2022 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 11 locations. BNC also conducts mortgage banking from 7 locations in Arizona, North Dakota, Illinois, and Kansas.

CORPORATE PROFILE

BNCCORP, INC. (or the Company) is a diversified community bank with three primary areas of focus: commercial banking, retail and mortgage banking and wealth management. Beginning in mid-2023 the Company will significantly reduce its focus on mortgage banking after the sale of its mortgage banking operations.

Commercial Banking

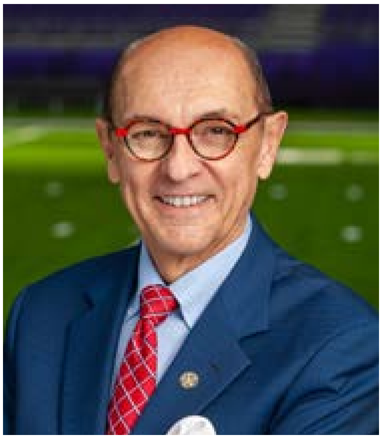
We meet the needs of small- to middle-market businesses with a range of commercial banking services, including business financing, commercial real estate lending, SBA loans, business checking, cash management, corporate credit cards and merchant services. Our commercial banking relationships are primarily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

Retail and Mortgage Banking

BNC's services to consumers include retail banking, provided through a network of locations in North Dakota and Arizona. Among our broad array of retail banking services are personal checking and savings products, personal loans, and card services. Our branch network is concentrated in North Dakota, where we are responsive to the preference of our customers for convenient face-to-face transactional banking. BNC has been rewarded with our customers' loyalty. Our mortgage banking operations generate residential loans through a consumer-direct channel located in Kansas, as well as a retail channel with locations in Arizona, North Dakota, Illinois, and Kansas. The consumer direct channel emphasizes the use of technology, including internet-generated leads and a call center, to originate loans throughout the U.S. The retail channel is more traditional and emphasizes relationships to originate loans near our branch network. The mortgage operations are expected to be sold in mid-2023 which will significantly reduce this business line.

Wealth Management

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



Michael M. Vekich
Chairman, Board of Directors

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

Three words summarize our approach to managing in these unsettled and uncertain times: ***Committed, Confident and Resolute.***

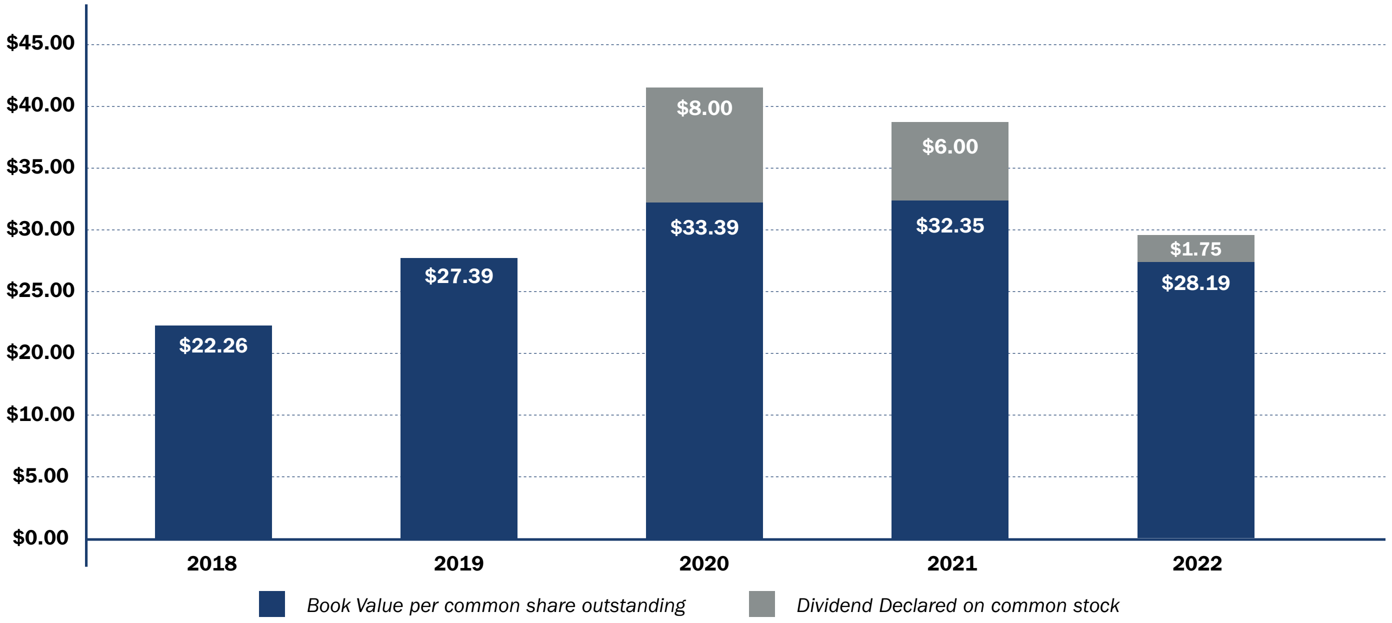
Close watchers of BNC will not be surprised by those words; they are, in fact, the principles by which we have long managed your Company. As we look back on 2022, we can clearly see that "committed, confident and resolute" continues to steer us in onto the right path.

In 2022, for example, we confidently moved forward in assisting our Customers in moving past the most serious effects of the pandemic even as the uncertainties of inflation and supply chain disruptions added unexpected complexity. These global phenomena affected our Customers, but also affected the banking industry and required us to respond to fast-changing lending and deposit environments.

We are pleased to report that BNC met those challenges – and more – in 2022. All of us can take a justified measure of satisfaction that, as an organization, BNC continues to grow and succeed in the marketplace even as we continue to operate in a dynamic business environment. In 2022, our talented Employees provided extraordinary customer service and high-quality products to meet our Customers' evolving needs and to support the Communities we serve. This included continued investment in our digital evolution while maintaining a laser's focus on our unique strengths.

The results of this hard work are seen throughout the organization and impact all its stakeholders. In 2020, in 2021 and again in 2022, for example, this focus and discipline made it possible to distribute special dividends while maintaining strong capital and liquidity levels.

BOOK VALUE PER SHARE



Daniel J. Collins
President & Chief Executive Officer

SHAREHOLDER COMMITMENT

Our Board's governing philosophy prioritizes returning to Shareholders any capital not needed to maintain and grow the Company's businesses or to be retained as reserve or liquidity purposes. The special cash dividend distributions – which totaled more than $34 million paid out in 2021 and 2022 alone – as well as our 175,000-share repurchase authorization, announced in December 2020 are reflections of that prioritization.

Our committed, confident and resolute approach made it possible for us to declare those dividends while maintained strong liquidity and capital levels, preserved our ability to respond quickly and effectively to both unforeseen opportunities and challenges and provided our team members the critical tools, training and technology needed to meet our Customers' needs.

Our commitment to our Shareholders is also reflected in our growth in value. Since 2018, BNC's tangible book value per common share has increased 26.6 percent, from 2018's $22.26 per share to $28.19 per share in 2022.

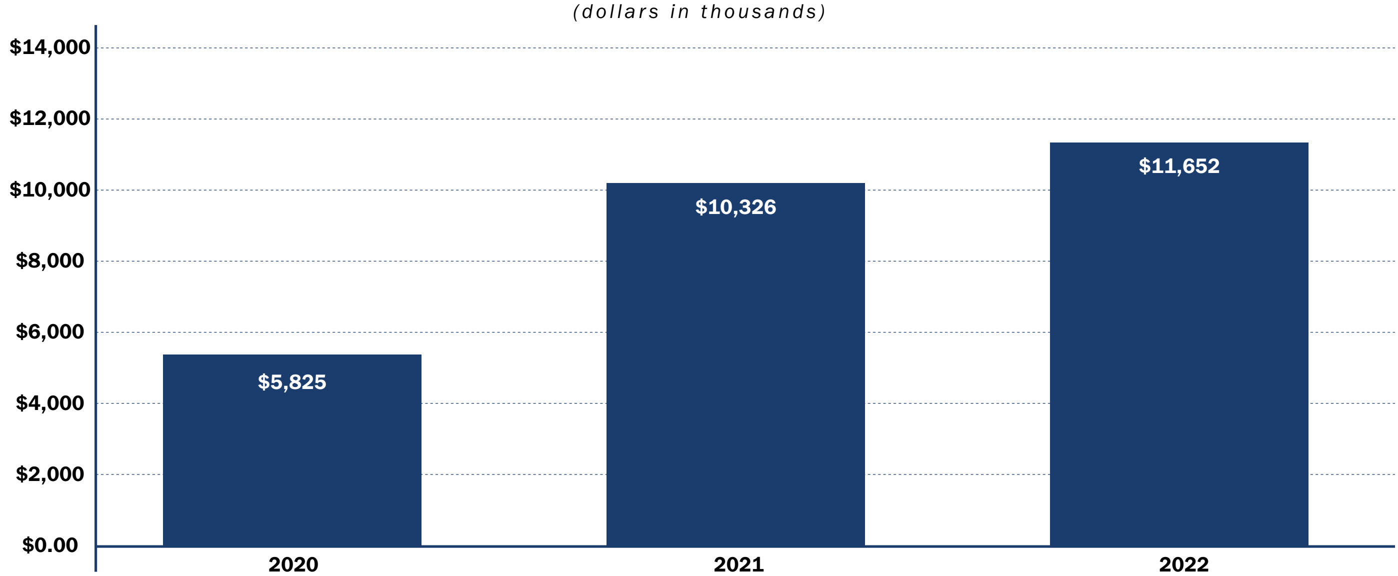
We are proud of our record of increasing Shareholder value but our ultimate commitment to our Shareholders is to remain ever vigilant of changes in the world around us and how those changes might affect our organization and our stakeholders. That means closely monitoring economic conditions and projections and making prudent decisions regarding capital management and deployment to ensure the long-term health of BNC.

STRONG COMMUNITY BANKING SEGMENT PERFORMANCE

After supporting our Customers through the pandemic, we entered 2022 with significant energy and focus around helping them get back to "business as usual." The 2022 results delivered by our community banking segment indicates our energy was well-spent: we recorded loan growth of 16.4 percent; year-over-year net income grew by 12.8 percent; and our loan-to-deposit ratio increased from 58.4 percent to 75.2 percent while maintaining strong liquidity and capital levels.

COMMUNITY BANKING SEGMENT - NET INCOME

(dollars in thousands)



By concentrating on the North Dakota and Arizona markets, we believe we are ***well-positioned to seize further opportunities*** for growth...

