Quarterly Report

For the quarter ended March 31, 2014

BNCCORP, INC.

(OTCQB: BNCC)

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BNCCORP, INC.
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March 31, 2014

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

ASSETS	March 31, 2014 (unaudited)	December 31, 2013
CASH AND CASH EQUIVALENTS	$ 101,591	$ 18,871
INVESTMENT SECURITIES AVAILABLE FOR SALE	437,893	435,719
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	2,817	2,729
LOANS HELD FOR SALE-MORTGAGE BANKING	27,414	32,870
LOANS AND LEASES HELD FOR INVESTMENT	324,183	317,928
ALLOWANCE FOR CREDIT LOSSES	(9,858)	(9,847)
Net loans and leases held for investment	314,325	308,081
OTHER REAL ESTATE, net	1,056	1,056
PREMISES AND EQUIPMENT, net	15,295	14,870
ACCRUED INTEREST RECEIVABLE	3,127	3,554
OTHER	24,506	25,373
Total assets	$ 928,024	$ 843,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 200,797	$ 141,788
Interest-bearing –		
Savings, interest checking and money market	400,965	378,355
Time deposits under $100,000	121,365	123,058
Time deposits $100,000 and over	79,735	80,028
Total deposits	802,862	723,229
SHORT-TERM BORROWINGS	23,178	19,967
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	22,433	22,432
ACCRUED INTEREST PAYABLE	519	771
ACCRUED EXPENSES	5,109	6,307
OTHER	706	552
Total liabilities	854,807	773,258
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value – Authorized 2,000,000 shares:		
Preferred stock - 9% Series A 20,093 shares outstanding;	20,093	20,093
Preferred stock - 9% Series B 1,005 shares outstanding;	1,005	1,005
Common stock, $.01 par value – Authorized 35,000,000 shares; 3,373,463 and 3,374,601 shares issued and outstanding	34	34
Capital surplus – common stock	26,158	26,133
Retained earnings	29,382	27,962
Treasury stock (295,190 and 294,052 shares, respectively)	(3,909)	(3,894)
Accumulated other comprehensive income (loss), net	454	(1,468)
Total stockholders' equity	73,217	69,865
Total liabilities and stockholders' equity	$ 928,024	$ 843,123

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)

	2014	2013
INTEREST INCOME:		
Interest and fees on loans	$ 4,081	$ 4,000
Interest and dividends on investments		
Taxable	2,449	1,339
Tax-exempt	546	282
Dividends	28	28
Total interest income	7,104	5,649
INTEREST EXPENSE:		
Deposits	602	716
Short-term borrowings	9	10
Subordinated debentures	288	290
Total interest expense	899	1,016
Net interest income	6,205	4,633
PROVISION (REDUCTION) FOR CREDIT LOSSES	(200)	700
NET INTEREST INCOME AFTER PROVISION (REDUCTION) FOR CREDIT LOSSES	6,405	3,933
NON-INTEREST INCOME:		
Bank charges and service fees	704	617
Wealth management revenues	389	327
Mortgage banking revenues, net	2,282	8,247
Gains on sales of loans, net	240	755
Gains on sales of securities, net	523	1,210
Other	146	168
Total non-interest income	4,284	11,324
NON-INTEREST EXPENSE:		
Salaries and employee benefits	4,239	5,035
Professional services	675	969
Data processing fees	718	720
Marketing and promotion	654	509
Occupancy	482	518
Regulatory costs	151	324
Depreciation and amortization	305	305
Office supplies and postage	157	155
Other real estate costs	12	77
Other	697	785
Total non-interest expense	8,090	9,397
Income before income taxes	2,599	5,860
Income tax expense	807	2,075
Net income	1,792	3,785
Preferred stock costs	372	324
Net income available to common shareholders	$ 1,420	$ 3,461
Basic earnings per common share	$ 0.42	$ 1.05
Diluted earnings per common share	$ 0.41	$ 1.00

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)

	2014		2013	
NET INCOME		$ 1,792		$ 3,785
Unrealized gain (loss) on securities available for sale	$ 3,525		$ (373)	
Reclassification adjustment for (gain) included in net income	(523)		(1,210)	
Other comprehensive income (loss) before tax	3,002		(1,583)	
Income tax (expense) benefit related to items of other comprehensive (loss) income	(1,080)		602	
Other comprehensive income (loss)	1,922	1,922	(981)	(981)
TOTAL COMPREHENSIVE INCOME		$ 3,714		$ 2,804

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)

	Preferred Stock		Common Stock		Capital Surplus Common	Retained Earnings	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Stock	(Deficit)	Stock	Income (Loss)	Total
BALANCE, December 31, 2012	21,098	$ 20,888	3,300,652	$ 33	$ 27,257	$ 20,655	$ (5,064)	$ 4,961	$ 68,730
Net income	-	-	-	-	-	3,785	-	-	3,785
Other comprehensive loss	-	-	-	-	-	-	-	(981)	(981)
Preferred stock amortization, net	-	50	-	-	-	(50)	-	-	-
Dividend on preferred stock	-	-	-	-	-	(275)	-	-	(275)
Impact of share-based compensation	-	-	-	-	1	-	-	-	1
BALANCE, March 31, 2013	21,098	$ 20,938	3,300,652	$ 33	$ 27,258	$ 24,115	$ (5,064)	$ 3,980	$ 71,260
BALANCE, December 31, 2013	21,098	$ 21,098	3,374,601	$ 34	$ 26,133	$ 27,962	$ (3,894)	$ (1,468)	$ 69,865
Net income	-	-	-	-	-	1,792	-	-	1,792
Other comprehensive income	-	-	-	-	-	-	-	1,922	1,922
Preferred stock amortization, net	-	-	-	-	-	-	-	-	-
Dividend on preferred stock	-	-	-	-	-	(372)	-	-	(372)
Impact of share-based compensation	-	-	(1,138)	-	25	-	(15)	-	10
BALANCE, March 31, 2014	21,098	$ 21,098	3,373,463	$ 34	$ 26,158	$ 29,382	$ (3,909)	$ 454	$ 73,217

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)

