2023
ANNUAL REPORT

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.

CORPORATE PROFILE

BNCCORP, INC. (BNCCORP or the Company) is a bank holding company and the parent of BNC National Bank (BNC or the Bank), which is a diversified community bank with three primary areas of focus: commercial banking, retail banking and wealth management. On June 16, 2023, the Bank sold certain operating assets and assigned certain liabilities related to the Company's mortgage segment to First Federal Bank as we exited the mortgage banking segment.

Commercial Banking

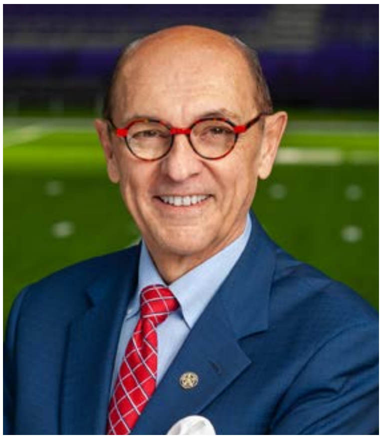
We meet the needs of small- to mid-sized businesses with a range of commercial banking services, including business financing, commercial real estate lending, SBA loans, business checking, cash management, corporate credit cards and merchant services. Our commercial banking relationships are primarily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

Retail Banking

BNC's retail banking services are provided through a network of locations in North Dakota and Arizona along with online access and transaction capabilities. 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 have been rewarded by our customers' loyalty by being responsive to their preferences for convenient face-to-face transactional banking.

Wealth Management

We seek to be a trusted advisor to our clients as they plan for retirement and manage their investments by providing wealth management solutions, including, personal wealth advisory services, 401(k) and other retirement plan administration. Many of our wealth management clients come to us from commercial banking relationships; we administer, for example, retirement savings plans for the employees of some of our business clients. In this way, we are well positioned to help clients manage wealth and transfer assets in a manner that enables them to accomplish their business and personal financial goals.



Michael M. Vekich
Chairman, Board of Directors

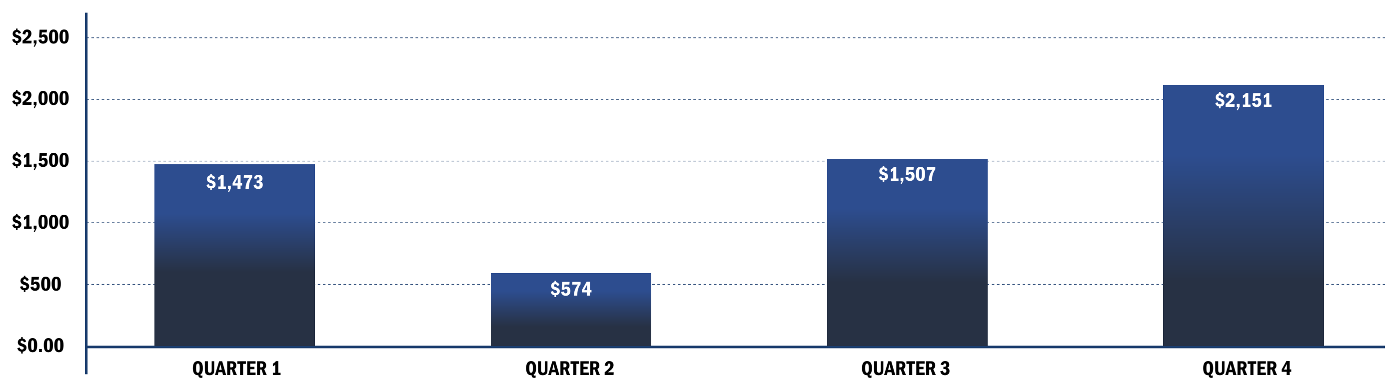
TO OUR SHAREHOLDERS, CUSTOMERS, EMPLOYEES, AND THE COMMUNITIES WE SERVE:

Regular readers of our annual reports may recall management's selection of the words ***"committed, confident and resolute"*** to describe its approach to future challenges and opportunities. As we look back on 2023, a year marked by significant changes and challenges to our industry, we continue to believe those words help our stakeholders understand our management philosophy: Our ***commitment*** to our core values remains intact, our ***confidence*** in our strategy has been validated by our performance and we remain ***resolute*** in our belief that we are well-positioned to meet the challenges and opportunity ahead.

FINANCIAL PERFORMANCE

In 2023, the Company reported net income of $5.7 million, or $1.59 per diluted share, compared to $6.5 million, or $1.82 per diluted share, in 2022. The decrease in net income was primarily due to our mortgage segment loss of $3.4 million in 2023. The strategic plan to exit the mortgage banking business was executed in June of 2023. The third and fourth quarter results in the chart above reflect the improved earnings after the mortgage divestiture.

BNCCORP, INC. 2023 QUARTERLY NET INCOME
(dollars in thousands)



MORTGAGE BUSINESS DIVESTITURE

In 2023, the Board made the strategic decision to exit the mortgage banking business. After careful consideration of the industry, its prospects and our options, we entered into an agreement with First Federal Bank to sell certain operating assets and assign certain liabilities of our mortgage division, which we completed in June of 2023.

This decision allows us to focus on our core community banking operations and redeploy resources to areas with greater growth potential. We are confident this strategic shift was well-timed and positions the Company for long-term success.

Daniel J. Collins
President & Chief Executive Officer

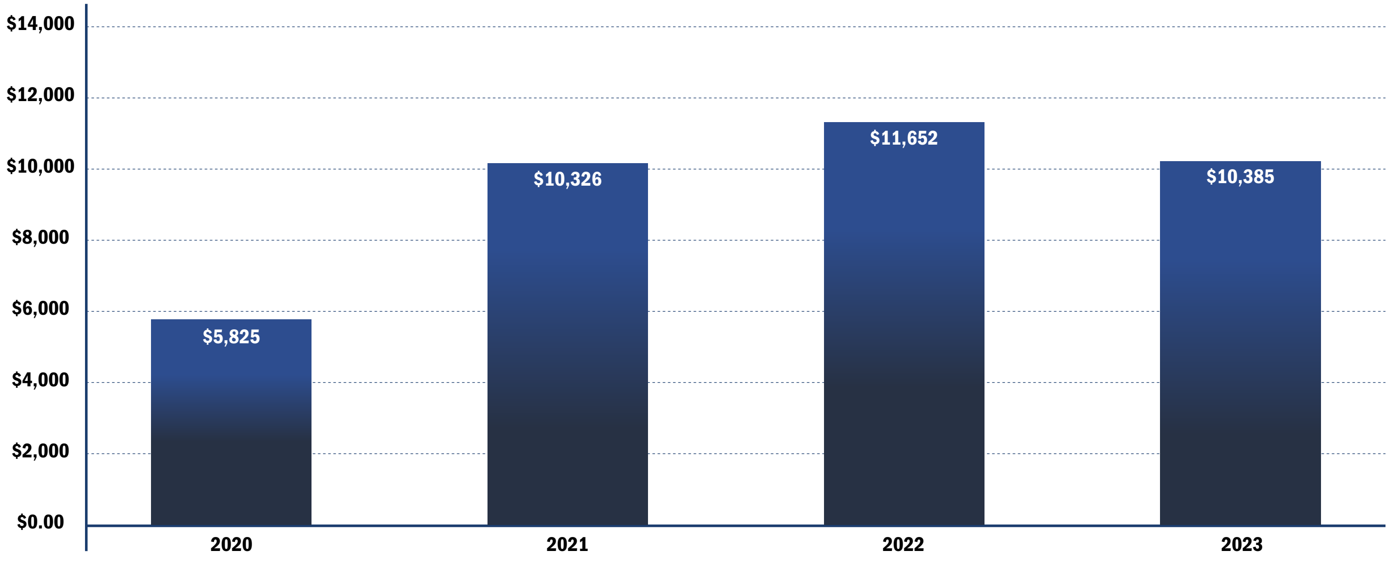
COMMUNITY BANKING STRENGTH

Our community banking segment remained the cornerstone of our success in 2023. We continued to prioritize relationship building, personalized service and tailored solutions for our customers in North Dakota and Arizona. This focus resulted in a 9.0% increase in net interest income for the segment, driven by loan growth and higher yields.

Our community banking segment financial performance remained strong in 2023, reporting net income of $10.4 million, showcasing the resilience of our core operations. As we approached the third and fourth quarters of 2023 the positive impact of the mortgage banking business divestiture can be seen in the positive earnings growth in the quarterly net income chart.

COMMUNITY BANKING SEGMENT - NET INCOME

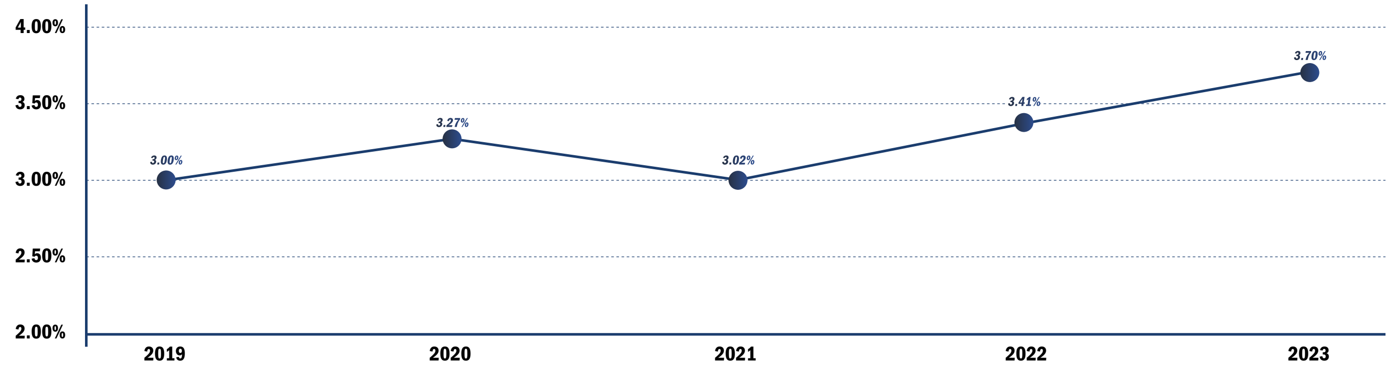
(dollars in thousands)



Consolidated net interest income for 2023 was $32.3 million, a 4.4% increase from the prior year, driven by growth in loans held for investment and higher yields, despite increased deposit and subordinated debenture costs as the Federal Reserve enacted an unprecedented increase in the Federal Funds rate. Our net interest margin improved to 3.70% in 2023 from 3.41% in 2022, reflecting our focus on quality loan growth, margin protection and efficient balance sheet management.

This net interest margin was achieved despite 11 Federal Funds rate increases over only seven quarters raising the benchmark rate from 0.25% to 5.50%. It is a testament to our BNC employees consistent dedication to high customer focus over many years that we were able to weather the impact of these increases and banking industry turmoil while maintaining strong liquidity, net interest margin and customer loyalty.

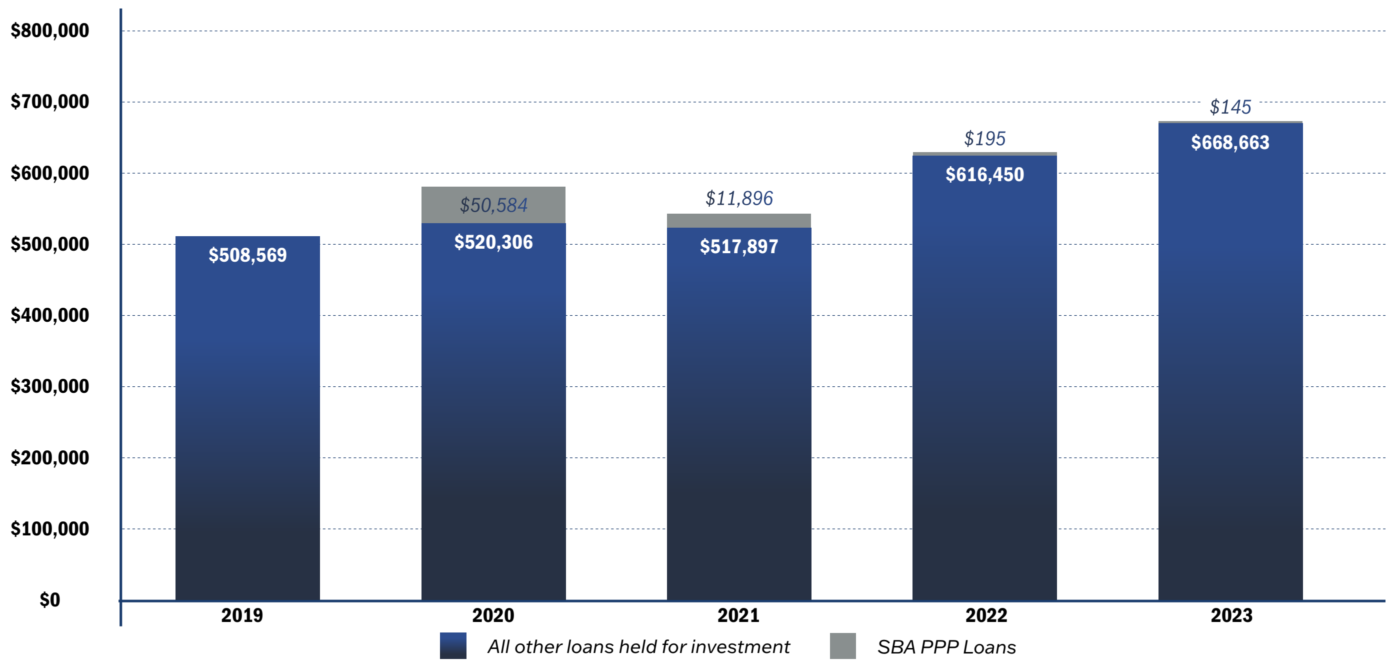
NET INTEREST MARGIN



Loans held for investment grew by 16% in 2022 followed by 8.5% in 2023 to $668.8 million at the end of 2023.