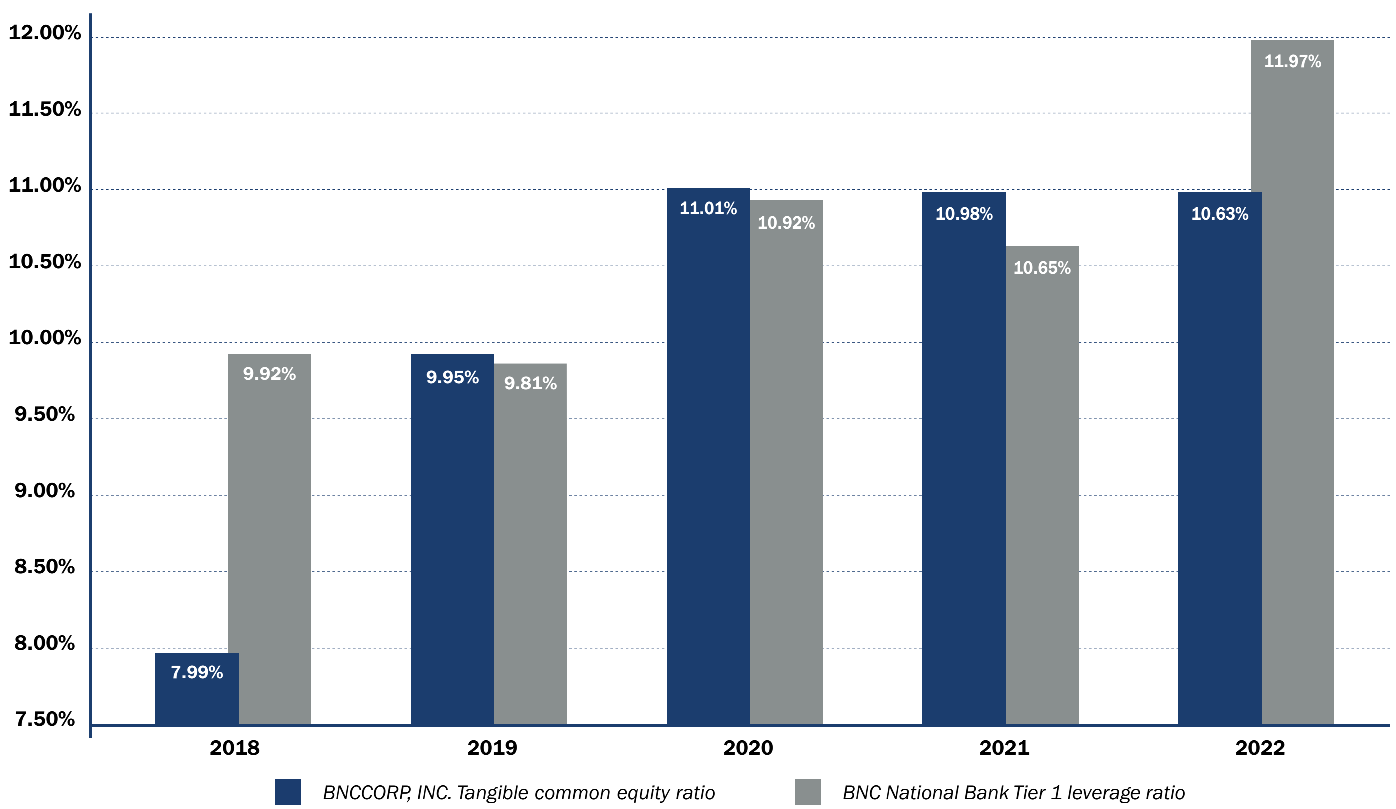
Even as we were achieving strong growth, our focus on fundamentals – we pay particular attention to credit quality and liquidity – continued to yield positive results as asset quality and capital levels remained strong. At year's end, our nonperforming assets were $1.4 million, or 0.15 percent of total assets, lower than the $1.7 million, or 0.16 percent of total assets, we recorded at the end of 2021.

Our tangible common equity ratio, as seen in the chart below, was 10.63 percent of total assets at the end of 2022, compared to 10.98 percent at the end of 2021. The chart also illustrates the year-over-year increase in the Tier 1 leverage ratio for BNC National Bank as it went from 10.65 percent at the end of 2021 to 11.97 percent on December 31, 2022, significantly above the Federal Reserve's "Well Capitalized" ratio threshold.

Also during 2022, we continued our investments in initiatives to further improve community banking performance and customer satisfaction as well as made significant progress aligning incentive programs to achievement of key strategic goals. Those efforts are continuing into 2023.

At BNC, we are hyper-focused on the needs of small- to middle-market businesses. These businesses often need a wide range of commercial banking services but are often under- or poorly served by regional or national competitors. We apply the same highly localized approach to serving our retail Customers. We believe this approach can be effective anywhere, but we are certain that our approach is well-suited to North Dakota, where our commercial and retail banking networks and relationships are concentrated and where we have been rewarded with customer loyalty and retention, and to Arizona where we have deepened our presence in the Phoenix area.

BNCCORP, INC. AND BNC NATIONAL BANK CAPITAL RATIOS



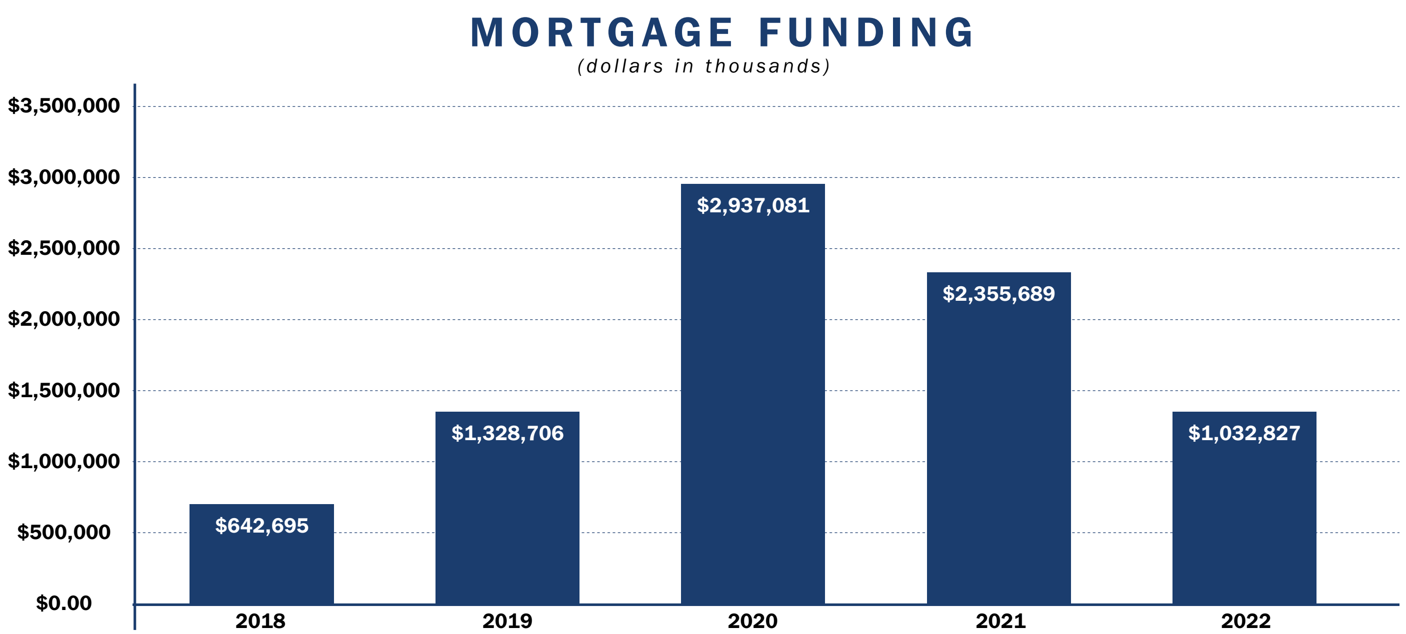
By concentrating on the North Dakota and Arizona markets, we believe we are well-positioned to seize further opportunities for growth in those markets and prudently diversify our credit exposure. Again, a focus on fundamentals allows us to provide the best service, products and solutions to our Customers and Communities.

A STRATEGIC REVIEW OF OUR MORTGAGE BUSINESS

In 2022, our management team and Board undertook a strategic review of the Company's mortgage banking segment in response to industry-wide changes in that business line. That review, which was completed in 2023, resulted in our decision to exit the residential mortgage origination business. Subsequent to that decision, on April 12, 2023, we announced a definitive agreement with First Federal Bank under which First Federal will purchase certain operating assets and assume certain liabilities of our mortgage division. This transaction is expected to close in the second quarter of 2023.

After posting record earnings in 2020 and 2021, the mortgage banking segment experienced a steady decline throughout 2022 as the Federal Reserve Bank moved to control inflation pressures by raising interest rates at an unprecedented pace. While we aggressively reduced expenses throughout the year to mitigate the negative impacts of these macroeconomic factors, these headwinds sharpened our sense that it was an appropriate time to exit this line of business.

The following chart illustrate the impact of those macroeconomic factors as well as supporting our belief that our strategic decision to exit the mortgage business was both appropriate and well-timed.



PLANNING FOR THE FUTURE

Looking ahead, we believe our commitment to fundamentals, an inherently conservative mindset, and our laser focus on the local markets we serve continue to be the right ingredients for future success. To deliver results based on those core strategic principles, we embrace transformation and continuous improvement. Every initiative that we undertake is done with the purpose of staying relevant to the needs of our Customers and improving Shareholder value.

> We don't claim to know what the future holds, but we are confident that our team has the ***experience and temperament*** to meet both challenges and opportunities.

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

- Pursue commercial banking growth opportunities in our core markets and assist our small business Customers with Small Business Administration solutions as an SBA preferred lender.
- Retain Customer loan and deposit relationships through continuous focus on providing the right products, delivering excellent customer service, and continually investing in efficient and effective delivery channels.
- Maintain our vigilance regarding operational expenses.
- Continue advancing automation and system efficiencies, digitizing our operations and focusing on capital return and optimization strategies.

POSITIONED FOR SUCCESS

For all the reasons enumerated above, BNC today is truly Committed, Confident and Resolute. We have entered 2023 well-positioned for success and with a sharp, attentive focus on what is ahead locally, regionally, nationally, and globally. We don't claim to know what the future holds, but we are confident that our team has the experience and temperament to meet both challenges and opportunities. Our efforts are supported by a strong balance sheet and ample liquidity, strong and enduring banking relationships in North Dakota and Arizona, and an engaged, active, forward-leaning management team. In that spirit, we thank all our stakeholders for their support.

Sincerely,

Michael M. Vekich
Chairman, Board of Directors

Daniel J. Collins
President & Chief Executive Officer

Forward-Looking Statements

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

BNCCORP

Year End Financial Report

For the Year Ended December 31, 2022

BNCCORP, INC.