	2014	2013
OPERATING ACTIVITIES:		
Net income	$ 1,792	$ 3,785
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision (reduction) for credit losses	(200)	700
Depreciation and amortization	305	305
Net amortization of premiums and (discounts)	1,246	1,826
Share-based compensation	10	1
Change in interest receivable and other assets, net	530	930
(Gain) loss on sale of bank premises and equipment	-	6
Net realized gain on sales of investment securities	(523)	(1,210)
Provision for deferred income taxes	-	238
Change in other liabilities, net	(1,394)	(10,085)
Funding of originations of loans held for sale	(119,542)	(290,027)
Proceeds from sales of loans held for sale	125,030	318,114
Fair value adjustment for loans held for sale	(33)	971
Change in fair value on mortgage banking derivatives	(318)	363
Proceeds from sales of loans	2,087	7,445
Gains on sales of loans, net	(240)	(755)
Net cash provided by (used in) operating activities	8,750	32,607
INVESTING ACTIVITIES:		
Purchases of investment securities	(27,977)	(72,574)
Proceeds from sales of investment securities	13,903	39,147
Proceeds from maturities of investment securities	14,180	12,891
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(707)	(1)
Sales of Federal Reserve and Federal Home Loan Bank Stock	620	-
Net (increase) decrease in loans held for investment	(7,890)	(1,088)
Proceeds from sales of other real estate	-	1,795
Additions to bank premises and equipment	(729)	(539)
Net cash provided by (used in) investing activities	(8,600)	(20,369)

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)

	2014	2013
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$ 79,633	$ 32,108
Net increase (decrease) in short-term borrowings	3,211	4,398
Repayments of Federal Home Loan Bank advances	(15,500)	-
Proceeds from Federal Home Loan Bank advances	15,500	-
Dividends paid on preferred stock	(274)	-
Net cash provided by (used in) financing activities	82,570	36,506
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	82,720	48,744
CASH AND CASH EQUIVALENTS, beginning of period	18,871	40,790
CASH AND CASH EQUIVALENTS, end of period	$ 101,591	$ 89,534
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 1,150	$ 6,059
Income taxes paid (received)	$ 287	$ (1)

See accompanying notes to consolidated financial statements.

NOTE 1 – Organization of Operations, BNCCORP, INC.

BNCCORP, INC. (BNCCORP) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (together with its wholly owned subsidiary, BNC Insurance Services, Inc., collectively, the Bank). BNCCORP operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 14 locations. The Bank also conducts mortgage banking from 15 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas and Nebraska.

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

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, 2013. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2013 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, 2013 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, 2014 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 critical accounting policies are unchanged since December 31, 2013.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

FASB ASU 2011-02, *Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring,* clarifies when the restructuring of a receivable should be considered a troubled debt restructuring (TDR). FASB issued the guidance in response to constituents' concerns that creditors were inconsistently applying the guidance for identifying TDRs. The ASU provides additional guidance for determining whether the creditor has granted a concession and whether the debtor is experiencing financial difficulty. For nonpublic companies, this ASU is effective for annual periods ending after December 15, 2012, including interim periods within those annual periods. Information related to this ASU and the related disclosures are included in Note 5 in the Company's notes to the consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (*Topic 220*), which requires companies to report total net income, each component of comprehensive income, and total comprehensive income on the face of the income statement, or as two consecutive statements. The components of comprehensive income are not changed, nor does the ASU affect how earnings per share is calculated or reported. The adoption of this ASU in 2013 did not have a material impact on the Company's consolidated financial statements.

In December 2012, the FASB issued for public comment a draft proposal designed to improve financial reporting about expected credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The proposed ASU, *Financial Instruments - Credit Losses*, proposes a new accounting model which would change the definition from inherent credit losses to expected credit losses, which could result in more timely recognition of credit losses, and also would provide additional transparency about credit risk. Stakeholders were asked to review and provide comments to the FASB on the proposal by May 31, 2013.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This update requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. This ASU is effective for fiscal years and interim periods beginning after December 15, 2013 for non-public companies. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes* (a consensus of the FASB Emerging Issues Task Force), which permits the use of the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate), in addition to the U.S. government rate (UST) and London Interbank Offered Rate (LIBOR), as a U.S. benchmark interest rate for hedge accounting purposes under FASB ASC Topic 815, *Derivatives and Hedging*. Entities should apply the ASU prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

On July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (a consensus of the FASB Emerging Issues Task Force), which requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for an net operating loss (NOL) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. The ASU does not require new recurring disclosures. It is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013 and December 15, 2014, for public and nonpublic entities, respectively. Early adoption and retrospective application are permitted. The adoption of this ASU in 2014 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities.* The ASU is a joint requirement by the FASB and International Accounting Standards Board to enhance current disclosures and increase comparability of GAAP and International Financial Reporting Standards financial statements. Under the ASU, an entity will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting agreement. The scope of the ASU includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The ASU was effective for annual and interim periods beginning January 1, 2013. Adoption of the ASU did not have a material effect on the Company's consolidated financial statements.

NOTE 3 – Capital and Current Operating Environment

Capital amounts and ratios of BNCCORP and the Bank are presented in the tables below (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, 2014								
Total Risk Based Capital:								
Consolidated	$ 100,466	23.76 %	$ 33,827	≥8.0 %	$ N/A	N/A %	$ N/A	N/A %
BNC National Bank	91,154	21.92	33,274	≥8.0	41,592	10.0	49,562	11.92
Tier 1 Risk Based Capital :								
Consolidated	95,069	22.48	16,913	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	85,898	20.65	16,637	≥4.0	24,955	6.0	60,943	14.65
Tier 1 Leverage Capital:								
Consolidated	95,069	11.28	33,716	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	85,898	10.21	33,645	≥4.0	42,056	5.0	43,842	5.21
Tangible Equity (to total assets):								
Consolidated tangible equity	73,129	7.88	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	86,716	9.36	N/A	N/A	N/A	N/A	N/A	N/A
Tangible Common Equity (to total assets):								
Consolidated tangible common equity	52,031	5.61	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	86,716	9.36	N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2013								
Total Risk Based Capital:								
Consolidated	$ 97,354	23.15 %	$ 33,644	≥8.0 %	$ N/A	N/A %	$ N/A	N/A %
BNC National Bank	88,922	21.40	33,245	≥8.0	41,556	10.0	47,366	11.40
Tier 1 Risk Based Capital :								
Consolidated	91,150	21.67	16,822	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	83,670	20.13	16,622	≥4.0	24,934	6.0	58,736	14.13
Tier 1 Leverage Capital:								
Consolidated	91,150	10.94	33,316	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	83,670	10.06	33,271	≥4.0	41,589	5.0	42,081	5.06
Tangible Equity (to total assets):								
Consolidated tangible equity	69,800	8.30	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	82,592	9.82	N/A	N/A	N/A	N/A	N/A	N/A
Tangible Common Equity (to total assets):								
Consolidated tangible common equity	48,702	5.79	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	82,592	9.82	N/A	N/A	N/A	N/A	N/A	N/A

In the current operating environment, management believes banking entities are regularly required to maintain capital ratios in excess of the statutory amounts required to be considered well capitalized. We are managing capital accordingly.