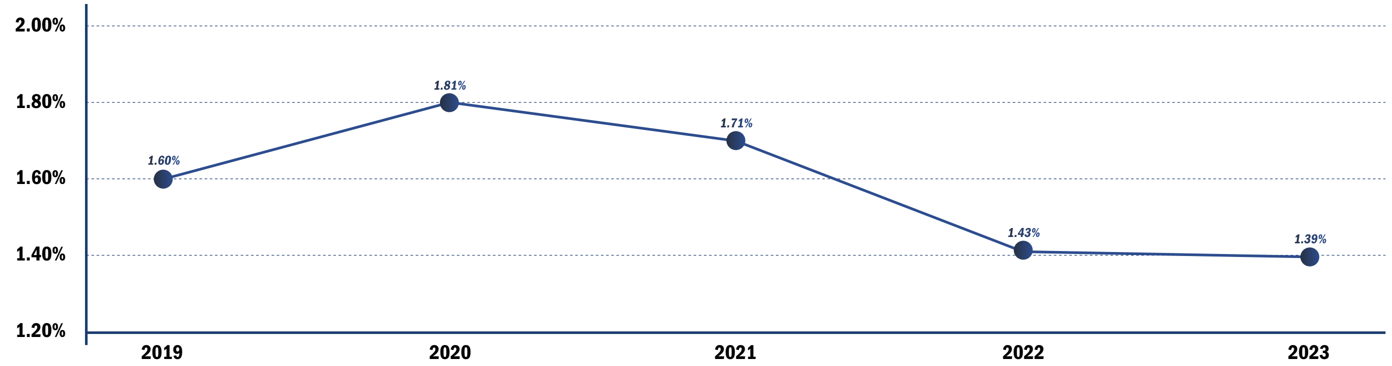
LOANS HELD FOR INVESTMENT (PERIOD-END)

(dollars in thousands)



This strong growth was achieved while maintaining a well-grounded credit quality profile. In a similar indicator of the strength of our portfolio, our allowance for credit losses as a percentage of loans held for investment decreased to 1.39% as of December 31, 2023 from 1.43% at the end of 2022. At the same time, non-performing assets remained low at $3.4 million, representing 0.35% of total assets, and were not concentrated in any particular relationship or industry.

ALLOWANCE FOR CREDIT LOSSES TO LOANS HELD FOR INVESTMENT

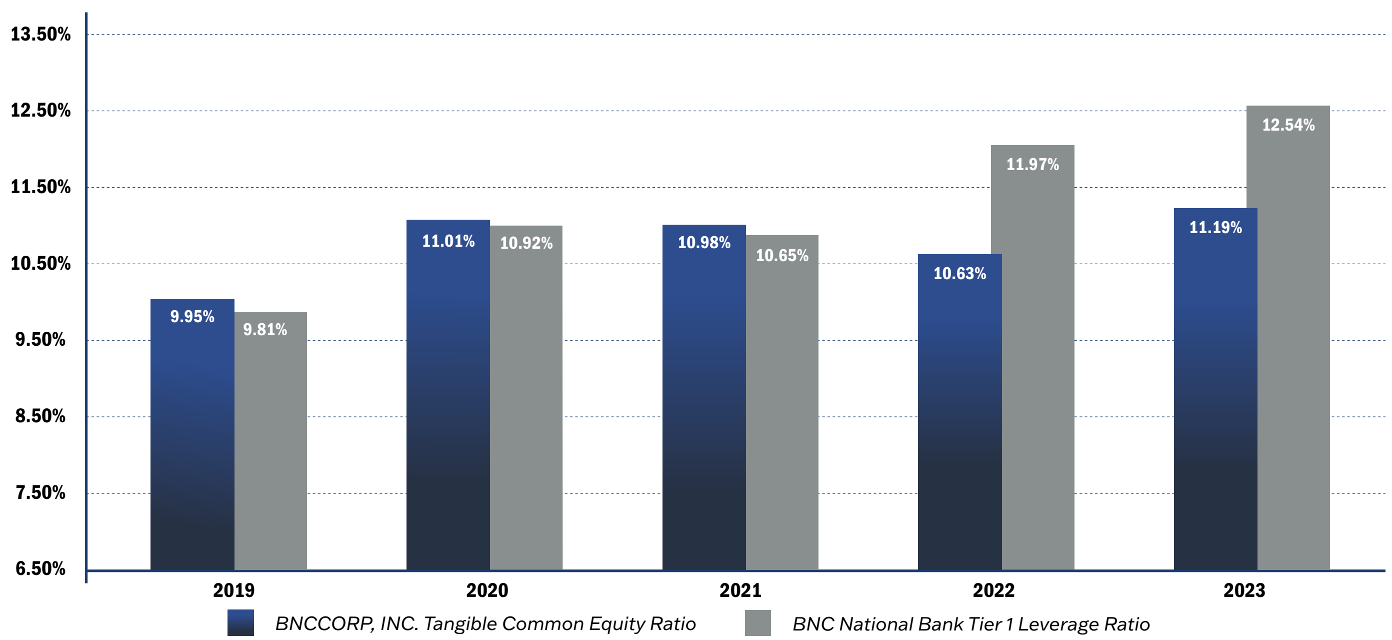


During the year, we continued to make significant investments in our digital capabilities and technology infrastructure to enhance the customer experience and drive operational efficiencies. These initiatives, combined with our unwavering commitment to our communities, position us well for the future.

SHAREHOLDER COMMITMENT

Our Board's governing philosophy prioritizes returning to Shareholders any capital not needed to maintain and grow the Company's business or to be retained as reserve or liquidity purposes. We have historically valued a strong balance sheet, including maintaining sufficient high quality capital to allow for management of risks inherent in our industry. As demonstrated below, we have maintained strong capital levels over time.

BNCCORP, INC. AND BNC NATIONAL BANK CAPITAL RATIOS



We believe these actions reflect our ***strong financial position***, our ***confidence*** in BNC's future prospects and our ***commitment*** to our shareholders.

The Company strives to balance prudent capital retention with creating and returning long-term value for our shareholders. In line with this commitment, we were pleased that our Board declared a special, one-time cash dividend of $2.25 per share, on February 2, 2024.

Beginning with our first special dividend declared in 2020, we have now returned $18.00 per share totaling $64.7 million to shareholders in the form of special dividends. In addition, utilizing the 175,000 share repurchase authorization enacted in December 2020, we recently repurchased 50,000 shares at a significant discount to tangible book value. We believe these actions reflect our strong financial position, our confidence in BNC's future prospects and our commitment to our shareholders.

LOOKING AHEAD- POSITIONED FOR SUCCESS

As we move forward, our focus for 2024 and beyond will be on driving responsible growth in our community banking segment, leveraging our technology investments for enhanced efficiency, and maintaining a disciplined approach to credit risk management.

We will continue to prioritize the needs of our customers, empower our talented team members and support the communities we serve. By staying true to our principles and executing our strategy, we believe we can continue to deliver long-term value to our shareholders.

On behalf of the Board of Directors and the entire BNC team, thank you for your continued trust and support. We look forward to building on our strengths and seizing the opportunities that lie ahead.

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.

BNCCORP

Year End Financial Report

For the Year Ended December 31, 2023

BNCCORP, INC.

(OTCQX: BNCC)

322 East Main Avenue
Bismarck, North Dakota 58501
(701) 250-3040

BNCCORP, INC.
INDEX TO YEAR END FINANCIAL REPORT
December 31, 2023
TABLE OF CONTENTS

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,				
	2023	2022	2021	2020	2019
Income Statement Data:					
Total interest income	$ 43,278	$ 33,613	$ 33,457	$ 36,546	$ 37,817
Total interest expense	10,968	2,655	2,137	4,238	9,101
Net interest income	32,310	30,958	31,320	32,308	28,716
Provision (Credit) for credit losses	815	(150)	(350)	2,670	700
Non-interest income	10,004	19,128	44,683	85,954	29,131
Non-interest expense	34,183	41,907	47,647	57,107	43,991
Income tax expense	1,611	1,829	6,751	13,871	2,921
Net income	$ 5,705	$ 6,500	$ 21,955	$ 44,614	$ 10,235
Balance Sheet Data: (at end of period)					
Total assets	$ 968,205	$ 943,321	$ 1,047,372	$ 1,074,131	$ 966,750
Investments securities available for sale	159,772	174,876	208,978	183,717	265,278
Loans held for sale-mortgage banking	-	37,764	80,923	250,083	137,114
Loans held for investment, net of unearned income	668,808	616,645	529,793	570,890	508,569
Allowance for credit losses	(9,284)	(8,831)	(9,080)	(10,324)	(8,141)
Total deposits	837,203	819,584	906,668	853,158	820,547
Short-term borrowings	-	-	-	6,385	4,565
Federal Home Loan Bank advances	-	-	-	30,900	17,000
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,464	15,000	15,001	15,004	15,006
Dividends declared on common stock	-	6,303	21,568	28,680	-
Common stockholders' equity	108,418	100,346	114,986	118,229	96,278
Book value per common share outstanding	$ 30.38	$ 28.19	$ 32.35	$ 33.39	$ 27.39
Tangible common equity ratio	11.19%	10.63%	10.98%	11.01%	9.95%
Earnings Performance / Share Data:					
Return on average total assets	0.62%	0.67%	2.00%	4.21%	1.01%
Return on average common stockholders' equity, excluding accumulated other comprehensive income	4.94%	5.81%	17.87%	38.84%	11.41%
Efficiency ratio	80.78%	83.67%	62.69%	48.29%	76.05%
Net interest margin	3.70%	3.41%	3.02%	3.27%	3.00%
Net interest spread	3.22%	3.30%	2.94%	3.14%	2.79%
Basic earnings per common share	$ 1.59	$ 1.82	$ 6.15	$ 12.52	$ 2.90
Diluted earnings per common share	$ 1.59	$ 1.82	$ 6.15	$ 12.52	$ 2.88
Average common shares outstanding	3,577,421	3,573,934	3,568,579	3,563,203	3,526,096
Average common and common equivalent shares	3,580,239	3,574,864	3,569,134	3,564,783	3,557,585
Shares outstanding at year end	3,569,210	3,559,334	3,554,983	3,540,522	3,514,770
Other Key Ratios					
Nonperforming assets to total assets	0.35%	0.15%	0.16%	0.24%	0.21%
Nonperforming loans to total assets	0.35%	0.14%	0.16%	0.24%	0.21%
Nonperforming loans to loans held for investment	0.50%	0.22%	0.32%	0.46%	0.40%
Allowance for credit losses to loans held for investment	1.39%	1.43%	1.71%	1.81%	1.60%

Quarterly Financial Data

	2023				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Interest income	$ 10,006	$ 10,697	$ 11,086	$ 11,489	$ 43,278
Interest expense	1,565	2,654	3,226	3,523	10,968
Net interest income	8,441	8,043	7,860	7,966	32,310
Provision for credit losses	240	165	230	180	815
Net interest income after credit for credit losses	8,201	7,878	7,630	7,786	31,495
Non-interest income	3,631	3,712	1,118	1,543	10,004
Non-interest expense	9,906	10,840	6,778	6,659	34,183
Income before income taxes	1,926	750	1,970	2,670	7,316
Income tax expense	453	176	463	519	1,611
Net income	$ 1,473	$ 574	$ 1,507	$ 2,151	$ 5,705
Basic earnings per common share	$ 0.41	$ 0.16	$ 0.42	$ 0.60	$ 1.59
Diluted earnings per common share	$ 0.41	$ 0.16	$ 0.42	$ 0.60	$ 1.59
Average common shares:					
Basic	3,575,520	3,578,029	3,578,029	3,578,029	3,577,421
Diluted	3,577,837	3,580,273	3,581,222	3,581,546	3,580,239

	2022				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Interest income	$ 7,301	$ 7,793	$ 8,853	$ 9,666	$ 33,613
Interest expense	392	415	746	1,102	2,655
Net interest income	6,909	7,378	8,107	8,564	30,958
(Credit) provision for credit losses	(550)	-	150	250	(150)
Net interest income after provision for credit losses	7,459	7,378	7,957	8,314	31,108
Non-interest income	5,512	5,778	4,465	3,373	19,128
Non-interest expense	11,045	10,530	10,399	9,933	41,907
Income before income taxes	1,926	2,626	2,023	1,754	8,329
Income tax expense	453	617	475	284	1,829
Net income	$ 1,473	$ 2,009	$ 1,548	$ 1,470	$ 6,500
Basic earnings per common share	$ 0.41	$ 0.56	$ 0.43	$ 0.41	$ 1.82
Diluted earnings per common share	$ 0.41	$ 0.56	$ 0.43	$ 0.41	$ 1.82
Average common shares:					
Basic	3,572,405	3,574,783	3,574,677	3,573,848	3,573,934
Diluted	3,573,365	3,575,629	3,575,502	3,574,935	3,574,864

Operating Strategy

BNC National Bank is a community bank that focuses on business banking, retail 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 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. 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):

	2023	2022
Selected Income Statement Data		
Interest income	$ 43,278	$ 33,613
Interest expense	10,968	2,655
Net interest income	32,310	30,958
Credit for credit losses	815	(150)
Non-interest income	10,004	19,128
Non-interest expense	34,183	41,907
Income before income taxes	7,316	8,329
Income tax expense	1,611	1,829
Net income	$ 5,705	$ 6,500
Earnings Per Share Data		
Basic earnings per common share	$ 1.59	$ 1.82
Diluted earnings per common share	$ 1.59	$ 1.82

Comparison of 2023 to 2022 Net Income:

- In 2023, net interest income increased 4.4% from 2022. The increase in net interest income reflects higher yields and balances of loans held for investment along with higher rates on interest bearing cash and debt securities, partially offset by increased deposit costs and subordinate debentures. Net interest margin increased to 3.70% in 2023, compared to 3.41% in 2022.
- A provision of $815 thousand was recorded in 2023 resulting in a 1.39% ratio of allowance for credit losses to loans held for investment. At December 31, 2023, non-performing assets were 0.35% of total assets, compared to 0.15% at December 31, 2022. In 2022, the Company credited provision expense to release $150 thousand of its allowance for credit losses.
- Non-interest income decreased $9.1 million, or 47.7%, when comparing 2023 to 2022. The decrease primarily relates to a $7.7 million decrease in mortgage banking revenue, net. In 2023, the Company divested its mortgage business by selling certain assets to and the assumption of certain operating liabilities by another financial institution. Other income in 2023 was $1.1 million lower than 2022 as the Company received higher SBIC revenue, recognized gains on the sale of the Golden Valley, MN location along with receipt of life insurance proceeds in the 2022 period.
- Non-interest expense decreased by $7.7 million, or 18.4%, from 2022 to 2023. During 2023, non-interest expense for the Community Banking Segment increased $992 thousand, or 4.0%, which reflects normal inflationary pressures. The increase was more than offset by the reductions in expenses for mortgage banking as a result of the divestiture.
- In 2023, the effective tax rate was 22.0%, unchanged from 2022.

