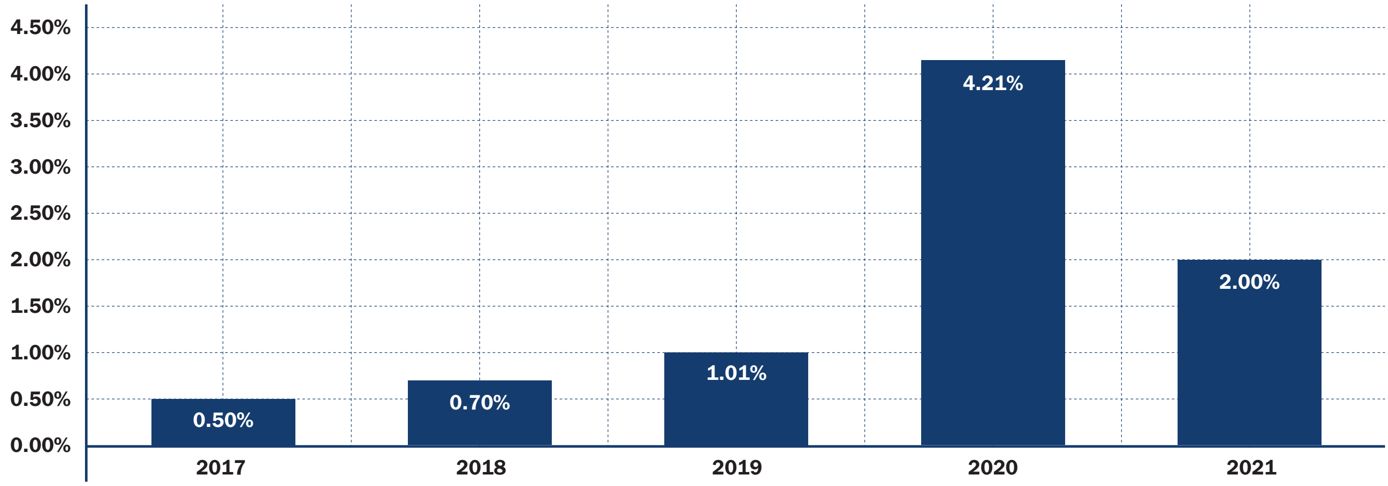
DILUTED EARNINGS PER COMMON SHARE



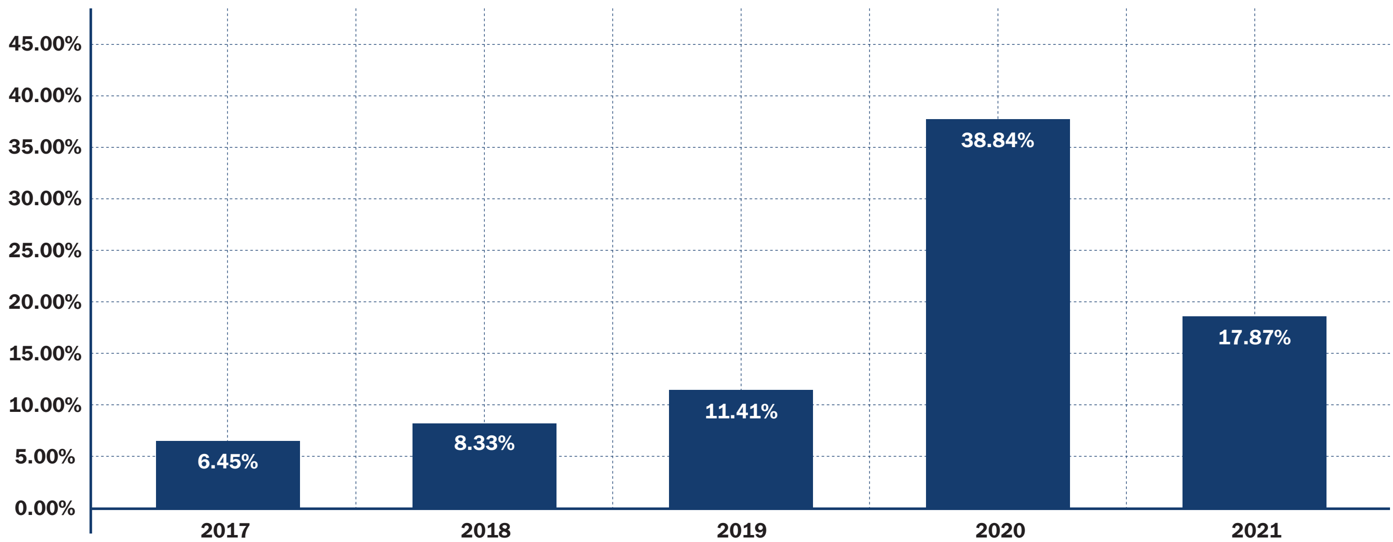
BNC's tangible book value per common share rose more than 44% between 2017 and 2021 – ***from $22.40 to $32.35***

Our returns on average equity and assets for 2021 were 17.87% and 2.00%, respectively. While not achieving the mark set in 2020, these results compare very favorably to results in the 2017 through 2019 periods.

RETURN ON AVERAGE TOTAL ASSETS



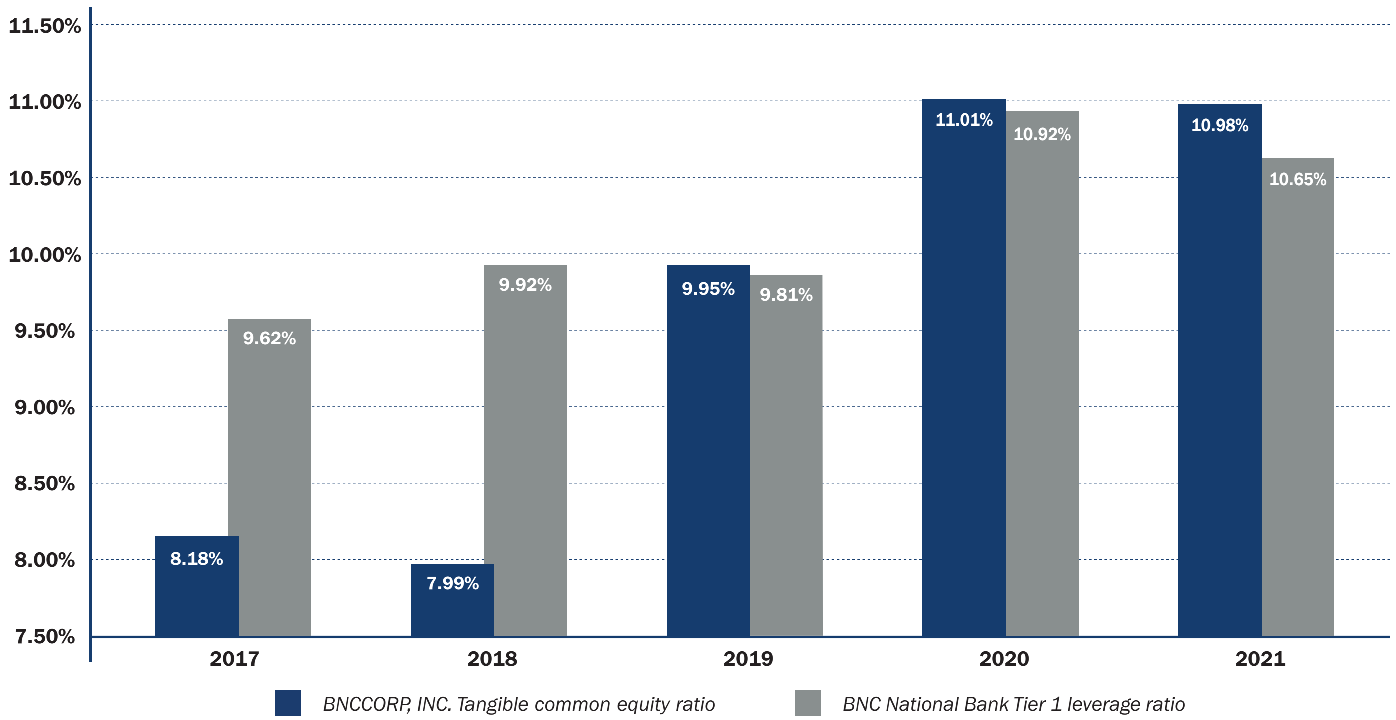
RETURN ON AVERAGE COMMON STOCKHOLDER'S EQUITY



Asset quality and capital levels remained strong. Nonperforming assets were $1.7 million, or 0.16% of total assets, as of December 31, 2021, lower than $2.6 million, or 0.24% of total assets, on December 31, 2020.

Our tangible common equity, as seen in the chart below, decreased slightly to 10.98% of total assets at year-end 2021, down from 11.01% a year ago, while the Tier 1 leverage ratio of BNC National Bank was 10.65% and significantly above the "Well Capitalized" ratio threshold. On December 31, 2021, the Company's capital ratios exceeded all regulatory capital thresholds, including the capital conservation buffer.

BNCCORP, INC. AND BNC NATIONAL BANK CAPITAL RATIOS



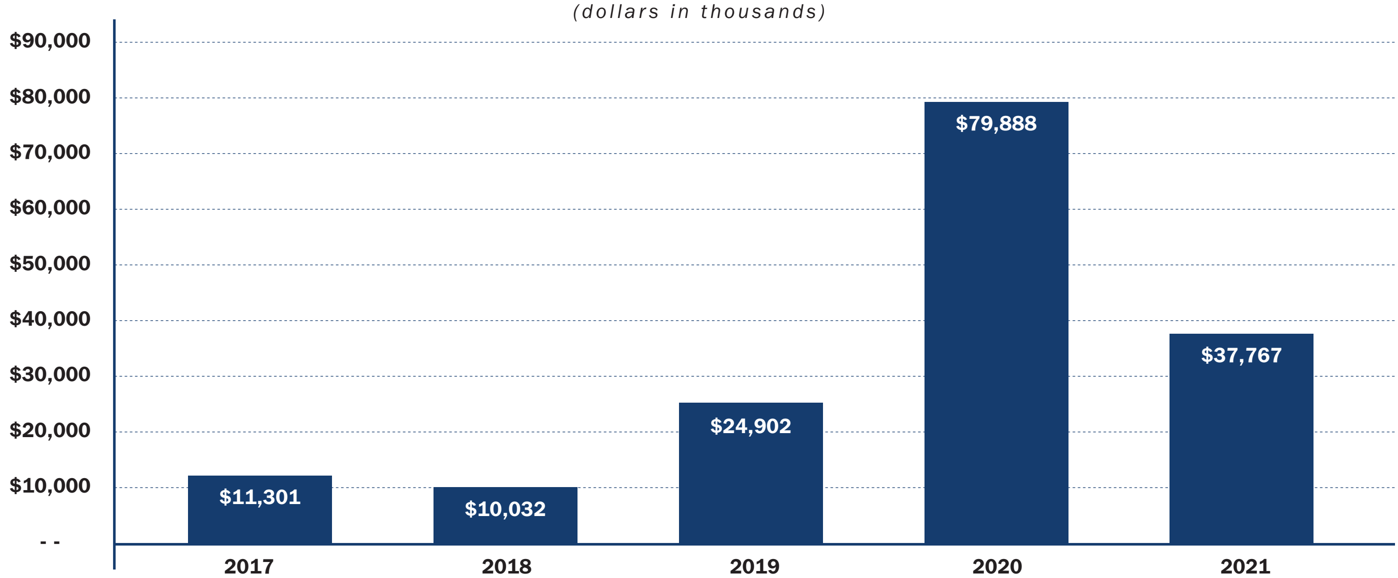
2021 MILESTONES

BNC achieved several important milestones in 2021, key among them: strong mortgage performance, transition of mortgage activity to focus on purchase loan originations from the unprecedentedly strong refinance loan originations, a successful second round of SBA PPP loan deployment, navigating from an environment of excess market liquidity and loan pay-offs to a return to commercial loan growth late in the year, along with continued investment in initiatives to further improve community banking performance and customer satisfaction.

Two Years of Strong Mortgage Performance – 2020 represented a historic mortgage opportunity, with the low- interest-rate environment that began late in 2019 continuing throughout the year, generating a significant increase in BNC's mortgage loan activity. Mortgage rates reached new lows and we were able to assist consumers through both our retail and highly scalable nationwide consumer-direct mortgage channels. Mortgage banking revenues were $79.9 million for the year, an increase of $55.0 million, compared to $24.9 million in 2019. In 2020, BNC funded 8,172 mortgage loans with combined balances of $2.9 billion, compared to 3,916 mortgage loans with combined balances of $1.3 billion in 2019. In 2021, BNC again achieved strong results yielding $37.8 million of mortgage banking revenues for the year and funded 6,448 mortgage loans with combined balances of $2.4 billion. As rates have increased, mortgage refinance activity has softened; however, we believe the mortgage business will continue to create value for shareholders as we have adjusted operational costs and positioned ourselves to compete effectively in the evolving purchase market.

MORTGAGE REVENUE

(dollars in thousands)



BNC today is ***Committed, Confident and Resolute.*** We enter 2022 well positioned for success and with a keen eye on what is ahead.

CORE-MARKET FOCUS:

At BNC, we meet the needs of small- to middle-market businesses with a range of commercial banking services, as well as consumers on the retail front. Our commercial and retail banking networks and relationships are concentrated in North Dakota, where we have been rewarded with customer loyalty and retention. In recent years, we have deepened our presence in Phoenix, Arizona. We also exited the Minnesota market with the divesture of our Golden Valley, Minnesota, branch. By concentrating on the North Dakota and Arizona markets, we create further opportunities for growth and diversify our credit exposure, allowing us to provide the best service, products and solutions to customers and communities.

PLANNING FOR THE FUTURE:

Initiatives to Drive Community Banking Performance – As an institution, we embrace transformation and continuous improvement, and we are committed to the values that make community banks unique. Every initiative that we undertake is done with the purpose of staying relevant to the needs of our customers and improving shareholder value.

TO DRIVE PERFORMANCE IN THE COMING YEARS, WE PLAN TO:

· Pursue commercial banking growth opportunities in our core markets and assist our small business customers with Small Business Administration solutions as an SBA preferred lender.

· Heighten our focus on operational expenses, including ensuring alignment of our incentive programs with our strategic priorities, while building on the progress from a streamlined management team.

· Continue efforts to advance automation and system efficiencies and digitize our operations and focus on capital return and optimization strategies.

POSITIONED FOR SUCCESS:

BNC today is *Committed, Confident and Resolute.* We enter 2022 well positioned for success and with a keen eye on what is ahead. The impacts of the global pandemic on our markets continue to be felt as inflation, elevated levels of market liquidity, and logistical bottlenecks have slowed the return to market normalcy, but we are encouraged by our late 2021 net loan growth and our pipeline of lending opportunities. We continue to focus on improving the performance metrics of our community banking segment while assisting our customers through the undoubtable transitions ahead. Our efforts are supported by a strong balance sheet and liquidity, and we are dedicated to continuing growth in our core markets of North Dakota and Arizona, exercising fiscal prudence while maximizing opportunity. We would like to thank all our stakeholders for their support.

Sincerely,

Michael M. Vekich
Chairman, Board of Directors

Daniel J. Collins
President & Chief Executive Officer

Forward-Looking Statements

Statements included in this cover letter to our Annual Report which are not historical in nature are intended to be, and are hereby identified as "forward-looking statements" for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We caution readers that these forward-looking statements, including without limitation, those relating to our future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income and expenses, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to several important factors. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, but are not limited to: the impact of current and future regulation; the risks of loans and investments, including dependence on local and regional economic conditions; competition for our customers from other providers of financial services; possible adverse effects of changes in interest rates, including the effects of such changes on mortgage banking revenues and derivative contracts and associated accounting consequences; risks associated with our acquisition and growth strategies; and other risks which are difficult to predict and many of which are beyond our control. All statements in this news release, including forward-looking statements, speak only of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events. In addition, we encourage readers to review the financial information included in this cover letter in conjunction with the Consolidated Financial Statements of BNCCORP, INC. and Subsidiaries included in the accompanying Annual Report.

Year End Financial Report

For the Year Ended December 31, 2021

BNCCORP, INC.