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, we have included the ratio in the preceding table.

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.

In July of 2013, the Federal Reserve issued new regulatory capital standards for community banks which incorporate some of the capital requirements addressed in the Basel III framework and begin to be effective January 1, 2015. We have estimated our regulatory capital ratios under the new Basel III framework and expect to be in compliance with these standards.

NOTE 4 – Loans and Leases

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

	March 31, 2014	December 31, 2013
Loans held for sale-mortgage banking	$ 27,414	$ 32,870
Commercial and industrial	$ 128,397	$ 132,983
Commercial real estate	101,532	93,330
SBA	19,644	18,215
Consumer	33,427	32,612
Land and land development	27,756	27,582
Construction	13,441	13,286
	324,197	318,008
Unearned income and net unamortized deferred fees and costs	(14)	(80)
Loans, net of unearned income and unamortized fees and costs	324,183	317,928
Allowance for credit losses	(9,858)	(9,847)
Net loans and leases held for investment	$ 314,325	$ 308,081

NOTE 5 – Allowance for Credit Losses

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

	Three Months Ended March 31, 2014						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,215	$ 4,041	$ 579	$ 478	$ 2,371	$ 163	$ 9,847
Provision (reduction)	(48)	(99)	128	1	(186)	4	(200)
Loans charged off	-	(31)	-	(5)	(11)	-	(47)
Loan recoveries	-	-	-	8	250	-	258
Balance, end of period	$ 2,167	$ 3,911	$ 707	$ 482	$ 2,424	$ 167	$ 9,858

	Three Months Ended March 31, 2013						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,546	$ 4,790	$ 616	$ 382	$ 1,609	$ 148	$ 10,091
Provision	442	(288)	96	85	305	60	700
Loans charged off	(916)	(3)	-	(25)	-	-	(944)
Loan recoveries	-	8	-	6	12	-	26
Balance, end of period	$ 2,072	$ 4,507	$ 712	$ 448	$ 1,926	$ 208	$ 9,873

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 we believe 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, 2014					
	Current	**31-89 Days Past Due**	**90 Days or More Past Due and Accruing**	**Total Performing**	**Non-accrual**	**Total**
Commercial and industrial:						
Business loans	$ 75,725	$ 45	$ -	$ 75,770	$ -	$ 75,770
Agriculture	15,024	-	-	15,024	-	15,024
Owner-occupied commercial real estate	37,603	-	-	37,603	-	37,603
Commercial real estate	97,396	-	-	97,396	4,136	101,532
SBA	19,644	-	-	19,644	-	19,644
Consumer:						
Automobile	6,729	94	-	6,823	26	6,849
Home equity	4,653	-	-	4,653	-	4,653
1st mortgage	11,410	-	-	11,410	-	11,410
Other	10,508	7	-	10,515	-	10,515
Land and land development	26,880	-	-	26,880	876	27,756
Construction	13,441	-	-	13,441	-	13,441
Total loans held for investment	319,013	146	-	319,159	5,038	324,197
Loans held for sale	27,414	-	-	27,414	-	27,414
Total gross loans	$ 346,427	$ 146	$ -	$ 346,573	$ 5,038	$ 351,611

	December 31, 2013					
	Current	31-89 Days Past Due	90 Days or More Past Due and Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 78,137	$ 88	$ -	$ 78,225	$ -	$ 78,225
Agriculture	17,499	-	-	17,499	-	17,499
Owner-occupied commercial real estate	36,829	-	-	36,829	430	37,259
Commercial real estate	89,142	-	-	89,142	4,188	93,330
SBA	18,215	-	-	18,215	-	18,215
Consumer:						
Automobile	6,634	17	-	6,651	38	6,689
Home equity	4,292	-	-	4,292	-	4,292
1st mortgage	11,612	-	-	11,612	-	11,612
Other	10,012	7	-	10,019	-	10,019
Land and land development	26,621	-	961	27,582	-	27,582
Construction	13,286	-	-	13,286	-	13,286
Total loans held for investment	312,279	112	961	313,352	4,656	318,008
Loans held for sale	32,870	-	-	32,870	-	32,870
Total gross loans	$ 345,149	$ 112	$ 961	$ 346,222	$ 4,656	$ 350,878

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,	
	2014	2013
Interest income that would have been recorded	$ 77	$ 124
Interest income recorded	-	-
Effect on interest income	$ 77	$ 124

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 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 (in thousands):

	March 31, 2014				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance	Interest Income Recognized
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 53	$ 53	$ 8	$ 63	$ 1
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	11,506	7,880	1,058	7,913	49
SBA	-	-	-	-	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	2,017	491	12	492	5
Other	-	-	-	-	-
Land and land development	877	877	179	898	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 14,453	$ 9,301	$ 1,257	$ 9,366	$ 55
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	-	-	-	-	-
Consumer:					
Automobile	43	26	-	27	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 43	$ 26	$ -	$ 27	$ -
TOTAL IMPAIRED LOANS	$ 14,496	$ 9,327	$ 1,257	$ 9,393	$ 55

	December 31, 2013				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance	Interest Income Recognized
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	514	430	30	430	-
Commercial real estate	6,857	4,188	1,030	4,347	-
SBA	-	-	-	-	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 7,371	$ 4,618	$ 1,060	$ 4,777	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	-	-	-	-	-
Consumer:					
Automobile	64	38	-	44	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 64	$ 38	$ -	$ 44	$ -
TOTAL IMPAIRED LOANS	$ 7,435	$ 4,656	$ 1,060	$ 4,821	$ -

Troubled Debt Restructuring (TDRs)

Included in net loans receivable 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 compared to the original terms and conditions of the loan, the modified loan is considered a troubled debt restructuring.