General

Net income in 2023 was $5.7 million compared to net income of $6.5 million in 2022. Earnings per diluted share was $1.59 in 2023 and $1.82 in 2022.

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, 2023			For the Year ended December 31, 2022			For the Year ended December 31, 2021		
	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	$ 40,901	$ 2,107	5.15%	$ 109,950	$ 1,262	1.15%	$ 177,338	$ 232	0.13%
FHLB Stock	1,144	35	3.02%	1,268	38	3.01%	1,292	40	3.10%
Federal Reserve Stock	1,807	108	6.00%	1,807	109	6.00%	1,807	108	6.00%
Debt securities-taxable	164,380	5,427	3.30%	186,380	4,225	2.27%	182,298	3,626	1.99%
Debt securities-tax exempt	1,568	19	3.71%	5,937	230	3.88%	6,575	232	3.53%
Loans held for sale-mortgage banking	26,743	1,531	5.72%	49,862	2,025	4.06%	124,897	3,173	2.54%
Loans held for investment	644,536	34,051	5.28%	561,318	25,724	4.58%	553,493	26,046	4.71%
Allowance for credit losses	(8,952)	-	0.00%	(8,651)	-	0.00%	(10,275)	-	0.00%
Total interest-earning assets	872,127	$ 43,278	4.96%	907,871	$ 33,613	3.70%	1,037,425	$ 33,457	3.22%
Non-interest-earning assets:									
Cash and due from banks	10,550			10,038			9,258		
Other	44,407			46,565			51,739		
Total assets	$ 927,084			$ 964,474			$ 1,098,422		
Liabilities and Stockholders' Equity									
Deposits:									
Interest checking and money market accounts	$ 509,434	$ 8,965	1.76%	$ 522,240	$ 1,838	0.35%	$ 600,307	$ 1,167	0.19%
Savings	46,746	47	0.10%	51,510	20	0.04%	47,404	15	0.03%
Certificates of deposit	59,273	937	1.58%	65,238	304	0.47%	94,264	713	0.76%
Total interest-bearing deposits	615,453	9,949	1.62%	638,988	2,162	0.34%	741,975	1,895	0.26%
Borrowings:									
Short-term borrowings	136	-	0.00%	241	1	0.41%	1,941	4	0.17%
FHLB advances	113	5	4.87%	118	3	2.44%	491	1	0.30%
Subordinated debentures	15,039	1,014	6.74%	15,000	489	3.25%	15,003	237	1.58%
Total interest-bearing liabilities	630,741	$ 10,968	1.74%	654,347	$ 2,655	0.40%	759,410	$ 2,137	0.28%
Non-interest-bearing demand accounts	186,197			195,021			192,452		
Total deposits and interest-bearing liabilities	816,938			849,368			951,862		
Other non-interest-bearing liabilities	6,456			9,575			18,003		
Total liabilities	823,394			858,943			969,865		
Stockholders' equity	103,690			105,531			128,557		
Total liabilities and stockholders' equity	$ 927,084			$ 964,474			$ 1,098,422		
Net interest income		$ 32,310			$ 30,958			$ 31,320	
Net interest spread			3.22%			3.30%			2.94%
Net interest margin			3.70%			3.41%			3.02%
Ratio of average interest-earning assets to average interest-bearing liabilities	138.27%			138.74%			136.61%		

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, 2023 Compared to 2022			For the Years Ended December 31, 2022 Compared to 2021		
	Change Due to			Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earned on Interest-Earning Assets						
Interest-bearing due from banks	$ (1,214)	$ 2,059	$ 845	$ (120)	$ 1,150	$ 1,030
FHLB Stock	(3)	-	(3)	(1)	(1)	(2)
Federal Reserve Stock	-	(1)	(1)	-	1	1
Debt securities-taxable	(545)	1,747	1,202	84	515	599
Debt securities-tax exempt	(109)	(102)	(211)	(24)	22	(2)
Loans held for sale- mortgage banking	(1,143)	649	(494)	(2,478)	1,330	(1,148)
Loans held for investment	4,113	4,214	8,327	(202)	(120)	(322)
Total increase (decrease) in interest income	1,098	8,567	9,665	(2,741)	2,897	156
Interest Expense on Interest-Bearing Liabilities						
Interest checking and money market accounts	367	6,760	7,127	(344)	1,015	671
Savings	(2)	29	27	1	4	5
Certificates of deposit	(20)	653	633	(177)	(232)	(409)
Short-term borrowings	-	(1)	(1)	(6)	3	(3)
FHLB advances	-	2	2	(2)	4	2
Subordinated debentures	1	524	525	-	252	252
Total increase (decrease) in interest expense	346	7,967	8,313	(528)	1,046	518
Increase (decrease) in net interest income	$ 752	$ 600	$ 1,352	$ (2,213)	$ 1,851	$ (362)

Net interest income was $32.3 million in 2023 compared to $31.0 million in 2022, an increase of $1.3 million, or 4.4%. The net interest margin increased to 3.70% for the year ended December 31, 2023, from 3.41% in 2022. Overall, yields on earning assets were 4.96% in 2023 and 3.70% in 2022. Average loans held for investment increased $83.2 million in 2023, or 14.8%, compared to 2022. Average loans held for sale decreased $23.1 million when compared to 2022. The increase in interest income is the result of higher yields on interest earning assets and an $83.2 million increase in average balances of loans held for investment partially offset by lower average balances of loans held for sale. The average balance of debt securities decreased $26.4 million from 2022.

In line with the overall increase in interest rates, the cost of interest bearing deposits was 1.62% in 2023 and 0.34% in 2022. The Company has experienced elevated levels of customers deploying excess deposit balances to national brokered deposits to capture short-term rates offered in the market, most often by non-bank brokerage firms. The cost of interest-bearing liabilities was 1.74% during 2023, compared to 0.41% in the same period of 2022. The Company has managed its overall cost of deposits at levels well below the prevailing brokered deposit rates offered by national brokerage firms while staying focused on maintaining liquidity.

Net interest income was $31.0 million in 2022 compared to $31.3 million in 2021, a decrease of $362 thousand, or 1.2%. The net interest margin increased to 3.41% for the year ended December 31, 2022, from 3.02% in 2021. Overall, yields on earning assets were 3.70% in 2022 and 3.22% in 2021. Average loans held for investment increased $7.8 million in 2022, or 1.4%, compared to 2021. The $7.8 million increase in average loans held for investment was comprised of an overall increase of $53.6 million that was partially offset by a $45.8 million decrease in average PPP loans. Average loans held for sale decreased $75.0 million, or 60.1%, when compared to 2021. The increase in interest income is the result of the impact of higher rates on interest bearing cash and debt securities partially offset by lower average balances of loans held for sale and lower yields on loans held for investment due to lower PPP fees. Average debt securities increased $3.4 million from 2021.

The cost of interest bearing deposits was 0.34% in 2022 and 0.26% in 2021 reflecting the impact of interest rate increases by the Federal Reserve during 2022. The Company continues to manage its overall cost of deposits while indexed rates substantially increased. The cost of interest-bearing liabilities increased to 0.40% in 2022 from 0.28% in 2021 due to the increased cost of deposits, as well as an increase cost of subordinated debentures.

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)		
	2023	2022	$	%	
Bank charges and service fees	$ 3,615	$ 3,719	$ (104)	(3) %	
Wealth management revenues	1,948	1,981	(33)	(2) %	
Mortgage banking revenues, net	3,771	11,459	(7,688)	(67) %	(a)
Gains on sales of loans, net	16	262	(246)	(94) %	(b)
Gains on sales of debt securities, net	12	-	12	100 %	(c)
Other	642	1,707	(1,065)	(62) %	(d)
Total non-interest income	$ 10,004	$ 19,128	$ (9,124)	(48) %	

(a) Mortgage banking revenues decreased as the Company divested its mortgage business by selling certain assets to and assumption of certain operating liabilities by another financial institution.
(b) Gains on sales of loans decreased as the Company has elected to hold the guaranteed portion of SBA loans as premiums available have become less attractive in recent periods.
(c) Gains on sales of debt securities may vary significantly from period to period as the Company manages its risk and return profile through changing economic conditions.
(d) The decrease in other income is primarily due to the Company recording a gain on the sale of the Golden Valley, MN location in 2022 along with lower SBIC revenue than the 2022 period. The Company also recorded a loss on sale of fixed assets during 2023 as a result of the mortgage divestiture.

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)		
	2023	2022	$	%	
Salaries and employee benefits	$ 17,517	$ 21,194	$ (3,677)	(17) %	(a)
Professional services	3,419	3,584	(165)	(5) %	(b)
Data processing fees	3,722	3,952	(230)	(6) %	(c)
Marketing and promotion	3,127	5,660	(2,533)	(45) %	(d)
Occupancy	1,785	2,192	(407)	(19) %	(e)
Regulatory costs	470	468	2	- %	
Depreciation and amortization	1,094	1,231	(137)	(11) %	(f)
Office supplies and postage	415	425	(10)	(2) %	
Other	2,634	3,201	(567)	(18) %	(g)
Total non-interest expense	$ 34,183	$ 41,907	$ (7,724)	(18) %	
Efficiency ratio	80.78%	83.67%	(2.89)%		

(a) Salaries and employee benefits decreased primarily due to lower salaries within the mortgage banking segment as a result of the mortgage divestiture.
(b) Professional services expense decreased due to lower mortgage operating costs, partially offset by recording $840 thousand of one-time expenses related to the Company's exit from the mortgage business.

(c) Data processing fees decreased due to lower software and licensing fees associated with the mortgage banking segment being partially offset by increased card processing charges in the community banking segment.
(d) Marketing and promotion decreased primarily due to lower marketing costs within the mortgage segment.
(e) Occupancy expense decreased due to fewer locations within the mortgage banking segment.
(f) Depreciation and amortization expense decreased as groups of depreciable assets completed their estimated useful life in addition to the disposal of assets within the mortgage banking segment.
(g) Other expense decreased primarily due to lower travel & meals expense, insurance costs, mortgage obligation reserve provision, and other expenses.

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)		2023		2022
Number of funded mortgage loans held for sale		1,023		2,522
Mortgage loans held for sale funded	$	439,449	$	1,032,827
Average loans held for sale-mortgage banking	$	26,743	$	49,862
Loans held for sale-mortgage banking	$	-	$	37,764
Non-interest income:				
Gains on sale of loans held for sale, net of commission expense	$	4,232	$	14,128
Change in fair value of mortgage banking instruments (1)	$	(461)	$	(2,669)

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

The Company's mortgage banking division originated and sold a variety of conventional and government sponsored mortgage loan products with servicing released through two primary channels. The retail channel was predominantly relationship driven with originators capitalizing on local relationships to originate loans through the Company's retail bank branches and mid-west retail mortgage locations. The consumer direct channel was a nationwide mortgage platform that operated from Overland Park, Kansas, that used a call-center with internet sales focused on both purchase and refinance transactions.

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

On June 16, 2023 BNCCORP, INC. executed on a transaction with First Federal Bank (First Federal) under which First Federal purchased certain operating assets and assumed certain liabilities of BNC National Bank's mortgage division as part of the Company's strategic decision to exit the residential mortgage origination business.

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

Income Tax Expense

During 2023, the Company recorded tax expense of $1.6 million, which resulted in an effective tax rate of 22.0% compared to tax expense of $1.8 million in 2022, which resulted in an effective tax rate of 22.0%.

Subject to certain statutory limitations, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2023. The state net operating losses expire between 2024 and 2031.

Financial Condition

Total assets were $968.2 million at December 31, 2023, an increase of $24.9 million, compared to $943.3 million at December 31, 2022. This increase is primarily due to higher cash and cash equivalents and loans held for investment being partially offset by lower debt securities and loans held for sale.

Total loans held for investment aggregated $668.8 million at December 31, 2023, an increase of $52.2 million, or 8.5%, compared to December 31, 2022. The Company did not report any loans held for sale as of December 31, 2023, a decrease of $37.8 million when compared to December 31, 2022. Debt securities decreased $15.1 million from year-end 2022. Cash and cash equivalent balances were $102.5 million as of December 31, 2023.

Assets

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

	As of December 31,		Increase (Decrease)		
	2023	2022	$	%	
Cash and cash equivalents	$ 102,454	$ 73,968	$ 28,486	39 %	(a)
Debt securities available for sale	159,772	174,876	(15,104)	(9) %	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	2,372	3,063	(691)	(23) %	(c)
Loans held for sale-mortgage banking	-	37,764	(37,764)	(100) %	(d)
Loans held for investment, net	659,524	607,814	51,710	9 %	(e)
Premises and equipment, net	10,955	11,764	(809)	(7) %	(f)
Operating lease right of use asset	938	1,521	(583)	(38) %	(g)
Accrued interest receivable	4,206	3,312	894	27 %	(h)
Other assets	27,984	29,239	(1,255)	(4) %	
Total assets	$ 968,205	$ 943,321	$ 24,884	3 %	

(a) Cash balances increased as the Company experienced normal amortization of debt securities, proceeds from loans held for sale, and increased deposits that was partially used to fund growth in loans held for investment.
(b) Debt securities available for sale decreased as cash flows from the portfolio are being retained as liquidity and the impact of higher long-term rates on the fair value of debt securities.
(c) Decrease is due to the sale of FHLB membership stock.
(d) Loans held for sale decreased as the Company divested the mortgage banking segment during 2023.
(e) Loans held for investment increased as the Company continues to experience organic growth in core markets.
(f) Premises and equipment, net decreased due to normal depreciation along with the sale and disposal of assets from the mortgage banking segment.
(g) Decrease is primarily due to the assumption of the Company's Overland Park lease by another financial institution as a part of the mortgage transaction on June 16, 2023.
(h) Accrued interest receivable increased primarily due to higher volume of loans held for investment and the impact rising interest rates have had on new originations and variable rates assets on the Company's balance sheet.