(OTCQX: BNCC)

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Bismarck, North Dakota 58501
(701) 250-3040

BNCCORP, INC.
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Selected Financial Data

The selected consolidated financial data presented below should be read in conjunction with the consolidated financial statements and the notes thereto (dollars in thousands, except share and per share data):

	For the Years Ended December 31,				
	2021	2020	2019	2018	2017
Income Statement Data:					
Total interest income	$ 33,457	$ 36,546	$ 37,817	$ 34,478	$ 31,443
Total interest expense	2,137	4,238	9,101	6,108	3,578
Net interest income	31,320	32,308	28,716	28,370	27,865
(Credit) provision for credit losses	(350)	2,670	700	-	350
Non-interest income	44,683	85,954	29,131	19,017	19,499
Non-interest expense	47,647	57,107	43,991	39,013	39,116
Income tax expense (1)	6,751	13,871	2,921	1,538	3,020
Net income (1)	$ 21,955	$ 44,614	$ 10,235	$ 6,836	$ 4,878
Balance Sheet Data: (at end of period)					
Total assets	$ 1,047,372	$ 1,074,131	$ 966,750	$ 971,027	$ 946,150
Investments securities available for sale	208,978	183,717	265,278	411,509	411,917
Loans held for sale-mortgage banking	80,923	250,083	137,114	22,788	36,601
Loans held for investment, net of unearned income	529,793	570,890	508,569	468,468	428,325
Allowance for credit losses	(9,080)	(10,324)	(8,141)	(7,692)	(7,861)
Total deposits	906,668	853,158	820,547	848,605	817,806
Short-term borrowings	-	6,385	4,565	11,494	18,043
Federal Home Loan Bank advances	-	30,900	17,000	-	-
Long-term borrowings	-	-	-	10,000	10,000
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,001	15,004	15,006	15,009	15,011
Dividends declared on common stock	21,568	28,680	-	-	-
Common stockholders' equity	114,986	118,229	96,278	77,753	77,626
Book value per common share outstanding	$ 32.35	$ 33.39	$ 27.39	$ 22.26	$ 22.40
Tangible common equity ratio	10.98%	11.01%	9.95%	7.99%	8.18%
Earnings Performance / Share Data:					
Return on average total assets (1)	2.00%	4.21%	1.01%	0.70%	0.50%
Return on average common stockholders' equity, excluding accumulated other comprehensive income (1)	17.87%	38.84%	11.41%	8.33%	6.45%
Efficiency ratio	62.69%	48.29%	76.05%	82.33%	82.59%
Net interest margin	3.02%	3.27%	3.00%	3.08%	3.05%
Net interest spread	2.94%	3.14%	2.79%	2.90%	2.92%
Basic earnings per common share (1)	$ 6.15	$ 12.52	$ 2.90	$ 1.96	$ 1.40
Diluted earnings per common share (1)	$ 6.15	$ 12.52	$ 2.88	$ 1.93	$ 1.38
Average common shares outstanding	3,568,579	3,563,203	3,526,096	3,487,846	3,474,988
Average common and common equivalent shares	3,569,134	3,564,783	3,557,585	3,539,755	3,540,698
Shares outstanding at year end	3,554,983	3,540,522	3,514,770	3,493,298	3,465,992
Other Key Ratios					
Nonperforming assets to total assets	0.16%	0.24%	0.21%	0.17%	0.21%
Nonperforming loans to total assets	0.16%	0.24%	0.21%	0.17%	0.21%
Nonperforming loans to loans held for investment	0.32%	0.46%	0.40%	0.36%	0.46%
Allowance for credit losses to loans held for investment	1.71%	1.81%	1.60%	1.64%	1.84%

(1) The 2017 results include amounts linked to tax reform legislation aggregating $1.5 million. Excluding the impact of these amounts, the Company would have reported income tax expense of $1.5 million and net income of $6.4 million. Return on average total assets would have been 0.66% and Return on average common stockholder's equity would have been 8.46%. Basic and diluted earnings per share would be $1.84 and $1.81, respectively.

Quarterly Financial Data

	2021				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Interest income	$ 9,719	$ 8,028	$ 7,925	$ 7,785	$ 33,457
Interest expense	662	612	453	410	2,137
Net interest income	9,057	7,416	7,472	7,375	31,320
Credit for credit losses	-	-	-	(350)	(350)
Net interest income after credit for credit losses	9,057	7,416	7,472	7,725	31,670
Non-interest income	17,490	9,631	9,837	7,725	44,683
Non-interest expense	13,621	11,564	11,171	11,291	47,647
Income before income taxes	12,926	5,483	6,138	4,159	28,706
Income tax expense	3,161	1,316	1,410	864	6,751
Net income	$ 9,765	$ 4,167	$ 4,728	$ 3,295	$ 21,955
Basic earnings per common share	$ 2.73	$ 1.17	$ 1.32	$ 0.92	$ 6.15
Diluted earnings per common share	$ 2.73	$ 1.17	$ 1.32	$ 0.92	$ 6.15
Average common shares:					
Basic	3,573,257	3,572,229	3,571,192	3,570,875	3,568,579
Diluted	3,573,667	3,572,778	3,571,870	3,571,488	3,569,134

	2020				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Interest income	$ 9,002	$ 9,571	$ 8,735	$ 9,238	$ 36,546
Interest expense	1,578	1,117	827	716	4,238
Net interest income	7,424	8,454	7,908	8,522	32,308
Provision for credit losses	550	1,500	350	270	2,670
Net interest income after provision for credit losses	6,874	6,954	7,558	8,252	29,638
Non-interest income	10,794	26,333	25,191	23,636	85,954
Non-interest expense	12,007	14,491	14,603	16,006	57,107
Income before income taxes	5,661	18,796	18,146	15,882	58,485
Income tax expense	1,359	4,633	4,446	3,433	13,871
Net income	$ 4,302	$ 14,163	$ 13,700	$ 12,449	$ 44,614
Basic earnings per common share	$ 1.21	$ 3.97	$ 3.84	$ 3.49	$ 12.52
Diluted earnings per common share	$ 1.21	$ 3.97	$ 3.84	$ 3.49	$ 12.52
Average common shares:					
Basic	3,558,702	3,567,980	3,567,980	3,568,067	3,563,203
Diluted	3,566,523	3,570,656	3,568,419	3,568,331	3,564,783

Operating Strategy

BNC National Bank is a community bank that focuses on business banking, mortgage banking, and wealth management. We build value for shareholders by providing relationship-based financial services to small and mid-sized businesses, business owners, their employees and professionals. The key elements of our strategy include:

- *Providing individualized, high-level customer service*. We provide a high level of customer service to establish and maintain long-term relationships. We believe that many of our competitors emphasize retail banking or focus on large companies, leaving the small and mid-sized business market underserved. Our consistent focus on the needs of such small and mid-sized businesses allows us to compete effectively in this market segment.

- *Diversification of products and services.* We offer banking, mortgage banking, and wealth management products and services to meet the financial needs of our customers, establish new relationships and expand our business opportunities. We seek to leverage our existing relationships by cross-selling our products and services.

- *Expand opportunistically*. We emphasize organic growth within the markets that we serve and look to opportunistically expand into new lines of business and attractive markets. Organic growth in North Dakota is an emphasis as we believe in the viability of the energy and agricultural industries over the long term. In Arizona, our organic loan growth focuses on small businesses and the SBA arena.

- *Managing risk*. Community banking is faced with several forms of inherent risk. We strive to manage risk by balancing the potential costs of various risks and the various rewards of banking opportunities.

- *Emphasize quality loan and deposit growth.* Providing loans and gathering deposits is a key strategy as our products are good for customers, communities, and shareholders. Growing low-cost core deposits is a key strategy. Our platforms and technology offers us a strategic opportunity to deliver high level deposit services to the businesses and professionals we serve and permits us to attract funds at a low cost.

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

Overview

The following table summarizes selected income statement data and earnings per share data (in thousands, except per share data):

	2021	2020
Selected Income Statement Data		
Interest income	$ 33,457	$ 36,546
Interest expense	2,137	4,238
Net interest income	31,320	32,308
(Credit) provision for credit losses	(350)	2,670
Non-interest income	44,683	85,954
Non-interest expense	47,647	57,107
Income before income taxes	28,706	58,485
Income tax expense	6,751	13,871
Net income	$ 21,955	$ 44,614
Earnings Per Share Data		
Basic earnings per common share	$ 6.15	$ 12.52
Diluted earnings per common share	$ 6.15	$ 12.52

Comparison of 2021 to 2020 Net Income:

- In 2021, net interest income decreased 3.1% from 2020. Net interest income decreased as the impact of lower balances and yields on average loans and debt securities was partially offset by accretion of PPP fees, higher balances of interest-bearing cash, reduced cost of deposits and borrowings and reduced certificates of deposit balances. Net interest margin decreased to 3.02% in 2021, compared to 3.27% in 2020.
- The release of $350 thousand from the allowance for credit losses in 2021 resulted in a 1.71% ratio of allowance for credit losses to loans held for investment. Excluding $11.9 million of Small Business Administration (SBA) Paycheck Protection Program (PPP) loans, the allowance for credit losses was 1.75% of loans held for investment at December 31, 2021, compared to 1.98% at December 31, 2020. At December 31, 2021, non-performing assets were 0.16% of total assets, compared to 0.24% at December 31, 2020.
- Non-interest income decreased $41.3 million, or 48.0%, when comparing 2021 to 2020. The decrease primarily relates to a $42.1 million decrease in mortgage banking revenue, net. The decrease is largely due to lower originations and margins, relative to the historic high production and margins of 2020. There were no gains on sales of debt securities for the 2021 period, compared to gains of $1.1 million in 2020.
- Non-interest expense decreased by $9.5 million, or 16.6%, in 2021. Salaries and employee benefits decreased $4.0 million, or 13.8%, primarily driven by lower mortgage banking activity and executive related severance expense. Professional services expense decreased $1.9 million, or 25.3%, largely due to mortgage banking operating costs. Marketing and promotion expenses decreased $1.3 million, or 23.6%, largely attributed to decreased purchase of mortgage leads. Other non-interest expense decreased by $1.9 million in 2021 due to lower mortgage banking operating costs versus 2020, and an impairment charge related to the Company's Golden Valley, Minnesota location that was recorded in the 2020 period.
- In 2021, the effective tax rate decreased to 23.5% from 23.7% in 2020. The decrease in the effective tax rate is due to decreased revenue with stable non-taxable interest income from municipal securities.

General

Net income in 2021 was $22.0 million compared to net income of $44.6 million in 2020. Earnings per diluted share was $6.15 in 2021 and $12.52 in 2020.

Net Interest Income

The following table sets forth information relating to the Company's average balance sheet, yields on interest-earning assets and costs on interest-bearing liabilities (dollars are in thousands):

	For the Year ended December 31, 2021			For the Year ended December 31, 2020			For the Year ended December 31, 2019		
	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
Assets									
Interest-bearing due from banks	$ 177,338	$ 232	0.13%	$ 49,000	$ 89	0.18%	$ 15,980	$ 401	2.51%
FHLB Stock	1,292	40	3.10%	1,306	43	3.29%	1,761	72	4.09%
Federal Reserve Stock	1,807	108	6.00%	1,807	108	5.98%	1,807	109	6.00%
Debt securities-taxable	182,298	3,626	1.99%	201,343	4,714	2.34%	358,525	9,166	2.56%
Debt securities-tax exempt	6,575	232	3.53%	6,626	234	3.53%	32,382	868	2.67%
Loans held for sale-mortgage banking	124,897	3,173	2.54%	163,692	4,592	2.81%	74,900	2,624	3.50%
Loans held for investment	553,493	26,046	4.71%	573,040	26,766	4.67%	480,389	24,577	5.12%
Allowance for credit losses	(10,275)	-	0.00%	(9,031)	-	0.00%	(7,794)	-	0.00%
Total interest-earning assets	1,037,425	33,457	3.22%	987,783	36,546	3.70%	957,950	37,817	3.95%
Non-interest-earning assets:									
Cash and due from banks	9,258			8,256			8,903		
Other	51,739			63,075			50,626		
Total assets	$ 1,098,422			$ 1,059,114			$ 1,017,479		
Liabilities and Stockholders' Equity									
Deposits:									
Interest checking and money market accounts	$ 600,307	$ 1,167	0.19%	$ 545,455	$ 1,624	0.30%	$ 542,700	$ 4,412	0.81%
Savings	47,404	15	0.03%	38,886	20	0.05%	34,177	24	0.07%
Certificates of deposit	94,264	713	0.76%	141,770	2,202	1.55%	164,898	3,104	1.88%
Total interest-bearing deposits	741,975	1,895	0.26%	726,111	3,846	0.53%	741,775	7,540	1.02%
Borrowings:									
Short-term borrowings	1,941	4	0.17%	6,482	12	0.18%	5,284	23	0.44%
FHLB advances	491	1	0.30%	3,649	22	0.60%	15,110	334	2.21%
Long-term borrowings	-	-	0.00%	-	-	0.00%	9,753	621	6.36%
Subordinated debentures	15,003	237	1.58%	15,005	358	2.39%	15,007	583	3.83%
Total interest-bearing liabilities	759,410	2,137	0.28%	751,247	4,238	0.56%	786,929	9,101	1.16%
Non-interest-bearing demand accounts	192,452			165,827			130,430		
Total deposits and interest-bearing liabilities	951,862			917,074			917,359		
Other non-interest-bearing liabilities	18,003			21,743			12,161		
Total liabilities	969,865			938,817			929,520		
Stockholders' equity	128,557			120,297			87,959		
Total liabilities and stockholders' equity	$ 1,098,422			$ 1,059,114			$ 1,017,479		
Net interest income		$ 31,320			$ 32,308			$ 28,716	
Net interest spread			2.94%			3.14%			2.79%
Net interest margin			3.02%			3.27%			3.00%
Ratio of average interest-earning assets to average interest-bearing liabilities	136.61%			131.49%			121.73%		

The following table allocates changes in the Company's interest income and interest expense between the changes related to volume and interest rates (in thousands):

	For the Years Ended December 31, 2021 Compared to 2020			For the Years Ended December 31, 2020 Compared to 2019		
	Change Due to			Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earned on Interest-Earning Assets						
Interest-bearing due from banks	$ 174	$ (31)	$ 143	$ 298	$ (610)	$ (312)
FHLB Stock	-	(3)	(3)	(17)	(12)	(29)
Federal reserve stock	-	-	-	-	(1)	(1)
Debt securities-taxable	(421)	(667)	(1,088)	(3,734)	(718)	(4,452)
Debt securities-tax exempt	(2)	-	(2)	(847)	213	(634)
Loans held for sale- mortgage banking	(1,014)	(405)	(1,419)	2,580	(612)	1,968
Loans held for investment	(1,030)	310	(720)	4,725	(2,536)	2,189
Total increase (decrease) in interest income	(2,293)	(796)	(3,089)	3,005	(4,276)	(1,271)
Interest Expense on Interest-Bearing Liabilities						
Interest checking and money market accounts	243	(700)	(457)	(8)	(2,780)	(2,788)
Savings	4	(9)	(5)	3	(7)	(4)
Certificates of deposit	(575)	(914)	(1,489)	(405)	(497)	(902)
Short-term borrowings	(9)	1	(8)	4	(15)	(11)
FHLB advances	(9)	(12)	(21)	(139)	(173)	(312)
Long-term borrowings	-	-	-	(310)	(311)	(621)
Subordinated debentures	-	(121)	(121)	-	(225)	(225)
Total increase (decrease) in interest expense	(346)	(1,755)	(2,101)	(855)	(4,008)	(4,863)
Increase (decrease) in net interest income	$ (1,947)	$ 959	$ (988)	$ 3,860	$ (268)	$ 3,592

Net interest income was $31.3 million in 2021 compared to $32.3 million in 2020, a decrease of $988 thousand, or 3.1%. The net interest margin decreased to 3.02% for the year ended December 31, 2021, from 3.27% in 2021. Overall, yields on earning assets were 3.22% in 2021 and 3.70% in 2020. Average loans held for investment decreased $19.5 million in 2021, or 3.4%, compared to 2020 driven by increased customer liquidity and the sale of the Company's Golden Valley, Minnesota branch. Loans held for sale decreased $38.8 million, or 23.7%, when compared to 2020. The decrease in interest income is the result of the impact of lower average balances and yields of loans and debt securities offset by an increase in PPP fees and balances of interest-bearing cash. Average debt securities decreased $19.1 million from 2020.

The cost of interest bearing deposits was 0.26% in 2021 and 0.53% in 2020 reflecting the positive impact of decreased cost of deposits and a reduction in the volume of certificates of deposit. The cost of interest-bearing liabilities decreased to 0.28% in 2021 from 0.56% in 2020 due to the decrease in cost of deposits, as well as a reduction in the cost of subordinated debentures and the cost and use of FHLB advances.

Net interest income was $32.3 million in 2020 compared to $28.7 million in 2019, an increase of $3.6 million, or 12.5%. The net interest margin increased to 3.27% for the year ended December 31, 2020, from 3.00% in 2019. Overall, yields on earning assets were 3.70% in 2020 and 3.95% in 2019. Average loans held for investment increased $92.7 million in 2020, or 19.3%, compared to 2019. PPP loans, largely funded in the second quarter of 2020 drove $58.7 million of the $92.7 million increase in average loans held for investment. Loans held for sale significantly influenced income growth achieving an average balance increase of $88.8 million during 2020. The increase in interest income due to higher average loan balances was partially offset by lower loan yields due to the growth of lower yielding PPP loans and loans held for sale. Average debt securities decreased $182.9 million from 2019, providing liquidity to fund loan growth.

The cost of interest bearing deposits was 0.53% in 2020 and 1.02% in 2019 reflecting the positive impact of decreased cost of deposits and a reduction in the volume of certificates of deposit. The cost of interest-bearing liabilities decreased to 0.56% in 2020 from 1.16% in 2019 due to the decrease in cost of deposits as well as a reduction in the cost of subordinated debentures, the cost and use of FHLB advances, and the redemption of $10 million of subordinated debt in the fourth quarter of 2019.