During 2012, the Company adopted FASB ASU No. 2011-02, *Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring,* which modified guidance for identifying restructurings of receivables that constitute a TDR.

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

	March 31, 2014			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ 53	$ -	$ 53	$ 8
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	3,744	4,136	7,880	1,059
SBA	-	-	-	-
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	491	-	491	12
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 4,288	$ 4,136	$ 8,424	$ 1,079

	December 31, 2013			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ 93	$ -	$ 93	$ 14
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	3,770	4,188	7,958	1,124
SBA	-	-	-	-
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	493	-	493	12
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 4,356	$ 4,188	$ 8,544	$ 1,150

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 TDRs 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 ending March 31, 2014 and March 31, 2013.

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,	
	2014	2013
Interest income that would have been recorded	$ 145	$ 190
Interest income recorded	52	82
Effect on interest income	$ 93	$ 108

The amount of additional funds committed to borrowers who are in TDR status was $232 thousand at March 31, 2014 and $232 thousand at March 31, 2013.

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 $0 of loans that were restructured within the 12 months preceding March 31, 2014 and March 31, 2013 and defaulted during the three months ended March 31, 2014 and March 31, 2013.

NOTE 6 – Other Real Estate

Other real estate (ORE) includes property acquired through foreclosure, property in judgment and in-substance foreclosures and transfers of bank premises. 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,	
	2014	2013
Balance, beginning of period	$ 1,056	$ 5,131
Transfers from nonperforming loans	-	-
Transfers from premises and equipment	-	-
Real estate sold	-	(1,795)
Net gains (losses) on sale of assets	-	-
Provision	-	-
Balance, end of period	$ 1,056	$ 3,336

	March 31, 2014	December 31, 2013	March 31, 2013
Other real estate	$ 1,754	$ 3,250	$ 4,931
Valuation allowance	(698)	(2,194)	(1,595)
Other real estate, net	$ 1,056	$ 1,056	$ 3,336

NOTE 7 – Earnings Per Share

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

	Three months ended March 31, 2014		Three months ended March 31, 2013	
Denominator for basic earnings per share:				
Average common shares outstanding		3,349,588		3,297,352
Dilutive effect of stock compensation		127,871		169,532
Denominator for diluted earnings per share		3,477,459		3,466,884
Numerator (in thousands):				
Net income	$	1,792	$	3,785
Preferred stock costs		372		324
Net income available to common shareholders	$	1,420	$	3,461
Basic earnings per common share	$	0.42	$	1.05
Diluted earnings per common share	$	0.41	$	1.00

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 for which shares of common stock have been reserved for awards in the form of stock options or restricted stock awards. The following is a summary of the plans as of March 31, 2014:

	Plans (years adopted)				
	1995	2002	2006	2010	Total
Total Shares in Plan	250,000	125,000	200,000	250,000	825,000
Total Shares Available	48,751	-	15,850	250,000	314,601

Following is a summary of fully vested stock options and options expected to vest as of March 31, 2014:

	Stock Options Outstanding	Stock Options Currently Exercisable	Stock Options Vested and Expected to Vest
Number	163,200	163,200	163,200
Weighted-average exercise price	$3.00	$3.00	$3.00
Weighted-average remaining contractual term	5.96 years	5.96 years	5.96 years

The stock options currently outstanding can be exercised until the expiration date of March 17, 2020.

The Company recognized share-based compensation expense of $25,000 related to restricted stock for the three month period ended March 31, 2014, and $1,000 for the three month period ended March 31, 2013.

At March 31, 2014, the Company had $229,000 of unamortized restricted stock compensation expense. All of this expense will be amortized by September 15, 2016. The cost of restricted stock granted is recognized over the vesting period, which is generally three or more years.

NOTE 9 – 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, 2014 or December 31, 2013. The net unrealized gain/(loss) of investment securities decreased between the two periods due to the general changes in interest rates, flattening of the yield curve, and narrowing of spreads since the end of 2013.

The carrying amount of available-for-sale securities and their approximate fair values were as follows (in thousands):

	As of March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 67,878	$ 806	$ (787)	$ 67,897
U.S. government agency mortgage-backed securities issued by FNMA or FHLMC	27,009	169	(426)	26,752
U.S. government agency small business administration pools guaranteed by SBA	54,041	116	(258)	53,899
Collateralized mortgage obligations guaranteed by GNMA/VA	142,449	822	(1,699)	141,572
Collateralized mortgage obligations issued by FNMA or FHLMC	84,954	538	(1,096)	84,396
Other collateralized mortgage obligations	-	-	-	-
State and municipal bonds	62,351	1,509	(483)	63,377
	$ 438,682	$ 3,960	$ (4,749)	$ 437,893

	As of December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 74,247	$ 591	$ (1,372)	$ 73,466
U.S. government agency mortgage-backed securities issued by FNMA	32,065	210	(597)	31,678
U.S. government agency small business administration pools guaranteed by SBA	47,882	111	(169)	47,824
Collateralized mortgage obligations guaranteed by GNMA/VA	141,552	968	(1,963)	140,557
Collateralized mortgage obligations issued by FNMA or FHLMC	77,286	514	(1,171)	76,629
Other collateralized mortgage obligations	1,746	48	-	1,794
State and municipal bonds	64,733	521	(1,483)	63,771
	$ 439,511	$ 2,963	$ (6,755)	$ 435,719

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at March 31, 2014 were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	-	-
Due after five years through ten years	16,046	15,942
Due after ten years	422,636	421,951
Total	$ 438,682	$ 437,893