Debt Securities Available for Sale

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

	As of December 31,			
	2023		2022	
	Amortized Cost	Estimated Fair Market Value	Amortized Cost	Estimated Fair Market Value
U.S. treasury securities	$ 25,872	$ 24,880	$ 19,864	$ 18,036
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC	21,282	18,095	23,485	20,147
U.S. government agency small business administration pools guaranteed by SBA	12,020	11,265	15,572	14,381
Collateralized mortgage obligations guaranteed by GNMA	8,051	7,764	10,096	9,758
Collateralized mortgage obligations issued by FNMA/FHLMC	55,750	50,890	64,285	58,752
Commercial mortgage-backed securities issued by FHLMC	16,927	15,714	17,557	16,081
Other commercial mortgage-backed securities	26,349	24,213	27,906	25,289
State and municipal bonds	8,062	6,951	13,562	12,432
Total investments	$ 174,313	$ 159,772	$ 192,327	$ 174,876

The following table presents contractual maturities for securities available for sale and yields thereon at December 31, 2023 (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)	$ 14,970	3.60%	$ 10,902	1.33%	$ -	0.00%	$ -	0.00%	$ 25,872	2.65%
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC(1) (2)	-	0.00%	-	0.00%	-	0.00%	21,282	2.75%	21,282	2.75%
U.S. government agency small business administration pools guaranteed by SBA(1) (2)	-	0.00%	1,186	5.50%	3,478	4.65%	7,356	4.68%	12,020	4.75%
Collateralized mortgage obligations guaranteed by GNMA(1) (2)	-	0.00%	-	0.00%	636	3.81%	7,415	3.87%	8,051	3.87%
Collateralized mortgage obligations issued by FNMA/FHLMC(1) (2)	-	0.00%	-	0.00%	5,055	3.92%	50,695	2.96%	55,750	3.04%
Commercial mortgage-backed securities issued by FHLMC(1) (2)	-	0.00%	5,984	3.36%	7,125	2.99%	3,818	3.86%	16,927	3.32%
Other commercial mortgage-backed securities(1) (2)	-	0.00%	4,490	3.37%	-	0.00%	21,859	3.32%	26,349	3.33%
State and municipal bonds(2) (3)	-	0.00%	-	0.00%	5,040	2.72%	3,022	2.76%	8,062	2.74%
Total book value of debt securities	$ 14,970	3.60%	$ 22,562	2.50%	$ 21,334	3.44%	$ 115,447	3.18%	174,313	3.16%
Net unrealized loss on debt securities available for sale									(14,541)	
Total investment in debt securities available for sale									$ 159,772	3.45%

(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, 2023, the Company had $159.8 million of debt securities available for sale compared to $174.9 million at December 31, 2022. In 2023, the cash flow from debt securities was being retained as liquidity and to fund a portion of the increase in loans held for investment.

At December 31, 2023, all classifications of debt securities available for sale exceeded 10% of stockholders' equity with exception of Collateralized Mortgage Obligations (CMO's) guaranteed by GNMA and State and Municipal bonds.

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 $565 thousand of Federal Home Loan Bank ("FHLB") stock as of December 31, 2023 and $1.8 million of FRB stock and $1.3 million of FHLB stock as of December 31, 2022.

Loans

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

	2023		2022		2021		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans held for sale-mortgage banking	$ -	100.0	$ 37,764	100.0	$ 80,923	100.0	$ 250,083	100.0	$ 137,114	100.0
Loans held for investment:										
Commercial and industrial	$ 216,055	32.3	$ 205,429	33.3	$ 157,995	29.8	$ 165,994	29.1	$ 162,592	32.0
Commercial real estate	245,939	36.8	230,243	37.4	201,043	38.0	190,939	33.4	193,203	38.0
SBA	63,836	9.5	48,638	7.9	58,759	11.1	102,064	17.9	46,799	9.2
Consumer	111,872	16.7	95,891	15.5	78,297	14.8	81,783	14.3	82,498	16.2
Land and land development	8,416	1.3	10,758	1.7	17,185	3.2	8,603	1.5	10,449	2.0
Construction	21,648	3.2	24,690	4.0	16,121	3.0	21,748	3.8	12,656	2.5
	667,766	99.8	615,649	99.8	529,400	99.9	571,131	100.0	508,197	99.9
Unearned income and net unamortized deferred fees and costs	1,042	0.2	996	0.2	393	0.1	(241)	-	372	0.1
Loans, net of unearned income and unamortized fees and costs	$ 668,808	100.0	$ 616,645	100.0	$ 529,793	100.0	$ 570,890	100.0	$ 508,569	100.0

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

	December 31, 2023	December 31, 2022	Increase (Decrease) $	Increase (Decrease) %
Loans held for sale-mortgage banking	$ -	$ 37,764	$ (37,764)	(100.0) %
Loans held for investment:				
Commercial and industrial	$ 216,055	$ 205,429	$ 10,626	5.2 %
Commercial real estate	245,939	230,243	15,696	6.8 %
SBA	63,836	48,638	15,198	31.2 %
Consumer	111,872	95,891	15,981	16.7 %
Land and land development	8,416	10,758	(2,342)	(21.8) %
Construction	21,648	24,690	(3,042)	(12.3) %
	667,766	615,649	52,117	8.5 %
Unearned income and net unamortized deferred fees and costs	1,042	996	46	4.6 %
Loans, net of unearned income and unamortized fees and costs	$ 668,808	$ 616,645	$ 52,163	8.5 %

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):

2023	$ 130,621
2022	123,683
2021	106,077
2020	130,356
2019	152,163

Concentrations of Credit

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

	2023		2022	
North Dakota	$ 411,971	62 %	$ 390,006	63 %
Arizona	117,607	18 %	115,767	19 %
Minnesota	38,509	5 %	29,676	5 %
Other	99,679	15 %	80,200	13 %
Total gross loans held for investment	$ 667,766	100 %	$ 615,649	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):

	2023			2022		
North Dakota	$	387,708	58 %	$	362,354	59 %
Arizona		151,401	23 %		149,973	24 %
Minnesota		28,918	4 %		15,248	2 %
South Dakota		24,332	4 %		16,088	3 %
California		24,212	4 %		22,154	4 %
Colorado		10,447	1 %		13,245	2 %
Montana		10,435	1 %		4,521	- %
Other		30,313	5 %		32,066	6 %
Total gross loans held for investment	$	667,766	100 %	$	615,649	100 %

The following table describes the Company's approximate concentrations by industry as of December 31, 2023 and December 31, 2022, respectively (dollars are in thousands):

	December 31, 2023			December 31, 2022		
Non-owner occupied commercial real estate – not otherwise categorized	$	198,428	30 %	$	177,674	29 %
Consumer, not otherwise categorized		99,702	15		85,648	14
Hotels		83,985	13		91,388	15
Retail trade		35,827	5		36,607	6
Agriculture, forestry, fishing and hunting		33,503	5		30,641	5
Healthcare and social assistance		32,011	5		33,327	5
Transportation and warehousing		27,905	4		23,951	4
Art, entertainment and recreation		27,507	4		19,024	3
Non-hotel accommodation and food service		24,637	4		21,538	4
Mining, oil and gas extraction		22,149	3		22,480	4
Construction contractors		16,082	2		11,124	2
Other service		11,940	2		11,810	2
Real estate and rental and leasing support services		9,804	1		9,233	1
Professional, scientific, and technical services		9,570	1		8,209	1
Public administration		7,837	1		8,316	1
Manufacturing		7,801	1		7,572	1
Finance and insurance		6,781	1		5,022	1
All other		12,297	3		12,085	2
Gross loans held for investment	$	667,766	100 %	$	615,649	100 %

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

	2023 Total Loans Held for Investment	2022 Total Loans Held for Investment
North Dakota		
Commercial and industrial	$ 62,019	$ 61,784
Construction	5,247	13,930
Agricultural	35,220	30,799
Land and land development	7,992	6,524
Owner-occupied commercial real estate	35,260	34,683
Commercial real estate	135,858	114,937
Small business administration	18,046	18,671
Consumer	88,066	81,026
Subtotal gross loans held for investment	$ 387,708	$ 362,354
Consolidated		
Commercial and industrial	$ 93,949	$ 96,389
Construction	21,648	24,690
Agricultural	37,720	30,850
Land and land development	8,416	10,758
Owner-occupied commercial real estate	84,386	78,190
Commercial real estate	245,939	230,243
Small business administration	63,836	48,638
Consumer	111,872	95,891
Total gross loans held for investment	$ 667,766	$ 615,649

Loan Maturities (1)

The following table sets forth the remaining maturities of loans held for investment in the Company's portfolio as of December 31, 2023 (in thousands):

	One Year or Less	Over 1 Year Through 5 Years		Over 5 Years		Total Loans Held for Investment
		Fixed Rate	Indexed Rate	Fixed Rate	Indexed Rate	
Commercial and industrial	$ 25,490	$ 22,484	$ 3,821	$ 66,641	$ 97,619	$ 216,055
Commercial real estate	833	22,663	2,925	36,360	183,158	245,939
SBA	40	186	5,801	2,923	54,886	63,836
Consumer	513	4,565	6,601	80,545	19,648	111,872
Land and land development	-	4,535	194	114	3,573	8,416
Construction	2,457	865	6,378	-	11,948	21,648
Total principal amount of loans	$ 29,333	$ 55,298	$ 25,720	$ 186,583	$ 370,832	$ 667,766

(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 is required to estimate the credit losses expected over the life of the loan, including expected credit losses on off-balance sheet commitments. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectability of the loan portfolio. In 2023, an $815 thousand provision was recorded compared to a $150 thousand release of allowance for credit losses in 2022.

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,				
	2023	2022	2021	2020	2019
Balance of allowance for credit losses, beginning of period	$ 8,831	$ 9,080	$ 10,324	$ 8,141	$ 7,692
Cumulative effect of CECL Adoption	(64)	-	-	-	-
Charge-offs:					
Commercial and industrial	(100)	-	(927)	(88)	(125)
Commercial real estate	-	-	-	(453)	-
SBA	(55)	-	-	-	(82)
Consumer	(213)	(159)	(82)	(38)	(97)
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Total charge-offs	(368)	(159)	(1,009)	(579)	(304)
Recoveries:					
Commercial and industrial	28	-	69	17	-
Commercial real estate	-	-	1	45	13
SBA	-	7	5	9	11
Consumer	28	33	24	12	29
Land and land development	-	20	16	9	-
Construction	-	-	-	-	-
Total recoveries	56	60	115	92	53
Net charge-offs	(312)	(99)	(894)	(487)	(251)
Provision (credit) for credit losses charged to operations	829	(150)	(350)	2,670	700
Balance of allowance for credit losses, end of period	$ 9,284	$ 8,831	$ 9,080	$ 10,324	$ 8,141
Ratio of net charge-offs to average loans held for investment	(0.009)%	(0.018)%	(0.162)%	(0.085)%	(0.052)%
Average gross loans held for investment	$ 644,536	$ 561,318	$ 553,493	$ 573,040	$ 480,389
Ratio of allowance for credit losses to loans held for investment	1.39%	1.43%	1.71%	1.81%	1.60%
Ratio of nonperforming loans to total assets	0.35%	0.14%	0.16%	0.24%	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).

	2023		2022		2021		2020		2019	
	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	$ 3,378	32%	$ 2,519	33%	$ 2,173	30%	$ 3,275	29%	$ 2,366	32%
Commercial real estate	3,368	37%	3,621	37%	4,129	38%	3,923	33%	3,502	38%
SBA	1,014	10%	1,396	8%	1,641	11%	1,779	18%	1,131	9%
Consumer	1,092	17%	982	16%	836	15%	948	14%	853	16%
Land and land development	169	1%	87	2%	148	3%	170	2%	187	2%
Construction	263	3%	226	4%	153	3%	229	4%	102	3%
Total	$ 9,284	100%	$ 8,831	100%	$ 9,080	100%	$ 10,324	100%	$ 8,141	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 is required to estimate the credit losses expected over the life of the loan. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectability of the loan portfolio. The 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,				
	2023	2022	2021	2020	2019
Nonperforming loans:					
Loans 90 days or more delinquent and still accruing interest	$ 832	$ 1	$ -	$ 1	$ -
Non-accrual loans	2,519	1,354	1,673	2,611	2,033
Total nonperforming loans	3,351	1,355	1,673	2,612	2,033
Repossessed assets, net	33	64	17	-	-
Total nonperforming assets	$ 3,384	$ 1,419	$ 1,690	$ 2,612	$ 2,033
Allowance for credit losses	$ 9,284	$ 8,831	$ 9,080	$ 10,324	$ 8,141
Ratio of total nonperforming loans to total loans	0.50%	0.21%	0.27%	0.32%	0.31%
Ratio of total nonperforming loans to loans held for investment	0.50%	0.22%	0.32%	0.46%	0.40%
Ratio of total nonperforming assets to total assets	0.35%	0.15%	0.16%	0.24%	0.21%
Ratio of total nonperforming loans to total assets	0.35%	0.14%	0.16%	0.24%	0.21%
Ratio of allowance for credit losses to total nonperforming loans	277%	652%	543%	395%	400%

Nonperforming Loans

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

	2023	2022
Balance, beginning of period	$ 1,355	$ 1,673
Additions to nonperforming	2,393	226
Charge-offs	(145)	(86)
Reclassified back to performing	(1)	(165)
Principal payments received	(200)	(267)
Transferred to repossessed assets	(51)	(26)
Balance, end of period	$ 3,351	$ 1,355

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.

Loan Modifications

With the adoption of ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* the Company is required to evaluate all modification to loans where the borrower is experiencing financial difficulty. For the year-ended December 31, 2023 the Company had total modified loans of $5.1 million, representing 0.8% of total loans held for investment.

