Quarterly Report

For the quarter ended March 31, 2018

BNCCORP, INC.

(OTCQX: BNCC)

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

BNCCORP, INC.
INDEX TO QUARTERLY REPORT
March 31, 2018

TABLE OF CONTENTS

Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2018	December 31, 2017
ASSETS	(unaudited)	
CASH AND CASH EQUIVALENTS	$ 51,505	$ 25,830
INVESTMENT SECURITIES AVAILABLE FOR SALE	441,020	411,917
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	2,941	2,897
LOANS HELD FOR SALE-MORTGAGE BANKING	24,159	36,601
LOANS AND LEASES HELD FOR INVESTMENT	435,224	428,325
ALLOWANCE FOR CREDIT LOSSES	(7,811)	(7,861)
Net loans and leases held for investment	427,413	420,464
PREMISES AND EQUIPMENT, net	19,155	19,403
ACCRUED INTEREST RECEIVABLE	4,398	4,848
OTHER	25,520	24,190
Total assets	$ 996,111	$ 946,150
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 181,300	$ 164,401
Interest-bearing –		
Savings, interest checking and money market	503,348	498,044
Time deposits	185,453	155,361
Total deposits	870,101	817,806
SHORT-TERM BORROWINGS	18,560	18,043
LONG-TERM BORROWINGS	10,000	10,000
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	15,010	15,011
ACCRUED INTEREST PAYABLE	1,069	950
ACCRUED EXPENSES	4,496	6,107
OTHER	950	607
Total liabilities	920,186	868,524
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,471,992 and 3,465,992 shares issued and outstanding	35	35
Capital surplus – common stock	25,998	26,072
Retained earnings	56,602	54,206
Treasury stock (196,661 and 202,661 shares, respectively)	(2,624)	(2,741)
Accumulated other comprehensive income, net	(4,086)	54
Total stockholders' equity	75,925	77,626
Total liabilities and stockholders' equity	$ 996,111	$ 946,150

See accompanying notes to consolidated financial statements.

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

	2018	2017
INTEREST INCOME:		
Interest and fees on loans	$ 5,268	$ 5,008
Interest and dividends on investments		
Taxable	2,182	1,602
Tax-exempt	530	672
Dividends	36	32
Total interest income	8,016	7,314
INTEREST EXPENSE:		
Deposits	848	512
Short-term borrowings	14	5
Federal Home Loan Bank advances	20	16
Long-term borrowings	159	159
Subordinated debentures	115	89
Total interest expense	1,156	781
Net interest income	6,860	6,533
PROVISION FOR CREDIT LOSSES:	-	-
Net interest income after provision for credit losses	6,860	6,533
NON-INTEREST INCOME:		
Bank charges and service fees	652	688
Wealth management revenues	477	461
Mortgage banking revenues, net	2,501	2,504
Gains on sales of loans, net	3	543
Gains on sales of securities, net	2,079	270
Other	169	281
Total non-interest income	5,881	4,747
NON-INTEREST EXPENSE:		
Salaries and employee benefits	5,230	5,239
Professional services	790	1,053
Data processing fees	997	880
Marketing and promotion	875	726
Occupancy	585	620
Regulatory costs	140	132
Depreciation and amortization	406	400
Office supplies and postage	164	167
Other real estate costs	-	2
Other	581	639
Total non-interest expense	9,768	9,858
Income before income taxes	2,973	1,422
Income tax expense	577	361
Net income	$ 2,396	$ 1,061
Basic earnings per common share	$ 0.69	$ 0.31
Diluted earnings per common share	$ 0.68	$ 0.30

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Three Months Ended March 31,

(In thousands, unaudited)

	2018		2017	
NET INCOME		$ 2,396		$ 1,061
Unrealized (loss) gain on investment securities available for sale	$ (3,412)		$ 648	
Reclassification adjustment for gains on sales of investment securities, net, included in net income	(2,079)		(270)	
Other comprehensive (loss) income before tax	(5,491)		378	
Income tax benefit (expense) related to items of other comprehensive (loss) income	1,351		(144)	
Other comprehensive (loss) income	$ (4,140)	(4,140)	$ 234	234
TOTAL COMPREHENSIVE (LOSS) INCOME		$ (1,744)		$ 1,295

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

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

	Common Stock		Capital Surplus Common	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Earnings	Stock	Income (Loss)	Total
BALANCE, December 31, 2016	3,456,008	$ 35	$ 25,996	$ 49,328	$ (2,847)	$ 1,683	$ 74,195
Net income	-	-	-	1,061	-	-	1,061
Other comprehensive income	-	-	-	-	-	234	234
Impact of share-based compensation	852	-	15	-	7	-	22
BALANCE, March 31, 2017	3,456,860	$ 35	$ 26,011	$ 50,389	$ (2,840)	$ 1,917	$ 75,512
BALANCE, December 31, 2017	3,465,992	$ 35	$ 26,072	$ 54,206	$ (2,741)	$ 54	$ 77,626
Net income	-	-	-	2,396	-	-	2,396
Other comprehensive loss	-	-	-	-	-	(4,140)	(4,140)
Impact of share-based compensation	6,000	-	(74)	-	117	-	43
BALANCE, March 31, 2018	3,471,992	$ 35	$ 25,998	$ 56,602	$ (2,624)	$ (4,086)	$ 75,925

See accompanying notes to consolidated financial statements.

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

	2018	2017
OPERATING ACTIVITIES:		
Net income	$ 2,396	$ 1,061
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	406	400
Net amortization of premiums and (discounts) on investment securities and subordinated debentures	1,875	1,861
Share-based compensation	43	22
Change in accrued interest receivable and other assets, net	470	903
Net realized gain on sales of investment securities	(2,079)	(270)
Change in other liabilities, net	(1,167)	(2,087)
Funding of loans held for sale, mortgage banking	(152,226)	(146,061)
Proceeds from sales of loans held for sale, mortgage banking	164,480	158,955
Fair value adjustment for loans held for sale, mortgage banking	187	529
Fair value adjustment on mortgage banking derivatives	16	(109)
Proceeds from sales of loans	-	5,216
Gains on sales of loans, net	(3)	(543)
Net cash provided by operating activities	14,398	19,877
INVESTING ACTIVITIES:		
Purchases of investment securities	(79,645)	(51,271)
Proceeds from sales of investment securities	36,989	22,129
Proceeds from maturities of investment securities	8,267	7,605
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(4,544)	(2,340)
Sales of Federal Reserve and Federal Home Loan Bank Stock	4,500	3,854
Net increase in loans held for investment	(6,946)	(1,127)
Proceeds from sales of premises and equipment	1	-
Additions to premises and equipment	(157)	(245)
Net cash used in investing activities	(41,535)	(21,395)

See accompanying notes to consolidated financial statements.

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

	2018	2017
FINANCING ACTIVITIES:		
Net increase in deposits	$ 52,295	$ 134,973
Net increase in short-term borrowings	517	1,308
Repayments of Federal Home Loan Bank advances	(119,100)	(94,150)
Proceeds from Federal Home Loan Bank advances	119,100	56,150
Net cash provided by financing activities	52,812	98,281
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,675	96,763
CASH AND CASH EQUIVALENTS, beginning of period	25,830	11,113
CASH AND CASH EQUIVALENTS, end of period	$ 51,505	$ 107,876
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 1,037	$ 715
Income taxes paid	$ 5	$ -

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. (BNCCORP or BNC) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank or BNC Bank). BNC operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 15 locations. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 13 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas and Missouri. 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.