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

The following table shows the Company's investments' gross unrealized losses and fair value; 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, 2014								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. government agency mortgage-backed securities guaranteed by GNMA	2	$ 14,186	$ (396)	1	$ 9,015	$ (391)	3	$ 23,201	$ (787)
U.S. government agency mortgage-backed securities issued by FNMA or FHLMC	2	9,616	(246)	2	6,870	(180)	4	16,486	(426)
U.S. government agency small business administration pools guaranteed by SBA	3	16,818	(124)	6	10,734	(134)	9	27,552	(258)
Collateralized mortgage obligations guaranteed by GNMA/VA	14	52,729	(1,128)	5	20,568	(571)	19	73,297	(1,699)
Collateralized mortgage obligations issued by FNMA or FHLMC	7	35,056	(524)	3	14,073	(572)	10	49,129	(1,096)
Other collateralized mortgage obligations	-	-	-	-	-	-	-	-	-
State and municipal bonds	5	11,661	(325)	1	2,209	(158)	6	13,870	(483)
Total temporarily impaired securities	33	$ 140,066	$ (2,743)	18	$ 63,469	$ (2,006)	51	$ 203,535	$ (4,749)

	December 31, 2013								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. government agency mortgage-backed securities guaranteed by GNMA	7	$ 34,534	$ (889)	1	$ 8,891	$ (483)	8	$ 43,425	$ (1,372)
U.S. government agency mortgage-backed securities issued by FNMA	6	27,265	(597)	-	-	-	6	27,265	(597)
U.S. government agency small business administration pools guaranteed by SBA	7	17,741	(169)	-	-	-	7	17,741	(169)
Collateralized mortgage obligations guaranteed by GNMA/VA	13	49,531	(1,478)	4	16,373	(485)	17	65,904	(1,963)
Collateralized mortgage obligations issued by FNMA or FHLMC	6	24,740	(529)	3	14,452	(642)	9	39,192	(1,171)
Other collateralized mortgage obligations	-	-	-	-	-	-	-	-	-
State and municipal bonds	24	46,609	(1,483)	-	-	-	24	46,609	(1,483)
Total temporarily impaired securities	63	$ 200,420	$ (5,145)	8	$ 39,716	$ (1,610)	71	$ 240,136	$ (6,755)

Management regularly evaluates each security with unrealized losses to determine whether losses are other–than-temporary. When the evaluation is performed, 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 at March 31, 2014 or December 31, 2013.

NOTE 10 – Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures,* 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 our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

At the beginning of the period, all assets and liabilities valued at fair value on a recurring basis were considered to be Level 2. There were no transfers into or out of Level 2 during the period.

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, 2014				Three Months Ended March 31, 2014
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
ASSETS					
Securities available for sale	$ 437,893	$ -	$ 437,893	$ -	$ 523
Loans held for sale	27,414	-	27,414	-	58
Commitments to originate mortgage loans	1,360	-	1,360	-	559
Commitments to sell mortgage loans	26	-	26	-	(82)
Mortgage banking short positions	57	-	57	-	(217)
Total assets at fair value	$ 466,750	$ -	$ 466,750	$ -	$ 841
LIABILITIES					
Commitments to sell mortgage loans	$ -	$ -	$ -	$ -	$ -
Mortgage banking short positions	-	-	-	-	-
Total liabilities at fair value	$ -	$ -	$ -	$ -	$ -

	Carrying Value at December 31, 2013				Twelve Months Ended December 31, 2013
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 435,719	$ -	$ 435,719	$ -	$ 1,247
Loans held for sale	32,870	-	32,870	-	(2,032)
Commitments to originate mortgage loans	706	-	706	-	(4,153)
Commitments to sell mortgage loans	107	-	107	-	2,341
Mortgage banking short positions	274	-	274	-	326
Total assets at fair value	$ 469,676	$ -	$ 469,676	$ -	$ (2,271)
LIABILITIES					
Commitments to sell mortgage loans	$ -	$ -	$ -	$ -	$ -
Mortgage banking short positions	-	-	-	-	-
Total liabilities at fair value	$ -	$ -	$ -	$ -	$ -

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, 2014				Three Months Ended March 31, 2014
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 8,069	$ -	$ 8,069	$ -	$ 67
Other real estate(2)	1,056	-	1,056	-	-
Total	$ 9,125	$ -	$ 9,125	$ -	$ 67

	Carrying Value at December 31, 2013				Twelve Months Ended December 31, 2013
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 3,596	$ -	$ 3,596	$ -	$ 140
Other real estate(2)	1,056	-	1,056	-	22
Total	$ 4,652	$ -	$ 4,652	$ -	$ 162

(1) Represents the carrying value and related write-downs of loans based on the appraised value of the collateral.
(2) Represents the fair value of the collateral less estimated selling costs and is based upon appraised values.

At the beginning of the period, 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 period.

NOTE 11 – Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	March 31, 2014		December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 101,591	$ 101,591	$ 18,871	$ 18,871
Investment securities available for sale	Level 2	437,893	437,893	435,719	435,719
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,817	2,817	2,729	2,729
Loans held for sale-mortgage banking	Level 2	27,414	27,414	32,870	32,870
Commitments to originate mortgage loans	Level 2	1,360	1,360	706	706
Commitments to sell mortgage loans	Level 2	26	26	107	107
Mortgage banking short positions	Level 2	57	57	274	274
Loans and leases held for investment, net	Level 2	314,325	314,554	308,081	308,932
Accrued interest receivable	Level 2	3,127	3,127	3,554	3,554
		$ 888,610	$ 888,839	$ 802,911	$ 803,762
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 200,797	$ 200,797	$ 141,788	$ 141,788
Deposits, interest-bearing	Level 2	602,065	601,580	581,441	583,626
Borrowings and advances	Level 2	23,178	23,178	19,967	19,967
Accrued interest payable	Level 2	519	519	771	771
Accrued expenses	Level 2	5,109	5,109	6,307	6,307
Commitments to sell mortgage loans	Level 2	-	-	-	-
Mortgage banking short positions	Level 2	-	-	-	-
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	22,433	16,541	22,432	16,908
		$ 854,101	$ 847,724	$ 772,706	$ 769,367
Net Fair Value of Financial Instruments			$ 41,115		$ 34,395
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 203	$ -	$ 254
Standby and commercial letters of credit	Level 2	$ -	$ 11	$ -	$ 14

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For purposes of Items 2 and 3 of this report, we refer to (we), (our) 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.; and (the Bank) when referring only to BNC National Bank.