Troubled Debt Restructuring (TDR)

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

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

	Total	Accrual	Non-accrual
2022	$ 926	$ 153	$ 773
2021	1,029	-	1,029
2020	1,966	-	1,966
2019	3,245	1,448	1,797

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 performs 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.

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(1)	Other	Total	Impaired(1)	Other	Total	Impaired(1)
2023	$ -	$ 2,393	$ 2,393	$ -	$ 3,780	$ 3,780	$ 1,480
2022	-	2,472	2,472	336	2,262	2,598	1,017
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

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

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

Liabilities and Stockholders' Equity

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

	As of December 31,		Increase (Decrease)		
	2023	2022	$	%	
Deposits:					
Non-interest-bearing	$ 184,442	$ 207,232	$ (22,790)	(11) %	(a)
Interest-bearing					
Savings, interest checking and money market	582,855	554,577	28,278	5 %	(a)
Time deposits	69,906	57,775	12,131	21 %	(b)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,464	15,000	464	3 %	
Accrued interest payable	937	312	625	200 %	(c)
Accrued expenses	4,105	5,482	(1,377)	(25) %	(d)
Operating lease liabilities	1,048	1,660	(612)	(37) %	(e)
Other liabilities	1,030	937	93	10 %	(f)
Total liabilities	859,787	842,975	16,812	2 %	
Stockholders' equity	108,418	100,346	8,072	8 %	
Total liabilities and stockholders' equity	$ 968,205	$ 943,321	$ 24,884	3 %	

(a) Deposits increased as the Company continues to enjoy strong and enduring customer relationships and continues to focus on developing new deposit relationships.
(b) Time deposits have increased as the Company continues to receive active requests from customer for time deposits.
(c) Accrued interest payable increased primarily due to increased cost of deposits and subordinated debentures.
(d) Accrued expenses decreased due to the payout of incentive accruals, reduction in 401k matching contributions, and vacation accruals primarily related to the mortgage divestiture.
(e) Decrease is primarily due to the assumption of the Company's Overland Park lease by another financial institution as a part of the mortgage transaction on June 16, 2023.
(f) Increase primarily relates to recording an allowance for unfunded commitments and increased taxes payable that were partially offset by lower letter of credit liabilities.

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated $644 thousand and $656 thousand at December 31, 2023, and 2022, respectively. Although the Company sold 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 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. 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,								
	2023			2022			2021		
	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	$ 509,434	63.6%	1.76%	$ 522,240	62.6%	0.35%	$ 600,307	64.2%	0.19%
Savings deposits	46,746	5.8%	0.10%	51,510	6.2%	0.04%	47,404	5.1%	0.03%
Time deposits	59,273	7.4%	1.58%	65,238	7.8%	0.47%	94,264	10.1%	0.76%
Total interest-bearing deposits	615,453	76.8%	1.62%	638,988	76.6%	0.34%	741,975	79.4%	0.26%
Non-interest-bearing demand deposits	186,197	23.2%	0.00%	195,021	23.4%	0.00%	192,452	20.6%	0.00%
Total deposits	$ 801,650	100.0%	1.24%	$ 834,009	100.0%	0.26%	$ 934,427	100.0%	0.20%

Time deposits, in denominations of $250 thousand and over, totaled $20.6 million at December 31, 2023, as compared to $14.9 million at December 31, 2022. The following table sets forth the amount and maturities of time deposits of $250 thousand and over as of December 31, 2023 (in thousands):

Maturing in:	
3 months or less	$ 4,197
Over 3 months through 6 months	7,494
Over 6 months through 12 months	6,984
Over 12 months	1,894
	$ 20,569

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

	As of December 31,		
(In thousands)	2023	2022	2021
Deposits:			
Non-interest-bearing	$ 184,442	$ 207,232	$ 186,598
Interest-bearing –			
Savings, interest checking and money market	582,855	554,577	644,641
Time deposits	69,906	57,775	75,429
Total on balance sheet deposits	837,203	819,584	906,668
Off-balance sheet deposits (1)	34,792	187,407	-
Total available deposits	$ 871,995	$ 1,006,991	$ 906,668

(1) The off-balance sheet deposits above do not include off-balance sheet time deposits that can be brought back on the balance sheet at various future maturity dates. As of December 31, 2023, the Company managed off-balance sheet time deposit balances of $18.7 million. The company had no off-balance sheet time deposits at December 31, 2022 or 2021.

The Company remains highly focused on meeting the needs of its customers and ensuring deposit rates reflect changing market conditions. The Company estimates that deposit insurance and other deposit protection programs secure greater than 70% of its customer's deposit balances. This fact, combined with a strong balance sheet and relationship-focused culture has allowed the Company to maintain a significant deposit base.

Off-balance sheet accounts are primarily utilized to custody larger business customer deposits that require daily access to funds and provide for FDIC insurance coverage. The Company began moving deposits off balance sheet in the first quarter of 2022 and proceeded to further expand its use throughout 2022. Off-balance sheet deposits can fluctuate greatly as customers balance utilization demands evolve.

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):

	2023	2022	2021
Short-term borrowings outstanding at period end	$ -	$ -	$ -
Weighted average interest rate at period end	-	0.30%	0.30%
Maximum month end balance during the period	$ -	$ -	$ -
Average borrowings outstanding for the period	$ 136	$ 241	$ 1,941
Weighted average interest rate for the period	0.30%	0.30%	0.17%

Note 9 of the Consolidated Financial Statements summarizes the general terms of the Company's short-term borrowings outstanding at December 31, 2023 and 2022.

There were no FHLB advances at December 31, 2023 and December 31, 2022.

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, 2023 and 2022.

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

	2023	2022	2021	2020	2019
Tier 1 leverage (Consolidated)	14.52%	13.99%	11.74%	11.74%	10.65%
Total risk-based capital (Consolidated)	17.64%	17.57%	20.02%	17.88%	17.13%
Common equity tier 1 risk-based capital (Consolidated)	14.58%	14.48%	16.54%	14.65%	13.76%
Tier 1 risk-based capital (Consolidated)	16.49%	16.43%	18.77%	16.63%	15.95%
Tangible common equity (Consolidated) (a)	11.19%	10.63%	10.98%	11.01%	9.95%
Tier 1 leverage (Bank)	12.54%	11.97%	10.65%	10.92%	9.81%
Total risk-based capital (Bank)	15.40%	15.19%	18.27%	16.72%	15.88%
Common equity tier 1 risk-based capital (Bank)	14.25%	14.04%	17.02%	15.47%	14.69%
Tier 1 risk-based capital (Bank)	14.25%	14.04%	17.02%	15.47%	14.69%

(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 ensure compliance with regulatory capital standards and to provide a source of strength for the Bank. The Company manages capital by assessing the composition of capital and the amounts available for growth, risk, or other purposes. On May 3, 2022, BNCCORP's

Board of Directors declared a $1.75 per share special cash dividend that was paid on June 21, 2022. In October of 2021, BNCCORP's Board of Directors declared a $6.00 per share special cash dividend that was paid on December 15, 2021. In December 2020, BNCCORP's Board of Directors declared an $8.00 per share special cash dividend that was paid on February 1, 2021.

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, 2023, 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	$ -	$ -	$ -	$ -	$ -
Future minimum lease payments under non-cancelable operating leases	368	493	70	117	1,048
Total	$ 368	$ 493	$ 70	$ 117	$ 1,048

	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	$ 60,669	$ 46,455	$ 6,650	$ 2,822	$ 116,596
Standby and commercial letters of credit	2,356	-	-	-	2,356
Commitments to fund SBIC	-	200	505	-	705
Total	$ 63,025	$ 46,655	$ 7,155	$ 2,822	$ 119,657

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 ($132.2 million as of December 31, 2023);
2. Borrowing capacity from the FHLB ($121.2 million as of December 31, 2023); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($134.0 million as of December 31, 2023).

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

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

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

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

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

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

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.

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, 2023, levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its December 31, 2023, level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

The Company monitors the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current level of interest rates as of December 31, 2023, the downward scenarios for interest rate movements is limited to -200bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 8.50% to 9.50% 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 2023 is shown below (dollars in thousands):

Net Interest Income Simulation

Movement in interest rates	-200bp	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 34,630	$ 34,501	$ 34,107	$ 33,334	$ 32,586	$ 31,827
Dollar change from unchanged scenario	$ 523	$ 394	$ -	$ (773)	$ (1,521)	$ (2,280)
Percentage change from unchanged scenario	1.53%	1.16%	-	(2.27)%	(4.46)%	(6.68)%

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, 2023 (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, 2023. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated maturity or repricing at December 31, 2023				
	0–3 Months	4–12 Months	1–5 Years	Over 5 years	Total
	(dollars are in thousands)				
Interest-earning assets:					
Interest-bearing deposits with banks	$ 87,729	$ -	$ -	$ -	$ 87,729
Debt securities (a)	28,278	8,129	65,019	64,047	165,473
FRB and FHLB stock	2,372	-	-	-	2,372
Loans held for sale-mortgage banking, fixed rate	-	-	-	-	-
Loans held for investment, fixed rate	26,566	58,308	139,797	26,835	251,506
Loans held for investment, indexed rate	102,259	67,482	235,206	11,313	416,260
Total interest-earning assets	$ 247,204	$ 133,919	$ 440,022	$ 102,195	$ 923,340
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 541,670	$ -	$ -	$ -	$ 541,670
Savings	41,185	-	-	-	41,185
Time deposits	17,192	44,980	7,679	55	69,906
Subordinated debentures	-	15,464	-	-	15,464
Total interest-bearing liabilities	$ 600,047	$ 60,444	$ 7,679	$ 55	$ 668,225
Interest rate gap	$ (352,843)	$ 73,475	$ 432,343	$ 102,141	$ 255,115
Cumulative interest rate gap at December 31, 2023	$ (352,843)	$ (279,368)	$ 152,975	$ 255,115	
Cumulative interest rate gap to total assets	(36.44%)	(28.85%)	15.80%	26.35%	

(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, 2023, 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, 2023 and 2022
(With Independent Auditors' Report Thereon)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 of the financial statements, effective January 1, 2023, BNCCORP, INC. and Subsidiaries adopted new accounting guidance for the measurement of credit losses on financial instruments through a cumulative-effect adjustment to retained earnings. Our opinion is not modified with respect to this matter.

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.

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 14, 2024

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

	2023	2022
ASSETS		
Cash and cash equivalents	$ 102,454	$ 73,968
Debt securities available for sale	159,772	174,876
Federal Reserve Bank and Federal Home Loan Bank stock	2,372	3,063
Loans held for sale-mortgage banking	-	37,764
Loans held for investment	668,808	616,645
Allowance for credit losses (1)	(9,284)	(8,831)
Net loans held for investment	659,524	607,814
Premises and equipment, net	10,955	11,764
Operating lease right of use asset	938	1,521
Accrued interest receivable	4,206	3,312
Other	27,984	29,239
Total assets	$ 968,205	$ 943,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 184,442	$ 207,232
Interest-bearing –		
Savings, interest checking and money market	582,855	554,577
Time deposits	69,906	57,775
Total deposits	837,203	819,584
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,464	15,000
Accrued interest payable	937	312
Accrued expenses	4,105	5,482
Operating lease liabilities	1,048	1,660
Other	1,030	937
Total liabilities	859,787	842,975
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,569,210 and 3,559,334 shares issued and outstanding	36	36
Capital surplus – common stock	26,572	26,399
Retained earnings	93,186	87,575
Treasury stock (99,443 and 109,319 shares, respectively)	(1,528)	(1,622)
Accumulated other comprehensive loss, net	(9,848)	(12,042)
Total stockholders' equity	108,418	100,346
Total liabilities and stockholders' equity	$ 968,205	$ 943,321

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

See accompanying notes to consolidated financial statements.

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

	2023	2022
INTEREST INCOME:		
Interest and fees on loans	$ 35,582	$ 27,749
Interest and dividends on investments		
Taxable	7,534	5,487
Tax-exempt	19	230
Dividends	143	147
Total interest income	43,278	33,613
INTEREST EXPENSE:		
Deposits	9,949	2,163
Short-term borrowings	-	1
Federal Home Loan Bank advances	5	3
Subordinated debentures	1,014	488
Total interest expense	10,968	2,655
Net interest income	32,310	30,958
PROVISION (CREDIT) FOR CREDIT LOSSES (1)	815	(150)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR CREDIT LOSSES	31,495	31,108
NON-INTEREST INCOME:		
Bank charges and service fees	3,615	3,719
Wealth management revenues	1,948	1,981
Mortgage banking revenues, net	3,771	11,459
Gains on sales of loans, net	16	262
Gains on sales of debt securities, net	12	-
Other	642	1,707
Total non-interest income	10,004	19,128
NON-INTEREST EXPENSE:		
Salaries and employee benefits	17,517	21,194
Professional services	3,419	3,584
Data processing fees	3,722	3,952
Marketing and promotion	3,127	5,660
Occupancy	1,785	2,192
Regulatory costs	470	468
Depreciation and amortization	1,094	1,231
Office supplies and postage	415	425
Other	2,634	3,201
Total non-interest expense	34,183	41,907
Income before income taxes	7,316	8,329
Income tax expense	1,611	1,829
Net income	$ 5,705	$ 6,500
Basic earnings per common share	$ 1.59	$ 1.82
Diluted earnings per common share	$ 1.59	$ 1.82

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

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31,
(In thousands)

	2023		2022	
NET INCOME		$ 5,705		$ 6,500
Unrealized gain (loss) on debt securities available for sale	$ 2,922		$ (20,154)	
Reclassification adjustment for gains on sales of securities, net, included in net income	(12)		-	
Other comprehensive income (loss) before tax	2,910		(20,154)	
Income tax (expense) benefit related to items of other comprehensive income	(716)		4,958	
Other comprehensive income (loss)	$ 2,194	2,194	$ (15,196)	(15,196)
TOTAL COMPREHENSIVE INCOME (LOSS)		$ 7,899		$ (8,696)

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	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Earnings	Stock	Income (Loss), net	Total
BALANCE, December 31, 2021	3,554,983	$ 36	$ 26,068	$ 87,378	$ (1,650)	$ 3,154	$ 114,986
Net income	-	-	-	6,500	-	-	6,500
Other comprehensive loss	-	-	-	-	-	(15,196)	(15,196)
Share-based compensation	4,351	-	331	-	28	-	359
Dividends declared on common stock ($1.75)	-	-	-	(6,303)	-	-	(6,303)
BALANCE, December 31, 2022	3,559,334	$ 36	$ 26,399	$ 87,575	$ (1,622)	$ (12,042)	$ 100,346
Cumulative effect adjustment for adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments	-	-	-	(94)	-	-	(94)
Net income	-	-	-	5,705	-	-	5,705
Other comprehensive income	-	-	-	-	-	2,194	2,194
Share-based compensation	9,876	-	173	-	94	-	267
BALANCE, December 31, 2023	3,569,210	$ 36	$ 26,572	$ 93,186	$ (1,528)	$ (9,848)	$ 108,418

See accompanying notes to consolidated financial statements.