The accounting and reporting policies of BNC and its subsidiaries (collectively, the Company) conform to accounting principles generally accepted in the United States of America and general practices within the financial services industry. The consolidated financial statements included herein are for BNC and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

NOTE 2 – Basis of Presentation and Accounting Policies

The accompanying interim consolidated financial statements have been prepared under the presumption that users of the interim consolidated financial information have either read or have access to the audited consolidated financial statements of BNCCORP, INC. and subsidiaries for the year ended December 31, 2017. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2017 audited consolidated financial statements have been omitted from these interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 and the notes thereto.

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

The unaudited consolidated financial statements as of March 31, 2018 include, in the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the financial results for the respective interim periods and are not necessarily indicative of results of operations to be expected for the entire fiscal year.

The Company's significant accounting policies are unchanged since December 31, 2017.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

Accounting Standards Codification (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in generally accepted accounted principles. The Company adopted the amended guidance using the modified retrospective approach on January 1, 2018. The adoption of this accounting pronouncement did not have an impact on the Company's consolidated financial statement.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. Impact on the income statement will generally be through amortization of a right of use asset and recognition of expense for lease payments. This ASU is effective in annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements was issued to improve financial reporting about expected credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The new standard will require financial institutions to forecast future conditions considering expected credit losses over the life of the asset and record a provision for credit losses at the origination of the asset. ASU 2016-13 is effective for public entities, who are non-SEC filers, for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is in the process of evaluating the impact that this new guidance will have on its consolidated financial statements and related disclosures.

NOTE 3 – Investment Securities Available for Sale

Investment securities have been classified in the consolidated balance sheets according to management's intent. The Company had no securities designated as trading or held-to-maturity in its portfolio at March 31, 2018 or December 31, 2017. The carrying amount of available-for-sale securities and their estimated fair values were as follows (in thousands):

	As of March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 59,652	$ -	$ (1,283)	$ 58,369
U.S. government sponsored entity mortgage-backed securities issued by FNMA	4,498	-	(119)	4,379
U.S. government agency small business administration pools guaranteed by SBA	190,153	56	(2,886)	187,323
Collateralized mortgage obligations guaranteed by GNMA/VA	68,589	175	(1,851)	66,913
Collateralized mortgage obligations issued by FNMA or FHLMC	50,478	33	(1,456)	49,055
Asset-backed securities	14,242	-	(151)	14,091
State and municipal bonds	60,307	1,144	(561)	60,890
	$ 447,919	$ 1,408	$ (8,307)	$ 441,020

	As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 40,002	$ -	$ (536)	$ 39,466
U.S. government sponsored entity mortgage-backed securities issued by FNMA	4,522	-	(10)	4,512
U.S. government agency small business administration pools guaranteed by SBA	141,837	20	(2,465)	139,392
Collateralized mortgage obligations guaranteed by GNMA/VA	69,296	337	(1,717)	67,916
Collateralized mortgage obligations issued by FNMA or FHLMC	51,550	90	(1,123)	50,517
Asset-backed securities	16,071	-	(61)	16,010
State and municipal bonds	90,048	4,220	(164)	94,104
	$ 413,326	$ 4,667	$ (6,076)	$ 411,917

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at March 31, 2018 were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	35,269	34,770
Due after five years through ten years	69,483	68,058
Due after ten years	343,167	338,192
Total	$ 447,919	$ 441,020

This disclosure is required pursuant to U.S. Generally Accepted Accounting Principles. This table is not intended to reflect actual maturities, cash flows, or interest rate risk.

Actual maturities may differ from the contractual maturities shown above as a result of prepayments.

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

	March 31, 2018								
	Less than 12 months			12 months or more			Total		
Description of Securities	**#**	**Fair Value**	**Unrealized Loss**	**#**	**Fair Value**	**Unrealized Loss**	**#**	**Fair Value**	**Unrealized Loss**
U.S. Treasury securities	4	$ 58,369	$ (1,283)	-	$ -	$ -	4	$ 58,369	$ (1,283)
U.S. government sponsored entity mortgage-backed securities issued by FNMA	3	4,378	(119)	-	-	-	3	4,378	(119)
U.S. government agency small business administration pools guaranteed by SBA	39	167,511	(2,397)	5	14,869	(489)	44	182,380	(2,886)
Collateralized mortgage obligations guaranteed by GNMA/VA	5	2,802	(29)	4	42,361	(1,822)	9	45,163	(1,851)
Collateralized mortgage obligations issued by FNMA or FHLMC	5	18,604	(394)	5	26,683	(1,062)	10	45,287	(1,456)
Asset-backed securities	4	14,091	(151)	-	-	-	4	14,091	(151)
State and municipal bonds	11	33,761	(561)	-	-	-	11	33,761	(561)
Total temporarily impaired securities	71	$ 299,516	$ (4,934)	14	$ 83,913	$ (3,373)	85	$ 383,429	$ (8,307)

	December 31, 2017								
	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	2	$ 39,466	$ (536)	-	$ -	$ -	2	$ 39,466	$ (536)
U.S. government sponsored entity mortgage-backed securities issued by FNMA	3	4,512	(10)	-	-	-	3	4,512	(10)
U.S. government agency small business administration pools guaranteed by SBA	32	117,695	(1,870)	5	15,670	(595)	37	133,365	(2,465)
Collateralized mortgage obligations guaranteed by GNMA/VA	4	2,046	(15)	4	42,326	(1,702)	8	44,372	(1,717)
Collateralized mortgage obligations issued by FNMA or FHLMC	5	25,320	(630)	4	17,287	(493)	9	42,607	(1,123)
Asset-backed securities	4	16,010	(61)	-	-	-	4	16,010	(61)
State and municipal bonds	5	12,185	(164)	-	-	-	5	12,185	(164)
Total temporarily impaired securities	55	$ 217,234	$ (3,286)	13	$ 75,283	$ (2,790)	68	$ 292,517	$ (6,076)

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 prior to its anticipated recovery. 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 of the security, and the collateral underlying the security.

There were no securities that management concluded were other-than-temporarily impaired at March 31, 2018 or December 31, 2017.

NOTE 4 – Loans and Leases

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

	March 31, 2018	December 31, 2017
Loans held for sale-mortgage banking	$ 24,159	$ 36,601
Commercial and industrial	$ 127,904	$ 126,169
Commercial real estate	178,070	177,429
SBA	28,163	25,064
Consumer	73,271	71,876
Land and land development	13,704	14,168
Construction	13,605	13,167
Gross loans and leases held for investment	434,717	427,873
Unearned income and net unamortized deferred fees and costs	507	452
Loans, net of unearned income and unamortized fees and costs	435,224	428,325
Allowance for credit losses	(7,811)	(7,861)
Net loans and leases held for investment	$ 427,413	$ 420,464

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended March 31, 2018						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,158	$ 3,471	$ 834	$ 914	$ 358	$ 126	$ 7,861
Provision	(101)	19	67	35	(23)	3	-
Loans charged off	-	(6)	-	(51)	-	-	(57)
Loan recoveries	-	4	2	1	-	-	7
Balance, end of period	$ 2,057	$ 3,488	$ 903	$ 899	$ 335	$ 129	$ 7,811

	Three Months Ended March 31, 2017						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,323	$ 3,231	$ 1,433	$ 772	$ 413	$ 113	$ 8,285
Provision	(88)	34	(36)	89	7	(6)	-
Loans charged off	(84)	-	(122)	(47)	-	-	(253)
Loan recoveries	-	3	1	4	-	-	8
Balance, end of period	$ 2,151	$ 3,268	$ 1,276	$ 818	$ 420	$ 107	$ 8,040