Comparison of Results for the Three Months Ended March 31, 2014 and 2013

Summary for the Three Months Ended March 31, 2014 and 2013

Net income was $1.792 million and the net income available to common shareholders was $1.420 million, or $0.41 per share on a diluted basis, for the quarter ended March 31, 2014. This compared to net income of $3.785 million and net income available to common shareholders of $3.461 million, or $1.00 per diluted share, in the first quarter of 2013.

Net interest income for the first quarter of 2014 was $6.205 million, an increase of $1.572 million, or 33.9%, from $4.633 million in the same period of 2013. The net interest margin for the current period increased to 3.20% from 2.61%. Net interest income growth was fueled by increased deposits invested in loans held for investment and investment securities available for sale. Interest expense decreased despite substantial deposit growth as the Company was able to lower the rates paid on deposits.

Total loans held for investment increased by $41.2 million, or 14.6%, from March 31, 2013 and $6.3 million, or 2.0%, from December 31, 2013. This growth resulted from strategies to increase loans held for investment that were instituted early in 2013.

Deposits continue to grow, primarily in North Dakota, as this region is experiencing robust economic conditions. Total deposits rose sharply by $79 million in the first quarter of 2014 compared to December 31, 2013. While this surge fueled $85 million in asset growth, we anticipate our clients will redeploy approximately $40.0 million of these funds in the second quarter of 2014.

In the first quarter of 2014, the Company had a reversal of provisions for credit losses of $200 thousand. In the first quarter of 2013, the Company's provision for credit losses was $700 thousand. The reduction of the allowance for credit losses reflects stabilized risk in our loan portfolio, strong allowance coverage of nonperforming and classified loans and net recoveries in the first quarter of 2014.

Non-interest income for the first quarter of 2014 was $4.284 million compared to $11.324 million in the first quarter of 2013, a decrease of $7.040 million, or 62.2%. The decline is primarily a result of reduced mortgage lending activity as interest rates began to rise in 2013. Bank charges and service fees remain strong, as deposits have increased, along with wealth management revenues.

Non-interest expense for the first quarter of 2014 was $8.090 million, compared to $9.397 million in the first quarter of 2013, a decrease of $1.307 million, or 13.9%. This decline is primarily due to decreased mortgage lending volume in addition to the Company proactively managing our mortgage infrastructure costs and overall cost management focus.

In the first quarter of 2014, we recorded tax expense of $807 thousand. Tax expense of $2.075 million was recognized during the first quarter of 2013. The effective tax rate has been reduced quarter to quarter from 35.41% to 31.05% by investing a portion of the investment securities available for sale in tax exempt investments.

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,								
	2014			2013			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	Averag yield or cost
Interest-earning assets									
Federal funds sold/cash equivalents	$ 18,968	$ 10	0.21%	$ 60,826	$ 26	0.17%	$ (41,858)	$ (16)	0.04%(a)
Investments - taxable	368,668	2,467	2.71%	267,711	1,341	2.03%	100,957	1,126	0.68%(b)
Investments - tax exempt	63,424	546	3.49%	38,238	282	2.99%	25,186	264	0.50%(b)
Loans held for sale – mortgage banking	24,104	229	3.85%	78,572	595	3.07%	(54,468)	(366)	0.78%(c)
Loans and leases held for investment	322,090	3,852	4.85%	285,110	3,405	4.84%	36,980	447	0.01%(d)
Allowance for loan losses	(9,949)	-		(10,066)	-		117	-	
Total interest-earning assets	$ 787,305	$ 7,104	3.66%	$ 720,391	$ 5,649	3.18%	$ 66,914	$ 1,455	0.48%
Interest-bearing liabilities									
Interest checking and money market	$ 367,932	$ 126	0.14%	$ 326,262	$ 169	0.21%	$ 41,670	$ (43)	-0.07%(e)
Savings	23,031	3	0.05%	18,323	5	0.11%	4,708	(2)	-0.06%(e)
Certificates of deposit under $100,000	122,345	359	1.19%	127,603	392	1.25%	(5,258)	(33)	-0.06%(e)
Certificates of deposit $100,000 and over	80,127	114	0.58%	79,300	150	0.77%	827	(36)	-0.19%(e)
Total interest-bearing deposits	593,435	602	0.41%	551,488	716	0.53%	41,947	(114)	-0.12%
Short-term borrowings	18,003	8	0.18%	14,826	10	0.27%	3,177	(2)	-0.09%(f)
Federal Home Loan Bank advances	1,220	1	0.33%	-	-	0.00%	1,220	1	0.33%
Subordinated debentures	22,433	288	5.21%	22,430	290	5.24%	3	(2)	-0.03%
Total borrowings	41,656	297	2.89%	37,256	300	3.27%	4,400	(3)	-0.38%
Total interest-bearing liabilities	$ 635,091	899	0.57%	$ 588,744	1,016	0.70%	$ 46,347	(117)	-0.13%
Net interest income/spread		$ 6,205	3.09%		$ 4,633	2.48%		$ 1,572	0.61%
Net interest margin			3.20%			2.61%			0.59%
Notation:									
Non-interest-bearing deposits	$ 129,037	-		$ 112,131	-		$ 16,906	-	
Total deposits	$ 722,472	$ 602	0.34%	$ 663,619	$ 716	0.44%	$ 58,853	$ (114)	-0.10%
Taxable equivalents:									
Total interest-earning assets	$ 787,305	$ 7,352	3.79%	$ 720,391	$ 5,804	3.27%	$ 66,914	$ 1,548	0.52%
Net interest income/spread	-	$ 6,453	3.22%	-	$ 4,788	2.57%	-	$ 1,665	0.65%
Net interest margin	-	-	3.32%	-	-	2.70%	-	-	0.62%

(a) Cash balances can fluctuate significantly, but we generally emphasize liquidity.
(b) Investment growth has been funded by an increase in deposits and redeployment of capital from reduced mortgage loans held for sale.
(c) Loans held for sale declined as production was reduced due to an increase in interest rates.
(d) The balance of loans held for investment has increased due to increased activity in our core market areas. Early in 2013, we implemented measures to increase our loans held for investment and continue to gain traction considering the liquidity in the market place.
(e) Total deposits can vary depending on the cash needs of our customers; our balances in these accounts have increased due to growth, primarily in North Dakota. Interest expense has declined despite significant balance growth as the Company has been able to lower the rates paid on deposits.
(f) Short term borrowings will vary depending on our customers need to use repurchase agreements.