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

	2023	2022
OPERATING ACTIVITIES:		
Net income	$ 5,705	$ 6,500
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision (credit) for credit losses (1)	815	(150)
Depreciation	1,094	1,231
Amortization of right of use assets	566	788
Net amortization of premiums and (discounts) on debt securities and subordinated debentures	1,522	3,212
Share-based compensation	267	359
Change in accrued interest receivable and other assets, net	(469)	1,289
Loss on sale of bank premises and equipment	144	19
Net realized gain on sales of debt securities	(12)	-
Deferred tax (benefit) expense	(76)	634
Change in other liabilities, net	(1,214)	(1,529)
Funding of loans held for sale, mortgage banking	(439,449)	(1,032,827)
Proceeds from sales of loans held for sale, mortgage banking	477,272	1,074,326
Fair value adjustment for loans held for sale, mortgage banking	52	1,592
Fair value adjustment on mortgage banking derivatives	409	1,077
Proceeds from sales of loans	-	1,096
Gains on sales of loans, net	(16)	(262)
Gains on sales of assets held for sale	-	(532)
Net cash provided by operating activities	46,610	56,823
INVESTING ACTIVITIES:		
Purchases of debt securities available for sale	(9,555)	(19,562)
Proceeds from sales of debt securities available for sale	9,483	-
Proceeds from maturities of debt securities available for sale	16,575	30,298
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(1,640)	(1,717)
Sales of Federal Reserve and Federal Home Loan Bank Stock	2,331	1,750
Net increase in loans held for investment	(52,508)	(87,784)
Proceeds from sales of premises and equipment	102	5
Purchases of premises and equipment	(531)	(518)
Net cash used in investing activities	(35,743)	(77,528)

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

See accompanying notes to consolidated financial statements.

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

	2023	2022
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$ 17,619	$ (87,084)
Repayments of Federal Home Loan Bank advances	(41,001)	(42,910)
Proceeds from Federal Home Loan Bank advances	41,001	42,910
Dividends paid on common stock	-	(6,303)
Net cash provided by (used in) financing activities	17,619	(93,387)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,486	(114,092)
CASH AND CASH EQUIVALENTS, beginning of period	73,968	188,060
CASH AND CASH EQUIVALENTS, end of period	$ 102,454	$ 73,968
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 10,344	$ 2,569
Income taxes paid (refunded)	$ 1,457	$ (19)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to repossessed assets in the settlement of loans	$ 101	$ 79
Right of use assets obtained in exchange for lease obligations	$ 340	$ 167

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. During 2023, the Bank conducted mortgage banking through a consumer-direct channel complemented by relationship based retail channels. The consumer direct channel emphasized 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. On June 16, 2023, the Company sold certain operating assets and assigned certain liabilities related to the Company's mortgage segment to First Federal Bank.

With respect to group concentrations of credit risk, most of the Company's business activity is with customers in North Dakota. At December 31, 2023, 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 (Loss)).

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.

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, interest accrued and uncollected 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.

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

Allowance for Credit Losses
The Company’s allowance for credit losses is comprised of an allowance for loans held for investment and an allowance for unfunded commitments. The Company is required to estimate the credit losses expected over the life of the loan. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the estimated collectibility of the loan portfolio.

Allowance for Credit Losses – Loans Held for Investment

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

Collective Pools. The Company makes a significant number of loans that, due to their underlying similar characteristics, are assessed for loss as "collective" pools. The Bank segments the pools by type of loan and using historical loss and peer group loss information estimates an expected credit loss for each individual loan or lease within the pool. Historical loss rates are derived by tracking the historical net charge-offs. The historical loss rates for each type of loan are then averaged to calculate an overall loss rate, which is applied to the current loan balance. Loans of this nature are generally internally designated as a "pass" rated credit. Loans within this category are identified and segmented based on internal loan type. Each loan is then given a historical loss rate based on its identified loan type, which is then applied to the life of the loan. Loss rates for each loan type are determined by comparing the Company's historic loss rates and peer loss rates. The maximum loss rate for each loan type becomes the loss rate utilized.

Collective Risk Grade. The Company has loans where the risk grade classification deteriorates below an internally assigned grade of "pass". In these cases, the Company generally experiences higher historical loss rates and expects the credit losses on the contractual balance to increase. Loans in this category are pooled by risk grade and historic loss rates are applied to the contractual balances of each individual loan or lease. Loss rates are established based on the Company's historic loss rates for criticized loans. This loss rate is then applied to each loan which maintains a risk rating below "pass". Loans that fall within the collective risk grade segment are not included in the collective pool segment.

Individual Reserves. The Company estimates reserves for individually evaluated loans through a loan-by-loan analysis of problem loans that considers expected future cash flows, the value of collateral and other factors that may impact the borrower's ability to make payments when due. Included in this group are loans in nonaccrual status or modified loans. Individual reserves are determined through evaluation of collateral values, expected future cash flow and other factors that may impact the borrower's ability to make contractual payments. An individual reserve is then applied to individual loans based on the level of expected loss. Loans evaluated within the individual reserve segment are excluded from all other segments.

Qualitative / Forecast Reserve. The Company also considers qualitative adjustments to the quantitative baseline. Utilizing a framework based on the Interagency Policy Statement on Allowance for Credit Losses, the Company considers prevailing and anticipated economic trends, such as current and forecasted economic conditions, economic trends, an assessment of credit risk inherent in the loan portfolio, and delinquency trends. The Company also considers information to the extent the Company expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The Company maintains a scorecard that includes nine qualitative factors and performs a review on a quarterly basis. Upon evaluation of the qualitative factors, a qualitative loss rate will be established and applied to all loans outside of those included in the Individual Reserve component. The Company's forecast period is generally 1 to 2 years.

Allowance for Credit Losses – Unfunded Commitments

The allowance for unfunded commitments represents the expected credit losses on off-balance sheet commitments, such as commitments to extend credit and financial standby letters of credit. The allowance for unfunded commitments included in other liabilities on the consolidated balance sheets. The allowance for unfunded commitments is determined by estimating future draws and applying the expected loss rates on those draws. Future draws are based on historical utilization rates along with individual assessment for specific loan types. Loss rates are estimated through the same methodology as defined within the "collective pools" segment of the allowance for loans held for investment.

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

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

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, 2023, 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 (Loss)
Comprehensive income (loss) is the total of net income and other comprehensive income (loss), which for the Company, is generally comprised of unrealized gains and losses on securities available for sale, net of corresponding tax effects.

Subsequent Events
In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 14, 2024, the date the consolidated financial statements were available to be issued.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS & INTERPRETATIONS

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

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

ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* eliminates the accounting guidance for TDRs by creditors in ASC 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, in its entirety and requires entities to evaluate all receivable modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. For entities that have already adopted ASU 2016-13, the amendments in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the amendments in ASU 2022-02 are effective upon adoption of ASU 2016-13. The Company adopted the standard on January 1, 2023 and the adoption did not have a material impact on the Company's consolidated financials.

NOTE 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, 2023, or 2022. The amortized cost of debt securities available for sale and their estimated fair values were as follows as of December 31 (in thousands):

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 25,872	$ -	$ (992)	$ 24,880
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	21,282	-	(3,187)	18,095
U.S. government agency small business administration pools guaranteed by SBA	12,020	-	(755)	11,265
Collateralized mortgage obligations guaranteed by GNMA	8,051	-	(287)	7,764
Collateralized mortgage obligations issued by FNMA/FHLMC	55,750	-	(4,860)	50,890
Commercial mortgage-backed securities issued by FHLMC	16,927	-	(1,213)	15,714
Other commercial mortgage-backed securities	26,349	-	(2,136)	24,213
State and municipal bonds	8,062	-	(1,111)	6,951
	$ 174,313	$ -	$ (14,541)	$ 159,772

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

The Company elected to exclude accrued interest receivable from the amortized cost basis of debt securities available for sale throughout this footnote. Total accrued interest receivable for debt securities was $700 thousand as of December 31, 2023 and is included in the accrued interest receivable line item on the Company's consolidated balance sheets.

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

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 14,970	$ 14,931
Due after one year through five years	22,562	21,049
Due after five years through ten years	21,334	19,931
Due after ten years	115,447	103,861
Total	$ 174,313	$ 159,772

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 $41.1 million and $46.4 million at December 31, 2023, and 2022, 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):

	2023	2022
Sales proceeds	$ 9,483	$ -
Gross realized gains	$ 382	$ -
Gross realized losses	(370)	-
Net realized gains	$ 12	$ -

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):

	2023								
	Less Than 12 Months			12 Months or More			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. treasury securities	1	$ 9,963	$ (6)	4	$ 14,917	$ (986)	5	$ 24,880	$ (992)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	-	-	-	8	18,095	(3,187)	8	18,095	(3,187)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	11,265	(755)	4	11,265	(755)
Collateralized mortgage obligations guaranteed by GNMA	-	-	-	8	7,764	(287)	8	7,764	(287)
Collateralized mortgage obligations issued by FNMA/FHLMC	1	175	(2)	18	50,715	(4,858)	19	50,890	(4,860)
Commercial mortgage-backed securities issued by FHLMC	-	-	-	3	15,714	(1,213)	3	15,714	(1,213)
Other commercial mortgage-backed securities	-	-	-	11	24,213	(2,136)	11	24,213	(2,136)
State and municipal bonds	-	-	-	2	6,951	(1,111)	2	6,951	(1,111)
Total temporarily impaired securities	2	$ 10,138	$ (8)	58	$ 149,634	$ (14,533)	60	$ 159,772	$ (14,541)

	2022								
	Less Than 12 Months			12 Months or More			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. treasury securities	1	$ 4,817	$ (185)	3	$ 13,219	$ (1,643)	4	$ 18,036	$ (1,828)
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	2	2,092	(109)	6	18,055	(3,229)	8	20,147	(3,338)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	14,381	(1,191)	4	14,381	(1,191)
Collateralized mortgage obligations guaranteed by GNMA	8	9,758	(338)	-	-	-	8	9,758	(338)
Collateralized mortgage obligations issued by FNMA/FHLMC	14	34,501	(1,186)	5	24,251	(4,347)	19	58,752	(5,533)
Commercial mortgage-backed securities issued by FHLMC	2	12,312	(816)	1	3,769	(660)	3	16,081	(1,476)
Other commercial mortgage-backed securities	7	18,458	(1,157)	4	6,831	(1,460)	11	25,289	(2,617)
State and municipal bonds	3	9,550	(1,471)	-	-	-	3	9,550	(1,471)
Total temporarily impaired securities	37	$ 91,488	$ (5,262)	23	$ 80,506	$ (12,530)	60	$ 171,994	$ (17,792)

The Company does not believe that the debt securities available for sale that were in an unrealized loss position as of December 31, 2023 represent a credit loss impairment. As of December 31, 2023, the gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S.

government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a history of zero credit loss. Total gross unrealized losses were attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the debt securities. The Company does not intend to sell the debt securities that were in an unrealized loss position and it is unlikely that the Company will be required to sell the debt securities before recovery of their amortized cost basis, which may be at maturity.

At December 31, 2022, management evaluated each debt security with unrealized losses to determine whether losses are other-than-temporary. When determining whether a debt security is other-than-temporarily impaired, management assesses whether it has the intent to sell the debt security or whether it is more likely than not that it will be required to sell the debt security before a recovery of amortized cost.

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

NOTE 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):

	2023	2022
Federal Reserve Bank stock, at cost	$ 1,807	$ 1,807
Federal Home Loan Bank, at cost	565	1,256
Total	$ 2,372	$ 3,063

NOTE 4. Loans

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

	2023	2022
Loans held for sale-mortgage banking	$ -	$ 37,764
Commercial and industrial	$ 216,055	$ 205,429
Commercial real estate	245,939	230,243
SBA	63,836	48,638
Consumer	111,872	95,891
Land and land development	8,416	10,758
Construction	21,648	24,690
Gross loans held for investment	667,766	615,649
Unearned income and net unamortized deferred fees and costs	1,042	996
Loans, net of unearned income and unamortized fees and costs	668,808	616,645
Allowance for credit losses	(9,284)	(8,831)
Net loans held for investment	$ 659,524	$ 607,814

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans held for investment throughout this footnote. Total accrued interest receivable for loans held for investment was $3.5 million and $2.4 million as of December 31, 2023 and 2022, respectively, and is included in the accrued interest receivable line item on the Company's consolidated balance sheets.

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, 2023, and 2022, loan participations sold on a nonrecourse basis to outside financial institutions totaled $130.6 million and $123.7 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):

	2023	2022
Commercial and industrial	$ 67,767	$ 62,656
Commercial real estate	125,828	115,779
Loans held for sale-mortgage banking	-	35,879
Total	$ 193,595	$ 214,314

NOTE 5. Allowance for Credit Losses

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

2023	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,519	$ 3,621	$ 1,396	$ 982	$ 87	$ 226	$ 8,831
Cumulative effect-CECL adoption	511	(300)	(467)	(13)	66	139	(64)
Provision (credit)	420	47	140	308	16	(102)	829
Loans charged off	(100)	-	(55)	(213)	-	-	(368)
Loan recoveries	28	-	-	28	-	-	56
Balance, end of period	$ 3,378	$ 3,368	$ 1,014	$ 1,092	$ 169	$ 263	$ 9,284

2022	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,173	$ 4,129	$ 1,641	$ 836	$ 148	$ 153	$ 9,080
Provision (credit)	346	(508)	(252)	272	(81)	73	(150)
Loans charged off	-	-	-	(159)	-	-	(159)
Loan recoveries	-	-	7	33	20	-	60
Balance, end of period	$ 2,519	$ 3,621	$ 1,396	$ 982	$ 87	$ 226	$ 8,831

The Company recorded an $815 thousand provision for credit losses in 2023. A provision of $829 thousand was recorded as an allowance for loan losses and credit of $14 thousand was recorded as a reduction of allowance for unfunded commitments. At December 31, 2023, the Company maintained an allowance for unfunded commitments of $175 thousand. The allowance for unfunded commitments are included as part of the other liabilities line on the Company's Consolidated Balance Sheets.