Non-interest Income

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

	For the Years Ended December 31,		Increase (Decrease)		
	2021	2020	$	%	
Bank charges and service fees	$ 2,328	$ 2,342	$ (14)	(1) %	
Wealth management revenues	2,205	1,794	411	23 %	(a)
Mortgage banking revenues, net	37,767	79,888	(42,121)	(53) %	(b)
Gains on sales of loans, net	660	99	561	567 %	(c)
Gains on sales of securities, net	-	1,128	(1,128)	(100) %	(d)
Other	1,723	703	1,020	145 %	(e)
Total non-interest income	$ 44,683	$ 85,954	$ (41,271)	(48) %	

(a) Wealth management revenues increased as assets under administration and management increased relative to the 2020 period.
(b) Mortgage banking revenues decreased due to lower margins, relative to the historically high margins of the prior year, and a decrease in the mortgage pipeline during 2021 due to the shift from refinance to home purchase originations.
(c) Gains on sale of loans can vary significantly from period to period.
(d) Gains and losses on sales of debt securities may vary significantly from period to period as the Company manages liquidity needs and the risk and return profile of its debt securities portfolio.
(e) Other income increased primarily due to higher SBIC profit distributions and closing on the sale of the Company's Golden Valley, Minnesota, branch during 2021.

Non-interest Expense

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

	For the Years Ended December 31,		Increase (Decrease)		
	2021	2020	$	%	
Salaries and employee benefits	$ 25,161	$ 29,204	$ (4,043)	(14) %	(a)
Professional services	5,736	7,680	(1,944)	(25) %	(b)
Data processing fees	4,561	4,829	(268)	(6) %	(c)
Marketing and promotion	4,158	5,442	(1,284)	(24) %	(d)
Occupancy	2,164	2,152	12	1 %	
Regulatory costs	475	298	177	59 %	(e)
Depreciation and amortization	1,269	1,404	(135)	(10) %	(f)
Office supplies and postage	461	492	(31)	(6) %	(g)
Other	3,662	5,606	(1,944)	(35) %	(h)
Total non-interest expense	$ 47,647	$ 57,107	$ (9,460)	(17) %	
Efficiency ratio	62.69%	48.29%	14.40%		

(a) Salaries and employee benefits decreased primarily due to lower salary and incentive compensation expense.
(b) Professional services expense for the year ended 2021 decreased primarily due to decreased mortgage loan closing costs, legal expense, and consulting fees.

(c) Data processing fees decreased due to lower software maintenance and data circuit costs that were slightly offset by higher bank processing fees and software subscription services.
(d) Marketing and promotion expense decreased primarily due to lower mortgage banking lead costs.
(e) Regulatory costs increased due to an increase in FDIC assessments as the Bank had no FDIC assessment expense in the comparable 2020 period due to utilization of credits.
(f) Depreciation and amortization decreased primarily as a result of impairment charges on a branch location in 2020 along with other assets that have now been fully depreciated.
(g) Office supplies and postage decreased due to a reduction in paper and office supplies as the Company continues to make efficient use of technology.
(h) Other expenses decreased primarily due to a reduction in the provisions to the reserve for mortgage banking obligations and an impairment charge related to the Company's Golden Valley, Minnesota location recorded in the 2020 period.

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)		2021		2020
Number of funded mortgage loans held for sale		6,448		8,172
Mortgage loans held for sale funded	$	2,355,689	$	2,937,081
Average loans held for sale-mortgage banking	$	124,897	$	163,692
Loans held for sale-mortgage banking	$	80,923	$	250,083
Non-interest income:				
Gains on sale of loans held for sale, net of commission expense	$	55,321	$	65,122
Change in fair value of mortgage banking instruments (1)	$	(17,554)	$	14,751

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

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

The decrease in mortgage interest rates following the onset of the pandemic and implementation of the Federal Reserve's purchases of agency mortgage-backed securities in 2020, generated a significant increase in mortgage loan origination activity and margins. As mortgage interest rates increased from these historically low levels, starting in the first quarter of 2021, mortgage origination activity began to moderate and the Company's mortgage banking division began to transition from capitalizing on the refinancing opportunity to supporting its mortgage customers' financing of home purchases. Non-interest income includes gains on the sale of loans, changes in the fair value of loans held for sale and loans in the various stages of processing prior to funding (net of commission expense) and hedge instruments.

See Note 25 of the Consolidated Financial Statements for more information about the mortgage banking segment.

Income Tax Expense

During 2021, the Company recorded tax expense of $6.8 million, which resulted in an effective tax rate of 23.5%. The decrease in the effective tax rate is to due decreased revenue with stable non-taxable interest income from municipal securities.

During 2020, the Company recorded tax expense of $13.9 million, which resulted in an effective tax rate of 23.7%. The increase in the effective tax rate is due to lower non-taxable interest income from municipal securities.

Subject to certain statutory limitations, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2021. The state net operating losses expire between 2024 and 2031.

Financial Condition

Total assets were $1.0 billion at December 31, 2021, a decrease of $26.8 million, compared to 1.1 billion at December 31, 2020. This decrease is primarily due to lower mortgage loans held for sale and loans held for investment balances as a result of PPP loan forgiveness and the sale of the Company's Golden Valley, Minnesota, branch, offset by increased balances of cash and debt securities available for sale.

Total loans held for investment aggregated $529.8 million at December 31, 2021, a decrease of $41.1 million, or 7.2%, compared to December 31, 2020. Loans held for sale as of December 31, 2021, were $80.9 million, a decrease of $169.2 million when compared to December 31, 2020. Debt securities increased $25.3 million from year-end 2020. Cash and cash equivalent balances were $188.1 million as of December 31, 2021.

Assets

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

	As of December 31,		Increase (Decrease)		
	2021	2020	$	%	
Cash and cash equivalents	$ 188,060	$ 12,443	$ 175,617	1,411 %	(a)
Debt securities available for sale	208,978	183,717	25,261	14 %	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	3,096	4,201	(1,105)	(26) %	(c)
Loans held for sale-mortgage banking	80,923	250,083	(169,160)	(68) %	(d)
Loans held for investment, net	520,713	560,566	(39,853)	(7) %	(e)
Premises and equipment, net	12,502	14,398	(1,896)	(13) %	(f)
Operating lease right of use asset	2,142	2,451	(309)	(13) %	
Accrued interest receivable	2,586	4,721	(2,135)	(45) %	(g)
Other assets	28,372	41,551	(13,179)	(32) %	(h)
Total assets	$ 1,047,372	$ 1,074,131	$ (26,759)	(2) %	

(a) Cash balances increased due to an increase in cash flow from operations as loans held for sale decreased in addition to the liquidity generated as PPP loans are forgiven.
(b) Debt securities available for sale increased as liquidity from the decrease in loans held for sale and PPP loans is redeployed.
(c) Federal Reserve Bank and FHLB stock will vary based on the Company's utilization of FHLB advances.
(d) Loans held for sale decreased as mortgage origination activity began to decrease during 2021.
(e) Loans held for investment decreased primarily due to PPP loan forgiveness, reductions in loans as a result of customer liquidity, and the Golden Valley, Minnesota, branch sale.
(f) Premises and equipment decreased due to the transfer of assets to held for sale of the Company's Golden Valley, Minnesota location in 2021.
(g) Accrued interest receivable decreased as the Bank's borrowers resume payments that were previously deferred in 2020 on loans modified to provide assistance under Section 4013 of the CARES Act.
(h) Other assets decreased primarily due to a reduction in the fair value of mortgage banking instruments.

Debt Securities Available for Sale

The following table presents the composition of the available-for-sale investment portfolio (in thousands):

	As of December 31,			
	2021		2020	
	Amortized Cost	Estimated Fair Market Value	Amortized Cost	Estimated Fair Market Value
U.S. treasury securities	$ 14,833	$ 14,855	$ 4,996	$ 5,063
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC	28,524	28,157	14,727	14,646
U.S. government agency small business administration pools guaranteed by SBA	22,794	21,863	29,478	28,323
Collateralized mortgage obligations guaranteed by GNMA	12,998	13,751	17,422	18,710
Collateralized mortgage obligations issued by FNMA/FHLMC	79,538	80,303	66,258	69,876
Commercial mortgage-backed securities issued by FHLMC	17,999	18,989	13,165	15,177
Other commercial mortgage-backed securities	15,963	16,081	12,878	13,371
Asset-backed securities	-	-	3,062	3,079
State and municipal bonds	13,626	14,979	13,687	15,472
Total investments	$ 206,275	$ 208,978	$ 175,673	$ 183,717

There were no securities that management concluded were other-than-temporarily impaired during 2021 or 2020.

The following table presents contractual maturities for securities available for sale and yields thereon at December 31, 2021 (dollars are in thousands):

	Within 1 Year		After 1 But Within 5 Years		After 5 But Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. treasury securities[1]	$ -	0.00%	$ 9,908	1.26%	$ 4,925	1.48%	$ -	0.00%	$ 14,833	1.34%
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC[1] [2]	-	0.00%	-	0.00%	-	0.00%	28,524	1.10%	28,524	1.10%
U.S. government agency small business administration pools guaranteed by SBA[1] [2]	-	0.00%	-	0.00%	8,978	0.45%	13,816	(0.27)%	22,794	0.01%
Collateralized mortgage obligations guaranteed by GNMA[1] [2]	-	0.00%	-	0.00%	-	0.00%	12,998	3.44%	12,998	3.44%
Collateralized mortgage obligations issued by FNMA/FHLMC[1] [2]	-	0.00%	-	0.00%	615	3.86%	78,923	2.10%	79,538	2.11%
Commercial mortgage-backed securities issued by FHLMC[1] [2]	-	0.00%	-	0.00%	13,147	3.18%	4,852	2.50%	17,999	2.99%
Other commercial mortgage-backed securities[1] [2]	-	0.00%	-	0.00%	5,959	3.21%	10,004	2.40%	15,963	2.70%
State and municipal bonds[2] [3]	-	0.00%	-	0.00%	-	0.00%	13,626	3.95%	13,626	3.95%
Total book value of debt securities	$ -	0.00%	$ 9,908	1.26%	$ 33,624	2.22%	$ 162,743	2.01%	206,275	2.01%
Net unrealized gain on debt securities available for sale									2,703	
Total investment in debt securities available for sale									$ 208,978	1.99%

(1) Based on amortized cost rather than fair value.
(2) Maturities are based on contractual maturities. Actual cash flows from securities may vary from contractual maturities due to call options, cash flow structures of securitizations, and prepayments.
(3) Yields include adjustment for tax exempt income.

As of December 31, 2021, the Company had $209.0 million of debt securities available for sale compared to $183.7 million at December 31, 2020. In 2021, debt securities were purchased to deploy the additional liquidity provided from the decrease in loans held for sale and PPP loans.

At December 31, 2021, all classifications of debt securities available for sale exceeded 10% of stockholders' equity. A portion of the Company's debt securities portfolio was pledged as collateral.

See Note 2 of the Consolidated Financial Statements for more information about debt securities available for sale.

Federal Reserve Bank and Federal Home Loan Bank

The Company's equity securities consisted of $1.8 million of Federal Reserve Bank ("FRB") stock and $1.3 million of Federal Home Loan Bank ("FHLB") stock as of December 31, 2021 and $1.8 million of FRB stock and $2.4 million of FHLB stock as of and December 31, 2020.

Loans

The following table presents the Company's loan portfolio as of December 31 (dollars are in thousands):

	2021		2020		2019		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans held for sale-mortgage banking	$ 80,923	100.0	$ 250,083	100.0	$ 137,114	100.0	$ 22,788	100.0	$ 36,601	100.0
Loans held for investment:										
Commercial and industrial	$ 157,995	29.8	$ 165,994	29.1	$ 162,592	32.0	$ 149,886	32.0	$ 126,169	29.4
Commercial real estate	201,043	38.0	190,939	33.4	193,203	38.0	174,868	37.3	177,429	41.4
SBA	58,759	11.1	102,064	17.9	46,799	9.2	32,505	6.9	25,064	5.9
Consumer	78,297	14.8	81,783	14.3	82,498	16.2	78,055	16.7	71,876	16.8
Land and land development	17,185	3.2	8,603	1.5	10,449	2.0	11,398	2.4	14,168	3.3
Construction	16,121	3.0	21,748	3.8	12,656	2.5	21,257	4.5	13,167	3.1
	529,400	99.9	571,131	100.0	508,197	99.9	467,969	99.9	427,873	99.9
Unearned income and net unamortized deferred fees and costs	393	0.1	(241)	-	372	0.1	499	0.1	452	0.1
Loans, net of unearned income and unamortized fees and costs	$ 529,793	100.0	$ 570,890	100.0	$ 508,569	100.0	$ 468,468	100.0	$ 428,325	100.0

The following table presents the change in the Company's loan portfolio (dollars are in thousands):

	December 31,		Increase (Decrease)		
	2021	2020	$	%	
Loans held for sale-mortgage banking	$ 80,923	$ 250,083	$ (169,160)	(67.6) %	(a)
Loans held for investment:					
Commercial and industrial	$ 157,995	$ 165,994	$ (7,999)	(4.8) %	
Commercial real estate	201,043	190,939	10,104	5.3 %	
SBA	58,759	102,064	(43,305)	(42.4) %	(b)
Consumer	78,297	81,783	(3,486)	(4.3) %	
Land and land development	17,185	8,603	8,582	99.8 %	(c)
Construction	16,121	21,748	(5,627)	(25.9) %	(d)
	529,400	571,131	(41,731)	(7.3) %	
Unearned income and net unamortized deferred fees and costs	393	(241)	634	(263.1) %	(e)
Loans, net of unearned income and unamortized fees and costs	$ 529,793	$ 570,890	$ (41,097)	(7.2) %	(f)

(a) Loans held for sale decreased as mortgage origination activity began to decrease during 2021.
(b) SBA loans decreased primarily due to PPP loan forgiveness and the sale of the Company's Golden Valley, Minnesota branch.
(c) Land and land development loans increased primarily due to increased loan activity in the North Dakota market.
(d) Construction loans decreased as a result of project completions and conversion to permanent financing options.
(e) The year-over-year change is due to the amortization of PPP loan fees associated with PPP loan forgiveness.
(f) Loans held for investment decreased primarily due to PPP loan forgiveness, reductions in loans as a result of increased customer liquidity, and the Golden Valley, Minnesota, branch sale.

Loan Participations

Pursuant to the Company's lending policy, loans may not exceed 85% of the Bank's legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits and, accordingly, excluded from the Bank's legal lending limit) unless the Chief Credit Officer and the Executive Credit Committee grant prior approval. To accommodate customers whose financing needs exceed lending limits and internal loan concentration limits, the Bank sells loan participations to outside participants without recourse.

Loan participations sold on a nonrecourse basis to outside financial institutions were as follows as of December 31 (in thousands):

2021	$	106,077
2020		130,356
2019		152,163
2018		166,291
2017		176,733

Concentrations of Credit

The following table summarizes the location of the Company's borrowers as of December 31 (dollars are in thousands):

	2021			2020		
North Dakota	$	360,077	68 %	$	378,793	66 %
Arizona		98,742	19 %		121,797	21 %
Minnesota		24,434	4 %		30,599	6 %
Other		46,147	9 %		39,942	7 %
Total gross loans held for investment	$	529,400	100 %	$	571,131	100 %

The Company's borrowers use loan proceeds for projects in various geographic areas. The following table summarizes the locations where its borrowers are using loan proceeds as of December 31 (dollars are in thousands):

	2021			2020		
North Dakota	$	328,066	62 %	$	331,824	58 %
Arizona		126,242	24 %		153,264	27 %
California		19,644	4 %		18,369	3 %
Colorado		12,855	2 %		13,858	3 %
Minnesota		9,969	2 %		25,348	5 %
South Dakota		8,978	2 %		7,552	1 %
Ohio		7,103	1 %		7,357	1 %
Other		16,543	3 %		13,559	2 %
Total gross loans held for investment	$	529,400	100 %	$	571,131	100 %

The following table approximates the Company's significant concentrations by industry, excluding PPP loans of $11.9 million at December 31, 2021 and $50.6 million at December 31, 2020, (dollars are in thousands):

	December 31, 2021		December 31, 2020	
Non-owner occupied commercial real estate (not otherwise categorized)	$ 157,608	30 %	$ 143,361	28 %
Hotels	78,473	15	76,335	15
Consumer, not otherwise categorized	75,519	14	76,363	15
Healthcare and social assistance	36,531	7	37,632	7
Retail trade	35,173	7	26,129	5
Agriculture, forestry, fishing and hunting	26,922	5	27,321	5
Transportation and warehousing	21,499	4	24,897	5
Non-hotel accommodation and food service	18,838	4	23,530	5
Other service	12,543	2	8,394	2
Construction contractors	11,458	2	12,235	2
Mining, oil and gas extraction	10,327	2	20,223	4
Art, entertainment and recreation	5,936	1	7,279	1
Manufacturing	4,697	1	11,139	2
Real estate and rental and leasing support services	3,750	1	7,735	1
Professional, scientific, and technical services	3,738	1	4,408	1
Wholesale trade	3,325	1	2,255	0
Public administration	3,108	1	2,806	0
All other	8,060	2	8,505	2
Gross loans held for investment (excluding PPP loans)	$ 517,505	100 %	$ 520,547	100 %

The following table presents loans by type as of December 31 (in thousands):

	2021 Total Loans Held for Investment	2020 Total Loans Held for Investment
North Dakota		
Commercial and industrial	$ 44,225	$ 48,745
Construction	8,815	4,355
Agricultural	26,279	26,899
Land and land development	15,475	5,676
Owner-occupied commercial real estate	35,781	37,185
Commercial real estate	104,889	100,456
Small business administration	25,232	36,111
Consumer	67,370	72,397
Subtotal	$ 328,066	$ 331,824
Consolidated		
Commercial and industrial	$ 62,501	$ 71,503
Construction	16,121	21,748
Agricultural	26,422	27,092
Land and land development	17,185	8,603
Owner-occupied commercial real estate	69,072	67,399
Commercial real estate	201,043	190,939
Small business administration	58,759	102,064
Consumer	78,297	81,783
Subtotal	$ 529,400	$ 571,131

Loan Maturities (1)

The following table sets forth the remaining maturities of loans in the Company's portfolio as of December 31, 2021 (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	$ 19,016	$ 16,713	$ 7,813	$ 33,960	$ 80,493	$ 157,995
Commercial real estate	-	10,530	11,761	33,102	145,650	201,043
SBA	5,342	11,895	-	2,898	38,624	58,759
Consumer	1,320	5,252	5,627	52,021	14,077	78,297
Land and land development	1,879	2,018	1,271	8,836	3,181	17,185
Construction	5,695	2,383	3,203	1,507	3,333	16,121
Total principal amount of loans	$ 33,252	$ 48,791	$ 29,675	$ 132,324	$ 285,358	$ 529,400

(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 substantially the same manner as new credit applications.