The following table shows the balance in the allowance for credit losses at March 31, 2018, and December 31, 2017, 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 and Leases Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
March 31, 2018						
Commercial and industrial	$ 400	$ 1,657	$ 2,057	$ 1,710	$ 126,194	$ 127,904
Commercial real estate	73	3,415	3,488	1,495	176,575	178,070
SBA	64	839	903	144	28,019	28,163
Consumer	8	891	899	339	72,932	73,271
Land and land development	-	335	335	46	13,658	13,704
Construction	-	129	129	-	13,605	13,605
Total	$ 545	$ 7,266	$ 7,811	$ 3,734	$ 430,983	$ 434,717
December 31, 2017						
Commercial and industrial	$ 407	$ 1,751	$ 2,158	$ 1,737	$ 124,432	$ 126,169
Commercial real estate	87	3,384	3,471	1,510	175,919	177,429
SBA	64	770	834	143	24,921	25,064
Consumer	10	904	914	311	71,565	71,876
Land and land development	-	358	358	52	14,116	14,168
Construction	-	126	126	-	13,167	13,167
Total	$ 568	$ 7,293	$ 7,861	$ 3,753	$ 424,120	$ 427,873

Performing and non-accrual loans

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

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

	March 31, 2018					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 51,292	$ 133	$ -	$ 51,425	$ 1,710	$ 53,135
Agriculture	24,220	-	-	24,220	-	24,220
Owner-occupied commercial real estate	50,549	-	-	50,549	-	50,549
Commercial real estate	178,057	13	-	178,070	-	178,070
SBA	27,943	76	-	28,019	144	28,163
Consumer:						
Automobile	20,122	13	-	20,135	44	20,179
Home equity	8,282	-	-	8,282	-	8,282
1st mortgage	13,309	-	-	13,309	-	13,309
Other	31,485	10	-	31,495	6	31,501
Land and land development	13,658	-	-	13,658	46	13,704
Construction	13,605	-	-	13,605	-	13,605
Total loans held for investment	432,522	245	-	432,767	1,950	434,717
Loans held for sale	24,159	-	-	24,159	-	24,159
Total gross loans	$ 456,681	$ 245	$ -	$ 456,926	$ 1,950	$ 458,876

	December 31, 2017					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 49,686	$ 75	$ 26	$ 49,787	$ 1,737	$ 51,524
Agriculture	23,773	-	-	23,773	-	23,773
Owner-occupied commercial real estate	50,872	-	-	50,872	-	50,872
Commercial real estate	177,212	217	-	177,429	-	177,429
SBA	24,505	416	-	24,921	143	25,064
Consumer:						
Automobile	16,631	11	-	16,642	20	16,662
Home equity	9,276	14	-	9,290	-	9,290
1st mortgage	14,401	-	-	14,401	-	14,401
Other	31,474	49	-	31,523	-	31,523
Land and land development	14,116	-	-	14,116	52	14,168
Construction	13,167	-	-	13,167	-	13,167
Total loans held for investment	425,113	782	26	425,921	1,952	427,873
Loans held for sale	36,600	1	-	36,601	-	36,601
Total gross loans	$ 461,713	$ 783	$ 26	$ 462,522	$ 1,952	$ 464,474

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

	Three Months Ended March 31,	
	2018	2017
Interest income that would have been recorded	$ 42	$ 45
Interest income recorded	-	-
Effect on interest income	$ 42	$ 45

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

At March 31, 2018, the Company had $422.1 million of loans categorized as pass rated loans compared to $415.1 million at December 31, 2017.

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. At March 31, 2018, the Company had $1.6 million of loans categorized as watch list loans compared to $1.7 million at December 31, 2017.

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 debt. 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 high possibility of loss. At March 31, 2018 and December 31, 2017, the Company had $9.1 million of substandard loans and $1.9 million of doubtful loans

Impaired loans

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

The following tables summarize impaired loans and related allowances (in thousands):

	March 31, 2018				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance	Interest Income Recognized (3 months)
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,658	$ 1,710	$ 400	$ 1,724	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,795	1,495	73	1,500	19
SBA	121	107	64	107	-
Consumer:					
Automobile	20	16	8	17	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 4,594	$ 3,328	$ 545	$ 3,348	$ 19
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	134	37	-	37	-
Consumer:					
Automobile	34	28	-	31	-
Home equity	-	-	-	-	-
1st mortgage	1,878	289	-	290	3
Other	11	6	-	8	-
Land and land development	155	46	-	49	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 2,212	$ 406	$ -	$ 415	$ 3
TOTAL IMPAIRED LOANS	$ 6,806	$ 3,734	$ 545	$ 3,763	$ 22

	December 31, 2017				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance**	**Interest Income Recognized (12 months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,678	$ 1,737	$ 407	$ 1,821	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,809	1,510	87	1,526	77
SBA	121	107	64	111	-
Consumer:					
Automobile	23	20	10	24	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 4,631	$ 3,374	$ 568	$ 3,482	$ 77
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	134	36	-	108	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	1,878	291	-	295	12
Other	-	-	-	-	-
Land and land development	155	52	-	52	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 2,167	$ 379	$ -	$ 455	$ 12
TOTAL IMPAIRED LOANS	$ 6,798	$ 3,753	$ 568	$ 3,937	$ 89

Troubled Debt Restructuring (TDRs)
Included in net loans and leases 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 the Bank would not otherwise be considered, compared to the original terms and conditions of the loan, the modified loan is considered a troubled debt restructuring.

The tables below summarize the amounts of restructured loans (in thousands):

	March 31, 2018			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,495	-	1,495	73
SBA	-	107	107	64
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	289	-	289	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,784	$ 107	$ 1,891	$ 137

	December 31, 2017			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,510	-	1,510	87
SBA	-	107	107	64
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	291	-	291	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,801	$ 107	$ 1,908	$ 151

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 TDR's 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.

When a loan is modified as a TDR, there may be a direct, material impact on the loans within the Balance Sheet, as principal balances may be partially forgiven. There were no new TDRs for the three month periods ended March 31, 2018 and March 31, 2017.

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

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

	Three Months Ended March 31,	
	2018	2017
Interest income that would have been recorded	$ 51	$ 55
Interest income recorded	22	22
Effect on interest income	$ 29	$ 33

There were no additional funds committed to borrowers who are in TDR status at March 31, 2018 and December 31, 2017.

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

The Bank had no loans that were restructured within the 12 months preceding March 31, 2018 and March 31, 2017 and defaulted during the three months ended March 31, 2018 and March 31, 2017.

NOTE 6 – Other Real Estate

Other real estate (ORE) includes property acquired through foreclosure, property in judgment and in-substance foreclosures. ORE is carried at fair value less estimated selling costs. Each property is evaluated regularly and the amounts provided to decrease the carrying amount are included in non-interest expense. A summary of the activity related to ORE is presented below (in thousands):

	Three Months Ended March 31,	
	2018	2017
Balance, beginning of period	$ -	$ 214
Transfers from nonperforming loans	-	-
Real estate sold	-	-
Net gains on sale of assets	-	-
Reduction (Provision)	-	-
Balance, end of period	$ -	$ 214

	March 31, 2018	December 31, 2017	March 31, 2017
Other real estate	$ -	$ -	$ 954
Valuation allowance	-	-	(740)
Other real estate, net	$ -	$ -	$ 214

NOTE 7 – Earnings Per Share

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Denominator for basic earnings per share*:*		
Average common shares outstanding	3,487,155	3,472,401
Dilutive effect of stock compensation	60,272	68,845
Denominator for diluted earnings per share	3,547,427	3,541,246
Numerator (in thousands):		
Net income	$ 2,396	$ 1,061
Basic earnings per common share	$ 0.69	$ 0.31
Diluted earnings per common share	$ 0.68	$ 0.30

NOTE 8 – Share-Based Compensation

The Company may grant share-based compensation at prices equal to the fair value of the stock at the grant date. The Company has four share-based plans for certain key employees and directors whereby shares of common stock have been reserved for awards in the form of stock options or restricted stock awards. The plans are as follows:

	1995	2002	2010	2015	Total
Total Shares in Plan	250,000	125,000	250,000	50,000	675,000
Total Shares Available for Issuance	45,951	-	250,000	41,906	337,857

Following is a summary of fully vested stock options and options expected to vest as of March 31, 2018:

	Stock Options Outstanding	Stock Options Currently Exercisable	Stock Options Vested and Expected to Vest
Number	62,600	62,600	62,600
Weighted-average exercise price	$3.00	$3.00	$3.00
Weighted-average remaining contractual term	1.96 years	1.96 years	1.96 years

The stock options currently outstanding can be exercised until they expire on March 17, 2020.