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

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

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

Credit Quality Indicators

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

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

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

Substandard. Loans graded as substandard or doubtful are considered "Classified" loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a higher probability of loss.

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

	Term Loans by Origination Year							
December 31, 2023	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total**
Commercial and industrial								
Pass	$ 29,495	$ 70,079	$ 26,465	$ 19,142	$ 7,516	$ 26,733	$ 32,913	$ 212,343
Watch List	-	13	-	26	-	-	-	39
Substandard	27	36	57	120	959	1,768	-	2,967
Doubtful	-	573	-	-	133	-	-	706
Total commercial and industrial	$ 29,522	$ 70,701	$ 26,522	$ 19,288	$ 8,608	$ 28,501	$ 32,913	$ 216,055
Commercial and industrial loans:								
Current period gross write-offs:	$ 29	$ -	$ 71	$ -	$ -	$ -	$ -	$ 100
Commercial Real Estate								
Pass	$ 24,193	$ 53,823	$ 37,076	$ 18,672	$ 9,959	$ 88,948	$ 11,384	$ 244,055
Watch List	-	-	1,884	-	-	-	-	1,884
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate	$ 24,193	$ 53,823	$ 38,960	$ 18,672	$ 9,959	$ 88,948	$ 11,384	$ 245,939
Commercial real estate:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Small Business Administration								
Pass	$ 11,959	$ 19,165	$ 9,067	$ 1,874	$ 11,027	$ 8,034	$ 744	$ 61,870
Watch List	-	192	-	192	86	-	-	470
Substandard	-	517	-	-	-	205	-	722
Doubtful	-	-	31	-	265	478	-	774
Total small business administration	$ 11,959	$ 19,874	$ 9,098	$ 2,066	$ 11,378	$ 8,717	$ 744	$ 63,836
Small business administration loans:								
Current period gross write-offs:	$ 4	$ -	$ -	$ 51	$ -	$ -	$ -	$ 55
Consumer								
Pass	$ 31,317	$ 32,557	$ 13,181	$ 9,639	$ 3,900	$ 6,332	$ 14,855	$ 111,781
Watch List	-	-	-	-	-	-	-	-
Substandard	-	14	22	29	-	26	-	91
Doubtful	-	-	-	-	-	-	-	-
Total consumer	$ 31,317	$ 32,571	$ 13,203	$ 9,668	$ 3,900	$ 6,358	$ 14,855	$ 111,872
Consumer loans:								
Current period gross write-offs:	$ 123	$ 31	$ 21	$ 1	$ -	$ 37	$ -	$ 213
Land and Land Development								
Pass	$ 2,665	$ 1,373	$ 1,629	$ 276	$ -	$ 219	$ 2,254	$ 8,416
Watch List	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total land and land development	$ 2,665	$ 1,373	$ 1,629	$ 276	$ -	$ 219	$ 2,254	$ 8,416
Land and land development loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction								
Pass	$ 2,593	$ 1,042	$ -	$ -	$ -	$ -	$ 18,013	$ 21,648
Watch List	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction	$ 2,593	$ 1,042	$ -	$ -	$ -	$ -	$ 18,013	$ 21,648
Construction loans:								
Current period gross write-offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total gross loans	$ 102,249	$ 179,384	$ 89,412	$ 49,970	$ 33,845	$ 132,743	$ 80,163	$ 667,766
Total gross write-offs:	$ 156	$ 31	$ 92	$ 52	$ -	$ 37	$ -	$ 368

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

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

Performing and non-accrual loans

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

The following table sets forth information regarding the Bank's performing and non-accrual loans at December 31 (in thousands):

	2023					
	Current	**31-89 Days Past Due**	**90 Days or More Past Due And Accruing**	**Total Performing**	**Non-accrual**	**Total**
Commercial and industrial:						
Business loans	$ 93,110	$ 2	$ -	$ 93,112	$ 837	$ 93,949
Agriculture	37,720	-	-	37,720	-	37,720
Owner-occupied commercial real estate	84,143	243	-	84,386	-	84,386
Commercial real estate	245,939	-	-	245,939	-	245,939
SBA	58,155	3,236	828	62,219	1,617	63,836
Consumer:						
Automobile	9,488	50	-	9,538	-	9,538
Home equity	13,405	-	-	13,405	-	13,405
1st mortgage	26,427	1,051	-	27,478	-	27,478
Other	61,157	225	4	61,386	65	61,451
Land and land development	8,416	-	-	8,416	-	8,416
Construction	21,648	-	-	21,648	-	21,648
Total loans held for investment	659,608	4,807	832	665,247	2,519	667,766
Total gross loans	$ 659,608	$ 4,807	$ 832	$ 665,247	$ 2,519	$ 667,766

	2022					
	Current	**31-89 Days Past Due**	**90 Days or More Past Due And Accruing**	**Total Performing**	**Non-accrual**	**Total**
Commercial and industrial:						
Business loans	$ 95,844	$ 54	$ -	$ 95,898	$ 491	$ 96,389
Agriculture	30,850	-	-	30,850	-	30,850
Owner-occupied commercial real estate	78,190	-	-	78,190	-	78,190
Commercial real estate	230,243	-	-	230,243	-	230,243
SBA	47,757	52	-	47,809	829	48,638
Consumer:						
Automobile	13,879	81	-	13,960	-	13,960
Home equity	13,555	-	-	13,555	-	13,555
1st mortgage	18,862	-	-	18,862	-	18,862
Other	49,434	45	1	49,480	34	49,514
Land and land development	10,758	-	-	10,758	-	10,758
Construction	24,690	-	-	24,690	-	24,690
Total loans held for investment	614,062	232	1	614,295	1,354	615,649
Loans held for sale	37,704	60	-	37,764	-	37,764
Total gross loans	$ 651,766	$ 292	$ 1	$ 652,059	$ 1,354	$ 653,413

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

	December 31, 2023			December 31, 2022
	Non-accrual loans with a related ACL	Non-accrual loans without a related ACL	Total Non-Accrual Loans	Total Non-Accrual Loans
Commercial and industrial: Business loans	$ 837	$ -	$ 837	$ 491
SBA	1,617	-	1,617	829
Consumer: Other	65	-	65	34
Total	$ 2,519	$ -	$ 2,519	$ 1,354

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):

	2023	2022
Interest income that would have been recorded	$ 181	$ 151
Interest income recorded	-	-
Effect on interest income on loans	$ 181	$ 151

Impaired loans

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

The following table summarizes impaired loans and related allowances as of and for the years ended December 31, 2022 (in thousands):

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

Loan Modifications

The Company adopted ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* on January 1, 2023. ASU 2022-02 requires the Company to evaluate all loan modifications under ASC 310-20-35-9 through 35-11 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan.

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

The following presents the amortized cost of loans to borrowers experiencing financial difficulty that were modified during 2023 by loan segment and modification type (in thousands):

	For year ended December 31, 2023				
	Term Extension and Payment Deferment (1)	Term Extension, Payment Modification, Interest Rate Reduction (2)	Payment Deferral (3)	Total	Percentage of Total Loans
Commercial and industrial	$ 133	$ 57	$ -	$ 190	0.1 %
SBA	1,791	-	3,103	4,894	0.7
Total	$ 1,924	$ 57	$ 3,103	$ 5,084	0.8 %

(1) Modifications extended term by seven months and deferred payments up to seven months.
(2) Modifications extended term by twelve months, reduced payment, and reduced interest rate by 8.75%.
(3) Modifications deferred payment by six months.

Loan modifications to borrowers experiencing financial difficulty in 2023 did not result in principal forgiveness.

The following table sets forth information regarding the performing status of loans to borrowers experiencing financial difficulty at December 31, 2023 (in thousands):

	As of December 31, 2023			
	Current	31-89 Days Past Due	90 Days or More Past Due	Total
Commercial and industrial	$ 57	$ 133	$ -	$ 190
SBA	-	4,066	828	4,894
Total	$ 57	$ 4,199	$ 828	$ 5,084

Troubled Debt Restructuring (TDR)

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

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

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

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

NOTE 6. Premises and Equipment, net

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

	2023	**2022**
Land and improvements	$ 1,667	$ 1,667
Buildings and improvements	15,896	15,861
Leasehold improvements	307	440
Furniture, fixtures, and equipment	9,091	9,883
Total cost	26,961	27,851
Less accumulated depreciation and amortization	(16,006)	(16,087)
Net premises and equipment	$ 10,955	$ 11,764

Depreciation and amortization expense totaled $1.1 million and $1.2 million for the years ended December 31, 2023, and 2022, respectively.

NOTE 7. Leases

The Company has operating leases, primarily for office space, that expire over the next eight 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):

	2023	**2022**
Operating lease cost	$ 586	$ 967
Variable lease cost	64	29
Short-term lease cost	11	38
	$ 661	$ 1,034

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

	As of December 31, 2023		As of December 31, 2022	
Operating lease right of use (ROU) asset	$	938	$	1,521
Operating lease liabilities		1,048		1,660

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

	2023		2022	
Cash paid for lease liabilities	$	606	$	1,006
Amortization of ROU assets		566		788

	As of December 31, 2023	As of December 31, 2022
Weighted average remaining lease term	3.71 years	3.64 years
Weighted average discount rate	5.79%	5.55%

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

	Operating Leases	
2024	$	418
2025		340
2026		193
2027		41
2028		42
Thereafter		125
Total future minimum lease payments		1,159
Amounts representing interest		(111)
Total lease liabilities	$	1,048

NOTE 8. Deposits

The scheduled maturities of time deposits as of December 31, 2023, are as follows (in thousands):

2024	$	62,336
2025		2,938
2026		4,137
2027		255
2028		185
Thereafter		55
	$	69,906

At December 31, 2023, and 2022, 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, 2023 and December 31, 2022.

At December 31, 2023, and 2022, the Bank had $20.6 million and $14.9 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):

	2023	2022
Savings	$ 47	$ 20
Interest checking	4,166	382
Money market	4,799	1,457
Time deposits	937	304
	$ 9,949	$ 2,163

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 Company had no short-term borrowings (borrowings with an original maturity of less than one year) as of December 31, 2023. The Company's short-term borrowings as of December 31, 2022 consisted of customer repurchase agreements. The weighted average interest rate on short-term borrowings outstanding as of December 31, 2022 was 0.30%. Short-term borrowings are included as other liabilities in the Company's consolidated balance sheets.

Customer repurchase agreements are used by the Bank, from time to time, 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, 2022, the $103 thousand 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 $529 thousand and unamortized principal balances of $589 thousand.

NOTE 10. Federal Home Loan Bank Advances

As of December 31, 2023, the Bank had no FHLB advances outstanding. At December 31, 2023, the Bank had loans with unamortized principal balances of approximately $190.4 million pledged as collateral to the FHLB.

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

As of December 31, 2023, the Bank had the ability to draw advances up to approximately $121.2 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):

2023

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	$ 3,249	$ 1,509	$ -	$ 1,509
BNCCORP line	106,014	10,000	-	10,000
Total	$ 109,263	$ 11,509	$ -	$ 11,509

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

At December 31, 2023, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

2022

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

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank line	$ 3,359	$ 1,675	$ -	$ 1,675
BNCCORP line	96,959	10,000	-	10,000
Total	$ 100,318	$ 11,675	$ -	$ 11,675

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

At December 31, 2022, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

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

In July 2007, the Company issued $15.5 million of floating rate subordinated debentures. During the third quarter of 2023 the index rate and spread converted from three-month LIBOR plus 1.40% to three-month SOFR plus 1.66%. The interest rate at December 31, 2023, and December 31, 2022, was 7.06% and 5.14%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 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. On May 3, 2022, BNCCORP's Board of Directors declared a $1.75 per share special cash dividend that was paid on June 21, 2022.

The Company currently has an outstanding 175,000 share repurchase authorization with no expiration date set on the authorization. Share repurchases can be made through open market purchases, unsolicited and solicited privately negotiated transactions, or in accordance with terms of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. The Company will not repurchase shares from directors or officers of the Company under the authorization. The Company will contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals. No share repurchases have been made under the authorization as of December 31, 2023.

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, 2023, 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, 2023, and December 31, 2022, 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**
2023								
Total Risk-Based Capital:								
Consolidated	$ 142,868	17.64%	$ 64,806	≥8.00 %	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	124,592	15.40	64,726	≥8.00	80,908	10.00	43,684	5.40
Tier 1 Risk-Based Capital:								
Consolidated	133,584	16.49	48,605	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	115,308	14.25	48,545	≥6.00	64,726	8.00	50,582	6.25
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	118,120	14.58	36,453	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	115,308	14.25	36,409	≥4.50	52,590	6.50	62,718	7.75
Tier 1 Leverage Capital:								
Consolidated	133,584	14.52	36,813	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	115,308	12.54	36,778	≥4.00	45,973	5.00	69,335	7.54
Tangible Common Equity (to total assets): (a)								
Consolidated	108,329	11.19	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	105,926	10.96	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**
2022								
Total Risk-Based Capital:								
Consolidated	$ 135,744	17.57 %	$ 61,814	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	117,267	15.19	61,776	≥8.00	77,219	10.00	40,048	5.19
Tier 1 Risk-Based Capital:								
Consolidated	126,913	16.43	46,360	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	108,436	14.04	46,332	≥6.00	61,776	8.00	46,660	6.04
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,913	14.48	34,770	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	108,436	14.04	34,749	≥4.50	50,193	6.50	58,243	7.54
Tier 1 Leverage Capital:								
Consolidated	126,913	13.99	36,279	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	108,436	11.97	36,237	≥4.00	45,297	5.00	63,139	6.97
Tangible Common Equity (to total assets): (a)								
Consolidated	100,246	10.63	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	96,860	10.28	N/A	N/A	N/A	N/A	N/A	N/A

(a) Tangible common equity 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.