(OTCQX: BNCC)

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Bismarck, North Dakota 58501
(701) 250-3040

BNCCORP, INC.
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December 31, 2022
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Selected Financial Data

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

	For the Years Ended December 31,				
	2022	2021	2020	2019	2018
Income Statement Data:					
Total interest income	$ 33,613	$ 33,457	$ 36,546	$ 37,817	$ 34,478
Total interest expense	2,655	2,137	4,238	9,101	6,108
Net interest income	30,958	31,320	32,308	28,716	28,370
(Credit) provision for credit losses	(150)	(350)	2,670	700	-
Non-interest income	19,128	44,683	85,954	29,131	19,017
Non-interest expense	41,907	47,647	57,107	43,991	39,013
Income tax expense	1,829	6,751	13,871	2,921	1,538
Net income	$ 6,500	$ 21,955	$ 44,614	$ 10,235	$ 6,836
Balance Sheet Data: (at end of period)					
Total assets	$ 943,321	$ 1,047,372	$ 1,074,131	$ 966,750	$ 971,027
Investments securities available for sale	174,876	208,978	183,717	265,278	411,509
Loans held for sale-mortgage banking	37,764	80,923	250,083	137,114	22,788
Loans held for investment, net of unearned income	616,645	529,793	570,890	508,569	468,468
Allowance for credit losses	(8,831)	(9,080)	(10,324)	(8,141)	(7,692)
Total deposits	819,584	906,668	853,158	820,547	848,605
Short-term borrowings	-	-	6,385	4,565	11,494
Federal Home Loan Bank advances	-	-	30,900	17,000	-
Long-term borrowings	-	-	-	-	10,000
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,000	15,001	15,004	15,006	15,009
Dividends declared on common stock	6,303	21,568	28,680	-	-
Common stockholders' equity	100,346	114,986	118,229	96,278	77,753
Book value per common share outstanding	$ 28.19	$ 32.35	$ 33.39	$ 27.39	$ 22.26
Tangible common equity ratio	10.63%	10.98%	11.01%	9.95%	7.99%
Earnings Performance / Share Data:					
Return on average total assets	0.67%	2.00%	4.21%	1.01%	0.70%
Return on average common stockholders' equity, excluding accumulated other comprehensive income	5.81%	17.87%	38.84%	11.41%	8.33%
Efficiency ratio	83.67%	62.69%	48.29%	76.05%	82.33%
Net interest margin	3.41%	3.02%	3.27%	3.00%	3.08%
Net interest spread	3.30%	2.94%	3.14%	2.79%	2.90%
Basic earnings per common share	$ 1.82	$ 6.15	$ 12.52	$ 2.90	$ 1.96
Diluted earnings per common share	$ 1.82	$ 6.15	$ 12.52	$ 2.88	$ 1.93
Average common shares outstanding	3,573,934	3,568,579	3,563,203	3,526,096	3,487,846
Average common and common equivalent shares	3,574,864	3,569,134	3,564,783	3,557,585	3,539,755
Shares outstanding at year end	3,559,334	3,554,983	3,540,522	3,514,770	3,493,298
Other Key Ratios					
Nonperforming assets to total assets	0.15%	0.16%	0.24%	0.21%	0.17%
Nonperforming loans to total assets	0.14%	0.16%	0.24%	0.21%	0.17%
Nonperforming loans to loans held for investment	0.22%	0.32%	0.46%	0.40%	0.36%
Allowance for credit losses to loans held for investment	1.43%	1.71%	1.81%	1.60%	1.64%

Quarterly Financial Data

	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 credit 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

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

Operating Strategy

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

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

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

- *Expand opportunistically*. We emphasize organic growth within the markets that we serve and look to opportunistically expand into new lines of business. 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):

	2022	2021
Selected Income Statement Data		
Interest income	$ 33,613	$ 33,457
Interest expense	2,655	2,137
Net interest income	30,958	31,320
Credit for credit losses	(150)	(350)
Non-interest income	19,128	44,683
Non-interest expense	41,907	47,647
Income before income taxes	8,329	28,706
Income tax expense	1,829	6,751
Net income	$ 6,500	$ 21,955
Earnings Per Share Data		
Basic earnings per common share	$ 1.82	$ 6.15
Diluted earnings per common share	$ 1.82	$ 6.15

Comparison of 2022 to 2021 Net Income:

- In 2022, net interest income decreased 1.2% from 2021. The decrease in net interest income reflects lower balances of loans held for sale and lower yields on loans held for investment, primarily from lower PPP fees recognized in 2022, partially offset by lower deposit balances and higher yields on interest-bearing cash. PPP fees included in interest income were $294 thousand in 2022 compared to $3.5 million in 2021. Net interest margin increased to 3.41% in 2022, compared to 3.02% in 2021.
- The release of $150 thousand from the allowance for credit losses in 2022 resulted in a 1.43% ratio of allowance for credit losses to loans held for investment. Excluding $195 thousand of Small Business Administration (SBA) Paycheck Protection Program (PPP) loans, the allowance for credit losses was 1.43% of loans held for investment at December 31, 2022, compared to 1.75% at December 31, 2021. At December 31, 2022, non-performing assets were 0.15% of total assets, compared to 0.16% at December 31, 2021.
- Non-interest income decreased $25.6 million, or 57.2%, when comparing 2022 to 2021. The decrease primarily relates to a $26.3 million decrease in mortgage banking revenue, net. In 2022, the Company's mortgage business was negatively impacted by higher interest rates and higher home values affecting both purchase and refinance activity. Bank charges and service fees increased by $1.4 million from higher fees for letters of credit, deposit account charges, and from the movement of deposits to one-way sell positions.
- Non-interest expense decreased by $5.7 million, or 12.0%, in 2022. Salaries and employee benefits decreased $4.0 million, or 15.8%, primarily driven by lower mortgage banking activity. Professional services expense decreased $2.2 million, or 37.5%, largely due to lower mortgage banking activity. Marketing and promotion expenses increased $1.5 million, or 36.1%, largely attributed to increased cost to purchase mortgage leads.
- In 2022, the effective tax rate decreased to 22.0% from 23.5% in 2021. The decrease in the effective tax rate is due to decreased revenue with stable non-taxable interest income from municipal securities.

General

Net income in 2022 was $6.5 million compared to net income of $22.0 million in 2021. Earnings per diluted share was $1.82 in 2022 and $6.15 in 2021.

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, 2022			For the Year ended December 31, 2021			For the Year ended December 31, 2020		
	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	$ 109,950	1,262	1.15%	$ 177,338	$ 232	0.13%	$ 49,000	$ 89	0.18%
FHLB Stock	1,268	38	3.01%	1,292	40	3.10%	1,306	43	3.29%
Federal Reserve Stock	1,807	109	6.00%	1,807	108	6.00%	1,807	108	5.98%
Debt securities-taxable	186,380	4,225	2.27%	182,298	3,626	1.99%	201,343	4,714	2.34%
Debt securities-tax exempt	5,937	230	3.88%	6,575	232	3.53%	6,626	234	3.53%
Loans held for sale-mortgage banking	49,862	2,025	4.06%	124,897	3,173	2.54%	163,692	4,592	2.81%
Loans held for investment	561,318	25,724	4.58%	553,493	26,046	4.71%	573,040	26,766	4.67%
Allowance for credit losses	(8,651)	-	0.00%	(10,275)	-	0.00%	(9,031)	-	0.00%
Total interest-earning assets	907,871	33,613	3.70%	1,037,425	33,457	3.22%	987,783	36,546	3.70%
Non-interest-earning assets:									
Cash and due from banks	10,038			9,258			8,256		
Other	46,565			51,739			63,075		
Total assets	$ 964,474			$ 1,098,422			$ 1,059,114		
Liabilities and Stockholders' Equity									
Deposits:									
Interest checking and money market accounts	$ 522,240	1,838	0.35%	$ 600,307	$ 1,167	0.19%	$ 545,455	$ 1,624	0.30%
Savings	51,510	20	0.04%	47,404	15	0.03%	38,886	20	0.05%
Certificates of deposit	65,238	304	0.47%	94,264	713	0.76%	141,770	2,202	1.55%
Total interest-bearing deposits	638,988	2,162	0.34%	741,975	1,895	0.26%	726,111	3,846	0.53%
Borrowings:									
Short-term borrowings	241	1	0.41%	1,941	4	0.17%	6,482	12	0.18%
FHLB advances	118	3	2.44%	491	1	0.30%	3,649	22	0.60%
Subordinated debentures	15,000	489	3.25%	15,003	237	1.58%	15,005	358	2.39%
Total interest-bearing liabilities	654,347	2,655	0.40%	759,410	2,137	0.28%	751,247	4,238	0.56%
Non-interest-bearing demand accounts	195,021			192,452			165,827		
Total deposits and interest-bearing liabilities	849,368			951,862			917,074		
Other non-interest-bearing liabilities	9,575			18,003			21,743		
Total liabilities	858,943			969,865			938,817		
Stockholders' equity	105,531			128,557			120,297		
Total liabilities and stockholders' equity	$ 964,474			$ 1,098,422			$ 1,059,114		
Net interest income		30,958			$ 31,320			$ 32,308	
Net interest spread			3.30%			2.94%			3.14%
Net interest margin			3.41%			3.02%			3.27%
Ratio of average interest-earning assets to average interest-bearing liabilities	138.74%			136.61%			131.49%		

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, 2022 Compared to 2021			For the Years Ended December 31, 2021 Compared to 2020		
	Change Due to			Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earned on Interest-Earning Assets						
Interest-bearing due from banks	$ (120)	$ 1,150	$ 1,030	$ 174	$ (31)	$ 143
FHLB Stock	(1)	(1)	(2)	-	(3)	(3)
Federal Reserve Stock	-	1	1	-	-	-
Debt securities-taxable	84	515	599	(421)	(667)	(1,088)
Debt securities-tax exempt	(24)	22	(2)	(2)	-	(2)
Loans held for sale- mortgage banking	(2,478)	1,330	(1,148)	(1,014)	(405)	(1,419)
Loans held for investment	(202)	(120)	(322)	(1,030)	310	(720)
Total increase (decrease) in interest income	(2,741)	2,897	156	(2,293)	(796)	(3,089)
Interest Expense on Interest-Bearing Liabilities						
Interest checking and money market accounts	(344)	1,015	671	243	(700)	(457)
Savings	1	4	5	4	(9)	(5)
Certificates of deposit	(177)	(232)	(409)	(575)	(914)	(1,489)
Short-term borrowings	(6)	3	(3)	(9)	1	(8)
FHLB advances	(2)	4	2	(9)	(12)	(21)
Subordinated debentures	-	252	252	-	(121)	(121)
Total increase (decrease) in interest expense	(528)	1,046	518	(346)	(1,755)	(2,101)
Increase (decrease) in net interest income	$ (2,213)	$ 1,851	$ (362)	$ (1,947)	$ 959	$ (988)

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. 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.

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

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

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)		
	2022	2021	$	%	
Bank charges and service fees	$ 3,719	$ 2,328	$ 1,391	60 %	(a)
Wealth management revenues	1,981	2,205	(224)	(10) %	(b)
Mortgage banking revenues, net	11,459	37,767	(26,308)	(70) %	(c)
Gains on sales of loans, net	262	660	(398)	(60) %	(d)
Other	1,707	1,723	(16)	(1) %	
Total non-interest income	$ 19,128	$ 44,683	$ (25,555)	(57) %	

(a) Bank charges and services fees increases are primarily due to increased utilization of the Company's products generating higher deposit account charges, an increase in the issuance of letters of credit, and fees from movement of deposits to a one-way sell positions.
(b) Wealth management revenues decreased as strong new growth in assets under administration have been more than offset by elevated distributions and overall market declines relative to the 2021 period.
(c) Mortgage banking revenues decreased as the industry has been negatively impacted by higher market interest rates in 2022 compared to the 2021 period, during which the Company experienced a combination of historically high refinance originations and margins.
(d) Gains on sale of loans can vary significantly from period to period.

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)		
	2022	2021	$	%	
Salaries and employee benefits	$ 21,194	$ 25,161	$ (3,967)	(16) %	(a)
Professional services	3,584	5,736	(2,152)	(38) %	(b)
Data processing fees	3,952	4,561	(609)	(13) %	(c)
Marketing and promotion	5,660	4,158	1,502	36 %	(d)
Occupancy	2,192	2,164	28	1 %	
Regulatory costs	468	475	(7)	(1) %	
Depreciation and amortization	1,231	1,269	(38)	(3) %	
Office supplies and postage	425	461	(36)	(8) %	(e)
Other	3,201	3,662	(461)	(13) %	(f)
Total non-interest expense	$ 41,907	$ 47,647	$ (5,740)	(12) %	
Efficiency ratio	83.67%	62.69%	20.98%		

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

Mortgage Banking Division Selected Data

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

(dollars in thousands)		2022		2021
Number of funded mortgage loans held for sale		2,522		6,448
Mortgage loans held for sale funded	$	1,032,827	$	2,355,689
Average loans held for sale-mortgage banking	$	49,862	$	124,897
Loans held for sale-mortgage banking	$	37,764	$	80,923
Non-interest income:				
Gains on sale of loans held for sale, net of commission expense	$	14,128	$	55,321
Change in fair value of mortgage banking instruments (1)	$	(2,669)	$	(17,554)

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

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

The decrease in mortgage interest rates following the onset of the pandemic and implementation of the Federal Reserve's purchases of agency mortgage-backed securities in 2020, generated a significant increase in mortgage loan origination activity and margins. As mortgage interest rates increased from these historically low levels, starting in the first quarter of 2021, mortgage origination activity began to moderate and the Company's mortgage banking division began to transition from capitalizing on the refinancing opportunity to supporting its mortgage customers' financing of home purchases. In 2022, the Company's financial results were adversely affected by the impact of rising interest rates and market volatility, which was partially offset by a significant reset of our mortgage business cost structure during the same period. Non-interest income includes gains on the sale of loans, changes in the fair value of loans held for sale and loans in the various stages of processing prior to funding (net of commission expense) and hedge instruments.