The Company recognized share-based compensation expense of $5,000 related to restricted stock for the three month period ended March 31, 2018. The Company recognized share-based compensation expense of $9,000 related to restricted stock for the three month period ended March 31, 2017.

At March 31, 2018, the Company had $76,000 of unamortized restricted stock compensation expense. The cost of restricted stock granted is recognized over the vesting period, which is generally three or more years.

NOTE 9 – Fair Value Measurements

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

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

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

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

	Carrying Value at March 31, 2018				Three Months Ended March 31, 2018
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
ASSETS					
Securities available for sale	$ 441,020	$ 58,369	$ 382,651	$ -	$ 2,079
Loans held for sale	24,159	-	24,159	-	(187)
Commitments to originate mortgage loans	1,460	-	1,460	-	40
Total assets at fair value	$ 466,639	$ 58,369	$ 408,270	$ -	$ 1,932
LIABILITIES					
Commitments to sell mortgage loans	$ 81	$ -	$ 81	$ -	$ (40)
Mortgage banking short positions	28	-	28	-	(16)
Total liabilities at fair value	$ 109	$ -	$ 109	$ -	$ (56)

	Carrying Value at December 31, 2017				Twelve Months Ended December 31, 2017
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 411,917	$ 39,466	$ 372,451	$ -	$ 745
Loans held for sale	36,601	-	36,601	-	(326)
Commitments to originate mortgage loans	1,457	-	1,457	-	90
Total assets at fair value	$ 449,975	$ 39,466	$ 410,509	$ -	$ 509
LIABILITIES					
Commitments to sell mortgage loans	$ 42	$ -	$ 42	$ -	$ (301)
Mortgage banking short positions	12	-	12	-	41
Total liabilities at fair value	$ 54	$ -	$ 54	$ -	$ (260)

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

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

The Company may also be required from time to time to measure certain other financial assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. 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 tables provide the level of valuation assumptions used to determine the carrying value (in thousands):

	Carrying Value at March 31, 2018				Three Months Ended March 31, 2018
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 3,189	$ -	$ 3,189	$ -	$ 14
Other real estate(2)	-	-	-	-	-
Total	$ 3,189	$ -	$ 3,189	$ -	$ 14

	Carrying Value at December 31, 2017				Twelve Months Ended December 31, 2017
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 3,185	$ -	$ 3,185	$ -	$ (20)
Other real estate(2)	-	-	-	-	10
Total	$ 3,185	$ -	$ 3,185	$ -	$ (10)

(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.

(2) The carrying value represents the fair value of the collateral less estimated selling costs and is based upon appraised values. The gain or loss reported is a combination of gains and/or losses on sales of other real estate and provisions for other real estate losses.

For the periods presented, all assets and liabilities valued at fair value on a nonrecurring basis were considered to be Level 2. There were no transfers into or out of Level 2 during the periods presented.

NOTE 10 – Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	March 31, 2018		December 31, 2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 51,505	$ 51,505	$ 25,830	$ 25,830
Investment securities available for sale	Level 1	58,369	58,369	39,466	39,466
Investment securities available for sale	Level 2	382,651	382,651	372,451	372,451
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,941	2,941	2,897	2,897
Loans held for sale-mortgage banking	Level 2	24,159	24,169	36,601	36,601
Commitments to originate mortgage loans	Level 2	1,460	1,460	1,457	1,457
Loans and leases held for investment, net	Level 2	427,413	423,085	420,464	417,497
Accrued interest receivable	Level 2	4,398	4,398	4,848	4,848
		$ 952,896	$ 948,568	$ 904,014	$ 901,047
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 181,300	$ 181,300	$ 164,401	$ 164,401
Deposits, interest-bearing	Level 2	688,801	686,941	653,405	651,923
Borrowings and advances	Level 2	28,560	28,666	28,043	28,284
Accrued interest payable	Level 2	1,069	1,069	950	950
Accrued expenses	Level 2	4,496	4,496	6,107	6,107
Commitments to sell mortgage loans	Level 2	81	81	42	42
Mortgage banking short positions	Level 2	28	28	12	12
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,010	10,833	15,011	10,691
		$ 919,345	$ 913,414	$ 867,971	$ 862,410
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 190	$ -	$ 181
Standby and commercial letters of credit	Level 2	$ -	$ 8	$ -	$ 11

NOTE 11 – Federal Home Loan Bank Advances

As of March 31, 2018, the Bank had no FHLB advances outstanding. At March 31, 2018, BNC Bank had mortgage loans with unamortized principal balances of approximately $164.4 million and investment securities with unamortized principal value of approximately $35.3 million pledged as collateral to the FHLB. The Bank had the ability to draw advances up to approximately $148.8 million based upon the aggregate collateral that was pledged, subject to a requirement to purchase additional FHLB stock.

As of December 31, 2017, the Bank had no FHLB advances outstanding. At December 31, 2017, the Bank had mortgage loans with unamortized principal balances of approximately $168.5 million and securities with unamortized principal balances of approximately $35.5 million pledged as collateral to the FHLB. The Bank had the ability to draw advances up to approximately $152.0 million based upon the aggregate collateral that is currently pledged, subject to a requirement to purchase additional FHLB stock.

NOTE 12 – Long-Term Borrowings

The following table sets forth selected information for long-term borrowings (borrowings with an original maturity of greater than one year) (in thousands):

	March 31, 2018	December 31, 2017
Note payable, interest due quarterly beginning on April 1, 2016 and ending October 19, 2025, interest payable at a fixed rate of 6.35%	$ 10,000	$ 10,000

On October 19, 2015, the Company entered into a $10.0 million term loan agreement with another bank. The long term borrowing is subordinated debt that qualifies as Tier 2 capital for the Company. The loan agreement includes various covenants that are primarily operational rather than financial in nature. As of March 31, 2018, the Company was in compliance with these covenants. The note may be repaid, in whole or in part, by the Company at par beginning October 19, 2020.

NOTE 13 – Other Borrowings

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

March 31, 2018

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

Secured Borrowing Lines:	Collateral Pledged	Line	Outstanding	Available
BNC National Bank Line	$ 2,445	$ 2,160	$ -	$ 2,160
BNC Line	92,453	10,000	-	10,000
Total	$ 94,898	$ 12,160	$ -	$ 12,160

(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 March 31, 2018, the pledged collateral for the BNC National Bank line was comprised of collateralized mortgage obligations and the pledged collateral for the BNC Line is the common stock of BNC National Bank.