Provision (Credit) for Credit Losses

The Company provides for credit losses to maintain its allowance for credit losses at a level adequate to cover estimated probable losses inherent in the portfolio as of each balance sheet date. In 2021, a $350 thousand release of allowance for credit losses was recorded, compared to a $2.7 million provision in 2020.

Allowance for Credit Losses

See Notes 1 and 5 of the Consolidated Financial Statements and "Significant Accounting Policies" for further information concerning accounting policies associated with the allowance for credit losses.

Analysis of Allowance for Credit Losses

The following table summarizes activity in the allowance for credit losses and certain ratios (dollars are in thousands):

	For the Years Ended December 31,				
	2021	2020	2019	2018	2017
Balance of allowance for credit losses, beginning of period	$ 10,324	$ 8,141	$ 7,692	$ 7,861	$ 8,285
Charge-offs:					
Commercial and industrial	(927)	(88)	(125)	(71)	(84)
Commercial real estate	-	(453)	-	(1)	-
SBA	-	-	(82)	(59)	(566)
Consumer	(82)	(38)	(97)	(129)	(123)
Land and land development	-	-	-	-	(103)
Construction	-	-	-	-	-
Total charge-offs	(1,009)	(579)	(304)	(260)	(876)
Recoveries:					
Commercial and industrial	69	17	-	40	-
Commercial real estate	1	45	13	16	12
SBA	5	9	11	4	48
Consumer	24	12	29	31	40
Land and land development	16	9	-	-	2
Construction	-	-	-	-	-
Total recoveries	115	92	53	91	102
Net charge-offs	(894)	(487)	(251)	(169)	(774)
(Credit) provision for credit losses charged to operations	(350)	2,670	700	-	350
Balance of allowance for credit losses, end of period	$ 9,080	$ 10,324	$ 8,141	$ 7,692	$ 7,861
Ratio of net charge-offs to average loans held for investment	(0.162)%	(0.085)%	(0.052)%	(0.037)%	(0.184)%
Average gross loans held for investment	$ 553,493	$ 573,040	$ 480,389	$ 454,215	$ 420,906
Ratio of allowance for credit losses to loans held for investment	1.71%	1.81%	1.60%	1.64%	1.84%
Ratio of nonperforming loans to total assets	0.16%	0.24%	0.21%	0.17%	0.21%

Allocation of the Allowance for Credit Losses

The table below presents an 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 as of December 31 (dollars are in thousands).

	2021		2020		2019		2018		2017	
	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	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	$ 2,173	30%	$ 3,275	29%	$ 2,366	32%	$ 1,937	32%	$ 2,158	30%
Commercial real estate	4,129	38%	3,923	33%	3,502	38%	3,558	37%	3,471	41%
SBA	1,641	11%	1,779	18%	1,131	9%	845	7%	834	6%
Consumer	836	15%	948	14%	853	16%	928	17%	914	17%
Land and land development	148	3%	170	2%	187	2%	225	2%	358	3%
Construction	153	3%	229	4%	102	3%	199	5%	126	3%
Total	$ 9,080	100%	$ 10,324	100%	$ 8,141	100%	$ 7,692	100%	$ 7,861	100%

The amount of the allowance for credit losses can vary depending on macroeconomic conditions and risk in the portfolio. The allocation of the allowance for credit losses can vary depending on relative volume of asset groups in the portfolio and risks therein. The allocation of the allowance for credit losses as shown in the table above 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.

Allowance for Credit Losses; Impact on Earnings

The Company has established the allowance for credit losses to cover probable losses inherent within the loan portfolio at the balance sheet dates. The allowance for credit losses is an estimate based on several judgmental factors. The Company is not aware of known trends, commitments or other events that could reasonably occur that would materially affect its methodology or the assumptions used to estimate the allowance for credit losses. However, changes in qualitative and quantitative factors could occur at any time and such changes could be of a material nature. In addition, economic situations, financial conditions of borrowers, and other factors the Company considers in arriving at its estimates may change. To the extent that these matters have negative developments, future earnings could be reduced by provisions for credit losses. See the Concentrations of Credit section within this report for additional information.

Nonperforming Loans and Assets

The following table sets forth nonperforming assets, the allowance for credit losses and certain related ratios (dollars are in thousands):

	As of December 31,				
	2021	2020	2019	2018	2017
Nonperforming loans:					
Loans 90 days or more delinquent and still accruing interest	$ -	$ 1	$ -	$ -	$ 26
Non-accrual loans	1,673	2,611	2,033	1,686	1,952
Total nonperforming loans	1,673	2,612	2,033	1,686	1,978
Repossessed assets, net	17	-	-	-	-
Total nonperforming assets	$ 1,690	$ 2,612	$ 2,033	$ 1,686	$ 1,978
Allowance for credit losses	$ 9,080	$ 10,324	$ 8,141	$ 7,692	$ 7,861
Ratio of total nonperforming loans to total loans	0.27%	0.32%	0.31%	0.34%	0.43%
Ratio of total nonperforming loans to loans held for investment	0.32%	0.46%	0.40%	0.36%	0.46%
Ratio of total nonperforming assets to total assets	0.16%	0.24%	0.21%	0.17%	0.21%
Ratio of total nonperforming loans to total assets	0.16%	0.24%	0.21%	0.17%	0.21%
Ratio of allowance for credit losses to total nonperforming loans	543%	395%	400%	456%	397%

Nonperforming Loans

The following table sets forth information concerning the Company's nonperforming loans as of December 31 (in thousands):

	2021	2020
Balance, beginning of period	$ 2,612	$ 2,033
Additions to nonperforming	239	2,535
Charge-offs	(1,014)	(235)
Reclassified back to performing	-	(349)
Principal payments received	(147)	(1,367)
Transferred to repossessed assets	(17)	(5)
Balance, end of period	$ 1,673	$ 2,612

The following table indicates the effect on income if interest on non-accrual and restructured loans outstanding at year end had been recognized at original contractual rates during the year ended December 31 (in thousands):

	2021	2020
Interest income that would have been recorded	$ 172	$ 167
Interest income recorded	-	-
Effect on interest income	$ 172	$ 167

Loans 90 days or more delinquent and still accruing interest include loans over 90 days past due which the Company believes, based on its specific analysis of the loans, do not present doubt about the collection of interest and principal in accordance with the loan contract. Loans in this category must be well secured and in the process of collection.

Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when the Company 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.

Troubled Debt Restructuring (TDR)
The table below summarizes the amounts of restructured loans as of December 31 (in thousands):

	Total	Accrual	Non-accrual
2021	$ 1,029	$ -	$ 1,029
2020	1,966	-	1,966
2019	3,245	1,448	1,797
2018	3,348	1,779	1,569
2017	1,908	1,801	107

See Note 5 of the Consolidated Financial Statements for information on troubled debt restructuring.

Other real estate owned and repossessed assets represent properties and other assets acquired through, or in lieu of, loan foreclosure, and property transferred from premises and equipment. They are initially recorded at fair value less cost to sell at the date of acquisition establishing a new cost basis. Write-downs to fair value at the time of acquisition are charged to the allowance for credit losses. After foreclosure, the Company perform valuations periodically and the real estate is recorded at fair value less cost to sell. Reductions to other real estate owned and repossessed assets are considered valuation allowances. Expenses incurred to record valuation allowances subsequent to foreclosure are charged to non-interest expense.

Impaired loans
See Note 5 of the Consolidated Financial Statements for information on impaired loans.

Potential Problem Loans

The Company attempts to quantify potential problem loans with more immediate credit risk. The table below summarizes the amounts of potential problem loans as of December 31 (in thousands):

	Watch List			Substandard			Doubtful
	Impaired	Other	Total	Impaired	Other	Total	Impaired
2021	$ -	$ 6,508	$ 6,508	$ 483	$ 6,793	$ 7,276	$ 1,190
2020	-	9,121	9,121	480	4,721	5,201	2,132
2019	1,448	7,713	9,161	514	7,247	7,761	1,518
2018	-	5,206	5,206	106	9,069	9,175	1,570
2017	-	1,730	1,730	52	9,062	9,114	1,900

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

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

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

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

At December 31, 2021, the Company did not have any loans modified consistent with Section 4013 of the CARES Act. At December 31, 2020, loans modified consistent with Section 4013 of the CARES Act totaled $42.0 million.

Liabilities and Stockholders' Equity

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

	As of December 31,		Increase (Decrease)		
	2021	2020	$	%	
Deposits:					
Non-interest-bearing	$ 186,598	$ 167,667	$ 18,931	11 %	(a)
Interest-bearing					
Savings, interest checking and money market	644,641	570,656	73,985	13 %	(a)
Time deposits	75,429	114,835	(39,406)	(34) %	(b)
Short-term borrowings	-	6,385	(6,385)	(100) %	(c)
Federal Home Loan Bank advances	-	30,900	(30,900)	(100) %	(d)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,001	15,004	(3)	- %	
Accrued interest payable	226	560	(334)	(60) %	(e)
Accrued expenses	7,302	13,338	(6,036)	(45) %	(f)
Operating lease liabilities	2,302	2,620	(318)	(12) %	(g)
Other liabilities	887	33,937	(33,050)	(97) %	(h)
Total liabilities	932,386	955,902	(23,516)	(2) %	
Stockholders' equity	114,986	118,229	(3,243)	(3) %	
Total liabilities and stockholders' equity	$ 1,047,372	$ 1,074,131	$ (26,759)	(2) %	

(a) Deposits increased due to growth in the Company's North Dakota branches and the maintenance of liquidity by customers.
(b) Time deposits have decreased as the Bank has lowered rates on new certificates of deposit.
(c) Short-term borrowings will vary depending on customers need to use repurchase agreements.
(d) The Company has borrowed on a short-term basis from the FHLB as an efficient source of liquidity. Reductions in loans held for sale has removed the need for liquidity from the FHLB at year-end 2021.
(e) Accrued interest payable decreased primarily due to decreased time deposit balances and decreased cost of deposits.
(f) Accrued expenses decreased due to decreases in incentive accruals and mortgage banking commissions.
(g) Operating lease liabilities as required by ASC 842, *Leases* – See Note 7 of the Consolidated Financial Statements.
(h) The decrease primarily relates to the payment of a special cash dividend of $8.00 per share of BNCCORP, INC. common stock on February 1, 2021, previously recorded as a dividend payable of $28.7 million on the balance sheet as of December 31, 2020 in addition to a reduction in mortgage banking forward commitments.

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated $820 thousand and $1.0 million at December 31, 2021, and 2020, respectively. Although the Company sells mortgage banking loans without recourse, industry standards require standard representations and warranties which require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk is also evident within the mortgage banking industry as disputes arise between lenders and investors. Such requests for repurchase are commonly due to purported fraudulent or faulty representations and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the obligation, the Company tracks historical reimbursements and calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimates the future reimbursement amounts and records the estimated obligation. See Note 18 of the Consolidated Financial Statements for a description of financial instruments with off-balance-sheet risk.

Deposits

The following table sets forth, for the periods indicated, the distribution of the Company's average deposit account balances and average cost of funds rates on each category of deposits (dollars are in thousands):

	For the Years Ended December 31,								
	2021			2020			2019		
	Average Balance	Percent of Deposits	Wgtd. Avg. Rate	Average Balance	Percent of Deposits	Wgtd. Avg. Rate	Average Balance	Percent of Deposits	Wgtd. Avg. Rate
Interest checking and MMDAs	$ 600,307	64.2%	0.19%	$ 545,455	61.2%	0.30%	$ 542,700	62.2%	0.81%
Savings deposits	47,404	5.1%	0.03%	38,886	4.4%	0.05%	34,177	3.9%	0.07%
Time deposits	94,264	10.1%	0.76%	141,770	15.9%	1.55%	164,898	18.9%	1.88%
Total interest-bearing deposits	741,975	79.4%	0.26%	726,111	81.5%	0.53%	741,775	85.0%	1.02%
Non-interest-bearing demand deposits	192,452	20.6%	0.00%	165,827	18.5%	0.00%	130,430	15.0%	0.00%
Total deposits	$ 934,427	100.0%	0.20%	$ 891,938	100.0%	0.43%	$ 872,205	100.0%	0.86%

Time deposits, in denominations of $250 thousand and over, totaled $18.0 million at December 31, 2021, as compared to $24.6 million at December 31, 2020. The following table sets forth the amount and maturities of time deposits of $250 thousand and over as of December 31, 2021 (in thousands):

Maturing in:	
3 months or less	$ 2,479
Over 3 months through 6 months	5,194
Over 6 months through 12 months	4,232
Over 12 months	6,082
	$ 17,987

Borrowed Funds

The following table provides a summary of the Company's short-term borrowings and related cost information as of, or for the years ended, December 31 (dollars are in thousands):

	2021	2020	2019
Short-term borrowings outstanding at period end	$ -	$ 6,385	$ 4,565
Weighted average interest rate at period end	0.30%	0.16%	0.21%
Maximum month end balance during the period	$ -	$ 8,951	$ 10,681
Average borrowings outstanding for the period	$ 1,941	$ 6,482	$ 5,283
Weighted average interest rate for the period	0.17%	0.18%	0.44%

Note 9 of the Consolidated Financial Statements summarizes the general terms of the Company's short-term borrowings outstanding at December 31, 2021 and 2020.

There was no FHLB advances at December 31, 2021 and $30.9 million at December 31, 2020.

Notes 10 and 11 of the Consolidated Financial Statements summarize the general terms of the Company's FHLB advances and other borrowings at December 31, 2021 and 2020.

Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures

See Note 12 of the Consolidated Financial Statements for a description of the subordinated debentures.

Capital Resources

	2021	2020	2019	2018	2017
Tier 1 leverage (Consolidated)	11.74%	11.74%	10.65%	9.97%	9.53%
Total risk-based capital (Consolidated)	20.02%	17.88%	17.13%	20.26%	19.98%
Common equity tier 1 risk-based capital (Consolidated)	16.54%	14.65%	13.76%	14.67%	14.15%
Tier 1 risk-based capital (Consolidated)	18.77%	16.63%	15.95%	17.28%	16.90%
Tangible common equity (Consolidated) (a)	10.98%	11.01%	9.95%	7.99%	8.18%
Tier 1 leverage (Bank)	10.65%	10.92%	9.81%	9.92%	9.62%
Total risk-based capital (Bank)	18.27%	16.72%	15.88%	18.44%	18.31%
Common equity tier 1 risk-based capital (Bank)	17.02%	15.47%	14.69%	17.19%	17.06%
Tier 1 risk-based capital (Bank)	17.02%	15.47%	14.69%	17.19%	17.06%

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

See Note 13 and Note 14 of the Consolidated Financial Statements for a discussion of stockholders equity and regulatory capital and the current operating environment.

The Common equity tier 1 (CET 1) ratio, which is generally a comparison of a bank's core equity capital with its total risk weighted assets, is a measure of the current risk profile of the Company's asset base from a regulatory perspective. The Tier 1 leverage ratio, which is calculated by dividing Tier 1 capital by average total assets, does not consider the mix of risk weighted assets. Regulators have required Tier 1 ratios that significantly exceed the "Well Capitalized" ratio levels. As such, the Company is managing its Tier 1 leverage ratio to levels above the "Well Capitalized" thresholds. Although Tangible Common Equity (TCE) is not a regulatory capital measure, TCE is a ratio that is commonly used to assess the capital strength of banking entities. Accordingly, the Company has included the ratio in the regulatory capital table above.

The Company routinely evaluates the sufficiency of its capital in order to insure compliance with regulatory capital standards and be a source of strength for the Bank. The Company maintains a capital management philosophy of returning capital to shareholders in excess of what is invested to maintain its business or retained as a capital reserve and liquidity buffer for the Company. During 2021, the Company returned $14.00 per share in special cash dividends comprised of a special cash dividend of $6.00 per share paid on December 15, 2021 and a special cash dividend of $8.00 per share paid on February 1, 2021. Management will continue to evaluate capital requirements and prudent capital management opportunities.

Off-Balance-Sheet Arrangements

In the normal course of business, the Company is a party to various financial instruments with off-balance-sheet risk. These instruments include commitments to extend credit, standby and commercial letters of credit, and performance and financial standby letters of credit. Such instruments help the Company meet the needs of its customers, manage its interest rate risk and effectuate various transactions. These instruments and commitments, which the Company enters into for purposes other than trading, carry varying degrees of credit, interest rate or liquidity risk. See Note 18 of the Consolidated Financial Statements for a detailed description of each of these instruments.