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

Income Tax Expense

During 2022, the Company recorded tax expense of $1.8 million, which resulted in an effective tax rate of 22.0% compared to tax expense of $6.8 million in 2021, which resulted in an effective tax rate of 23.5%. The decrease in the effective tax rate is to due decreased revenue with stable non-taxable interest income from municipal securities.

Subject to certain statutory limitations, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2022. The state net operating losses expire between 2024 and 2031.

Financial Condition

Total assets were $943.3 million at December 31, 2022, a decrease of $104.1 million, compared to 1.0 billion at December 31, 2021. This decrease is primarily due to lower cash and cash equivalents, debt securities, and loans held for sale being partially offset by increased loans held for investment.

Total loans held for investment aggregated $616.6 million at December 31, 2022, an increase of $86.9 million, or 16.4%, compared to December 31, 2021. Loans held for sale as of December 31, 2022, were $37.8 million, a decrease of $43.2 million when compared to December 31, 2021. Debt securities decreased $34.1 million from year-end 2021. Cash and cash equivalent balances were $74.0 million as of December 31, 2022.

Assets

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

	As of December 31,		Increase (Decrease)		
	2022	2021	$	%	
Cash and cash equivalents	$ 73,968	$ 188,060	$ (114,092)	(61) %	(a)
Debt securities available for sale	174,876	208,978	(34,102)	(16) %	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	3,063	3,096	(33)	(1) %	
Loans held for sale-mortgage banking	37,764	80,923	(43,159)	(53) %	(c)
Loans held for investment, net	607,814	520,713	87,101	17 %	(d)
Premises and equipment, net	11,764	12,502	(738)	(6) %	
Operating lease right of use asset	1,521	2,142	(621)	(29) %	(e)
Accrued interest receivable	3,312	2,586	726	28 %	(f)
Other assets	29,239	28,372	867	3 %	
Total assets	$ 943,321	$ 1,047,372	$ (104,051)	(10) %	

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

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

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

(d) Excluding the impact of PPP loan forgiveness, the Company grew the loans held for investment portfolio by $98.6 million during 2022.

(e) Decrease is due to contractual extinguishment of right of use assets. See Note 7 – Leases for more detailed information.

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

Debt Securities Available for Sale

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

	As of December 31,			
	2022		2021	
	Amortized Cost	Estimated Fair Market Value	Amortized Cost	Estimated Fair Market Value
U.S. treasury securities	$ 19,864	$ 18,036	$ 14,833	$ 14,855
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC	23,485	20,147	28,524	28,157
U.S. government agency small business administration pools guaranteed by SBA	15,572	14,381	22,794	21,863
Collateralized mortgage obligations guaranteed by GNMA	10,096	9,758	12,998	13,751
Collateralized mortgage obligations issued by FNMA/FHLMC	64,285	58,752	79,538	80,303
Commercial mortgage-backed securities issued by FHLMC	17,557	16,081	17,999	18,989
Other commercial mortgage-backed securities	27,906	25,289	15,963	16,081
State and municipal bonds	13,562	12,432	13,626	14,979
Total investments	$ 192,327	$ 174,876	$ 206,275	$ 208,978

There were no securities that management concluded were other-than-temporarily impaired during 2022 or 2021.

The following table presents contractual maturities for securities available for sale and yields thereon at December 31, 2022 (dollars are in thousands):

	Within 1 Year		After 1 But Within 5 Years		After 5 But Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. treasury securities(1)	$ -	0.00%	$ 14,928	1.33%	$ 4,936	1.48%	$ -	0.00%	$ 19,864	1.37%
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC(1) (2)	-	0.00%	-	0.00%	-	0.00%	23,485	2.37%	23,485	2.37%
U.S. government agency small business administration pools guaranteed by SBA(1) (2)	-	0.00%	-	0.00%	6,351	3.87%	9,221	0.02%	15,572	1.59%
Collateralized mortgage obligations guaranteed by GNMA(1) (2)	-	0.00%	-	0.00%	-	0.00%	10,096	3.86%	10,096	3.86%
Collateralized mortgage obligations issued by FNMA/FHLMC(1) (2)	-	0.00%	-	0.00%	443	4.25%	63,842	2.98%	64,285	2.99%
Commercial mortgage-backed securities issued by FHLMC(1) (2)	-	0.00%	-	0.00%	13,128	3.17%	4,429	3.35%	17,557	3.22%
Other commercial mortgage-backed securities(1) (2)	-	0.00%	662	3.35%	4,210	2.59%	23,034	3.32%	27,906	3.21%
State and municipal bonds(2) (3)	-	0.00%	2,541	7.75%	-	0.00%	11,021	3.07%	13,562	3.95%
Total book value of debt securities	$ -	0.00%	$ 18,131	2.31%	$ 29,068	2.97%	$ 145,128	2.83%	192,327	2.80%
Net unrealized loss on debt securities available for sale									(17,451)	
Total investment in debt securities available for sale									$ 174,876	3.08%

(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, 2022, the Company had $174.9 million of debt securities available for sale compared to $209.0 million at December 31, 2021. In 2022, 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, 2022, all classifications of debt securities available for sale exceeded 10% of stockholders' equity with exception of Collateralized Mortgage Obligations (CMO's) guaranteed by GNMA.

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

Federal Reserve Bank and Federal Home Loan Bank

The Company's equity securities consisted of $1.8 million of Federal Reserve Bank ("FRB") stock and $1.3 million of Federal Home Loan Bank ("FHLB") stock as of December 31, 2022 and $1.8 million of FRB stock and $1.3 million of FHLB stock as of December 31, 2021.

Loans

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

	2022		2021		2020		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans held for sale-mortgage banking	$ 37,764	100.0	$ 80,923	100.0	$ 250,083	100.0	$ 137,114	100.0	$ 22,788	100.0
Loans held for investment:										
Commercial and industrial	$ 205,429	33.3	$ 157,995	29.8	$ 165,994	29.1	$ 162,592	32.0	$ 149,886	32.0
Commercial real estate	230,243	37.4	201,043	38.0	190,939	33.4	193,203	38.0	174,868	37.3
SBA	48,638	7.9	58,759	11.1	102,064	17.9	46,799	9.2	32,505	6.9
Consumer	95,891	15.5	78,297	14.8	81,783	14.3	82,498	16.2	78,055	16.7
Land and land development	10,758	1.7	17,185	3.2	8,603	1.5	10,449	2.0	11,398	2.4
Construction	24,690	4.0	16,121	3.0	21,748	3.8	12,656	2.5	21,257	4.5
	615,649	99.8	529,400	99.9	571,131	100.0	508,197	99.9	467,969	99.9
Unearned income and net unamortized deferred fees and costs	996	0.2	393	0.1	(241)	-	372	0.1	499	0.1
Loans, net of unearned income and unamortized fees and costs	$ 616,645	100.0	$ 529,793	100.0	$ 570,890	100.0	$ 508,569	100.0	$ 468,468	100.0

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

	December 31,		Increase (Decrease)	
	2022	2021	$	%
Loans held for sale-mortgage banking	$ 37,764	$ 80,923	$ (43,159)	(53.3) %
Loans held for investment:				
Commercial and industrial	$ 205,429	$ 157,995	$ 47,434	30.0 %
Commercial real estate	230,243	201,043	29,200	14.5 %
SBA	48,638	58,759	(10,121)	(17.2) %
Consumer	95,891	78,297	17,594	22.5 %
Land and land development	10,758	17,185	(6,427)	(37.4) %
Construction	24,690	16,121	8,569	53.2 %
	615,649	529,400	86,249	16.3 %
Unearned income and net unamortized deferred fees and costs	996	393	603	153.4 %
Loans, net of unearned income and unamortized fees and costs	$ 616,645	$ 529,793	$ 86,852	16.4 %

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):

2022	$	123,683
2021		106,077
2020		130,356
2019		152,163
2018		166,291

Concentrations of Credit

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

	2022			2021		
North Dakota	$	390,006	63 %	$	360,077	68 %
Arizona		115,767	19 %		98,742	19 %
Minnesota		29,676	5 %		24,434	4 %
Other		80,200	13 %		46,147	9 %
Total gross loans held for investment	$	615,649	100 %	$	529,400	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):

	2022			2021		
North Dakota	$	362,354	59 %	$	328,066	62 %
Arizona		149,973	24 %		126,242	24 %
California		22,154	4 %		19,644	4 %
South Dakota		16,088	3 %		8,978	2 %
Minnesota		15,248	2 %		9,969	2 %
Colorado		13,245	2 %		12,855	2 %
Texas		7,086	1 %		3,637	- %
Ohio		6,725	1 %		7,103	1 %
Other		22,776	4 %		12,906	3 %
Total gross loans held for investment	$	615,649	100 %	$	529,400	100 %

The following table approximates the Company's significant concentrations by industry, excluding PPP loans of $195 thousand at December 31, 2022 and $11.9 million at December 31, 2021, (dollars are in thousands):

	December 31, 2022		December 31, 2021	
Non-owner occupied commercial real estate (not otherwise categorized)	$ 177,674	29 %	$ 157,608	30 %
Hotels	91,388	15	78,473	15
Consumer, not otherwise categorized	85,648	14	75,519	14
Retail trade	36,607	6	35,173	7
Healthcare and social assistance	33,327	5	36,531	7
Agriculture, forestry, fishing and hunting	30,641	5	26,922	5
Transportation and warehousing	23,951	4	21,499	4
Mining, oil and gas extraction	22,480	4	10,327	2
Non-hotel accommodation and food service	21,538	4	18,838	4
Art, entertainment and recreation	19,024	3	5,936	1
Other service	11,810	2	12,543	2
Construction contractors	11,124	2	11,458	2
Real estate and rental and leasing support services	9,233	1	3,750	1
Public administration	8,316	1	3,108	1
Professional, scientific, and technical services	8,209	1	3,738	1
Manufacturing	7,572	1	4,697	1
Finance and insurance	5,022	1	2,692	-
Educational services	4,435	1	1,724	-
All other	7,455	1	6,969	3
Gross loans held for investment	$ 615,454	100 %	$ 517,505	100 %

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

	2022 Total Loans Held for Investment	2021 Total Loans Held for Investment
North Dakota		
Commercial and industrial	$ 61,784	$ 44,225
Construction	13,930	8,815
Agricultural	30,799	26,279
Land and land development	6,524	15,475
Owner-occupied commercial real estate	34,683	35,781
Commercial real estate	114,937	104,889
Small business administration	18,671	25,232
Consumer	81,026	67,370
Subtotal gross loans held for investment	$ 362,354	$ 328,066
Consolidated		
Commercial and industrial	$ 96,389	$ 62,501
Construction	24,690	16,121
Agricultural	30,850	26,422
Land and land development	10,758	17,185
Owner-occupied commercial real estate	78,190	69,072
Commercial real estate	230,243	201,043
Small business administration	48,638	58,759
Consumer	95,891	78,297
Total gross loans held for investment	$ 615,649	$ 529,400

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, 2022 (in thousands):

	One Year or Less	Over 1 Year Through 5 Years Fixed Rate	Over 1 Year Through 5 Years Indexed Rate	Over 5 Years Fixed Rate	Over 5 Years Indexed Rate	Total Loans Held for Investment
Commercial and industrial	$ 21,420	$ 22,400	$ 2,957	$ 63,231	$ 95,421	$ 205,429
Commercial real estate	-	18,286	9,457	28,044	174,456	230,243
SBA	822	194	32	4,075	43,515	48,638
Consumer	996	5,725	5,460	66,174	17,536	95,891
Land and land development	3,027	3,942	200	215	3,374	10,758
Construction	1,708	4,323	5,567	4,266	8,826	24,690
Total principal amount of loans	$ 27,973	$ 54,870	$ 23,673	$ 166,005	$ 343,128	$ 615,649

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

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

Provision (Credit) for Credit Losses

The Company provides for credit losses to maintain its allowance for credit losses at a level adequate to cover estimated probable losses inherent in the portfolio as of each balance sheet date. In 2022, a $150 thousand release of allowance for credit losses was recorded, compared to a $350 thousand release of allowance for credit losses in 2021.