December 31, 2017			
Unsecured Borrowing Lines:			
	Line	**Outstanding**	**Available**
BNC National Bank Lines (1)	$ 34,500	$ -	$ 34,500

Secured Borrowing Lines:				
	Collateral Pledged	**Line**	**Outstanding**	**Available**
BNC Line	$ 93,836	$ 10,000	$ -	$ 10,000
Total	$ 93,836	$ 10,000	$ -	$ 10,000

(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, 2017, the pledged collateral for the BNC Line is the common stock of BNC National Bank.

NOTE 14 – Guaranteed Preferred Beneficial Interest's in Company's Subordinated Debentures

In July 2007, BNC issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at March 31, 2018 and December 31, 2017 was 3.09% and 2.74%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 15 – Stockholders' Equity

Regulatory restrictions exist regarding the ability of the Bank to transfer funds to BNCCORP in the form of cash dividends. Approval of the Office of the Comptroller of the Currency (OCC), the Bank's principal regulator, is required for BNC Bank to pay dividends to BNC in excess of the Bank's net profits from the current year plus retained net profits for the preceding two years.

On May 30, 2001, BNCCORP's Board of Directors adopted a rights plan intended to protect stockholder interests in the event BNCCORP becomes the subject of a takeover initiative that BNCCORP's Board believes could deny BNCCORP's stockholders the full value of their investment. This plan does not prohibit the Board from considering any offer that it deems advantageous to its stockholders.

Pursuant to the rights plan, the rights are issued to each common stockholder of record, and are exercisable only if a person acquires, or announces a tender offer, that would result in ownership of 15% or more of BNCCORP's outstanding common stock. The rights plan was amended in 2011 such that it now expires on May 30, 2021.

NOTE 16 – Regulatory Capital and Current Operating Environment

BNC and BNC 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, BNC and BNC 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 continue to impose capital requirements that are specific to individual institutions. The requirements are generally above the statutory ratios.

At March 31, 2018, the capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

At March 31, 2018 and December 31, 2017, the regulatory capital amounts and ratios were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2018								
Total Risk Based Capital:								
Consolidated	$ 111,676	20.38 %	$ 43,837	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	102,743	18.77	43,800	≥8.0	54,751	10.0	47,993	8.77
Tier 1 Risk Based Capital:								
Consolidated	94,814	17.30	32,878	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	95,887	17.51	32,850	≥6.0	43,800	8.0	52,087	9.51
Common Equity Tier 1 Risk Based Capital:								
Consolidated	79,804	14.56	24,658	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	95,887	17.51	24,638	≥4.5	35,588	6.5	60,299	11.01
Tier 1 Leverage Capital:								
Consolidated	94,814	9.97	38,056	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	95,887	10.09	38,013	≥4.0	47,516	5.0	48,371	5.09
Tangible Common Equity (to total assets):								
Consolidated	75,739	7.60	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	92,266	9.27	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2017								
Total Risk Based Capital:								
Consolidated	$ 109,187	19.98 %	$ 43,717	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	99,933	18.31	43,657	≥8.0	54,572	10.0	45,361	8.31
Tier 1 Risk Based Capital:								
Consolidated	92,344	16.90	32,788	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	93,098	17.06	32,743	≥6.0	43,657	8.0	49,441	9.06
Common Equity Tier 1 Risk Based Capital:								
Consolidated	77,333	14.15	24,591	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	93,098	17.06	24,557	≥4.5	35,472	6.5	57,626	10.56
Tier 1 Leverage Capital:								
Consolidated	92,344	9.53	38,749	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	93,098	9.62	38,713	≥4.0	48,392	5.0	44,706	4.62
Tangible Common Equity (to total assets):								
Consolidated	77,407	8.18	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	93,618	9.91	N/A	N/A	N/A	N/A	N/A	N/A

The most recent notifications from the Office of the Comptroller of the Currency (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.

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

We refer to "we", "our", "BNC", or "the Company" when such reference includes BNCCORP, INC. and its consolidated subsidiaries, collectively; "BNCCORP" when referring only to the holding company named BNCCORP, INC.; "the Bank", or "BNC Bank" when referring only to BNC National Bank. Where not otherwise indicated below, financial condition and results of operation discussed are of BNCCORP, INC.

Comparison of Results for the Three Months Ended March 31, 2018 and 2017

Summary for the Three Months Ended March 31, 2018 and 2017

Net income was $2.396 million, or $0.68 per diluted share, for the quarter ended March 31, 2018. This compared to net income of $1.061 million, or $0.30 per diluted share, in the first quarter of 2017.

Net interest income for the first quarter of 2018 was $6.860 million, an increase of $327 thousand, or 5%, from $6.533 million for the same period of 2017. The net interest margin for the current period increased to 3.11% from 3.09% a year ago.

Interest income was $8.016 million for the quarter ended March 31, 2018 compared to $7.314 million for the first quarter of 2017. This increase is the result of higher balances and yields on taxable investments and higher average balances of loans held for investment. The yield on average interest earning assets increased to 3.63% from 3.45% in the same quarter of 2017. During the first quarter of 2018, the average balance of interest earning assets increased by $37 million when compared to the first quarter of 2017. Average loans held for investment increased $13.9 million, or 3.3%, and average loans held for sale decreased by $491 thousand, in the first quarter of 2018 compared to the same quarter in 2017. The average balance of investment securities increased by $31.4 million in the first quarter of 2018, compared to the same period a year ago. Yields on investment securities increased to 2.50% in the first quarter of 2018 from 2.26% in the same period of 2017.

Interest expense in the first quarter of 2018 was $1.156 million, an increase of $375 thousand from the same period in 2017. The cost of interest bearing liabilities increased to 0.66% in the current quarter from 0.47% in the first quarter 2017. Interest expense increased on deposits, driven largely by increased volume and cost of consumer certificates of deposit and money market accounts. The cost of core deposits was 0.39% in the first quarter of 2018 and 0.26% in the first quarter of 2017. The Company paid down FHLB short-term advances outstanding in the first quarter 2018 and, alternatively, obtained $30.0 million of brokered certificates of deposit as a more attractive source of funding.

Total loans held for investment increased by $24.3 million, or 5.9%, from March 31, 2017 and increased by $6.9 million, or 1.6%, from December 31, 2017. Mortgage loans held for sale decreased by $1.9 million, or 7.3%, from March 31, 2017 and $12.4 million from December 31, 2017.

Total deposits increased by $52.3 million to $870.1 million at March 31, 2018 from $817.8 million at December 31, 2017. Total deposits include $30 million of brokered deposits that were utilized as rates on these deposits were attractive relative to comparable FHLB advances. Core deposits, which excludes brokered deposits, increased $22.8 million to $858.7 million at March 31, 2018 from December 31, 2017 and decreased $42.8 million from March 31, 2017. We have grown core deposits steadily in recent periods, but believe certain amounts held in deposit accounts at March 31, 2018 are likely to be temporary increases in core deposits.

Other borrowings increased $516 thousand at March 31, 2018 compared to December 31, 2017.

Provision for credit losses was $0 in the first quarters of 2018 and 2017.

Non-interest income for the first quarter of 2018 was $5.881 million. This compares to non-interest income of $4.747 million for the same period in 2017, an increase of $1.134 million, or 23.9%. Mortgage banking revenues aggregated $2.501 million in the current period compared to $2.504 million in the first quarter of 2017. Gains on sales of loans and investment securities aggregated $2.082 million in the first quarter 2018, compared to $813 thousand in the prior year first quarter, as these revenues can vary significantly from period to period.