Contractual Obligations, Contingent Liabilities and Commitments

The Company is a party to financial instruments with risks that can be subdivided into three categories:

Cash financial instruments, generally characterized as on-balance-sheet items, include investments, loans, mortgage-backed securities, deposits and debt obligations.

Credit-related financial instruments, generally characterized as off-balance-sheet items, include such instruments as commitments to extend credit, commitments to sell mortgage loans, commercial letters of credit and performance and financial standby letters of credit. See Note 18 of the Consolidated Financial Statements.

Investment-related financial instruments, characterized as an off-balance-sheet item, include potential funding for investments in Small Business Investment Companies (SBIC). See Note 19 of the Consolidated Financial Statements.

At December 31, 2021, the aggregate contractual obligations (excluding bank deposits) and commitments were as follows (in thousands):

	Payments due by period				
Contractual Obligations:	**Less Than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**After 5 Years**	**Total**
Total borrowings	$ -	$ -	$ -	$ 15,001	$ 15,001
Commitments to sell loans	79,322	-	-	-	79,322
Future minimum lease payments under non-cancelable operating leases	889	1,068	416	208	2,581
Total	$ 80,211	$ 1,068	$ 416	$ 15,209	$ 96,904

	Amount of Commitment - Expiration by Period				
Other Commitments:	**Less Than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**After 5 Years**	**Total**
Commitments to originate loans	$ 244,767	$ 36,193	$ 9,064	$ 4,287	$ 294,311
Commitments to sell loans	244,742	-	-	-	244,742
Standby and commercial letters of credit	879	553	-	-	1,432
Commitments to fund SBIC	-	200	808	-	1,008
Total	$ 490,388	$ 36,946	$ 9,872	$ 4,287	$ 541,493

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 ($218.2 million as of December 31, 2021);
2. Borrowing capacity from the FHLB ($174.2 million as of December 31, 2021); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($152.5 million as of December 31, 2021).

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.

Forward-Looking Statements

Statements included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" which are not historical in nature are intended to be, and are hereby identified as "forward-looking statements" for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company cautions readers that these forward-looking statements, including without limitation, those relating to its future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income and expenses, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to several important factors. These factors include, but are not limited to: risks of loans and investments, including dependence on local and regional economic conditions; the impact of lower oil prices in its major market; competition for its customers from other providers of financial services; possible adverse effects of changes in interest rates including the effects of such changes on derivative contracts and associated accounting consequences; risks associated with its acquisition and growth strategies; and other risks which are difficult to predict and many of which are beyond its control.

Recently Issued and Adopted Accounting Pronouncements

Note 1 of the Consolidated Financial Statements includes a summary of recently issued and adopted accounting pronouncements and their related or anticipated impact on the Company.

Accounting Policies

Note 1 of the Consolidated Financial Statements includes a summary of accounting policies and their related impact on the Company.

Quantitative and Qualitative Disclosures about Market Risk

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

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

The Company's interest rate risk exposure is actively managed with the objective of managing the level and potential volatility of net interest income in addition to the long-term growth of equity, bearing in mind that it will always be in the business of taking on rate risk and that rate risk immunization is not entirely possible. Also, it is recognized that as exposure to interest rate risk is reduced, so too may the overall level of net interest income and equity. In general, the assets and liabilities generated through ordinary business activities do not naturally create offsetting positions with respect to repricing or maturity characteristics. Access to the derivatives market can be an important element in maintaining the Company's interest rate risk position within policy guidelines. Using derivative instruments, principally interest rate floors, caps, and interest rate swaps, the interest rate sensitivity of specific transactions, as well as pools of assets or liabilities, can be adjusted to maintain the desired interest rate risk profile. See Note 1 of the Company's Consolidated Financial Statements for a summary of accounting policies pertaining to such instruments.

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 December 31, 2021 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its December 31, 2021 level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

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

The net interest income simulation result for the 12-month horizon that covers the calendar year of 2021 is shown below (dollars in thousands):

Net Interest Income Simulation

Movement in interest rates	-100bp		Unchanged		+100bp		+200bp		+300bp	
Projected 12-month net interest income	$	27,141	$	27,885	$	27,818	$	27,740	$	27,661
Dollar change from unchanged scenario	$	(744)		-	$	(67)	$	(145)	$	(224)
Percentage change from unchanged scenario		(2.67)%		-		(0.24)%		(0.52)%		(0.80)%

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 December 31, 2021 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate 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 December 31, 2021. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated maturity or repricing at December 31, 2021				
	0–3 Months	4–12 Months	1–5 Years	Over 5 years	Total
	(dollars are in thousands)				
Interest-earning assets:					
Interest-bearing deposits with banks	$ 177,741	$ -	$ -	$ -	$ 177,741
Debt securities (a)	25,959	16,850	65,026	84,307	192,142
FRB and FHLB stock	3,096	-	-	-	3,096
Loans held for sale-mortgage banking, fixed rate	80,923	-	-	-	80,923
Loans held for investment, fixed rate	17,768	39,754	113,494	19,021	190,037
Loans held for investment, indexed rate	90,985	35,158	199,182	14,431	339,756
Total interest-earning assets	$ 396,472	$ 91,762	$ 377,702	$ 117,759	$ 983,695
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 594,543	$ -	$ -	$ -	$ 594,543
Savings	50,098	-	-	-	50,098
Time deposits	19,215	30,904	25,149	161	75,429
Subordinated debentures	-	15,000	-	1	15,001
Total interest-bearing liabilities	$ 663,856	$ 45,904	$ 25,149	$ 162	$ 735,071
Interest rate gap	$ (267,384)	$ 45,858	$ 352,553	$ 117,597	$ 248,624
Cumulative interest rate gap at December 31, 2021	$ (267,384)	$ (221,526)	$ 131,027	$ 248,624	
Cumulative interest rate gap to total assets	(25.53%)	(21.15)%	12.51%	23.74%	

(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.

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

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

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

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2021 and 2020
(With Independent Auditors' Report Thereon)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
BNCCORP, INC. and Subsidiaries
Bismarck, North Dakota

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of BNCCORP, INC. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BNCCORP, INC. and Subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of BNCCORP, INC. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BNCCORP, INC. and Subsidiaries' ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BNCCORP, INC. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BNCCORP, INC. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
BNCCORP, INC. and Subsidiaries

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises selected financial data, operating strategy, management's discussion and analysis of financial condition and results of operations, and quantitative and qualitative disclosures about market risk but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 17, 2022

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31,
(In thousands, except share data)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 188,060	$ 12,443
Debt securities available for sale	208,978	183,717
Federal Reserve Bank and Federal Home Loan Bank stock	3,096	4,201
Loans held for sale-mortgage banking	80,923	250,083
Loans held for investment	529,793	570,890
Allowance for credit losses	(9,080)	(10,324)
Net loans held for investment	520,713	560,566
Premises and equipment, net	12,502	14,398
Operating lease right of use asset	2,142	2,451
Accrued interest receivable	2,586	4,721
Other	28,372	41,551
Total assets	$ 1,047,372	$ 1,074,131
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 186,598	$ 167,667
Interest-bearing –		
Savings, interest checking and money market	644,641	570,656
Time deposits	75,429	114,835
Total deposits	906,668	853,158
Short-term borrowings	-	6,385
Federal Home Loan Bank advances	-	30,900
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,001	15,004
Accrued interest payable	226	560
Accrued expenses	7,302	13,338
Operating lease liabilities	2,302	2,620
Other	887	33,937
Total liabilities	932,386	955,902
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,554,983 and 3,540,522 shares issued and outstanding	36	35
Capital surplus – common stock	26,068	25,871
Retained earnings	87,378	86,991
Treasury stock (113,670 and 128,131 shares, respectively)	(1,650)	(1,850)
Accumulated other comprehensive income, net	3,154	7,182
Total stockholders' equity	114,986	118,229
Total liabilities and stockholders' equity	$ 1,047,372	$ 1,074,131

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Years Ended December 31,
(In thousands, except per share data)

	2021	2020
INTEREST INCOME:		
Interest and fees on loans	$ 29,219	$ 31,358
Interest and dividends on investments		
Taxable	3,858	4,803
Tax-exempt	232	234
Dividends	148	151
Total interest income	33,457	36,546
INTEREST EXPENSE:		
Deposits	1,895	3,846
Short-term borrowings	4	12
Federal Home Loan Bank advances	1	22
Subordinated debentures	237	358
Total interest expense	2,137	4,238
Net interest income	31,320	32,308
(CREDIT) PROVISION FOR CREDIT LOSSES	(350)	2,670
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	31,670	29,638
NON-INTEREST INCOME:		
Bank charges and service fees	2,328	2,342
Wealth management revenues	2,205	1,794
Mortgage banking revenues, net	37,767	79,888
Gains on sales of loans, net	660	99
Gains on sales of securities, net	-	1,128
Other	1,723	703
Total non-interest income	44,683	85,954
NON-INTEREST EXPENSE:		
Salaries and employee benefits	25,161	29,204
Professional services	5,736	7,680
Data processing fees	4,561	4,829
Marketing and promotion	4,158	5,442
Occupancy	2,164	2,152
Regulatory costs	475	298
Depreciation and amortization	1,269	1,404
Office supplies and postage	461	492
Other	3,662	5,606
Total non-interest expense	47,647	57,107
Income before income taxes	28,706	58,485
Income tax expense	6,751	13,871
Net income	$ 21,955	$ 44,614
Basic earnings per common share	$ 6.15	$ 12.52
Diluted earnings per common share	$ 6.15	$ 12.52

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
For the Years Ended December 31,
(In thousands)

	2021				2020			
NET INCOME			$	21,955			$	44,614
Unrealized (loss) gain on debt securities available for sale	$	(5,341)			$	8,704		
Reclassification adjustment for gains on sales of securities, net, included in net income		-				(1,128)		
Other comprehensive (loss) income before tax		(5,341)				7,576		
Income tax benefit (expense) related to items of other comprehensive (loss) income		1,313				(1,864)		
Other comprehensive (loss) income	$	(4,028)		(4,028)	$	5,712		5,712
TOTAL COMPREHENSIVE INCOME			$	17,927			$	50,326

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31,
(In thousands, except share data)

	Common Stock		Capital Surplus Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), net	Total
	Shares	Amount					
BALANCE, December 31, 2019	3,514,770	$ 35	$ 25,831	$ 71,057	$ (2,115)	$ 1,470	$ 96,278
Net income	-	-	-	44,614	-	-	44,614
Other comprehensive income	-	-	-	-	-	5,712	5,712
Share-based compensation	25,752	-	40	-	265	-	305
Dividends declared on common stock ($8.00)	-	-	-	(28,680)	-	-	(28,680)
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229
Net income	-	-	-	21,955	-	-	21,955
Other comprehensive loss	-	-	-	-	-	(4,028)	(4,028)
Share-based compensation	14,461	1	197	-	200	-	398
Dividends declared on common stock ($6.00)	-	-	-	(21,568)	-	-	(21,568)
BALANCE, December 31, 2021	3,554,983	$ 36	$ 26,068	$ 87,378	$ (1,650)	$ 3,154	$ 114,986

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31,
(In thousands)

	2021	2020
OPERATING ACTIVITIES:		
Net income	$ 21,955	$ 44,614
Adjustments to reconcile net income to net cash provided by operating activities -		
(Credit) provision for credit losses	(350)	2,670
Depreciation and amortization	1,269	1,404
Net amortization of premiums and (discounts) on debt securities and subordinated debentures	3,367	3,320
Share-based compensation	398	305
Change in accrued interest receivable and other assets, net	1,179	1,517
Loss on sale of bank premises and equipment	55	8
Net realized gains on sales of debt securities	-	(1,128)
Deferred tax expense (benefit)	566	(1,172)
Change in other liabilities, net	(4,757)	2,734
Funding of loans held for sale, mortgage banking	(2,355,689)	(2,937,081)
Proceeds from sales of loans held for sale, mortgage banking	2,517,615	2,829,811
Fair value adjustment for loans held for sale, mortgage banking	7,191	(5,698)
Fair value adjustment on mortgage banking derivatives	10,364	(9,053)
Proceeds from sales of loans	6,179	12,625
Gains on sales of loans, net	(660)	(99)
Net cash provided by (used in) operating activities	208,682	(55,223)
INVESTING ACTIVITIES:		
Purchases of debt securities available for sale	(75,078)	(17,663)
Proceeds from sales of debt securities available for sale	-	71,958
Proceeds from maturities of debt securities available for sale	41,109	30,787
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(651)	(12,256)
Sales of Federal Reserve and Federal Home Loan Bank Stock	1,756	11,706
Net decrease (increase) in loans held for investment	34,684	(75,335)
Proceeds from sales of premises and equipment	-	1
Purchases of premises and equipment	(862)	(386)
Net cash provided by investing activities	958	8,812

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
For the Years Ended December 31,
(In thousands)

	2021	2020
FINANCING ACTIVITIES:		
Net increase in deposits	$ 53,510	$ 32,611
Net (decrease) increase in short-term borrowings	(6,385)	1,820
Repayments of Federal Home Loan Bank advances	(42,910)	(292,500)
Proceeds from Federal Home Loan Bank advances	12,010	306,400
Dividends paid on common stock	(50,248)	-
Net cash (used in) provided by financing activities	(34,023)	48,331
NET INCREASE IN CASH AND CASH EQUIVALENTS	175,617	1,920
CASH AND CASH EQUIVALENTS, beginning of period	12,443	10,523
CASH AND CASH EQUIVALENTS, end of period	$ 188,060	$ 12,443
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 2,470	$ 5,364
Income taxes paid	$ 7,812	$ 14,578
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in the settlement of loans	$ -	$ 281
Transfer of property classified as held for sale to other assets from premises and equipment	$ 1,434	$ -
Right of use assets obtained in exchange for lease obligations	$ 477	$ 604

See accompanying notes to consolidated financial statements.

NOTE 1. Description of Business and Significant Accounting Policies

Description of Business
BNCCORP, INC. (“BNCCORP”) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the “Bank”). BNC National Bank operates community banking and wealth management businesses through 11 locations in North Dakota and Arizona. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 9 locations in Arizona, North Dakota, Illinois, Kansas, and Michigan. The consumer direct channel emphasizes technology (internet leads and call center) to originate mortgage loans throughout the United States. The retail channel is primarily relationship driven and originations are generally near mortgage banking locations.

With respect to group concentrations of credit risk, most of the Company’s business activity is with customers in North Dakota. At December 31, 2021, the Company did not have any significant credit concentrations in any particular industry.

The consolidated financial statements included herein are for BNCCORP and subsidiaries. The accounting and reporting policies of BNCCORP and subsidiaries (collectively, the “Company”) conform to U.S. generally accepted accounting principles (GAAP) and general practices within the financial services industry. The more significant accounting policies are summarized below.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of BNCCORP and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for credit losses, fair value measurements for financial instruments, and income taxes. Ultimate results could materially differ from those estimates.

SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, cash due from banks and federal funds sold.

Debt Securities
Debt securities that the Bank intends to hold indefinitely as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, liquidity needs, or prepayment risk are classified as available for sale. Available for sale securities are carried at fair value. Net unrealized gains and losses, net of deferred income taxes, on securities available for sale are reported as a separate component of stockholders’ equity until realized (see Comprehensive Income).

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For callable securities purchased at a premium, such premium is amortized over the period to the earliest call date. Dividend and interest income is recognized when earned. Realized gains and losses on the sale of debt securities are determined using the specific-identification method and recognized in non-interest income on the trade date.

Other-Than-Temporary Impairment
Declines in the fair value of individual available-for-sale securities below amortized cost, which are deemed other-than-temporary, result in a charge to earnings and establishment of a new cost basis. The Company assesses available information about its securities to determine whether impairment is other-than-temporary. The information the Company considers includes, but is not limited to, the following:

- Recent and expected performance of the securities;
- Financial condition of issuers or guarantors;
- Recent cash flows;
- Seniority of invested tranches and subordinated credit support;
- Vintage of origination;
- Location of collateral;
- Ratings of securities;
- Value of underlying collateral;
- Delinquency and foreclosure data;
- Historical losses and estimated severity of future losses;
- Credit surveillance data which summarize retrospective performance; and
- Anticipated future cash flows and prospective performance assessments.

Determining whether other-than-temporary impairment has occurred requires judgment of factors that may indicate an impairment loss has incurred. The Company follows the guidance on other-than-temporary impairments Accounting Standards Codification (ASC) 320, *Investments – Debt Securities*. Any credit-related impairments are recognized through a charge to earnings. The amount of non-credit related impairments is recognized through comprehensive (loss) income, net of income taxes.

Note 2 to these consolidated financial statements includes a summary of debt securities in a loss position at December 31, 2021, and 2020.

Federal Reserve Bank and Federal Home Loan Bank
Investments in Federal Reserve Bank and Federal Home Loan Bank stock qualify as restricted stock, which is not subject to equity security accounting treatment, and is reported at cost, subject to impairment.

Loans Held For Sale-Mortgage Banking
Loans held for sale-mortgage banking are accounted for at fair value pursuant to the fair value option permitted by ASC 825, *Financial Instruments.* Gains and losses from the changes in fair value are included in mortgage banking revenues, net.