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, 2022	2021	2020	2019	2018
Balance of allowance for credit losses, beginning of period	$ 9,080	$ 10,324	$ 8,141	$ 7,692	$ 7,861
Charge-offs:					
Commercial and industrial	-	(927)	(88)	(125)	(71)
Commercial real estate	-	-	(453)	-	(1)
SBA	-	-	-	(82)	(59)
Consumer	(159)	(82)	(38)	(97)	(129)
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Total charge-offs	(159)	(1,009)	(579)	(304)	(260)
Recoveries:					
Commercial and industrial	-	69	17	-	40
Commercial real estate	-	1	45	13	16
SBA	7	5	9	11	4
Consumer	33	24	12	29	31
Land and land development	20	16	9	-	-
Construction	-	-	-	-	-
Total recoveries	60	115	92	53	91
Net charge-offs	(99)	(894)	(487)	(251)	(169)
(Credit) provision for credit losses charged to operations	(150)	(350)	2,670	700	-
Balance of allowance for credit losses, end of period	$ 8,831	$ 9,080	$ 10,324	$ 8,141	$ 7,692
Ratio of net charge-offs to average loans held for investment	(0.018)%	(0.162)%	(0.085)%	(0.052)%	(0.037)%
Average gross loans held for investment	$ 561,318	$ 553,493	$ 573,040	$ 480,389	$ 454,215
Ratio of allowance for credit losses to loans held for investment	1.43%	1.71%	1.81%	1.60%	1.64%
Ratio of nonperforming loans to total assets	0.14%	0.16%	0.24%	0.21%	0.17%

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).

	2022		2021		2020		2019		2018	
	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment
Commercial and industrial	$ 2,519	33%	$ 2,173	30%	$ 3,275	29%	$ 2,366	32%	$ 1,937	32%
Commercial real estate	3,621	37%	4,129	38%	3,923	33%	3,502	38%	3,558	37%
SBA	1,396	8%	1,641	11%	1,779	18%	1,131	9%	845	7%
Consumer	982	16%	836	15%	948	14%	853	16%	928	17%
Land and land development	87	2%	148	3%	170	2%	187	2%	225	2%
Construction	226	4%	153	3%	229	4%	102	3%	199	5%
Total	$ 8,831	100%	$ 9,080	100%	$ 10,324	100%	$ 8,141	100%	$ 7,692	100%

The amount of the allowance for credit losses can vary depending on macroeconomic conditions and risk in the portfolio. The allocation of the allowance for credit losses can vary depending on relative volume of asset groups in the portfolio and risks therein. The allocation of the allowance for credit losses as shown in the table above should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions.

Allowance for Credit Losses; Impact on Earnings

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

Nonperforming Loans and Assets

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

	As of December 31,				
	2022	2021	2020	2019	2018
Nonperforming loans:					
Loans 90 days or more delinquent and still accruing interest	$ 1	$ -	$ 1	$ -	$ -
Non-accrual loans	1,354	1,673	2,611	2,033	1,686
Total nonperforming loans	1,355	1,673	2,612	2,033	1,686
Repossessed assets, net	64	17	-	-	-
Total nonperforming assets	$ 1,419	$ 1,690	$ 2,612	$ 2,033	$ 1,686
Allowance for credit losses	$ 8,831	$ 9,080	$ 10,324	$ 8,141	$ 7,692
Ratio of total nonperforming loans to total loans	0.21%	0.27%	0.32%	0.31%	0.34%
Ratio of total nonperforming loans to loans held for investment	0.22%	0.32%	0.46%	0.40%	0.36%
Ratio of total nonperforming assets to total assets	0.15%	0.16%	0.24%	0.21%	0.17%
Ratio of total nonperforming loans to total assets	0.14%	0.16%	0.24%	0.21%	0.17%
Ratio of allowance for credit losses to total nonperforming loans	652%	543%	395%	400%	456%

Nonperforming Loans

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

	2022	2021
Balance, beginning of period	$ 1,673	$ 2,612
Additions to nonperforming	226	239
Charge-offs	(86)	(1,014)
Reclassified back to performing	(165)	-
Principal payments received	(267)	(147)
Transferred to repossessed assets	(26)	(17)
Balance, end of period	$ 1,355	$ 1,673

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

	2022	2021
Interest income that would have been recorded	$ 161	$ 172
Interest income recorded	7	-
Effect on interest income	$ 154	$ 172

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

Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when the Company believes that the borrower's financial condition is such that the collection of interest is doubtful. A delinquent loan is generally placed on non-accrual status when it becomes 90 days or more past due unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, accrued but uncollected interest income applicable to the current reporting period is reversed against interest income. Accrued but uncollected interest income applicable to previous reporting periods is charged against the allowance for credit losses. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

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

	Total	Accrual	Non-accrual
2022	$ 926	$ 153	$ 773
2021	1,029	-	1,029
2020	1,966	-	1,966
2019	3,245	1,448	1,797
2018	3,348	1,779	1,569

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

Other real estate owned and repossessed assets represent properties and other assets acquired through, or in lieu of, loan foreclosure, and property transferred from premises and equipment. They are initially recorded at fair value less cost to sell at the date of acquisition establishing a new cost basis. Write-downs to fair value at the time of acquisition are charged to the allowance for credit losses. After foreclosure, the Company 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.

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

Potential Problem Loans

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

	Watch List			Substandard			Doubtful
	Impaired	Other	Total	Impaired	Other	Total	Impaired
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
2018	-	5,206	5,206	106	9,069	9,175	1,570

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.

The Company did not have any loans modified consistent with Section 4013 of the CARES Act at December 31, 2022 or at December 31, 2021.

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)		
	2022	2021	$	%	
Deposits:					
Non-interest-bearing	$ 207,232	$ 186,598	$ 20,634	11 %	(a)
Interest-bearing					
Savings, interest checking and money market	554,577	644,641	(90,064)	(14) %	(a)
Time deposits	57,775	75,429	(17,654)	(23) %	(b)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,000	15,001	(1)	- %	
Accrued interest payable	312	226	86	38 %	(c)
Accrued expenses	5,482	7,302	(1,820)	(25) %	(d)
Operating lease liabilities	1,660	2,302	(642)	(28) %	(e)
Other liabilities	937	887	50	6 %	(f)
Total liabilities	842,975	932,386	(89,411)	(10) %	
Stockholders' equity	100,346	114,986	(14,640)	(13) %	
Total liabilities and stockholders' equity	$ 943,321	$ 1,047,372	$ (104,051)	(10) %	

(a) Deposits decreased as the Company moved deposits off the balance sheet through the use of an associated banking network.
(b) Time deposits have decreased as the Company continues to actively manage the existing certificates of deposit rates.
(c) Accrued interest payable increased primarily due to higher rates on subordinate debentures partially offset by lower volume of time deposit balances.
(d) Accrued expenses decreased due to lower 401k matching contributions, accrued vacation, and mortgage banking commissions.
(e) Decrease is due to contractual extinguishment of lease liabilities. See Note 7 – Leases for more detailed information.
(f) The increase primarily relates to higher liabilities for unfunded commitments partially offset by lower deferred compensation liabilities.

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated $656 thousand and $820 thousand at December 31, 2022, and 2021, respectively. Although the Company sells mortgage banking loans without recourse, industry standards require standard representations and warranties which require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk is also evident within the mortgage banking industry as disputes arise between lenders and investors. Such requests for repurchase are commonly due to purported fraudulent or faulty representations and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the obligation, the Company tracks historical reimbursements and calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimates the future reimbursement amounts and records the estimated obligation. See Note 18 of the Consolidated Financial Statements for a description of financial instruments with off-balance-sheet risk.

Deposits

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

	For the Years Ended December 31,								
	2022			2021			2020		
	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	$ 522,240	62.6%	0.35%	$ 600,307	64.2%	0.19%	$ 545,455	61.2%	0.30%
Savings deposits	51,510	6.2%	0.04%	47,404	5.1%	0.03%	38,886	4.4%	0.05%
Time deposits	65,238	7.8%	0.47%	94,264	10.1%	0.76%	141,770	15.9%	1.55%
Total interest-bearing deposits	638,988	76.6%	0.34%	741,975	79.4%	0.26%	726,111	81.5%	0.53%
Non-interest-bearing demand deposits	195,021	23.4%	0.00%	192,452	20.6%	0.00%	165,827	18.5%	0.00%
Total deposits	$ 834,009	100.0%	0.26%	$ 934,427	100.0%	0.20%	$ 891,938	100.0%	0.43%

Time deposits, in denominations of $250 thousand and over, totaled $14.9 million at December 31, 2022, as compared to $18.0 million at December 31, 2021. The following table sets forth the amount and maturities of time deposits of $250 thousand and over as of December 31, 2022 (in thousands):

Maturing in:	
3 months or less	$ 3,031
Over 3 months through 6 months	4,845
Over 6 months through 12 months	4,088
Over 12 months	2,907
	$ 14,871

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):

	2022	2021	2020
Short-term borrowings outstanding at period end	$ -	$ -	$ 6,385
Weighted average interest rate at period end	0.30%	0.30%	0.16%
Maximum month end balance during the period	$ -	$ -	$ 8,951
Average borrowings outstanding for the period	$ 241	$ 1,941	$ 6,482
Weighted average interest rate for the period	0.30%	0.17%	0.18%

Note 9 of the Consolidated Financial Statements summarizes the general terms of the Company's short-term borrowings outstanding at December 31, 2022 and 2021.

There were no FHLB advances at December 31, 2022 and December 31, 2021.

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, 2022 and 2021.