Non-interest Income

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Increase (Decrease) $	Increase (Decrease) %	
Bank charges and service fees	$ 704	$ 617	$ 87	14 %	(a)
Wealth management revenues	389	327	62	19 %	(b)
Mortgage banking revenues	2,282	8,247	(5,965)	(72) %	(c)
Gains on sales of loans, net	240	755	(515)	(68) %	(d)
Gains on sales of securities, net	523	1,210	(687)	(57) %	(e)
Other	146	168	(22)	(13) %	
Total non-interest income	$ 4,284	$ 11,324	$ (7,040)	(62) %	

(a) These fees are growing as we continue to grow deposits and open new accounts.
(b) Wealth management revenues continue to grow as our North Dakota customers increase utilization of our wealth management services.
(c) Mortgage banking revenues have been significantly impacted by the increase in interest rates, which began in mid 2013.
(d) Gains and losses on sales will vary significantly from period to period. The secondary market for SBA loans is currently acquisitive and loans can be sold at attractive prices. The decrease is primarily due to temporary delays and we anticipate a rebound during the second quarter of 2014.
(e) Gains and losses on sales of securities will vary significantly from period to period.

Non-interest Expense

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Increase (Decrease) $	Increase (Decrease) %	
Salaries and employee benefits	$ 4,239	$ 5,035	$ (796)	(16) %	(a)
Professional services	675	969	(294)	(30) %	(b)
Data processing fees	718	720	(2)	(0) %	
Marketing and promotion	654	509	145	28 %	(c)
Occupancy	482	518	(36)	(7) %	
Regulatory costs	151	324	(173)	(53) %	(d)
Depreciation and amortization	305	305	-	- %	
Office supplies and postage	157	155	2	1 %	
Other real estate costs	12	77	(65)	(84) %	(e)
Other	697	785	(88)	(11) %	
Total non-interest expense	$ 8,090	$ 9,397	$ (1,307)	(14) %	
Efficiency ratio	77.1%	58.9%			

(a) In the first quarter of 2013 the Company recognized increased compensation costs relating to mortgage banking and incentive accruals. In the third quarter of 2013, our compensation costs and incentive accruals abated in accordance with our current business and the Company reduced operations personnel in mortgage banking. The Company is now benefiting from the reduced compensation costs.
(b) Professional services decreased in mortgage banking as our volumes decreased.
(c) Marketing costs have increased for the banking and mortgage banking operations to drive volume.
(d) The decrease is due to lower regulatory assessments.
(e) Other real estate costs will vary from period to period depending on valuation adjustments and maintenance costs on our foreclosed properties– see Note 6.

Income Taxes

In the first quarter of 2014, we recorded tax expense of $807 thousand. Tax expense of $2.075 million was recognized during the first quarter of 2013. The effective tax rate reduction, to 31.05% in 2014 compared to 35.41% in 2013, was primarily due to the impact of increased tax exempt investments made throughout 2013.

Comparison of Financial Condition at March 31, 2014 and December 31, 2013

Assets

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

	March 31, 2014	December 31, 2013	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 101,591	$ 18,871	$ 82,720	438 %	(a)
Investment securities available for sale	437,893	435,719	2,174	- %	
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	2,817	2,729	88	3 %	
Loans held for sale-mortgage banking	27,414	32,870	(5,456)	(17) %	(b)
Loans and leases held for investment	324,183	317,928	6,255	2 %	(c)
Allowance for credit losses	(9,858)	(9,847)	(11)	- %	
Other real estate, net	1,056	1,056	-	- %	
Premises and equipment, net	15,295	14,870	425	3 %	
Accrued interest receivable	3,127	3,554	(427)	(12) %	
Other assets	24,506	25,373	(867)	(3) %	
Total assets	$ 928,024	$ 843,123	$ 84,901	10 %	

(a) Cash balances can fluctuate significantly, but we generally emphasize liquidity. Balances were elevated at March 31, 2014 due to an increase in customer deposits late in the first quarter. We anticipate our clients will redeploy approximately $40 million of these funds in the second quarter of 2014.

(b) Loans held for sale declined as production was reduced by the recent increase in interest rates.

(c) The balance of loans held for investment has increased due to increased activity in our core market areas. Early in 2013, we implemented measures to increase our loans held for investment and continue to gain traction considering the liquidity in the market place.

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 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 $184.0 million as of March 31, 2014 and $222.8 million as of December 31, 2013. 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 current balances of our borrowers (dollars are in thousands):

	March 31, 2014		December 31, 2013	
North Dakota	$ 206,741	64 %	$ 206,315	65 %
Minnesota	32,699	10	32,198	10
Arizona	39,649	12	34,043	11
Other	45,108	14	45,452	14
Total gross loans held for investment	$ 324,197	100 %	$ 318,008	100 %

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

	March 31, 2014		December 31, 2013	
North Dakota	$ 213,459	66 %	$ 211,789	67 %
Arizona	49,329	15	43,750	14
California	17,567	6	18,314	6
Minnesota	16,438	5	16,372	5
Colorado	9,135	3	9,164	3
Wisconsin	5,704	2	5,787	2
Other	12,565	3	12,832	3
Total gross loans held for investment	$ 324,197	100 %	$ 318,008	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, 2014 (in thousands):

		Over 1 year through 5 years		Over 5 years		
	One year or less	Fixed Rate	Floating Rate	Fixed Rate	Floating rate	Total Loans and Leases Held for Investment
Commercial and industrial	$ 52,377	$ 33,141	$ 7,307	$ 16,667	$ 18,905	$ 128,397
Commercial real estate	13,642	11,957	13,413	14,408	48,112	101,532
SBA	1,146	174	276	1,540	16,508	19,644
Consumer	3,350	18,064	4,087	7,350	576	33,427
Land and land development	10,561	3,339	10,038	3,818	-	27,756
Construction	3,092	-	240	4,147	5,962	13,441
Total principal amount of loans	$ 84,168	$ 66,675	$ 35,361	$ 47,930	$ 90,063	$ 324,197

(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 Loan Losses

The table below presents, for the periods indicated 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. 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, 2014		December 31, 2013	
	Total Loans and Leases Held for Investment Allowance	Loans in Category as a Percentage of Total Gross Loans and Leases Held for Investment	Total Loans and Leases Held for Investment Allowance	Loans in Category as a Percentage of Total Gross Loans and Leases Held for Investment
Commercial and industrial	$ 2,167	40%	$ 2,215	42%
Commercial real estate	3,911	31%	4,041	29%
SBA	707	6%	579	6%
Consumer	482	10%	478	10%
Land and land development	2,424	9%	2,371	9%
Construction	167	4%	163	4%
Total	$ 9,858	100%	$ 9,847	100%

We have land, construction, and commercial real estate loans in our portfolio. We continue to closely monitor all loans, but particularly those in challenged industries.