Loans Held For Investment
Loans held for investment are stated at their outstanding principal amount net of unearned income, unamortized deferred fees and costs, and an allowance for credit losses. Interest income is recognized on the accrual basis using the interest method prescribed in the loan agreement except when collectibility is in doubt.

Loans are reviewed regularly by management and are placed on non-accrual status when the collection of interest or principal is 90 days or more past due, unless the loan is adequately secured and in the process of collection. When a loan is placed on non-accrual status, uncollected interest accrued in prior years is charged off against the allowance for credit losses, unless collection of the principal and interest is assured. Interest accrued and uncollected in the current year is reversed against interest income in the current period. Interest payments received on non-accrual loans are generally applied to principal unless the remaining principal balance has been determined to be fully collectible. Accrual of interest may be resumed when it is determined that all amounts due are expected to be collected and the loan has exhibited a sustained level of performance, generally at least six months.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are reviewed for impairment on an individual basis. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's initial effective interest rate. The fair value of collateral of an impaired collateral-dependent loan or an observable market price of the loan is also used as an alternative to discounting cash flows. If the measure of the impaired loan is less than the recorded investment in the loan, impairment will be recognized as a charge-off through the allowance for credit losses or a valuation allowance is established for the difference.

Troubled debt restructured loans are loans for which concessions, including a reduced interest rate or a deferral of interest or principal, have been granted due to the borrower's weakened financial condition. Once a loan is restructured, interest is accrued at the restructured rates when no loss of principal is anticipated. A loan that has performed in accordance with restructured terms for one year is no longer reported as a restructured loan, but will continue to be reported as impaired.

Loan Origination Fees and Costs; Other Lending Fees

For Loans Held for Investment, origination fees and costs incurred to extend credit are deferred and amortized over the term of the loan as an adjustment to yield using the interest method, except where the net amount is deemed to be immaterial.

The Company occasionally originates lines of credit where the customer is charged a non-usage fee if the line of credit is not used. In such instances, the Company periodically reviews use of lines on a retrospective basis and recognizes non-usage fees in non-interest income.

Loan Servicing and Transfers of Financial Assets

The Bank sells commercial business loans to third parties. The loans are generally sold on a non-recourse basis. Subsequent to the sale, the loans continue to be serviced by the Bank. Sold loans are not included in the accompanying consolidated balance sheets.

The sales of loans are accounted for pursuant to ASC 860, *Transfers and Servicing of Financial Assets*.

The Bank originates certain residential mortgage loans with the intent to sell to secondary market investors. The mortgage servicing rights associated with these loans are sold to third parties.

Allowance for Credit Losses

The Bank maintains its allowance for credit losses at a level considered adequate to provide for probable losses related to the loan portfolio as of the consolidated balance sheet dates. The loan portfolio and other credit exposures are reviewed regularly to evaluate the adequacy of the allowance for credit losses.

The methodology used to establish the allowance for credit losses incorporates quantitative and qualitative risk considerations. Quantitative factors include the Bank's historical loss experience, delinquency information, charge-off trends, collateral values, changes in nonperforming loans and other factors. Quantitative factors also incorporate known information about individual borrowers, including sensitivity to interest rate movements or other quantifiable external factors.

Qualitative factors include the general economic environment, the state of certain industries and factors unique to the Bank's market areas. Size, complexity of individual credits, loan structure, variances from loan policies and pace of portfolio growth are other qualitative factors that are considered when the Bank estimates the allowance for credit losses.

The Bank's methodology has been consistently applied. However, the Bank enhances its methodology as circumstances dictate.

The allowance for credit losses has three components as follows:

Specific Reserves. The amount of specific reserves is determined through a loan-by-loan analysis of problematic loans over a minimum size. Included in problem loans are non-accrual or restructured loans that meet the impairment criteria in ASC 310, *Receivables*. A loan is impaired when, based on current information, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Any allowance on impaired loans is generally based on one of three methods: the present value of expected cash flows at the loan's effective interest rate; the loan's observable market price; or, the fair value of the collateral of the loan. Specific reserves may also be established for credits that have been internally classified as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns.

Reserves for Homogeneous Loan Pools. The Bank makes a significant number of loans that, due to their underlying similar characteristics, are assessed for loss as "homogeneous" pools. Included in the homogeneous pools are loans which have been excluded from the specific reserve allocation. The Company's methodology incorporates an estimated loss emergence period for each risk group. The loss-emergence period is the period of time from when a borrower experiences a loss event and when the actual loss is recognized in the consolidated financial statements, generally at the time of initial charge-off of the loan balance.

Qualitative Reserve. Management also allocates reserves for other circumstances pertaining to the measurement period. The factors considered include, but are not limited to, prevailing trends, economic conditions, geographic influence, industry segments within the portfolio, management's assessment of credit risk inherent in the loan portfolio, delinquency data, historical loss experience and peer-group information.

Monitoring loans and analysis of loss components are the principal means by which management determines estimated credit losses are reflected in the Bank's allowance for credit losses on a timely basis. This analysis also considers regulatory guidance in addition to the Bank's own experience. Various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require additions to the allowance based on their judgment about information available to them at the time of their examination.

Loans and other extensions of credit deemed uncollectible are charged off against the allowance for credit losses. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is highly dependent upon variables affecting valuation, including appraisals of collateral, evaluations of performance as well as the amounts and timing of future cash flows expected to be received on impaired loans. These variables are reviewed periodically. For nonperforming or impaired loans, appraisals are generally performed annually or whenever circumstances warrant a new appraisal. Management regularly evaluates the appraised value and costs to liquidate in order to estimate fair value. A provision for credit losses is made to adjust the allowance for credit losses to the amount determined appropriate through application of the above processes. Actual credit losses may materially vary from the current estimated allowance for credit losses.

Other Real Estate Owned and Repossessed Assets, net

Real estate properties and other assets acquired through loan foreclosures are recorded at fair value less estimated costs to sell. If the carrying amount of an asset acquired through foreclosure is in excess of the fair value less estimated costs to sell, the excess amount is charged to the allowance for credit losses. Fair value is primarily determined based upon appraisals of the assets involved and management periodically assesses appraised values to ascertain continued relevancy of the valuation. If subsequent declines in fair value in excess of the carrying amount of foreclosed assets are identified, the Company establishes a valuation allowance against the asset. Net operating income from and gains on disposition of these assets are included in other non-interest income. Net operating expenses, losses on disposition, and subsequent declines in the estimated fair value of these assets are charged to other non-interest expense.

Premises and Equipment
Land is carried at cost. Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization for financial reporting purposes is charged to non-interest expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are up to forty years for buildings and three to ten years for furniture and equipment. Leasehold improvements are capitalized and amortized over the shorter of the lease term or the estimated useful life of the improvement. Maintenance and repairs, as well as gains and losses on dispositions of premises and equipment, are included in non-interest income or expense as incurred.

Impairment of Long-Lived Assets
The Company reviews long-lived assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The impairment review includes a comparison of future cash flows (undiscounted and without interest charges) expected to be generated by the assets to their current carrying value. If impairment is identified, the assets are written down to their fair value through a charge to non-interest expense.

Securities Sold Under Agreements to Repurchase
From time to time, the Bank enters into sales of securities under agreements to repurchase, generally for periods of less than 90 days. These agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets as short-term borrowings. The costs of securities underlying the agreements remain in the asset accounts.

Fair Value
Several accounting standards require recording assets and liabilities based on their fair values. Determining the fair value of assets and liabilities can be highly subjective. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

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 less 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.

Management assigns levels to assets and liabilities accounted for at fair value.

Fair Values of Financial Instruments
The Company is required to disclose the estimated fair value of financial instruments. Fair value estimates are subjective in nature, involving uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following methods and assumptions are used by the Company in estimating fair value disclosures for its financial instruments.

Debt Securities Available for Sale. The fair value of the Company's securities, other than U.S. Treasury securities, are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less active, and model-based valuation techniques for which significant assumptions are observable in the market. U.S. Treasury securities are based upon quoted prices for identical instruments traded in active markets.

Loans Held for Sale-Mortgage Banking. Loans held for sale-mortgage banking are accounted for at fair value pursuant to the fair value option permitted by ASC 825, *Financial Instruments*. Fair value measurements on loans held for sale are based on quoted market prices for similar loans in the secondary market, market quotes from anticipated sales contracts and commitments, or contract prices from firm sales commitments.

Derivative Financial Instruments. The fair value of the Company's derivatives are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less active, and model-based valuation techniques for which significant assumptions are observable in the market.

Financial Instruments with Off-Balance-Sheet Risk. The fair values of the Company's commitments to extend credit and commercial and standby letters of credit are estimated using fees currently charged to enter into similar agreements.

Derivative Financial Instruments
ASC 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Accordingly, the Company records all derivatives at fair value.

The Company enters into interest rate lock commitments on certain mortgage loans originated by its mortgage banking operations on a best efforts basis, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding. The Company also has corresponding forward sales contracts related to these interest rate lock commitments. Both the mortgage loan commitments and the related forward sales contracts are accounted for as derivatives and carried at fair value in other assets with changes in fair value recorded in mortgage banking revenues, net.

The Company also commits to originate and sell certain loans through its mortgage banking operations on a mandatory delivery basis. To hedge interest rate risk the Company sells short positions in mortgage backed securities related to the loans sold on a mandatory delivery basis. The commitments to originate and short positions are accounted for as derivatives and carried at fair value in other liabilities with changes in fair value recorded in mortgage banking revenues, net.

Share-Based Compensation
ASC 718, *Compensation – Stock Compensation*, requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date.

At December 31, 2021, the Company had two stock-based compensation plans, which are described more fully in Note 23 and Note 24 to these consolidated financial statements.

Revenue from Contracts with Customers
The majority of the Company's performance obligations for revenue from contracts with customers are satisfied at a point in time and are typically collected from customers at the time of the transaction or shortly thereafter.

The following is a description of the principal activities from which the Company generates revenue that are within the scope of ASC 606:

Service charges on deposits – Service charges on deposit accounts represent daily and monthly analysis fees recognized for the services related to customer deposit accounts, including account maintenance, overdraft fees, and depository transactions processing fees. Depository accounts charge fees in accordance with the customer's pricing schedule or may be assessed a flat service fee per month. The Company satisfies the performance obligation related to providing depository accounts daily as transactions are processed and deposit service charge revenue is recognized daily.

Bankcard fees – Bankcard fees primarily represent income earned from interchange revenue from Visa for the Company's processing of debit card transactions. The performance obligation for interchange revenue is the processing of each transaction through the Company's access to the banking system. This performance obligation is completed for each individual transaction and revenue is recognized per transaction in accordance with interchange rates established by Visa.

Wealth management revenue – Wealth management revenue consists of fees earned on personal trust accounts, retirement plan administration, and wealth management services. The performance obligations related to this revenue include items such as performing trustee service administration, investment management services, custody and record-keeping services, and retirement plan administration. These fees are part of contractual agreements and the performance obligations are satisfied upon completion of services. The fees are generally a fixed-flat annual rate or based on a percentage of the account's market value per the contract with the customer and revenue is recognized over time as earned.

Other income – The Company recognizes other miscellaneous income through a variety of other revenue streams, the most material of which includes revenue from investments in Small Business Investment Companies (SBIC), gains on sales of financial assets, and bank-owned life insurance income. These revenue streams are outside of the scope of ASC 606 and are recognized in accordance with the applicable U.S. GAAP. The remainder of other income is primarily earned through transactions with personal banking customers, including stop payment charges and fees for cashier's checks. The performance obligations of these types of fees are satisfied as transactions are completed and revenue is recognized upon transaction execution according to established fee schedules with the customers.

Note 15 to these consolidated financial statements includes disclosure of revenue from contracts with customers.

Income Taxes

The Company files consolidated federal and unitary state income tax returns where allowed.

The determination of current and deferred income taxes is based on analyses of many factors including interpretation of federal and state income tax laws, differences between tax and financial reporting basis of assets and liabilities, expected reversals of temporary differences, estimates of amounts due or owed and current financial accounting standards. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income taxes.

Deferred income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in income in the period of enactment regardless of the balance sheet classification of the underlying deferred tax asset or liability.

Management evaluates deferred tax assets to determine whether they are realizable based upon accounting standards and specific facts and circumstances. A valuation allowance is established to reduce deferred tax assets to amounts that are more likely than not expected to be realized.

Earnings Per Share
Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Such potential dilutive instruments include stock options and contingently issuable stock. Note 21 to these consolidated financial statements includes disclosure of the Company's EPS calculations.

Comprehensive Income
Comprehensive income is the total of net income and other comprehensive income, which for the Company, is generally comprised of unrealized losses and gains on securities available for sale, net of corresponding tax effects.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS & INTERPRETATIONS

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

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

NOTE 2. 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 December 31, 2021, or 2020. The amortized cost of debt securities available for sale and their estimated fair values were as follows as of December 31 (in thousands):

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

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

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

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	9,908	9,913
Due after five years through ten years	33,624	34,894
Due after ten years	162,743	164,171
Total	$ 206,275	$ 208,978

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.

Debt securities available for sale with estimated fair values of $49.6 million and $53.8 million at December 31, 2021, and 2020, respectively, were pledged as collateral for public and trust deposits and borrowings, including borrowings from the FHLB and repurchase agreements with customers.

Sales proceeds and gross realized gains and losses on available for sale securities were as follows for the years ended December 31 (in thousands):

	2021	2020
Sales proceeds	$ -	$ 71,958
Gross realized gains	-	2,207
Gross realized losses	-	(1,079)
Net realized gains	$ -	$ 1,128

The following table shows the Company's gross unrealized losses and fair value of debt securities available for sale aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31 (in thousands):

	2021								
	Less Than 12 Months			12 Months or More			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. treasury securities	1	$ 4,913	$ (16)	-	$ -	$ -	1	$ 4,913	$ (16)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	2	16,077	(153)	3	6,075	(313)	5	22,152	(466)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	21,863	(931)	4	21,863	(931)
Collateralized mortgage obligations guaranteed by GNMA	1	26	-	-	-	-	1	26	-
Collateralized mortgage obligations issued by FNMA/FHLMC	5	33,344	(814)	-	-	-	5	33,344	(814)
Commercial mortgage-backed securities issued by FHLMC	1	4,625	(228)	-			1	4,625	(228)
Other commercial mortgage-backed securities	3	6,621	(115)	-	-	-	3	6,621	(115)
Total temporarily impaired securities	13	$ 65,606	$ (1,326)	7	$ 27,938	$ (1,244)	20	$ 93,544	$ (2,570)

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

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

There were no securities that management concluded were other-than-temporarily impaired during 2021 or 2020.

NOTE 3. Federal Reserve Bank and Federal Home Loan Bank Stock

The carrying amounts of FRB and FHLB stock, which approximate their fair values, consisted of the following as of December 31 (in thousands):

	2021	2020
Federal Reserve Bank stock, at cost	$ 1,807	$ 1,807
Federal Home Loan Bank, at cost	1,289	2,394
Total	$ 3,096	$ 4,201

NOTE 4. Loans

The composition of loans is as follows at December 31 (in thousands):

	2021	2020
Loans held for sale-mortgage banking	$ 80,923	$ 250,083
Commercial and industrial	$ 157,995	$ 165,994
Commercial real estate	201,043	190,939
SBA	58,759	102,064
Consumer	78,297	81,783
Land and land development	17,185	8,603
Construction	16,121	21,748
Gross loans held for investment	529,400	571,131
Unearned income and net unamortized deferred fees and costs	393	(241)
Loans, net of unearned income and unamortized fees and costs	529,793	570,890
Allowance for credit losses	(9,080)	(10,324)
Net loans held for investment	$ 520,713	$ 560,566

To accommodate customers whose financing needs exceed the Bank's lending limits, the Bank sells loan participations on a nonrecourse basis to outside financial institutions and derecognizes the portion of the loan balance sold. The Bank retains the servicing rights of the participations sold. At December 31, 2021, and 2020, loan participations sold on a nonrecourse basis to outside financial institutions totaled $106.1 million and $130.4 million, respectively.

Loans to Related Parties
Note 22 to these consolidated financial statements includes information relating to loans to executive officers, directors, principal shareholders and associates of such persons.