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

	2022	2021	2020	2019	2018
Tier 1 leverage (Consolidated)	13.99%	11.74%	11.74%	10.65%	9.97%
Total risk-based capital (Consolidated)	17.57%	20.02%	17.88%	17.13%	20.26%
Common equity tier 1 risk-based capital (Consolidated)	14.48%	16.54%	14.65%	13.76%	14.67%
Tier 1 risk-based capital (Consolidated)	16.43%	18.77%	16.63%	15.95%	17.28%
Tangible common equity (Consolidated) (a)	10.63%	10.98%	11.01%	9.95%	7.99%
Tier 1 leverage (Bank)	11.97%	10.65%	10.92%	9.81%	9.92%
Total risk-based capital (Bank)	15.19%	18.27%	16.72%	15.88%	18.44%
Common equity tier 1 risk-based capital (Bank)	14.04%	17.02%	15.47%	14.69%	17.19%
Tier 1 risk-based capital (Bank)	14.04%	17.02%	15.47%	14.69%	17.19%

(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, 2022, 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	$ -	$ -	$ -	$ -	$ -
Commitments to sell loans	37,823	-	-	-	37,823
Future minimum lease payments under non-cancelable operating leases	644	648	214	154	1,660
Total	$ 38,467	$ 648	$ 214	$ 154	$ 39,483

	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	$ 143,176	$ 30,504	$ 9,481	$ 3,174	$ 186,335
Commitments to sell loans	99,383	-	-	-	99,383
Standby and commercial letters of credit	2,048	439	-	-	2,487
Commitments to fund SBIC	-	200	685		885
Total	$ 244,607	$ 31,143	$ 10,166	$ 3,174	$ 289,090

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 ($266.6 million as of December 31, 2022);
2. Borrowing capacity from the FHLB ($146.4 million as of December 31, 2022); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($129.8 million as of December 31, 2022).

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

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

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

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

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

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

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, 2022, levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its December 31, 2022, level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

The Company monitors the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low level of interest rates as of December 31, 2022, the downward scenarios for interest rate movements is limited to -200bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 7.50% to 8.50% 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 2022 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	$ 36,730	$ 37,336	$ 37,407	$ 36,847	$ 36,293	$ 35,749
Dollar change from unchanged scenario	$ (677)	$ (71)	$ -	$ (560)	$ (1,114)	$ (1,658)
Percentage change from unchanged scenario	(1.81)%	(0.19)%	-	(1.50)%	(2.98)%	(4.43)%

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, 2022 (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, 2022. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated maturity or repricing at December 31, 2022				
	0–3 Months	4–12 Months	1–5 Years	Over 5 years	Total
	(dollars are in thousands)				
Interest-earning assets:					
Interest-bearing deposits with banks	$ 55,299	$ -	$ -	$ -	$ 55,299
Debt securities (a)	17,676	11,678	77,898	74,157	181,409
FRB and FHLB stock	3,063	-	-	-	3,063
Loans held for sale-mortgage banking, fixed rate	37,764	-	-	-	37,764
Loans held for investment, fixed rate	22,014	42,028	136,473	28,844	229,359
Loans held for investment, indexed rate	90,791	34,756	253,257	8,482	387,286
Total interest-earning assets	$ 226,607	$ 88,462	$ 467,628	$ 111,483	$ 894,180
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 500,246	$ -	$ -	$ -	$ 500,246
Savings	54,331	-	-	-	54,331
Time deposits	10,847	28,109	18,726	93	57,775
Subordinated debentures	-	15,000	-	-	15,000
Total interest-bearing liabilities	$ 565,424	$ 43,109	$ 18,726	$ 93	$ 627,352
Interest rate gap	$ (338,817)	$ 45,353	$ 448,902	$ 111,390	$ 266,828
Cumulative interest rate gap at December 31, 2022	$ (338,817)	$ (293,464)	$ 155,438	$ 266,828	
Cumulative interest rate gap to total assets	(35.92%)	(31.11%)	16.48%	28.29%	

(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, 2022, 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, 2022 and 2021
(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, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BNCCORP, INC. and Subsidiaries as of December 31, 2022 and 2021, 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.

Report on Internal Control over Financial Reporting

We have also audited in accordance with auditing standards generally accepted in the United States of America, BNCCORP, INC. and Subsidiaries' internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2023, expressed an unmodified opinion.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

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

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

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

Board of Directors
BNCCORP, INC. and Subsidiaries

Other Information Included in the Annual Report

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 16, 2023

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

	2022	2021
ASSETS		
Cash and cash equivalents	$ 73,968	$ 188,060
Debt securities available for sale	174,876	208,978
Federal Reserve Bank and Federal Home Loan Bank stock	3,063	3,096
Loans held for sale-mortgage banking	37,764	80,923
Loans held for investment	616,645	529,793
Allowance for credit losses	(8,831)	(9,080)
Net loans held for investment	607,814	520,713
Premises and equipment, net	11,764	12,502
Operating lease right of use asset	1,521	2,142
Accrued interest receivable	3,312	2,586
Other	29,239	28,372
Total assets	$ 943,321	$ 1,047,372
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 207,232	$ 186,598
Interest-bearing –		
Savings, interest checking and money market	554,577	644,641
Time deposits	57,775	75,429
Total deposits	819,584	906,668
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,000	15,001
Accrued interest payable	312	226
Accrued expenses	5,482	7,302
Operating lease liabilities	1,660	2,302
Other	937	887
Total liabilities	842,975	932,386
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,559,334 and 3,554,983 shares issued and outstanding	36	36
Capital surplus – common stock	26,399	26,068
Retained earnings	87,575	87,378
Treasury stock (109,319 and 113,670 shares, respectively)	(1,622)	(1,650)
Accumulated other comprehensive (loss) income, net	(12,042)	3,154
Total stockholders' equity	100,346	114,986
Total liabilities and stockholders' equity	$ 943,321	$ 1,047,372

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)

	2022	2021
INTEREST INCOME:		
Interest and fees on loans	$ 27,749	$ 29,219
Interest and dividends on investments		
Taxable	5,487	3,858
Tax-exempt	230	232
Dividends	147	148
Total interest income	33,613	33,457
INTEREST EXPENSE:		
Deposits	2,163	1,895
Short-term borrowings	1	4
Federal Home Loan Bank advances	3	1
Subordinated debentures	488	237
Total interest expense	2,655	2,137
Net interest income	30,958	31,320
CREDIT FOR CREDIT LOSSES	(150)	(350)
NET INTEREST INCOME AFTER CREDIT FOR CREDIT LOSSES	31,108	31,670
NON-INTEREST INCOME:		
Bank charges and service fees	3,719	2,328
Wealth management revenues	1,981	2,205
Mortgage banking revenues, net	11,459	37,767
Gains on sales of loans, net	262	660
Other	1,707	1,723
Total non-interest income	19,128	44,683
NON-INTEREST EXPENSE:		
Salaries and employee benefits	21,194	25,161
Professional services	3,584	5,736
Data processing fees	3,952	4,561
Marketing and promotion	5,660	4,158
Occupancy	2,192	2,164
Regulatory costs	468	475
Depreciation and amortization	1,231	1,269
Office supplies and postage	425	461
Other	3,201	3,662
Total non-interest expense	41,907	47,647
Income before income taxes	8,329	28,706
Income tax expense	1,829	6,751
Net income	$ 6,500	$ 21,955
Basic earnings per common share	$ 1.82	$ 6.15
Diluted earnings per common share	$ 1.82	$ 6.15

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income

For the Years Ended December 31,

(In thousands)

	2022		2021	
NET INCOME		$ 6,500		$ 21,955
Unrealized loss on debt securities available for sale	$ (20,154)		$ (5,341)	
Reclassification adjustment for gains on sales of securities, net, included in net income	-		-	
Other comprehensive loss before tax	(20,154)		(5,341)	
Income tax benefit related to items of other comprehensive income	4,958		1,313	
Other comprehensive loss	$ (15,196)	(15,196)	$ (4,028)	(4,028)
TOTAL COMPREHENSIVE (LOSS) INCOME		$ (8,696)		$ 17,927

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 Shares	Common Stock Amount	Capital Surplus Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), net	Total
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229
Net income	-	-	-	21,955	-	-	21,955
Other comprehensive loss	-	-	-	-	-	(4,028)	(4,028)
Share-based compensation	14,461	1	197	-	200	-	398
Dividends declared on common stock ($6.00)	-	-	-	(21,568)	-	-	(21,568)
BALANCE, December 31, 2021	3,554,983	$ 36	$ 26,068	$ 87,378	$ (1,650)	$ 3,154	$ 114,986
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

See accompanying notes to consolidated financial statements.

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

	2022	2021
OPERATING ACTIVITIES:		
Net income	$ 6,500	$ 21,955
Adjustments to reconcile net income to net cash provided by operating activities -		
Credit for credit losses	(150)	(350)
Depreciation	1,231	1,269
Amortization of right of use assets	788	786
Net amortization of premiums and (discounts) on debt securities and subordinated debentures	3,212	3,367
Share-based compensation	359	398
Change in accrued interest receivable and other assets, net	1,289	393
Loss on sale of bank premises and equipment	19	55
Deferred tax expense	634	566
Change in other liabilities, net	(1,529)	(4,757)
Funding of loans held for sale, mortgage banking	(1,032,827)	(2,355,689)
Proceeds from sales of loans held for sale, mortgage banking	1,074,326	2,517,615
Fair value adjustment for loans held for sale, mortgage banking	1,592	7,191
Fair value adjustment on mortgage banking derivatives	1,077	10,364
Proceeds from sales of loans	1,096	6,179
Gains on sales of loans, net	(262)	(660)
Gains on sales of assets held for sale	(532)	-
Net cash provided by operating activities	56,823	208,682
INVESTING ACTIVITIES:		
Purchases of debt securities available for sale	(19,562)	(75,078)
Proceeds from maturities of debt securities available for sale	30,298	41,109
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(1,717)	(651)
Sales of Federal Reserve and Federal Home Loan Bank Stock	1,750	1,756
Net (increase) decrease in loans held for investment	(87,784)	34,684
Proceeds from sales of premises and equipment	5	-
Purchases of premises and equipment	(518)	(862)
Net cash (used in) provided by investing activities	(77,528)	958

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)

	2022	2021
FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	$ (87,084)	$ 53,510
Net decrease in short-term borrowings	-	(6,385)
Repayments of Federal Home Loan Bank advances	(42,910)	(42,910)
Proceeds from Federal Home Loan Bank advances	42,910	12,010
Dividends paid on common stock	(6,303)	(50,248)
Net cash used in financing activities	(93,387)	(34,023)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(114,092)	175,617
CASH AND CASH EQUIVALENTS, beginning of period	188,060	12,443
CASH AND CASH EQUIVALENTS, end of period	$ 73,968	$ 188,060
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 2,569	$ 2,470
Income taxes (refunded) paid	$ (19)	$ 7,812
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of property classified as held for sale to other assets from premises and equipment	$ -	$ 1,434
Additions to repossessed assets in the settlement of loans	$ 79	$ -
Right of use assets obtained in exchange for lease obligations	$ 167	$ 477

See accompanying notes to consolidated financial statements.

NOTE 1. Description of Business and Significant Accounting Policies

Description of Business
BNCCORP, INC. ("BNCCORP") is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the "Bank"). BNC National Bank operates community banking and wealth management businesses through 11 locations in North Dakota and Arizona. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 7 locations in Arizona, North Dakota, Illinois, and Kansas. The consumer direct channel emphasizes technology (internet leads and call center) to originate mortgage loans throughout the United States. The retail channel is primarily relationship driven and originations are generally near mortgage banking locations.

With respect to group concentrations of credit risk, most of the Company's business activity is with customers in North Dakota. At December 31, 2022, 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 (Loss) Income).

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

Other-Than-Temporary Impairment

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

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

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

Note 2 to these consolidated financial statements includes a summary of debt securities in a loss position at December 31, 2022, and 2021.