Non-interest expense for the first quarter of 2018 was $9.768 million compared to $9.858 million in the same period of 2017, a decrease of $90 thousand. Salaries and benefits decreased $9 thousand from the first quarter 2017. Professional services in the first quarter of 2018 were down $263 thousand, or 25% from the first quarter 2017, primarily due to reduced mortgage banking volumes and reduced legal fees.

In the first quarter of 2018, we recorded tax expense of $577 thousand, which resulted in an effective tax rate of 19.4% for the quarter. Tax expense of $361 thousand was recognized during the first quarter of 2017, which resulted in an effective tax rate of 25.4%. The decrease in the effective tax rate is primarily due to the enactment of federal tax legislation effective January 1, 2018 that reduced the federal tax rate to 21%. The impact of the tax rate change was partially offset by the reduction in non-taxable income resulting from the first quarter 2018 sale of certain tax exempt municipal bonds resulting in a $2.1 million gain.

Net Interest Income

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

	Three Months Ended March 31,								
	2018			2017			Change		
	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost
Interest-earning assets									
Federal funds sold/cash equivalents	$ 13,947	$ 52	1.51%	$ 22,015	$ 44	0.81%	$ (8,068)	$ 8	0.70% (a)
Investments - taxable	358,310	2,166	2.45%	315,066	1,590	2.05%	43,244	576	0.40% (b)
Investments - tax exempt	76,024	530	2.80%	87,951	672	3.10%	(11,927)	(142)	-0.30% (b)
Loans held for sale – mortgage banking	23,742	220	3.76%	24,233	232	3.88%	(491)	(12)	-0.12% (c)
Loans and leases held for investment	430,048	5,048	4.76%	416,138	4,776	4.65%	13,910	272	0.11% (d)
Allowance for loan losses	(7,847)	-	0.00%	(8,174)	-	0.00%	327	-	0.00%
Total interest-earning assets	$ 894,224	$ 8,016	3.63%	$ 857,229	$ 7,314	3.46%	$ 36,995	$ 702	0.17%
Interest-bearing liabilities									
Interest checking and money market	$ 460,407	$ 358	0.32%	$ 445,919	$ 169	0.15%	$ 14,488	$ 189	0.17% (e)
Savings	35,549	4	0.05%	33,487	2	0.02%	2,062	2	0.03% (e)
Certificates of deposit	170,589	486	1.16%	153,279	341	0.90%	17,310	145	0.26% (e)
Total interest-bearing deposits	666,545	848	0.52%	632,685	512	0.33%	33,860	336	0.19%
Short-term borrowings	17,790	14	0.32%	11,988	5	0.17%	5,802	9	0.15%
Federal Home Loan Bank advances	5,171	20	1.61%	7,625	16	0.85%	(2,454)	4	0.76% (f)
Long-term borrowings	10,000	159	6.35%	10,000	159	6.35%	-	-	0.00%
Subordinated debentures	15,010	115	3.08%	15,013	89	2.40%	(3)	26	0.68%
Total borrowings	47,971	308	2.60%	44,626	269	2.44%	3,345	39	0.16%
Total interest-bearing liabilities	$ 714,516	1,156	0.66%	$ 677,311	781	0.47%	$ 37,205	375	0.19%
Net interest income/spread		$ 6,860	2.92%		$ 6,533	2.99%		$ 327	-0.07%
Net interest margin			3.11%			3.09%			0.02%
Notation:									
Non-interest-bearing deposits	$ 153,396	-		$ 155,363	-		$ (1,967)	-	(e)
Total deposits	$ 819,941	$ 848		$ 788,048	$ 512	0.26%	$ 31,893	$ 336	-0.26%
Taxable equivalents:									
Total interest-earning assets	$ 894,224	$ 8,270	3.75%	$ 857,228	$ 7,634	3.61%	$ 36,996	$ 636	0.14%
Net interest income/spread	-	$ 7,114	3.09%	-	$ 6,853	3.14%	-	$ 261	-0.05%
Net interest margin	-	-	3.23%	-	-	3.24%	-	-	-0.01%

(a) Cash balances can fluctuate from period to period based on liquidity sources and uses of the business.
(b) Average investment portfolio balances have increased as deposit balances increase.
(c) The average balance of loans held for sale decreased slightly in 2018 as funded loans increased but were sold faster than in the prior year first quarter.
(d) The average balance of loans held for investment rose in the first quarter of 2018 due to steady loan activity in our core market areas.
(e) Overall deposit balances have increased primarily due to higher money market and retail certificates of deposit and $30 million of new brokered certificates of deposits.
(f) Federal Home Loan Bank short term advances have been utilized to flexibly manage our balance sheet. In early 2018, the advances were paid down and replaced with brokered deposits with more favorable attributes.

Non-interest Income

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

	Three Months Ended March 31,		Increase (Decrease)		
	2018	2017	$	%	
Bank charges and service fees	$ 652	$ 688	$ (36)	(5) %	(a)
Wealth management revenues	477	461	16	3 %	(b)
Mortgage banking revenues	2,501	2,504	(3)	- %	
Gains on sales of loans, net	3	543	(540)	(99) %	(c)
Gains on sales of securities, net	2,079	270	1,809	670 %	(d)
Other	169	281	(112)	(40) %	(e)
Total non-interest income	$ 5,881	$ 4,747	$ 1,134	24 %	

(a) Bank charges and service fees decrease relates primarily to lower loan commitment fees and deposit service charges.
(b) Wealth management revenues increased as assets under management increased.
(c) Gains on the sale of loans decreased as a result of lower levels of SBA loan funding in the first quarter of 2018 relative to the higher inventory of SBA loans funded over several months and then sold in the first quarter 2017. Gains on sale of loans can vary significantly from period to period.
(d) Gains and losses on sales of securities may vary significantly from period to period.
(e) Other income decreased due to the nature of the timing of SBIC income received.

Non-interest Expense

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

	Three Months Ended March 31,		Increase (Decrease)		
	2018	2017	$	%	
Salaries and employee benefits	$ 5,230	$ 5,239	$ (9)	- %	
Professional services	790	1,053	(263)	(25) %	(a)
Data processing fees	997	880	117	13 %	(b)
Marketing and promotion	875	726	149	21 %	(c)
Occupancy	585	620	(35)	(6) %	(d)
Regulatory costs	140	132	8	6 %	
Depreciation and amortization	406	400	6	2 %	
Office supplies and postage	164	167	(3)	(2) %	
Other real estate costs	-	2	(2)	(100) %	
Other	581	639	(58)	(9) %	(e)
Total non-interest expense	$ 9,768	$ 9,858	$ (90)	(1) %	
Efficiency ratio	76.7%	87.4%			

(a) Professional service expense is lower due to reduced mortgage banking activity and legal costs.
(b) Data processing fees increased due to technology and processing requirements related to the bank's growth.
(c) Marketing and promotion increased primarily due to increased investment in mortgage marketing and lead generation.
(d) Occupancy decreased in the first quarter of 2018 due to lower seasonal building maintenance costs in North Dakota.
(e) Other decreased due to general cost control focus by management.

Income Taxes

In the first quarter of 2018, we recorded income tax expense of $577 thousand, which resulted in an effective tax rate of 19.4% for the quarter. Income tax expense of $361 thousand was recognized during the first quarter of 2017, which resulted in an effective tax rate of 25.4%. The decrease in the effective tax rate is primarily due to the enactment of federal tax legislation effective January 1, 2018 that reduced the federal tax rate to 21%. The impact of the tax rate change was partially offset by the reduction in non-taxable income resulting from the first quarter 2018 sale of certain tax exempt municipal bonds resulting in a $2.1 million gain.