Loans Pledged as Collateral
The table below present's loans pledged as collateral to the FHLB, FRB, and the Bank of North Dakota as of December 31(in thousands):

	2021	2020
Commercial and industrial	$ 53,792	$ 54,129
Commercial real estate	100,278	105,828
Consumer	31,242	30,706
Loans held for sale-mortgage banking	77,386	-
Total	$ 262,698	$ 190,663

NOTE 5. Allowance for Credit Losses

Transactions in the allowance for credit losses were as follows for the years ended December 31 (in thousands):

2021	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 3,275	$ 3,923	$ 1,779	$ 948	$ 170	$ 229	$ 10,324
Provision (credit)	(244)	205	(143)	(54)	(38)	(76)	(350)
Loans charged off	(927)	-	-	(82)	-	-	(1,009)
Loan recoveries	69	1	5	24	16	-	115
Balance, end of period	$ 2,173	$ 4,129	$ 1,641	$ 836	$ 148	$ 153	$ 9,080

2020	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,366	$ 3,502	$ 1,131	$ 853	$ 187	$ 102	$ 8,141
Provision (credit)	980	829	639	121	(26)	127	2,670
Loans charged off	(88)	(453)	-	(38)	-	-	(579)
Loan recoveries	17	45	9	12	9	-	92
Balance, end of period	$ 3,275	$ 3,923	$ 1,779	$ 948	$ 170	$ 229	$ 10,324

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

	Allowance For Credit Losses			Gross Loans Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
December 31, 2021						
Commercial and industrial	$ -	$ 2,173	$ 2,173	$ 715	$ 157,280	$ 157,995
Commercial real estate	-	4,129	4,129	-	201,043	201,043
SBA	574	1,067	1,641	875	57,884	58,759
Consumer	10	826	836	83	78,214	78,297
Land and land development	-	148	148	-	17,185	17,185
Construction	-	153	153	-	16,121	16,121
Total	$ 584	$ 8,496	$ 9,080	$ 1,673	$ 527,727	$ 529,400
December 31, 2020						
Commercial and industrial	$ 762	$ 2,513	$ 3,275	$ 1,606	$ 164,388	$ 165,994
Commercial real estate	-	3,923	3,923	-	190,939	190,939
SBA	597	1,182	1,779	982	101,082	102,064
Consumer	-	948	948	24	81,759	81,783
Land and land development	-	170	170	-	8,603	8,603
Construction	-	229	229	-	21,748	21,748
Total	$ 1,359	$ 8,965	$ 10,324	$ 2,612	$ 568,519	$ 571,131

Performing and non-accrual loans

The Bank's key credit quality indicator is 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 at December 31 (in thousands):

	2021					
	Current	**31-89 Days Past Due**	**90 Days or More Past Due And Accruing**	**Total Performing**	**Non-accrual**	**Total**
Commercial and industrial:						
Business loans	$ 61,955	$ -	$ -	$ 61,955	$ 546	$ 62,501
Agriculture	26,422	-	-	26,422	-	26,422
Owner-occupied commercial real estate	68,902	-	-	68,902	170	69,072
Commercial real estate	201,043	-	-	201,043	-	201,043
SBA	57,884	-	-	57,884	875	58,759
Consumer:						
Automobile	15,535	9	-	15,544	-	15,544
Home equity	14,826	-	-	14,826	-	14,826
1st mortgage	11,183	-	-	11,183	-	11,183
Other	36,525	137	-	36,662	82	36,744
Land and land development	17,185	-	-	17,185	-	17,185
Construction	16,121	-	-	16,121	-	16,121
Total loans held for investment	527,581	146	-	527,727	1,673	529,400
Loans held for sale	80,922	1	-	80,923	-	80,923
Total gross loans	$ 608,503	$ 147	$ -	$ 608,650	$ 1,673	$ 610,323

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

The following table indicates the effect on interest income on loans if interest on non-accrual loans outstanding at year end had been recognized at original contractual rates during the year ended December 31 (in thousands):

	2021	2020
Interest income that would have been recorded	$ 172	$ 167
Interest income recorded	-	-
Effect on interest income on loans	$ 172	$ 167

Credit Risk by Internally Assigned Grade

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

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

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

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

	Pass	Watch List	Substandard	Doubtful	Total Loans Held for Investment
December 31, 2021	$ 514,426	$ 6,508	$ 7,276	$ 1,190	$ 529,400
December 31, 2020	554,680	9,118	5,201	2,132	571,131

Impaired loans

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

The following table summarizes impaired loans and related allowances as of and for the years ended December 31, 2021 and 2020 (in thousands):

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

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

Troubled Debt Restructuring (TDR)

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

The table below summarizes the amounts of restructured loans as of December 31 (in thousands):

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

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

TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of real estate or other assets in full or partial satisfaction of the debt. Loan modifications are not reported as a TDR after 12 months if the loan was modified at a market rate of interest for comparable risk loans, and the loan is performing in accordance with the terms of the restructured agreement for at least six months. However, performing TDRs continue to be classified as impaired loans as outlined in Note 1 to these consolidated financial statements.

When a loan is modified as a TDR, there may be a direct, material impact on the loan balances, as principal balances may be partially forgiven. For the year ended December 31, 2021, there were no new TDRs. For the year ended December 31, 2020, there was one new TDR with a pre-modification and post modification balance of $230 thousand.

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

The following table indicates the effect on interest income on loans if interest on restructured loans outstanding at year end had been recognized at original contractual rates during the year ended December 31 (in thousands):

	2021	2020
Interest income that would have been recorded	$ 144	$ 144
Interest income recorded	-	-
Effect on interest income on loans	$ 144	$ 144

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

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

As of December 31, 2021, and December 31, 2020, the Bank had no restructured loans that were modified in a troubled-debt restructuring within the previous 12 months for which there was a payment default (i.e. 90 days delinquent).

At December 31, 2021, the Bank had no loan modifications outstanding that were made consistent with Section 4013 of the CARES Act. At December 31, 2020, loans modified consistent with Section 4013 of the CARES Act totaled $42 million.

NOTE 6. Premises and Equipment, net

Premises and equipment, net consisted of the following at December 31 (in thousands):

	2021	2020
Land and improvements	$ 1,667	$ 2,853
Buildings and improvements	15,815	16,863
Leasehold improvements	456	456
Furniture, fixtures, and equipment	9,855	9,507
Total cost	27,793	29,679
Less accumulated depreciation and amortization	(15,291)	(15,281)
Net premises and equipment	$ 12,502	$ 14,398

Depreciation and amortization expense totaled $1.3 million and $1.4 million for the years ended December 31, 2021, and 2020, respectively.

NOTE 7. Leases

The Company has operating leases, primarily for office space, that expire over the next six years. These leases generally contain renewal options for periods ranging from one to five years. The Company has evaluated each individual lease to determine if exercising the renewal option was reasonably certain 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 years ended December 31 were as follows (in thousands):

	2021	2020
Operating lease cost	$ 1,050	$ 995
Variable lease cost	39	65
Short-term lease cost	16	16
	$ 1,105	$ 1,076

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

	As of December 31, 2021	As of December 31, 2020
Operating lease right of use (ROU) asset	$ 2,142	$ 2,451
Operating lease liabilities	2,302	2,620

Other supplementary information related to leases as of December 31, was as follows (dollars are in thousands):

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities	$ 1,067	$ 1,007
Reductions to ROU assets resulting from reduction in lease obligations	786	791

	As of December 31, 2021	As of December 31, 2020
Weighted average remaining lease term	4.05 years	3.93 years
Weighted average discount rate	6.00%	6.00%

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

	Operating Leases
2022	$ 889
2023	647
2024	421
2025	223
2026	193
Thereafter	208
Total future minimum lease payments	2,581
Amounts representing interest	(279)
Total lease liabilities	$ 2,302

NOTE 8. Deposits

The scheduled maturities of time deposits as of December 31, 2021, are as follows (in thousands):

2022	$ 49,587
2023	13,391
2024	8,044
2025	997
2026	3,249
Thereafter	161
	$ 75,429

At December 31, 2021, and 2020, the Bank had no time deposits that had been acquired through a traditional broker channel. The Company had no interest-bearing deposits that meet the regulatory definition of a brokered deposit as of December 31, 2021 and December 31, 2020.

At December 31, 2021, and 2020, the Bank had $18.0 million and $24.6 million, respectively, in time deposits greater than $250 thousand.

The following table shows a summary of interest expense by product type as of December 31 (in thousands):

	2021	2020
Savings	$ 15	$ 20
Interest checking	475	462
Money market	692	1,162
Time deposits	713	2,202
	$ 1,895	$ 3,846

Deposits Received from Related Parties
Note 22 to these consolidated financial statements includes information relating to deposits received from executive officers, directors, principal shareholders and associates of such persons.

NOTE 9. Short-Term Borrowings

The following table sets forth selected information for short-term borrowings (borrowings with an original maturity of less than one year) as of December 31 (in thousands):

	2021	2020
Repurchase agreements with customers, renewable daily, interest payable monthly, rates at 0.30% and ranging from 0.15% to 0.40%, respectively, secured by U.S. Treasury securities and collateralized mortgage obligations issued by FNMA	$ -	$ 6,385

The weighted average interest rate on short-term borrowings outstanding as of December 31, 2021, and 2020 was 0.30% and 0.16%, respectively.

Customer repurchase agreements are used by the Bank to acquire funds from customers where the customers are required, or desire, to have their funds supported by collateral consisting of U.S. government, U.S. government agency or other types of securities. The repurchase agreement is a promise to sell these securities to a customer at a certain price and repurchase them at a future date at that same price plus interest accrued at an agreed upon rate. The Bank uses customer repurchase agreements in its liquidity plan as well as an accommodation to customers. At December 31, 2021, the $70 of securities sold under repurchase agreements, at an interest rate of 0.30%, was collateralized by a portion of a U.S. Treasury security having a fair value of $0.6 million and unamortized principal balances of $0.6 million. At December 31, 2020, the $6.4 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.16%, were collateralized by U.S. Treasury securities and collateralized mortgage obligations issued by FNMA having a fair value of $10.1 million and unamortized principal balances of $8.9 million.

NOTE 10. Federal Home Loan Bank Advances

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

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

As of December 31, 2021, the Bank had the ability to draw advances up to approximately $174.2 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirement.

NOTE 11. Other Borrowings

The following table presents selected information regarding other borrowings at December 31 (in thousands):

2021

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

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank line	$ 2,050	$ 1,086	$ -	$ 1,086
BNCCORP line	118,256	10,000	-	10,000
Total	$ 120,306	$ 11,086	$ -	$ 11,086

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

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

2020

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

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

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

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

NOTE 12. Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures

In July 2007, the Company issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at December 31, 2021, and December 31, 2020, was 1.53% and 1.63%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 13. Stockholders' Equity

Regulatory restrictions exist on 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. 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.

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

NOTE 14. 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 December 31, 2021, the capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

The capital amounts and ratios presented below for December 31, 2021, and December 31, 2020, 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
2021								
Total Risk-Based Capital:								
Consolidated	$ 134,914	20.02 %	$ 53,906	≥8.00 %	$ N/A	N/A %	$ N/A	N/A %
BNC National Bank	123,051	18.27	53,868	≥8.00	67,334	10.00	55,717	8.27
Tier 1 Risk-Based Capital:								
Consolidated	126,483	18.77	40,429	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	114,626	17.02	40,401	≥6.00	53,868	8.00	60,758	9.02
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,482	16.54	30,322	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	114,626	17.02	30,300	≥4.50	43,767	6.50	70,859	10.52
Tier 1 Leverage Capital:								
Consolidated	126,483	11.74	43,095	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	114,626	10.65	43,055	≥4.00	53,819	5.00	60,807	5.65
Tangible Common Equity (to total assets): (a)								
Consolidated	114,976	10.98	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	118,246	11.30	N/A	N/A	N/A	N/A	N/A	N/A

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

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

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

NOTE 15. Revenue from Contracts with Customers

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

	2021	2020
Service charges on deposits	$ 540	$ 577
Bankcard fees	1,052	941
Bank charges and service fees not within scope of ASC 606	736	824
Total bank charges and service fees	2,328	2,342
Wealth management revenue	2,205	1,794
Wealth management revenue not within the scope of ASC 606	-	-
Total wealth management revenues	2,205	1,794
Other	37	40
Other not within the scope of ASC 606 (a)	1,686	663
Total other	1,723	703
Other non-interest income not within the scope of ASC 606 (a)	38,427	81,115
Total non-interest income	$ 44,683	$ 85,954

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

The Company had no material contract assets or remaining performance obligations as of December 31, 2021. Total receivables from revenue recognized under the scope of ASC 606 were $542 thousand and $487 thousand as of December 31, 2021, and December 31, 2020, respectively. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

NOTE 16. Fair Value Measurements

The following table summarizes the financial assets and liabilities of the Company for which fair values are determined on a recurring basis as of December 31 (in thousands):

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

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

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

The Company may also be required from time to time to measure certain other assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. These adjustments to fair value usually result from the application of the lower of cost or market accounting or write-down of individual assets. For assets measured at fair value on a nonrecurring basis the following table provides the level of valuation assumptions used to determine the carrying value at December 31 (in thousands):

	2021									
	Total		Level 1		Level 2		Level 3		Total Gains/(Losses)	
Impaired loans(1)	$	129	$	-	$	-	$	129	$	(163)

	2020									
	Total		Level 1		Level 2		Level 3		Total Gains/(Losses)	
Impaired loans(1)	$	1,253	$	-	$	-	$	1,253	$	(1,105)

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

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

NOTE 17. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows as of December 31 (in thousands):

	Level in Fair Value Measurement Hierarchy	December 31, 2021		December 31, 2020	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 188,060	$ 188,060	$ 12,443	$ 12,443
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	3,096	3,096	4,201	4,201
Gross loans held for investment	Level 2	528,440	530,237	568,519	577,323
Gross loans held for investment	Level 3	960	625	2,612	1,253
Accrued interest receivable	Level 2	2,586	2,586	4,721	4,721
		$ 723,142	$ 724,604	$ 592,496	$ 599,941
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 186,598	$ 186,598	$ 167,667	$ 167,677
Deposits, interest-bearing	Level 2	720,070	719,701	685,491	686,066
Borrowings and advances	Level 2	-	-	37,285	37,285
Accrued interest payable	Level 2	226	226	560	560
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,001	13,084	15,004	9,859
		$ 921,895	$ 919,609	$ 906,007	$ 901,437
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 381	$ -	$ 181
Standby and commercial letters of credit	Level 2	$ -	$ 14	$ -	$ 11

The Company discloses the estimated fair value of financial instruments as it is useful to the reader of financial statements. Fair value estimates are subjective in nature, involving uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 18. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to various financial instruments with off-balance-sheet risk, primarily to meet the needs of customers as well as to manage interest rate risk. These instruments, which are issued by the Company for purposes other than trading, carry varying degrees of credit, interest rate or liquidity risk in excess of the amounts reflected in the consolidated balance sheets.

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer, which are binding, provided there is no violation of any condition in the contract, and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Bank's exposure to credit losses in the event of default by the borrower. At December 31, 2021, based on current information, no losses were anticipated as a result of these commitments. The Bank manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment or real estate. Since the Bank expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Bank's future liquidity requirements related to such commitments.

In mortgage banking operations, the Bank commits to extend credit for purposes of originating residential loans. The Bank underwrites these commitments to determine whether each loan meets criteria established by the secondary market for residential loans. See Notes 1 and 16 to these consolidated financial statements for more information on financial instruments and derivatives related to mortgage banking operations.

Standby and Commercial Letters of Credit
Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commercial letters of credit are issued on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Bank's credit loss exposure is up to the letter's contractual amount. At December 31, 2021, based on current information, no losses were anticipated as a result of these commitments. Management assesses the borrower's creditworthiness to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring the Bank to fund letters of credit may not occur, the Bank expects the liquidity requirements related to such letters of credit to be less than the total outstanding commitments.

The contractual amounts of these financial instruments were as follows as of December 31 (in thousands):

	2021		2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 21,166	$ 107,725	$ 18,079	$ 74,475
Standby and commercial letters of credit	279	1,153	236	834

In addition to the amounts in the table above, mortgage banking commitments to fund loans totaled $165.4 million at December 31, 2021 and $598.4 million at December 31, 2020. Mortgage banking commitments to sell loans totaled $244.7 million at December 31, 2021 and $848.5 million at December 31, 2020.

Performance and Financial Standby Letters of Credit
As of December 31, 2021, and 2020, the Bank had no outstanding performance standby letters of credit and $3.5 million and $3.2 million, respectively, of financial standby letters of credit. Performance standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to make payment on account in an event of default by the account party in the performance of a nonfinancial or commercial obligation. Financial standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to repay money for the account of the account party or to make payment on account of any indebtedness undertaken by the account party, in the event that the account party fails to fulfill its obligation to the beneficiary. Under these arrangements, the Bank could, in the event of the account party's nonperformance, be required to pay a maximum of the amount of issued letters of credit. The Bank has recourse against the account party up to and including the amount of the performance standby letter of credit. The Bank evaluates each account party's creditworthiness on a case-by-case basis and the amount of collateral obtained varies and is based on management's credit evaluation of the account party.

Mortgage Banking Obligations
Through its mortgage banking operations, the Company originates and sells residential mortgage loans with servicing released to third parties. These loans are sold without recourse to the Company. Although the Company sells mortgage banking loans without recourse, industry standards require standard representations and warranties which require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk is also present within the mortgage banking industry as continued disputes arise between lenders and investors. Such requests for repurchase are commonly due to faulty representation and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the contingent obligation, 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 records the estimated obligation.

The following is a summary of activity related to mortgage banking reimbursement obligations at December 31 (in thousands):

	2021	2020
Balance, beginning of period	$ 1,025	$ 906
Provision	1,105	1,744
Write offs, net	(1,310)	(1,625)
Balance, end of period	$ 820	$ 1,025

NOTE 19. Commitments and Contingencies

Small Business Investment Companies (SBIC)
The Bank has made investments in the Small Business Administration's SBIC program to enhance small business access to venture capital. At December 31, 2021, the Bank may be required to fund $1.0 million of additional capital calls related to its SBIC investments.

Legal Proceedings
From time to time, the Company may be a party to legal proceedings arising from lending, deposit operations or other activities. While the Company is not aware of any such actions or allegations that should reasonably give rise to any material adverse effect, it is possible that the Company could be subject to such a claim in an amount that could be material. Based upon a review with legal counsel, the Company believes that the ultimate disposition of any such litigation will not have a material effect on the Company's financial condition, results of operations or cash flows.