Federal Reserve Bank and Federal Home Loan Bank

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

Loans Held For Sale-Mortgage Banking

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

Loans Held For Investment

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

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

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

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

Loan Origination Fees and Costs; Other Lending Fees

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

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

Loan Servicing and Transfers of Financial Assets

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

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

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

Allowance for Credit Losses

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

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

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

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

The allowance for credit losses has three components as follows:

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

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

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

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

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

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

Other Real Estate Owned and Repossessed Assets, net

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

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

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

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

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

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

> Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.
>
> Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less active, and model-based valuation techniques for which significant assumptions are observable in the market.
>
> Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability.

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

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

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

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

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

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

Derivative Financial Instruments

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

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

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

Share-Based Compensation

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

At December 31, 2022, 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 (Loss) Income
Comprehensive (loss) income is the total of net income and other comprehensive loss, which for the Company, is generally comprised of unrealized losses and gains 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 16, 2023, 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 does not expect the adoption of this accounting pronouncement to have a material impact on the Company's consolidated financial statement.

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

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

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, 2022, or 2021. The amortized cost of debt securities available for sale and their estimated fair values were as follows as of December 31 (in thousands):

	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

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

The amortized cost and estimated fair value of debt securities available for sale classified according to their contractual maturities at December 31, 2022, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	18,131	17,250
Due after five years through ten years	29,068	26,919
Due after ten years	145,128	130,707
Total	$ 192,327	$ 174,876

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 $46.4 million and $49.6 million at December 31, 2022, and 2021, respectively, were pledged as collateral for public and trust deposits and borrowings, including borrowings from the FHLB and repurchase agreements with customers.

The Company did not sell debt securities available for sale during 2022 or 2021.

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):

	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)

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

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

There were no securities that management concluded were other-than-temporarily impaired during 2022 or 2021.

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):

	2022		2021	
Federal Reserve Bank stock, at cost	$	1,807	$	1,807
Federal Home Loan Bank, at cost		1,256		1,289
Total	$	3,063	$	3,096

NOTE 4. Loans

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

	2022	2021
Loans held for sale-mortgage banking	$ 37,764	$ 80,923
Commercial and industrial	$ 205,429	$ 157,995
Commercial real estate	230,243	201,043
SBA	48,638	58,759
Consumer	95,891	78,297
Land and land development	10,758	17,185
Construction	24,690	16,121
Gross loans held for investment	615,649	529,400
Unearned income and net unamortized deferred fees and costs	996	393
Loans, net of unearned income and unamortized fees and costs	616,645	529,793
Allowance for credit losses	(8,831)	(9,080)
Net loans held for investment	$ 607,814	$ 520,713

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, 2022, and 2021, loan participations sold on a nonrecourse basis to outside financial institutions totaled $123.7 million and $106.1 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):

	2022	2021
Commercial and industrial	$ 62,656	$ 53,792
Commercial real estate	115,779	100,278
Consumer	-	31,242
Loans held for sale-mortgage banking	35,879	77,386
Total	$ 214,314	$ 262,698

NOTE 5. Allowance for Credit Losses

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

	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

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

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

	Allowance For Credit Losses			Gross Loans Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
December 31, 2022						
Commercial and industrial	$ -	$ 2,519	$ 2,519	$ 644	$ 204,785	$ 205,429
Commercial real estate	-	3,621	3,621	-	230,243	230,243
SBA	457	939	1,396	830	47,808	48,638
Consumer	-	982	982	34	95,857	95,891
Land and land development	-	87	87	-	10,758	10,758
Construction	-	226	226	-	24,690	24,690
Total	$ 457	$ 8,374	$ 8,831	$ 1,508	$ 614,141	$ 615,649
December 31, 2021						
Commercial and industrial	$ -	$ 2,173	$ 2,173	$ 715	$ 157,280	$ 157,995
Commercial real estate	-	4,129	4,129	-	201,043	201,043
SBA	574	1,067	1,641	875	57,884	58,759
Consumer	10	826	836	83	78,214	78,297
Land and land development	-	148	148	-	17,185	17,185
Construction	-	153	153	-	16,121	16,121
Total	$ 584	$ 8,496	$ 9,080	$ 1,673	$ 527,727	$ 529,400

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

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

	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

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

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

	2022	**2021**
Interest income that would have been recorded	$ 151	$ 172
Interest income recorded	-	-
Effect on interest income on loans	$ 151	$ 172

Credit Risk by Internally Assigned Grade

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

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

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

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

	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

	2021				
	Pass	**Watch List**	**Substandard**	**Doubtful**	**Total Loans Held for Investment**
Commercial and industrial	$ 154,116	$ 1,194	$ 2,139	$ 546	$ 157,995
Commercial real estate	192,129	4,891	4,023	-	201,043
SBA	56,735	384	996	644	58,759
Consumer	78,140	39	118	-	78,297
Land and land development	17,185	-	-	-	17,185
Construction	16,121	-	-	-	16,121
Total gross loans	$ 514,426	$ 6,508	$ 7,276	$ 1,190	$ 529,400

Impaired loans

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

The following table summarizes impaired loans and related allowances as of and for the years ended December 31, 2022 and 2021 (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

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

Troubled Debt Restructuring (TDR)

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

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

	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

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

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

When a loan is modified as a TDR, there may be a direct, material impact on the loan balances, as principal balances may be partially forgiven. For the years ended December 31, 2022 and 2021, there were no new TDRs.

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

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

	2022	**2021**
Interest income that would have been recorded	$ 141	$ 144
Interest income recorded	7	-
Effect on interest income on loans	$ 134	$ 144

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

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

As of December 31, 2022, and December 31, 2021, the Bank had no restructured loans that were modified in a troubled-debt restructuring within the previous 12 months for which there was a payment default (i.e. 90 days delinquent).

As of December 31, 2022, and December 31, 2021, the Bank was not involved in foreclosure proceedings on any real property serving as collateral for loans held by the Bank.

At December 31, 2022 and 2021, the Bank had no loan modifications outstanding that were made consistent with Section 4013 of the CARES Act.

NOTE 6. Premises and Equipment, net

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

	2022	2021
Land and improvements	$ 1,667	$ 1,667
Buildings and improvements	15,861	15,815
Leasehold improvements	440	456
Furniture, fixtures, and equipment	9,883	9,855
Total cost	27,851	27,793
Less accumulated depreciation and amortization	(16,087)	(15,291)
Net premises and equipment	$ 11,764	$ 12,502

Depreciation and amortization expense totaled $1.2 million and $1.3 million for the years ended December 31, 2022, and 2021, respectively.

NOTE 7. Leases

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

The components of lease cost for the years ended December 31 were as follows (in thousands):

	2022	2021
Operating lease cost	$ 967	$ 1,050
Variable lease cost	29	39
Short-term lease cost	38	16
	$ 1,034	$ 1,105

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

	As of December 31, 2022	As of December 31, 2021
Operating lease right of use (ROU) asset	$ 1,521	$ 2,142
Operating lease liabilities	1,660	2,302

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

	2022	2021
Cash paid for lease liabilities	$ 1,006	$ 1,067
Amortization of ROU assets	788	786

	As of December 31, 2022	As of December 31, 2021
Weighted average remaining lease term	3.64 years	4.05 years
Weighted average discount rate	5.55%	6.00%

Maturities of lease liabilities under non-cancellable leases as of December 31, 2022, are as follows (in thousands):

	Operating Leases
2023	$ 718
2024	477
2025	237
2026	193
2027	41
Thereafter	167
Total future minimum lease payments	1,833
Amounts representing interest	(173)
Total lease liabilities	$ 1,660

NOTE 8. Deposits

The scheduled maturities of time deposits as of December 31, 2022, are as follows (in thousands):

2023	$ 38,956
2024	13,373
2025	1,368
2026	3,562
2027	423
Thereafter	93
	$ 57,775

At December 31, 2022, and 2021, 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, 2022 and December 31, 2021.

At December 31, 2022, and 2021, the Bank had $14.9 million and $18.0 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):

	2022	2021
Savings	$ 20	$ 15
Interest checking	382	475
Money market	1,457	692
Time deposits	304	713
	$ 2,163	$ 1,895

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's short-term borrowings (borrowings with an original maturity of less than one year) as of December 31, 2022 and 2021 consisted of customer repurchase agreements. The weighted average interest rate on short-term borrowings outstanding as of December 31, 2022, and 2021 was 0.30% and 0.30%, respectively. Short-term borrowings are included as other liabilities in the Company's consolidated balance sheets.

Customer repurchase agreements are used by the Bank to acquire funds from customers where the customers are required, or desire, to have their funds supported by collateral consisting of U.S. government, U.S. government agency or other types of securities. The repurchase agreement is a promise to sell these securities to a customer at a certain price and repurchase them at a future date at that same price plus interest accrued at an agreed upon rate. The Bank uses customer repurchase agreements in its liquidity plan as well as an accommodation to customers. At December 31, 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. At December 31, 2021, the $70 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 $589 thousand and unamortized principal balances of $587 thousand.

NOTE 10. Federal Home Loan Bank Advances

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

As of December 31, 2022, the Bank had the ability to draw advances up to approximately $146.4 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):

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.

2021

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

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

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

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

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

In July 2007, the Company issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at December 31, 2022, and December 31, 2021, was 5.14% and 1.53%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 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. 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.

In December 2020, the Board of Directors approved a 175,000 share repurchase authorization with no expiration date set on the authorization. Share repurchases can be made through open market purchases, unsolicited and solicited privately negotiated transactions, or in accordance with terms of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. The Company will not repurchase shares from directors or officers of the Company under the authorization. The Company would contemplate share repurchases subject to market conditions and other factors, including legal and regulatory restrictions and required approvals. No share repurchases have been made under the authorization as of December 31, 2022.

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, 2022, 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, 2022, and December 31, 2021, 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**
2022								
Total Risk-Based Capital:								
Consolidated	$ 135,744	17.57%	$ 61,814	≥8.0%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	117,267	15.19	61,776	≥8.0	77,219	10.0	40,048	5.19
Tier 1 Risk-Based Capital:								
Consolidated	126,913	16.43	46,360	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	108,436	14.04	46,332	≥6.0	61,776	8.0	46,660	6.04
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,913	14.48	34,770	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	108,436	14.04	34,749	≥4.5	50,193	6.5	58,243	7.54
Tier 1 Leverage Capital:								
Consolidated	126,913	13.99	36,279	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	108,436	11.97	36,237	≥4.0	45,297	5.0	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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
2021								
Total Risk-Based Capital:								
Consolidated	$ 134,914	20.02 %	$ 53,906	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	123,051	18.27	53,868	≥8.00	67,334	10.00	55,717	8.27
Tier 1 Risk-Based Capital:								
Consolidated	126,483	18.77	40,429	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	114,626	17.02	40,401	≥6.00	53,868	8.00	60,758	9.02
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,482	16.54	30,322	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	114,626	17.02	30,300	≥4.50	43,767	6.50	70,859	10.52
Tier 1 Leverage Capital:								
Consolidated	126,483	11.74	43,095	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	114,626	10.65	43,055	≥4.00	53,819	5.00	60,807	5.65
Tangible Common Equity (to total assets): (a)								
Consolidated	114,976	10.98	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	118,246	11.30	N/A	N/A	N/A	N/A	N/A	N/A

(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, 2022 and 2021 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):