Comparison of Financial Condition at March 31, 2018 and December 31, 2017

Assets

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

	March 31, 2018	December 31, 2017	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 51,505	$ 25,830	$ 25,675	99 %	(a)
Investment securities available for sale	441,020	411,917	29,103	7 %	(b)
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	2,941	2,897	44	2 %	
Loans held for sale-mortgage banking	24,159	36,601	(12,442)	(34) %	(c)
Loans and leases held for investment, net	435,224	428,325	6,899	2 %	
Allowance for credit losses	(7,811)	(7,861)	50	(1) %	
Premises and equipment, net	19,155	19,403	(248)	(1) %	
Accrued interest receivable	4,398	4,848	(450)	(9) %	(d)
Other assets	25,520	24,190	1,330	5 %	
Total assets	$ 996,111	$ 946,150	$ 49,961	5 %	

(a) Cash balances can fluctuate significantly.
(b) Investment balances have increased as we deployed a portion of new deposits to investment securities.
(c) Loans held for sale decreased as balances will fluctuate with the timing of loan funding and sales.
(d) Accrued interest receivable can fluctuate from period to period. The decrease primarily relates to lower interest receivable on investment securities after the sale of certain municipal bond investments in the first quarter of 2018.

Loan Participations

Pursuant to our lending policy, loans may not exceed 85 percent of the Bank's legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits) unless the Bank's Chief Credit Officer or the Executive Credit Committee grant prior approval. To accommodate creditworthy customers whose financing needs exceed lending limits and internal restrictions, the Bank sells loan participations to outside participants without recourse. Loan participations sold on a nonrecourse basis to outside financial institutions were $163.3 million as of March 31, 2018 and $176.7 million as of December 31, 2017. The sales of participations are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Concentrations of Credit

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

	March 31, 2018		December 31, 2017	
North Dakota	$ 305,029	70 %	$ 304,129	71 %
Arizona	68,515	16 %	65,284	15 %
Minnesota	26,352	6 %	24,144	6 %
Other	34,821	8 %	34,316	8 %
Total gross loans and leases held for investment	$ 434,717	100 %	$ 427,873	100 %

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

	March 31, 2018		December 31, 2017	
North Dakota	$ 286,615	66 %	$ 286,075	67 %
Arizona	92,330	21 %	88,514	21 %
Minnesota	19,054	5 %	16,697	4 %
California	9,849	2 %	9,965	2 %
Colorado	8,402	2 %	8,416	2 %
Ohio	8,054	2 %	8,134	2 %
Other	10,413	2 %	10,072	2 %
Total gross loans and leases held for investment	$ 434,717	100 %	$ 427,873	100 %

Loan Maturities(1)

The following table sets forth the remaining maturities of loans in each major category of our portfolio as of March 31, 2018 (in thousands):

		Over 1 year through 5 years		Over 5 years		Total Loans and Leases
	One year or less	Fixed Rate	Floating Rate	Fixed Rate	Floating rate	Held for Investment
Commercial and industrial	$ 17,136	$ 3,751	$ 11,762	$ 48,000	$ 47,255	$ 127,904
Commercial real estate	1,296	2,407	7,852	38,699	127,816	178,070
SBA	1,153	-	4,176	1,975	20,859	28,163
Consumer	1,082	10	5,170	59,424	7,585	73,271
Land and land development	-	523	1,985	6,056	5,140	13,704
Construction	716	3,196	9,693	-	-	13,605
Total principal amount of loans	$ 21,383	$ 9,887	$ 40,638	$ 154,154	$ 208,655	$ 434,717

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

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

Allocation of the Allowance for Credit Losses

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

	March 31, 2018		December 31, 2017	
	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment	Allocation of Allowance	Loans as a percent of Gross Loans Held for Investment
Commercial and industrial	$ 2,057	29 %	$ 2,158	30 %
Commercial real estate	3,488	41 %	3,471	41 %
SBA	903	7 %	834	6 %
Consumer	899	17 %	914	17 %
Land and land development	335	3 %	358	3 %
Construction	129	3 %	126	3 %
Total	$ 7,811	100 %	$ 7,861	100 %

Nonperforming Loans

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

	Three Months Ended March 31,		Twelve Months Ended December 31,
	2018	2017	2017
Balance, beginning of period	$ 1,978	$ 2,445	$ 2,445
Additions to nonperforming	66	557	938
Charge-offs	(31)	(206)	(790)
Reclassified back to performing	(26)	-	-
Principal payment received	(37)	(124)	(551)
Transferred to repossessed assets	-	-	(24)
Transferred to other real estate owned	-	-	(40)
Balance, end of period	$ 1,950	$ 2,672	$ 1,978

Nonperforming Assets

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

	March 31, 2018	December 31, 2017
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ -	$ 26
Non-accrual loans	1,950	1,952
Total nonperforming loans	1,950	1,978
Other real estate, net and repossessed assets	-	-
Total nonperforming assets	$ 1,950	$ 1,978
Allowance for credit losses	$ 7,811	$ 7,861
Ratio of total nonperforming loans to total loans	0.42%	0.43%
Ratio of total nonperforming loans to loans and leases held for investment	0.45%	0.46%
Ratio of total nonperforming assets to total assets	0.20%	0.21%
Ratio of nonperforming loans to total assets	0.20%	0.21%
Ratio of allowance for credit losses to nonperforming loans	401%	397%

Potential Problem Loans

We attempt to quantify potential problem loans with more immediate credit risk. The table below summarizes the amounts of potential problem loans (in thousands):

	Watch List			Substandard		
	Impaired	**Other**	**Total**	**Impaired**	**Other**	**Total**
March 31, 2018	$ -	$ 1,621	$ 1,621	$ 74	$ 9,029	$ 9,103
December 31, 2017	$ -	$ 1,730	$ 1,730	$ 52	$ 9,062	$ 9,114

At March 30, 2018 and December 31, 2017, the Bank had $11.0 million of classified loans and $2.0 million of loans on non-accrual. This compares to $12.4 million of classified loans and $2.6 million of loans on non-accrual at March 31, 2017.

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 our position as creditor is protected to the fullest extent possible.

The economic activity in western North Dakota continues to be affected by challenging conditions in the agricultural and energy industries. In particular, the areas near Dickinson, Williston, and Minot are believed to be more adversely affected by the economic conditions than other areas of North Dakota. Prolonged periods of lower agricultural and energy prices as well as more recent drought conditions in the region could have an adverse economic impact on the North Dakota economy, commodity dependent businesses, and our loan portfolio.

Other Real Estate

See Note 6 of our Financial Statements for information on other real estate owned.

Liabilities

The following table presents our liabilities (dollars are in thousands):

	March 31, 2018	December 31, 2017	Increase (Decrease) $	%	
Deposits:					
Non-interest-bearing	$ 181,300	$ 164,401	$ 16,899	10 %	(a)
Interest-bearing-					
Savings, interest checking and money market	503,348	498,044	5,304	1 %	(a)
Time deposits	185,453	155,361	30,092	19 %	(b)
Short-term borrowings	18,560	18,043	517	3 %	
Long-term borrowings	10,000	10,000	-	- %	
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,010	15,011	(1)	- %	
Accrued interest payable	1,069	950	119	13 %	(c)
Accrued expenses	4,496	6,107	(1,611)	(26) %	(d)
Other liabilities	950	607	343	57 %	(e)
Total liabilities	$ 920,186	$ 868,524	$ 51,662	6 %	

(a) BNC markets have been successful in generating deposit growth in the first quarter of 2018. This increase largely relates to significant deposits by customers experiencing large cash generating transactions in the first quarter 2018.
(b) Time deposits have increased due to $30 million of brokered deposits.
(c) Accrued interest payable increased predominantly due to increased time deposit balances.
(d) The decrease is primarily due to the timing of payroll and benefit accruals.
(e) The increase is primarily relates to an increase in tax liabilities.