The Bank must adhere to various U.S. Department of Housing and Urban Development (HUD) regulatory guidelines including required minimum capital and liquidity to maintain their Federal Housing Administration approval status. Failure to comply with the HUD guidelines could result in withdrawal of this certification. As of December 31, 2023 and 2022 the Bank was in compliance with HUD guidelines.

NOTE 15. Revenue from Contracts with Customers

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

	2023	2022
Service charges on deposits	$ 649	$ 668
Bankcard fees	1,162	1,123
Bank charges and service fees not within scope of ASC 606	1,804	1,928
Total bank charges and service fees	3,615	3,719
Wealth management revenue	1,948	1,981
Wealth management revenue not within the scope of ASC 606	-	-
Total wealth management revenues	1,948	1,981
Other	44	44
Other not within the scope of ASC 606 (a)	598	1,663
Total other	642	1,707
Other non-interest income not within the scope of ASC 606 (a)	3,799	11,721
Total non-interest income	$ 10,004	$ 19,128

(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, 2023. Total receivables from revenue recognized under the scope of ASC 606 were $492 thousand and $478 thousand as of December 31, 2023, and December 31, 2022, 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, 2023				Twelve Months Ended December 31, 2023
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
ASSETS					
Debt securities available for sale	$ 159,772	$ 24,880	$ 134,892	$ -	$ 12
Loans held for sale	-	-	-	-	(52)
Commitments to originate mortgage loans	-	-	-	-	57
Commitments to sell mortgage loans	-	-	-	-	(434)
Mortgage banking short positions	-	-	-	-	(32)
Total assets at fair value	$ 159,772	$ 24,880	$ 134,892	$ -	$ (449)

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

The Company sells short positions in mortgage-backed securities to 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.

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, 2023		December 31, 2022	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 102,454	$ 102,454	$ 73,968	$ 73,968
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,372	2,372	3,063	3,063
Gross loans held for investment	Level 2	667,766	654,919	614,668	597,644
Gross loans held for investment (a)	Level 3	-	-	981	674
Accrued interest receivable	Level 2	4,206	4,206	3,312	3,312
		$ 776,798	$ 763,951	$ 695,992	$ 678,661
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 184,442	$ 184,442	$ 207,232	$ 207,232
Deposits, interest-bearing	Level 2	652,761	651,581	612,352	610,000
Accrued interest payable	Level 2	937	937	312	312
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,464	12,678	15,000	12,760
		$ 853,604	$ 849,638	$ 834,896	$ 830,304
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 224	$ -	$ 339
Standby and commercial letters of credit	Level 2	$ -	$ 30	$ -	$ 25

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

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. 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, 2023, 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):

	2023		2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 27,119	$ 89,476	$ 16,071	$ 108,704
Standby and commercial letters of credit	659	1,798	394	1,311

As of December 31, 2023, the Company did not have any mortgage banking commitments to fund and sell loans. In addition to the amounts in the table above, the Company had mortgage banking commitments to fund loans of $61.6 million and mortgage banking commitments to sell loans of $99.4 million at December 31, 2022.

Performance and Financial Standby Letters of Credit
As of December 31, 2023, the Bank had no performance standby letters of credit and $372 thousand of financial standby letters of credit compared to $192 thousand of performance standby letters of credit and $589 thousand of financial standby letters of credit as of December 31, 2022. 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):

	2023	2022
Balance, beginning of period	$ 656	$ 820
Provision	91	375
Write offs, net	(103)	(539)
Balance, end of period	$ 644	$ 656

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, 2023, the Bank may be required to fund $705 thousand 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):

	2023	2022
Current:		
Federal	$ 1,363	$ 945
State	324	250
	1,687	1,195
Deferred:		
Federal	(56)	608
State	(20)	26
	(76)	634
Total	$ 1,611	$ 1,829

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):

	2023	2022
Statutory federal income tax expense	$ 1,536	$ 1,749
State income taxes, net of federal income tax benefit	219	230
Tax-exempt interest income	(58)	(83)
Tax-exempt life insurance	(99)	(93)
Other, net	13	26
Total	$ 1,611	$ 1,829

Deferred tax assets are included in other assets on the Company's consolidated balance sheets. 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):

	2023	2022
Deferred tax assets:		
Loans, primarily due to credit losses	$ 2,443	$ 2,281
Compensation	574	591
Unrealized loss on debt securities available for sale	3,571	4,287
Acquired intangibles	121	121
Net operating loss carryforwards	-	8
Other	216	222
Deferred tax assets	6,925	7,510
Deferred tax liabilities:		
Discount accretion on securities	170	53
Premises and equipment	57	223
Other	625	585
Deferred tax liabilities	852	861
	6,073	6,649
Valuation allowance	(14)	(14)
Net deferred tax assets	$ 6,059	$ 6,635

Subject to certain limiting statutes, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2023. The state net operating losses expire between 2024 and 2031.

Tax years ended December 31, 2020 through 2023 remain open to federal examination. Tax years ended December 31, 2019 through 2023 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, 2023, and 2022, 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):

	2023	2022
Denominator for basic earnings per share:		
Average common shares outstanding	3,577,421	3,573,934
Dilutive effect of share-based compensation	2,818	930
Denominator for diluted earnings per share	3,580,239	3,574,864
Numerator (in thousands):		
Net income	$ 5,705	$ 6,500
Basic earnings per common share	$ 1.59	$ 1.82
Diluted earnings per common share	$ 1.59	$ 1.82

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 $450 thousand and $543 thousand at December 31, 2023, and 2022, respectively. Advances and other increases of loans to related parties in 2023 and 2022 totaled $101 thousand and $323 thousand, respectively. Loan pay downs and other reductions by related-parties in 2023 and 2022 were $194 thousand and $256 thousand, respectively. Commitments to extend credit to related parties increased to $180 thousand at December 31, 2023, from $137 thousand at December 31, 2022. The total amount of deposits received from these parties was $1.8 million at December 31, 2023, and $1.4 million at December 31, 2022. 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, 2023, 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 2023 and 2022, 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 $468 thousand and $701 thousand for 2023 and 2022, 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, 2023, the assets in the plan totaled $37.6 million and included $641 thousand (22,496 shares) invested in BNCCORP common stock. At December 31, 2022, the assets in the plan totaled $38.3 million and included $677 thousand (22,744 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 19,069 and 19,982 shares as of December 31, 2023, and 2022, respectively. As of December 31, 2023, the plan obligation totaled $1.1 million and $1.0 million as of December 31, 2022.

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 28,232 shares and 25,488 shares as of December 31, 2023, and 2022, 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, 2023, are as follows:

	1995	2015	Total
Total shares in plan	250,000	50,000	300,000
Total shares available	40,951	19,482	60,433

The Company recognized share-based compensation expense of $78 thousand and $76 thousand for the years ended December 31, 2023, and 2022, respectively, related to grants of restricted stock.

The tax benefits associated with share-based compensation was approximately $2 thousand for the year ended December 31, 2023, and was approximately $2 thousand for the year ended December 31, 2022.

At December 31, 2023, the Company had $164 thousand of unamortized restricted stock compensation, which is expected to be recognized over a period of four years. Restricted shares of stock granted have vesting and amortization periods of up to four years.

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

	2023		2022	
	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	5,500	$ 39.91	5,750	$ 39.68
Granted	5,000	23.10	-	-
Vested	(250)	34.77	(250)	34.77
Forfeited	-	-	-	-
Non-vested, end of year	10,250	31.83	5,500	39.91

Following is a summary of stock grants to directors for the years ended December 31:

	2023		2022	
	Number of Shares	Grant Date Fair Value	Number of Shares	Grant Date Fair Value
Shares granted	2,000	$ 30.97	2,400	$ 36.28

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 located in Kansas utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complemented by a relationship based retail channels. 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. On April 12, 2023, the Company announced it entered into a definitive agreement with First Federal Bank under which First Federal will purchase certain operating assets and assume certain liabilities of BNC National Bank's mortgage division. On June 16, 2023, the Company executed the sale and sold its portfolio of mortgage loans held for sale.

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.

	2023				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 42,709	$ 1,514	$ 139	$ (1,084)	$ 43,278
Interest expense	10,092	946	1,014	(1,084)	10,968
Net interest income (expense)	32,617	568	(875)	-	32,310
Provision for credit losses	815	-	-	-	815
Net interest income (expense) after credit for credit losses	31,802	568	(875)	-	31,495
Non-interest income	7,354	3,641	2,134	(3,125)	10,004
Non-interest expense	25,590	8,768	2,950	(3,125)	34,183
Income (loss) before income taxes	13,566	(4,559)	(1,691)	-	7,316
Income tax expense (benefit)	3,181	(1,131)	(439)	-	1,611
Net income (loss)	$ 10,385	$ (3,428)	$ (1,252)	$ -	$ 5,705
Total Assets at December 31, 2023	$ 966,807	$ -	$ 19,138	$ (17,740)	$ 968,205

	2022				
	Community Banking	Mortgage Banking	Holding Company	Intercompany Eliminations (1)	BNCCORP Consolidated
Interest income	$ 32,099	$ 2,054	$ 14	$ (554)	$ 33,613
Interest expense	2,180	540	489	(554)	2,655
Net interest income (expense)	29,919	1,514	(475)	-	30,958
Credit for credit losses	(150)	-	-	-	(150)
Net interest income (expense) after provision for credit losses	30,069	1,514	(475)	-	31,108
Non-interest income	9,696	11,446	2,210	(4,224)	19,128
Non-interest expense	24,598	18,615	2,918	(4,224)	41,907
Income (loss) before income taxes	15,167	(5,655)	(1,183)	-	8,329
Income tax expense (benefit)	3,515	(1,402)	(284)	-	1,829
Net income (loss)	$ 11,652	$ (4,253)	$ (899)	$ -	$ 6,500
Total Assets at December 31, 2022	$ 902,967	$ 39,471	$ 19,564	$ (18,681)	$ 943,321

(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)

	2023	2022
Assets:		
Cash and cash equivalents	$ 17,625	$ 18,708
Investment in subsidiaries	105,565	96,510
Receivable from subsidiaries	560	405
Other	495	455
Total assets	$ 124,245	$ 116,078
Liabilities and stockholders’ equity:		
Subordinated debentures	$ 15,464	$ 15,000
Payable to subsidiaries	60	72
Accrued expenses and other liabilities	303	660
Total liabilities	15,827	15,732
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,569,210 and 3,559,334 shares issued and outstanding	36	36
Capital surplus – common stock	26,572	26,399
Retained earnings	93,186	87,575
Treasury stock (99,443 and 109,319 shares, respectively)	(1,528)	(1,622)
Accumulated other comprehensive income, net	(9,848)	(12,042)
Total stockholders’ equity	108,418	100,346
Total liabilities and stockholders’ equity	$ 124,245	$ 116,078

Parent Company Only

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

	2023	2022
Income:		
Management fee income	$ 2,123	$ 2,196
Interest	139	14
Other	43	29
Total income	2,305	2,239
Expenses:		
Interest	1,045	504
Salaries and benefits	1,156	1,142
Legal and other professional	823	791
Other	971	985
Total expenses	3,995	3,422
Loss before income tax benefit and equity in earnings of subsidiaries	(1,690)	(1,183)
Income tax benefit	439	284
Loss before equity in earnings of subsidiaries	(1,251)	(899)
Equity in earnings of subsidiaries	6,956	7,399
Net income	$ 5,705	$ 6,500

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

	2023	2022
Operating activities:		
Net income	$ 5,705	$ 6,500
Adjustments to reconcile net income to net cash provided by operating activities -		
Equity in earnings of subsidiaries	(6,956)	(7,399)
Dividend received from subsidiaries	-	13,500
Share-based compensation	267	359
Change in other assets	(195)	(58)
Change in other liabilities	96	377
Net cash (used in) provided by operating activities	(1,083)	13,279
Financing activities:		
Dividends paid on common stock	-	(6,303)
Net cash used in financing activities	-	(6,303)
Net (decrease) increase in cash and cash equivalents	(1,083)	6,976
Cash and cash equivalents, beginning of year	18,708	11,732
Cash and cash equivalents, end of year	$ 17,625	$ 18,708
Supplemental cash flow information:		
Interest paid	$ 969	$ 362
Income taxes paid	$ 1,269	$ 406

This Page Left Intentionally Blank

CORPORATE DATA

Investor Relations

Email Inquiries:
corp@bncbank.com

General Inquiries:
BNCCORP, INC.
322 East Main Avenue, Bismarck, North Dakota 58501
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 2024 annual meeting of stockholders will be held at 8:30 a.m. (Central Daylight time) on Thursday, June 20, 2024 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,

	2023(1)		2022(1)	
	High	Low	High	Low
First Quarter	$31.29	$21.95	$44.55	$36.00
Second Quarter	$23.90	$20.70	$36.30	$28.60
Third Quarter	$24.00	$22.18	$29.05	$25.41
Fourth Quarter	$28.70	$21.90	$29.75	$24.60

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

Stock Transfer Agent and Registrar

Broadridge Financial Solutions, Inc.
51 Mercedes Way
Edgewood, New York 11717
(877) 830-4936

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 & 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.

Directors, BNC National Bank

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

BNC National Bank

BANK BRANCHES – ND:

Bismarck Main
322 East Main Avenue
Bismarck, ND 58501

Bismarck South
219 South 3rd Street
Bismarck, ND 58504

Bismarck North
801 East Century Avenue
Bismarck, ND 58503

Bismarck Sunrise
3000 Yorktown Drive
Bismarck, ND 58503

Mandan
2711 Sunset Drive NW
Mandan, ND 58554

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

BANK BRANCHES - AZ

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

BNCCORP, INC.

BNCCORP, INC.
322 East Main Avenue
Bismarck, ND 58501
(701) 250-3040
www.bnccorp.com