NOTE 20. Income Taxes

Income tax expense (benefit) consists of the following for the years ended December 31 (in thousands):

	2021	2020
Current:		
Federal	$ 5,141	$ 12,526
State	1,044	2,517
	6,185	15,043
Deferred:		
Federal	459	(1,146)
State	107	(26)
	566	(1,172)
Total	$ 6,751	$ 13,871

The reconciliation between income tax expense computed by applying the statutory federal income tax rate of 21.0% is as follows for the years ended December 31 (in thousands):

	2021	2020
Statutory federal income tax expense	$ 6,028	$ 12,282
State income taxes, net of federal income tax benefit	876	1,737
Tax-exempt interest income	(84)	(85)
Tax-exempt life insurance	(92)	(91)
Other, net	23	28
Total	$ 6,751	$ 13,871

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that result in significant portions of the Company's deferred tax assets and liabilities are as follows as of December 31 (in thousands):

	2021	2020
Deferred tax assets:		
Loans, primarily due to credit losses	$ 2,439	$ 2,871
Compensation	644	571
Acquired intangibles	121	122
Net operating loss carryforwards	27	17
Other	269	370
Deferred tax assets	3,500	3,951
Deferred tax liabilities:		
Unrealized gain on debt securities available for sale	673	1,985
Discount accretion on securities	37	39
Premises and equipment	108	141
Other	493	343
Deferred tax liabilities	1,311	2,508
	2,189	1,443
Valuation allowance	(14)	(14)
Net deferred tax assets	$ 2,175	$ 1,429

Subject to certain limiting statutes, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2021. The state net operating losses expire between 2024 and 2031.

Tax years ended December 31, 2018 through 2021 remain open to federal examination. Tax years ended December 31, 2017 through 2021 remain open to certain state examinations.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based upon the technical merits of the position. The tax benefit recognized in the consolidated financial statements from such a position would be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense would be recognized on the full amount of deferred benefits for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense within the consolidated statements of income. At December 31, 2021, and 2020, the Company did not have any uncertain tax positions.

NOTE 21. Earnings Per Share

The following table shows the amounts used in computing per share results (in thousands, except share and per share data):

	2021	2020
Denominator for basic earnings per share:		
Average common shares outstanding	3,568,579	3,563,203
Dilutive effect of share-based compensation	555	1,580
Denominator for diluted earnings per share	3,569,134	3,564,783
Numerator (in thousands):		
Net income	$ 21,955	$ 44,614
Basic earnings per common share	$ 6.15	$ 12.52
Diluted earnings per common share	$ 6.15	$ 12.52

NOTE 22. Related-Party Transactions

The Bank has entered into transactions with related parties, such as opening deposit accounts for and extending credit to employees of the Company. The related-party transactions have been made under terms substantially the same as those offered by the Bank to unrelated parties.

In the normal course of business, loans are granted to, and deposits are received from, executive officers, directors, principal stockholders and associates of such persons. The aggregate dollar amount of these loans was $476 thousand and $958 thousand at December 31, 2021, and 2020, respectively. Advances and other increases of loans to related parties in 2021 and 2020 totaled $200 thousand and $349 thousand, respectively. Loan pay downs and other reductions by related-parties in 2021 and 2020 were $682 thousand and $125 thousand, respectively. Commitments to extend credit to related parties increased to $359 thousand at December 31, 2021, from $174 thousand at December 31, 2020. The total amount of deposits received from these parties was $1.6 million at December 31, 2021, and $1.1 million at December 31, 2020. Loans to, and deposits received from, these parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collection.

The Federal Reserve Act limits amounts of, and requires collateral on, extensions of credit by the Bank to BNCCORP, and with certain exceptions, its non-bank affiliates. There are also restrictions on the amounts of investment by the Bank in stocks and other subsidiaries of BNCCORP and such affiliates and restrictions on the acceptance of their securities as collateral for loans by the Bank. As of December 31, 2021, BNCCORP and its affiliates were in compliance with these requirements.

NOTE 23. Benefit Plans

BNCCORP has a qualified 401(k) savings plan covering all employees of BNCCORP and subsidiaries who meet specified age and service requirements. Under the plan, eligible employees may elect to defer up to 75% of compensation each year not to exceed the dollar limits set by law. At their discretion, BNCCORP and its subsidiaries may provide matching contributions to the plan. In 2021 and 2020, BNCCORP and subsidiaries made matching contributions of up to 50% of eligible employee deferrals up to a maximum employer contribution of 5% of employee compensation. Generally, all participant contributions and earnings are fully and immediately vested. The Company makes its matching contribution during the first calendar quarter following the last day of each calendar year and an employee must be employed by the Company on the last day of the calendar year in order to receive the current year's employer matching contribution. The anticipated matching contribution is expensed monthly over the course of the calendar year based on employee contributions made throughout the year. The Company made matching contributions of $945 thousand and $971 thousand for 2021 and 2020, respectively. Under the investment options available under the 401(k) savings plan, prior to January 28, 2008, employees could elect to invest their salary deferrals in BNCCORP common stock. At December 31, 2021, the assets in the plan totaled $48.6 million and included $1.0 million (23,685 shares) invested in BNCCORP common stock. At December 31, 2020, the assets in the plan totaled $40.4 million and included $1.1 million (23,704 shares) invested in BNCCORP common stock. On January 28, 2008, the Company voluntarily delisted from the NASDAQ Global Market and deregistered its common stock under the Securities Exchange Act of 1934 (as amended). As a result, the participants are prohibited from making new investments of the Company's common stock in the plan.

During 2015, the Company adopted a non-qualified deferred compensation plan for the benefit of select employees. The plan structure permits the Company to make discretionary awards into an in-service account or a retirement account of a plan participant established under the plan. The Company recognizes the expense for discretionary awards in the period it commits to such awards. Additionally, plan participants may defer some or all of their annual cash incentive awards into their in-service accounts. Company discretionary awards to the participant's in-service account are generally vested 50% upon initial participation with the remainder vesting ratably over 5 years. A participant's retirement account generally vests 50% upon an initial contribution and ratably thereafter over 10 years. Participants may allocate their in-service account balance among a fixed number of investment options. The value of the payout from the in-service account will depend on the performance of such investment options. Company discretionary awards into a participant's retirement account are denominated in shares of BNCCORP common stock and upon retirement, the plan participant will receive the number of shares of BNCCORP common stock credited to the participant's retirement account at that time. A separate Rabbi Trust has been established by the Company to offset the change in value of this liability. Assets in the trust offsetting in-service liabilities are recorded in other assets. BNCCORP common stock held in the trust related to the Company's retirement account obligation is recorded in treasury stock and equates to 22,342 and 29,730 shares as of December 31, 2021, and 2020. As of December 31, 2021, the plan obligation totaled $1.3 million and $1.3 million as of December 31, 2020.

In December of 2015, the Company adopted a non-qualified deferred compensation plan for directors of BNCCORP. Effective with 2016 service, a director may voluntarily make contributions of earned director compensation to a deferred account that is ultimately payable with BNCCORP common stock at the time of separation from service with the Company. The deferred shares of BNCCORP common stock were 20,636 shares and 12,581 shares as of December 31, 2021, and 2020, respectively.

NOTE 24. Share-Based Compensation

The Company has two share-based plans for certain key employees and directors whereby shares of BNCCORP common stock have been reserved for awards in the form of stock options, restricted stock, or common stock equivalent awards. Pursuant to each plan, the compensation committee may grant options at prices equal to the fair value of BNCCORP common stock at the grant date. The Company generally issues shares held in treasury when options are exercised and restricted stock is granted.

Total shares in plan and total shares available as of December 31, 2021, are as follows:

	1995	2015	Total
Total shares in plan	250,000	50,000	300,000
Total shares available	45,951	27,078	73,029

The Company recognized share-based compensation expense of $29 thousand and $28 thousand for the years ended December 31, 2021, and 2020, respectively, related to grants of restricted stock.

The tax benefits associated with share-based compensation was approximately $9 thousand for the year ended December 31, 2021, and was approximately $7 thousand for the year ended December 31, 2020.

At December 31, 2021, the Company had $220 thousand of unamortized restricted stock compensation, which is expected to be recognized over a period of three years. Restricted shares of stock granted have vesting and amortization periods of four years.

Following is a summary of restricted stock activities for the years ended December 31:

	2021		2020	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of year	1,700	$ 32.30	1,400	$ 28.78
Granted	5,000	40.42	1,000	34.77
Vested	(950)	30.36	(700)	28.78
Forfeited	-	-	-	-
Non-vested, end of year	5,750	39.68	1,700	32.30

Following is a summary of stock option transactions for the years ended December 31:

	2021		2020	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	-	$ -	21,000	$ 3.00
Granted	-	-	-	-
Exercised	-	-	(21,000)	3.00
Forfeited	-	-	-	-
Outstanding, end of year	-	-	-	-
Exercisable, end of year	-	-	-	-

The total intrinsic value of options exercised during December 31, 2020 was $659 thousand.

NOTE 25. Segment Reporting

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

Community Banking

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

Mortgage Banking

The Mortgage Banking segment originates residential mortgage loans for the primary purpose of sale on the secondary market. The segment consists of both a consumer direct channel with locations in Kansas and Michigan utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complimented by a relationship based retail channel with 9 locations in North Dakota, Arizona, Kansas and Illinois. Revenues for mortgage banking consist primarily of interest earned on mortgage loans held for sale, gains on sales of loans, unrealized gains or losses on mortgage financial instruments, and loan origination fees.

Holding Company

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

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

	2021				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 30,192	$ 3,265	$ 36	$ (36)	$ 33,457
Interest expense	1,936	-	237	(36)	2,137
Net interest income (expense)	28,256	3,265	(201)	-	31,320
Credit for credit losses	(350)	-	-	-	(350)
Net interest income (expense) after credit for credit losses	28,606	3,265	(201)	-	31,670
Non-interest income	9,126	37,742	1,775	(3,960)	44,683
Non-interest expense	24,472	24,720	2,415	(3,960)	47,647
Income (loss) before income taxes	13,260	16,287	(841)	-	28,706
Income tax expense (benefit)	2,934	4,039	(222)	-	6,751
Net income (loss)	$ 10,326	$ 12,248	$ (619)	$ -	$ 21,955
Total Assets at December 31, 2021	$ 961,497	$ 85,004	$ 12,534	$ (11,663)	$ 1,047,372

(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.

	2020				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 32,482	$ 4,593	$ 34	$ (563)	$ 36,546
Interest expense	3,913	530	358	(563)	4,238
Net interest income (expense)	28,569	4,063	(324)	-	32,308
Provision for credit losses	2,670	-	-	-	2,670
Net interest income (expense) after provision for credit losses	25,899	4,063	(324)	-	29,638
Non-interest income	8,478	79,874	1,891	(4,289)	85,954
Non-interest expense	27,621	30,317	3,458	(4,289)	57,107
Income (loss) before income taxes	6,756	53,620	(1,891)	-	58,485
Income tax expense (benefit)	931	13,405	(456)	-	13,871
Net income (loss)	$ 5,825	$ 40,215	$ (1,426)	$ -	$ 44,614
Total Assets at December 31, 2020	$ 801,519	$ 271,256	$ 38,183	$ (36,827)	$ 1,074,131

(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 26. Condensed Financial Information-Parent Company Only

Condensed financial information of BNCCORP, INC. on a parent company only basis is as follows:

Parent Company Only
Condensed Balance Sheets
As of December 31,
(In thousands, except per share data)

	2021	2020
Assets:		
Cash and cash equivalents	$ 11,732	$ 37,113
Investment in subsidiaries	118,259	124,711
Receivable from subsidiaries	366	147
Other	436	923
Total assets	$ 130,793	$ 162,894
Liabilities and stockholders' equity:		
Subordinated debentures	$ 15,001	$ 15,004
Payable to subsidiaries	69	70
Accrued expenses and other liabilities	737	29,591
Total liabilities	15,807	44,665
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,554,983 and 3,540,522 shares issued and outstanding	36	35
Capital surplus – common stock	26,068	25,871
Retained earnings	87,378	86,991
Treasury stock (113,670 and 128,131 shares, respectively)	(1,650)	(1,850)
Accumulated other comprehensive income, net	3,154	7,182
Total stockholders' equity	114,986	118,229
Total liabilities and stockholders' equity	$ 130,793	$ 162,894

Parent Company Only
Condensed Statements of Income
For the Years Ended December 31,
(In thousands)

	2021	2020
Income:		
Management fee income	$ 1,721	$ 1,839
Interest	36	34
Other	62	64
Total income	1,819	1,937
Expenses:		
Interest	244	370
Salaries and benefits	934	1,582
Legal and other professional	759	1,065
Other	724	811
Total expenses	2,661	3,828
Loss before income tax benefit and equity in earnings of subsidiaries	(842)	(1,891)
Income tax benefit	222	465
Loss before equity in earnings of subsidiaries	(620)	(1,426)
Equity in earnings of subsidiaries	22,575	46,040
Net income	$ 21,955	$ 44,614

Parent Company Only
Condensed Statements of Cash Flows
For the Years Ended December 31,
(In thousands)

	2021	2020
Operating activities:		
Net income	$ 21,955	$ 44,614
Adjustments to reconcile net income to net cash provided by operating activities -		
Equity in earnings of subsidiaries	(22,575)	(46,042)
Dividend received from subsidiaries	25,000	30,000
Share-based compensation	398	305
Change in other assets	268	1,620
Change in other liabilities	(179)	(120)
Net cash provided by operating activities	24,867	30,377
Financing activities:		
Dividends paid on common stock	(50,248)	-
Net cash used in financing activities	(50,248)	-
Net (decrease) increase in cash and cash equivalents	(25,381)	30,377
Cash and cash equivalents, beginning of year	37,113	6,736
Cash and cash equivalents, end of year	$ 11,732	$ 37,113
Supplemental cash flow information:		
Interest paid	$ 249	$ 443
Income taxes paid	$ 6,356	$ 11,996

CORPORATE DATA

Investor Relations

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Telephone (701) 250-3040 | Facsimile (701) 222-3653

Daniel J. Collins
President & Chief Executive Officer
(612) 305-2210

Justin C. Currie
Chief Financial Officer
(701) 250-3042

Annual Meeting

The 2022 annual meeting of stockholders will be held at 8:30 a.m. (Central Daylight time) on Thursday, June 23, 2022 by virtual meeting.

Independent Public Accountants

CliftonLarsonAllen LLP
220 South Sixth Street, Suite 300
Minneapolis, MN 55402-1436

Securities Listing

BNCCORP, INC.'s common stock is traded on the OTCQX Markets under the symbol: "BNCC".

COMMON STOCK PRICES

For the Years Ended December 31,

	2021[1]		2020[1]	
	High	Low	High	Low
First Quarter	$49.75	$36.10	$35.07	$19.00
Second Quarter	$39.80	$36.50	$23.00	$15.85
Third Quarter	$41.40	$37.60	$31.99	$22.00
Fourth Quarter	$45.40	$36.90	$45.99	$30.18

[1] The quotes represent the high and low closing sales prices as reported by OTCQX Markets.

Stock Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

Corporate Broker

D.A. Davidson Community Banking and Wealth Management Group
1-800-288-2811 | cbwm@dadco.com

Directors, BNCCORP, INC.

Michael M. Vekich,
Chairman of the Board and CEO, Vekich Chartered

John W. Palmer,
Principal & Managing Member, PL Capital Advisors, LLC

Nathan P. Brenna,
Owner, Brenna Farm & Ranch
Former Attorney

Tom Redmann,
Retired Loan Officer, Bank of North Dakota

Gaylen Ghylin,
Retired EVP, Secretary & CFO of Tiller Corporation d/b/a Barton Sand & Gravel Co., Commercial Asphalt Co. & Barton Enterprises, Inc.

Tracy J. Scott,
Retired Co-Founder of BNCCORP, INC.

Directors, BNC National Bank

Nathan P. Brenna
Gaylen Ghylin
John W. Palmer
Tom Redmann
Tracy J. Scott
Michael M. Vekich
Daniel J. Collins

BNC National Bank

BANK BRANCHES – ND:

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Bismarck, ND 58501

Bismarck South
219 South 3rd Street
Bismarck, ND 58504

Bismarck North[2]
801 East Century Avenue
Bismarck, ND 58503

Bismarck Sunrise[2]
3000 Yorktown Drive
Bismarck, ND 58503

Crosby
206 South Main Street
Crosby, ND 58730

Garrison
92 North Main
Garrison, ND 58540

Linton
104 North Broadway
Linton, ND 58552

Stanley
210 South Main
Stanley, ND 58784

Watford City
205 North Main
Watford City, ND 58854

Mandan[2]
2711 Sunset Drive NW
Mandan, ND 58554

BANK BRANCHES - AZ

Glendale – Charter Address
20175 North 67th Ave
Glendale, AZ 85308

MORTGAGE BANKING OFFICES:

Glendale
6685 W. Beardsley
Glendale, AZ 85383

Wichita
8558 W 21st Street N
Wichita, KS 67205

Overland Park
7007 College Boulevard
Overland Park, KS 66211

Moline
800 36th Avenue
Moline, IL 61265

Farmington Hills
35055 West 12 Mile Road, Suite 140
Farmington Hills, MI 48331

(2) Bank branches offering mortgage banking services.

BNCCORP, INC.

BNCCORP

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