At March 31, 2018 and December 31, 2017, the Bank had $31.2 million and $25.1 million, respectively, in time deposits greater than $250 thousand.

Mortgage Banking Obligations

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations, which aggregated $1.1 million at March 31, 2018 and December 31, 2017. 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 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 calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimates the future reimbursement amounts and record the estimated obligation. The following is a summary of activity related to mortgage banking obligations (in thousands):

	Three Months Ended March 31, 2018	Twelve Months Ended December 31, 2017	Three Months Ended March 31, 2017
Balance, beginning of period	$ 1,103	$ 1,339	$ 1,339
Provision	-	-	-
Write offs, net	(15)	(236)	(300)
Balance, end of period	$ 1,088	$ 1,103	$ 1,039

Stockholders' Equity

Our stockholders' equity decreased $1.7 million between December 31, 2017 and March 31, 2018 primarily due to $2.4 million in additional retained earnings and a decrease in accumulated other comprehensive income of $4.1 million. As presented in Note 16 – Regulatory Capital and Current Operating Environment, the Company maintains capital in excess of regulatory requirements.

The Company routinely evaluates the sufficiency of its capital in order to ensure compliance with regulatory capital standards and be a source of strength for the Bank. We manage capital by assessing the composition of capital and amounts available for growth, risk or other purposes. In recent periods, capital has grown through retention of earnings and the Company has reduced certain higher cost forms of capital such as the redemption in 2014 of $7.5 million in Guaranteed Preferred Beneficial Interests in Subordinated Debt costing 12.05% and the redemption in 2015 of $21.1 million of Series A and B Preferred Stock costing 9%. Management will continue to evaluate capital requirements and prudent capital management opportunities.

Liquidity Risk Management

Liquidity risk is the possibility of being unable to meet all present and future financial obligations in a timely manner. Liquidity risk management encompasses our ability to meet all present and future financial obligations in a timely manner. The objectives of 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 investments, we utilize brokered deposits, sell 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 and various investment securities. We have also obtained funding through the issuance of subordinated notes, subordinated debentures and long-term borrowings.

Our liquidity is defined by our ability to meet our cash and collateral obligations at a reasonable cost and with a minimum loss of income. Given the uncertain nature of our customers' demands as well as our desire to take advantage of earnings enhancement opportunities, we must have adequate sources of on- and off-balance-sheet funds that can be acquired in time of need.

We measure our liquidity position on an as needed basis, but no less frequently than monthly. We measure our liquidity position using the total of the following items:

1. Estimated liquid assets less estimated volatile liabilities using the aforementioned methodology ($202.6 million as of March 31, 2018);
2. Borrowing capacity from the FHLB ($148.8 million as of March 31, 2018); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($75.7 million as of March 31, 2018).

On an on-going basis, we use a variety of factors to assess our liquidity position including, but not limited to, the following items:

- Stability of our deposit base,
- Amount of pledged investments,
- Amount of unpledged investments,
- Liquidity of our loan portfolio, and
- Potential loan demand.

Our liquidity assessment process segregates our balance sheet into liquid assets 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. We have a targeted range for our liquidity position over this horizon and manage operations to achieve these targets.

We further project cash flows over a 12 month horizon based on our assets and liabilities and sources and uses of funds for anticipated events.

Pursuant to our contingency funding plan, we also estimate cash flows over a 12 month horizon under a variety of stressed scenarios to identify potential funding needs and funding sources. Our contingency plan identifies actions that could be taken in response to adverse liquidity events.

We believe this process, combined with our policies and guidelines, should provide for adequate levels of liquidity to fund the anticipated needs of on- and off- balance sheet items.

Quantitative and Qualitative Disclosures about Market Risk

Market risk arises from changes in interest rates, exchange rates, and commodity prices and equity prices and represents the possibility that changes in future market rates or prices will have a negative impact on our earnings or value. Our 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. We have risk management policies to monitor and limit exposure to interest rate risk. Our asset/liability management process is utilized to manage our 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.

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

Our primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes our assumptions regarding the changes in interest rates and the impact on our current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month end balances of the various balance sheet accounts are held constant at their March 31, 2018 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month end balance constant at its March 31, 2018 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.

We monitor the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of March 31, 2018, 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 4.75% to 5.75% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

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

Net Interest Income Simulation

Movement in interest rates	-200bp	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 27,986	$ 29,104	$ 29,820	$ 29,671	$ 29,526	$ 29,613
Dollar change from unchanged scenario	$ (1,834)	$ (716)	-	$ (149)	$ (294)	$ (207)
Percentage change from unchanged scenario	(6.15)%	(2.40)%	-	(0.50)%	(0.99)%	(0.69)%

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 our assets and liabilities as of March 31, 2018 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate any actions we 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 our rate sensitivity position as of March 31, 2018. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated Maturity or Repricing at March 31, 2018				
	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	$ 51,505	$ -	$ -	$ -	$ 51,505
Investment securities (a)	168,718	12,101	96,892	127,061	404,772
FRB and FHLB stock	2,941	-	-	-	2,941
Loans held for sale-mortgage banking, fixed rate	24,159	-	-	-	24,159
Loans held for investment, fixed rate	20,673	26,716	103,428	20,171	170,988
Loans held for investment, indexed rate	84,381	26,324	150,896	2,635	264,236
Total interest-earning assets	$ 352,377	$ 65,141	$ 351,216	$ 149,867	$ 918,601
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 467,817	$ -	$ -	$ -	$ 467,817
Savings	35,531	-	-	-	35,531
Time deposits	52,361	82,626	50,349	117	185,453
Short-term borrowings	18,560	-	-	-	18,560
Long-term borrowings	-	-	-	10,000	10,000
Subordinated debentures	15,000	-	-	10	15,010
Total interest-bearing liabilities	$ 589,269	$ 82,626	$ 50,349	$ 10,127	$ 732,371
Interest rate gap	$ (236,892)	$ (17,485)	$ 300,867	$ 139,740	$ 186,230
Cumulative interest rate gap at March 31, 2018	$ (236,892)	$ (254,377)	$ 46,490	$ 186,230	
Cumulative interest rate gap to total assets	(23.78%)	(25.54%)	4.67%	18.70%	

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

The table assumes that all savings and interest-bearing demand deposits reprice in the earliest period presented, however, we believe a significant portion of these accounts constitute a core component and are generally not rate sensitive. Our 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 our assets and liabilities as of March 31, 2018 and do not contemplate any actions we might undertake in response to changes in market interest rates.

Legal Proceedings

From time to time, we may be a party to legal proceedings arising out of our lending, deposit operations or other activities. We engage in foreclosure proceedings and other collection actions as part of our loan collection activities. From time to time, borrowers may also bring actions against us, in some cases claiming damages. Some financial services companies have been subjected to significant exposure in connection with litigation, including class action litigation and punitive damage claims. While we are not aware of any such actions or allegations that should reasonably give rise to any material adverse effect, it is possible that we could be subjected to such a claim in an amount that could be material. Based upon a review with our legal counsel, we believe that the ultimate disposition of such pending litigation will not have a material effect on our financial condition, results of operations or cash flows.

Signatures

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

BNCCORP, INC.

Date:	May 11, 2018	By:	/s/ Timothy J. Franz
			Timothy J. Franz President and Chief Executive Officer
		By:	/s/ Daniel J. Collins
			Daniel J. Collins Chief Financial Officer