	2022	2021
Service charges on deposits	$ 668	$ 540
Bankcard fees	1,123	1,052
Bank charges and service fees not within scope of ASC 606	1,928	736
Total bank charges and service fees	3,719	2,328
Wealth management revenue	1,981	2,205
Wealth management revenue not within the scope of ASC 606	-	-
Total wealth management revenues	1,981	2,205
Other	44	37
Other not within the scope of ASC 606 (a)	1,663	1,686
Total other	1,707	1,723
Other non-interest income not within the scope of ASC 606 (a)	11,721	38,427
Total non-interest income	$ 19,128	$ 44,683

(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, 2022. Total receivables from revenue recognized under the scope of ASC 606 were $478 thousand and $542 thousand as of December 31, 2022, and December 31, 2021, 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, 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)

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

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

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

	2022				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total Gains/(Losses)**
Impaired loans[1]	$ 70	$ -	$ -	$ 70	$ 56

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

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

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

NOTE 17. Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	December 31, 2022		December 31, 2021	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 73,968	$ 73,968	$ 188,060	$ 188,060
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	3,063	3,063	3,096	3,096
Gross loans held for investment	Level 2	614,668	597,644	528,440	530,237
Gross loans held for investment	Level 3	981	674	960	625
Accrued interest receivable	Level 2	3,312	3,312	2,586	2,586
		$ 695,922	$ 678,661	$ 723,142	$ 724,604
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 207,232	$ 207,232	$ 186,598	$ 186,598
Deposits, interest-bearing	Level 2	612,352	610,000	720,070	719,701
Accrued interest payable	Level 2	312	312	226	226
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,000	12,760	15,001	13,084
		$ 834,896	$ 830,304	$ 921,895	$ 919,609
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 339	$ -	$ 381
Standby and commercial letters of credit	Level 2	$ -	$ 25	$ -	$ 14

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

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

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

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer, which are binding, provided there is no violation of any condition in the contract, and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Bank's exposure to credit losses in the event of default by the borrower. At December 31, 2022, based on current information, no losses were anticipated as a result of these commitments. The Bank manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment or real estate. Since the Bank expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Bank's future liquidity requirements related to such commitments.

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

Standby and Commercial Letters of Credit
Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commercial letters of credit are issued on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Bank's credit loss exposure is up to the letter's contractual amount. At December 31, 2022, 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):

	2022		2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 16,071	$ 108,704	$ 21,166	$ 107,725
Standby and commercial letters of credit	394	1,311	279	1,153

In addition to the amounts in the table above, mortgage banking commitments to fund loans totaled $61.6 million at December 31, 2022 and $165.4 million at December 31, 2021. Mortgage banking commitments to sell loans totaled $99.4 million at December 31, 2022 and $244.7 million at December 31, 2021.

Performance and Financial Standby Letters of Credit
As of December 31, 2022, the Bank had $192 thousand of performance standby letters of credit and $589 thousand of financial standby letters of credit compared to $3.5 million of financial standby letters of credit as of December 31, 2021. 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):

	2022	2021
Balance, beginning of period	$ 820	$ 1,025
Provision	375	1,105
Write offs, net	(539)	(1,310)
Balance, end of period	$ 656	$ 820

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, 2022, the Bank may be required to fund $885 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):

	2022	2021
Current:		
Federal	$ 945	$ 5,141
State	250	1,044
	1,195	6,185
Deferred:		
Federal	608	459
State	26	107
	634	566
Total	$ 1,829	$ 6,751

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):

	2022		2021	
Statutory federal income tax expense	$	1,749	$	6,028
State income taxes, net of federal income tax benefit		230		876
Tax-exempt interest income		(83)		(84)
Tax-exempt life insurance		(93)		(92)
Other, net		26		23
Total	$	1,829	$	6,751

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):

	2022		2021	
Deferred tax assets:				
Loans, primarily due to credit losses	$	2,281	$	2,439
Compensation		591		644
Unrealized loss on debt securities available for sale		4,287		-
Acquired intangibles		121		121
Net operating loss carryforwards		8		27
Other		222		269
Deferred tax assets		7,510		3,500
Deferred tax liabilities:				
Unrealized gain on debt securities available for sale		-		673
Discount accretion on securities		53		37
Premises and equipment		223		108
Other		585		493
Deferred tax liabilities		861		1,311
		6,649		2,189
Valuation allowance		(14)		(14)
Net deferred tax assets	$	6,635	$	2,175

Subject to certain limiting statutes, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2022. The state net operating losses expire between 2024 and 2031.

Tax years ended December 31, 2019 through 2022 remain open to federal examination. Tax years ended December 31, 2018 through 2022 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, 2022, and 2021, 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):

	2022	2021
Denominator for basic earnings per share:		
Average common shares outstanding	3,573,934	3,568,579
Dilutive effect of share-based compensation	930	555
Denominator for diluted earnings per share	3,574,864	3,569,134
Numerator (in thousands):		
Net income	$ 6,500	$ 21,955
Basic earnings per common share	$ 1.82	$ 6.15
Diluted earnings per common share	$ 1.82	$ 6.15

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 $543 thousand and $476 thousand at December 31, 2022, and 2021, respectively. Advances and other increases of loans to related parties in 2022 and 2021 totaled $323 thousand and $200 thousand, respectively. Loan pay downs and other reductions by related-parties in 2022 and 2021 were $256 thousand and $682 thousand, respectively. Commitments to extend credit to related parties decreased to $137 thousand at December 31, 2022, from $359 thousand at December 31, 2021. The total amount of deposits received from these parties was $1.4 million at December 31, 2022, and $1.6 million at December 31, 2021. 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, 2022, 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 2022 and 2021, 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 $701 thousand and $945 thousand for 2022 and 2021, 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, 2022, the assets in the plan totaled $38.3 million and included $677 thousand (22,744 shares) invested in BNCCORP common stock. At December 31, 2021, the assets in the plan totaled $48.6 million and included $1.0 million (23,685 shares) invested in BNCCORP common stock. 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 19,982 and 22,342 shares as of December 31, 2022, and 2021. As of December 31, 2022, the plan obligation totaled $1.0 million and $1.3 million as of December 31, 2021.

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 25,488 shares and 20,636 shares as of December 31, 2022, and 2021, 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, 2022, are as follows:

	1995	2015	Total
Total shares in plan	250,000	50,000	300,000
Total shares available	45,951	22,226	68,177

The Company recognized share-based compensation expense of $76 thousand and $29 thousand for the years ended December 31, 2022, and 2021, 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, 2022, and was approximately $9 thousand for the year ended December 31, 2021.

At December 31, 2022, the Company had $127 thousand of unamortized restricted stock compensation, which is expected to be recognized over a period of two 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:

	2022			2021		
	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	5,750	$	39.68	1,700	$	32.30
Granted	-		-	5,000		40.42
Vested	(250)		34.77	(950)		30.36
Forfeited	-		-	-		-
Non-vested, end of year	5,500		39.91	5,750		39.68

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

	2022			2021		
	Number of Shares		Grant Date Fair Value	Number of Shares		Grant Date Fair Value
Shares granted	2,400	$	36.28	2,100	$	47.38

NOTE 25. Segment Reporting

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

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

Mortgage Banking
The Mortgage Banking segment originates residential mortgage loans for the primary purpose of sale on the secondary market. The segment consists of both a consumer direct channel with locations in Kansas utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complimented by a relationship based retail channel with 7 locations in North Dakota, Arizona, Kansas and Illinois. Revenues for mortgage banking consist primarily of interest earned on mortgage loans held for sale, gains on sales of loans, unrealized gains or losses on mortgage financial instruments, and loan origination fees.

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

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

	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 credit 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

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

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

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)

	2022	2021
Assets:		
Cash and cash equivalents	$ 18,708	$ 11,732
Investment in subsidiaries	96,510	118,259
Receivable from subsidiaries	405	366
Other	455	436
Total assets	$ 116,078	$ 130,793
Liabilities and stockholders' equity:		
Subordinated debentures	$ 15,000	$ 15,001
Payable to subsidiaries	72	69
Accrued expenses and other liabilities	660	737
Total liabilities	15,732	15,807
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,559,334 and 3,554,983 shares issued and outstanding	36	36
Capital surplus – common stock	26,399	26,068
Retained earnings	87,575	87,378
Treasury stock (109,319 and 113,670 shares, respectively)	(1,622)	(1,650)
Accumulated other comprehensive income, net	(12,042)	3,154
Total stockholders' equity	100,346	114,986
Total liabilities and stockholders' equity	$ 116,078	$ 130,793

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

	2022	2021
Income:		
Management fee income	$ 2,196	$ 1,721
Interest	14	36
Other	29	62
Total income	2,239	1,819
Expenses:		
Interest	504	244
Salaries and benefits	1,142	934
Legal and other professional	791	759
Other	985	724
Total expenses	3,422	2,661
Loss before income tax benefit and equity in earnings of subsidiaries	(1,183)	(842)
Income tax benefit	284	222
Loss before equity in earnings of subsidiaries	(899)	(620)
Equity in earnings of subsidiaries	7,399	22,575
Net income	$ 6,500	$ 21,955

Parent Company Only

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

	2022	2021
Operating activities:		
Net income	$ 6,500	$ 21,955
Adjustments to reconcile net income to net cash provided by operating activities -		
Equity in earnings of subsidiaries	(7,399)	(22,575)
Dividend received from subsidiaries	13,500	25,000
Share-based compensation	359	398
Change in other assets	(58)	268
Change in other liabilities	377	(179)
Net cash provided by operating activities	13,279	24,867
Financing activities:		
Dividends paid on common stock	(6,303)	(50,248)
Net cash used in financing activities	(6,303)	(50,248)
Net increase (decrease) in cash and cash equivalents	6,976	(25,381)
Cash and cash equivalents, beginning of year	11,732	37,113
Cash and cash equivalents, end of year	$ 18,708	$ 11,732
Supplemental cash flow information:		
Interest paid	$ 362	$ 249
Income taxes paid	$ 406	$ 6,356

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CORPORATE DATA

Investor Relations

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

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

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

Annual Meeting

The 2023 annual meeting of stockholders will be held at 8:30 a.m. (Central Daylight time) on Thursday, June 22, 2023 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,

	2022(1)		2021(1)	
	High	Low	High	Low
First Quarter	$44.55	$36.00	$49.75	$36.10
Second Quarter	$36.30	$28.60	$39.80	$36.50
Third Quarter	$29.05	$25.41	$41.40	$37.60
Fourth Quarter	$29.75	$24.60	$45.40	$36.90

(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. Brenn
John W. Palme
Michael M. Vekich
Gaylen Ghylin
Tom Redmann
Daniel J. Collins

BNC National Bank

BANK BRANCHES – ND:

Bismarck Main(2)
322 East Main Avenue
Bismarck, ND 58501

Bismarck South
219 South 3rd Street
Bismarck, ND 58504

Bismarck North(2)
801 East Century Avenue
Bismarck, ND 58503

Bismarck Sunrise(2)
3000 Yorktown Drive
Bismarck, ND 58503

Crosby
206 South Main Street
Crosby, ND 58730

Garrison
92 North Main
Garrison, ND 58540

Linton
104 North Broadway
Linton, ND 58552

Stanley
210 South Main
Stanley, ND 58784

Watford City
205 North Main
Watford City, ND 58854

Mandan(2)
2711 Sunset Drive NW
Mandan, ND 58554

BANK BRANCHES - AZ

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

MORTGAGE BANKING OFFICES:

Glendale
6685 W. Beardsley
Glendale, AZ 85383

Moline
800 36th Avenue
Moline, IL 61265

Overland Park
7007 College Boulevard
Overland Park, KS 66211

(2) Bank branches offering mortgage banking services.

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