Nonperforming Loans

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Twelve Months Ended December 31, 2013
Balance, beginning of period	$ 5,617	$ 10,512	$ 10,512
Additions to nonperforming	-	725	2,231
Charge-offs	(30)	(894)	(935)
Reclassified back to performing	-	-	(5,830)
Principal payment received	(549)	(73)	(337)
Transferred to repossessed assets	-	-	(24)
Transferred to other real estate owned	-	-	-
Balance, end of period	$ 5,038	$ 10,270	$ 5,617

Nonperforming Assets

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

	March 31, 2014	December 31, 2013
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ -	$ 961
Non-accrual loans	5,038	4,656
Total nonperforming loans	5,038	5,617
Other real estate, net	1,056	1,056
Total nonperforming assets	$ 6,094	$ 6,673
Allowance for credit losses	$ 9,858	$ 9,847
Ratio of total nonperforming loans to total loans	1.43%	1.60%
Ratio of total nonperforming loans to loans and leases held for investment	1.55%	1.77%
Ratio of total nonperforming assets to total assets	0.66%	0.79%
Ratio of nonperforming loans to total assets	0.54%	0.67%
Ratio of allowance for credit losses to nonperforming loans	196%	175%

Potential Problem Loans

We attempt to quantify potential problem loans with more immediate credit risk. At March 31, 2014, the Bank had $12.2 million of classified loans and $5.0 million of loans on non-accrual. This compares to $13.5 million of classified loans and $4.7 million of loans on non-accrual at December 31, 2013 and $13.8 million of classified loans and $10.2 million of loans on non-accrual at March 31, 2013. We estimate there are loans risk rated “watch list” which are not impaired aggregating $240 thousand at March 31, 2014 and $176 thousand at December 31, 2013. Also, we estimate there are loans risk rated “substandard” which are not impaired aggregating $7.2 million at March 31, 2014 and $8.1 million at December 31, 2013.

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.

Other Real Estate

See Note 6 included in the quarterly report.

Liabilities

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

Liabilities	March 31, 2014	December 31, 2013	Increase (Decrease) $	Increase (Decrease) %	
Deposits:					
Non-interest-bearing	$ 200,797	$ 141,788	$ 59,009	42 %	(a)
Interest-bearing-					
Savings, interest checking and money market	400,965	378,355	22,610	6 %	(a)
Time deposits under $100,000	121,365	123,058	(1,693)	(1) %	(a)
Time deposits $100,000 and over	79,735	80,028	(293)	- %	(a)
Short-term borrowings	23,178	19,967	3,211	16 %	(b)
Guaranteed preferred beneficial interests in Company's subordinated debentures	22,433	22,432	1	- %	
Accrued interest payable	519	771	(252)	(33) %	(c)
Accrued expenses	5,109	6,307	(1,198)	(19) %	(c)
Other liabilities	706	552	154	28 %	(d)
Total liabilities	$ 854,807	$ 773,258	$ 81,549	11 %	

(a) Total deposits have increased primarily due to growth in our North Dakota branches. Balances were elevated at March 31, 2014 due to an increase in customer deposits late in the first quarter. We anticipate our clients will redeploy approximately $40 million of these funds in the second quarter of 2014.
(b) Short term borrowings will vary depending on our customers need to use repurchase agreements.
(c) Accrued expenses decreased primarily due to annual incentive payouts distributed in the first quarter of 2014.
(d) Other liabilities increased primarily due to an increase in mortgage banking derivatives.

Mortgage Banking Obligations

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated $1.6 million at March 31, 2014 and $1.7 million at December 31, 2013. Although we sell 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 requested due to faulty representation and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the obligation, we track historical reimbursements and calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, we estimate 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, 2014	Twelve Months Ended December 31, 2013	Three Months Ended March 31, 2013
Balance, beginning of period	$ 1,679	$ 1,500	$ 1,500
Provision	83	745	202
Write offs, net	(155)	(566)	(88)
Balance, end of period	$ 1,607	$ 1,679	$ 1,614

Stockholders' Equity

Our stockholders' equity increased $3.4 million between December 31, 2013 and March 31, 2014 primarily due to earnings and changes in unrealized gains and losses in our investment portfolio and dividends on preferred stock.

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 ($330.7 million as of March 31, 2014);
2. Borrowing capacity from the FHLB ($60.2 million as of March 31, 2014); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($119.5 million as of March 31, 2014).

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.

Item 3. 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 2 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, 2014 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, 2014 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, 2014, the downward scenarios for interest rate movements is limited to -100bp but a +400bp scenario has been added. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 3.25% to 4.25% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

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

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp	+400bp
Projected 12-month net interest income	$ 22,508	$ 23,716	$ 24,074	$ 24,166	$ 24,105	$ 23,998
Dollar change from unchanged scenario	$ (1,208)	$ -	$ 358	$ 450	$ 389	$ 282
Percentage change from unchanged scenario	(5.09)%	-	1.51%	1.90%	1.64%	1.19%

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, 2014 (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, 2014. 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, 2014				
	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	$ 101,591	$ -	$ -	$ -	$ 101,591
Investment securities (a)	53,086	38,521	149,970	170,965	412,542
FRB and FHLB stock	2,817	-	-	-	2,817
Fed funds sold	-	-	-	-	-
Loans held for sale-mortgage banking, fixed rate	-	27,414	-	-	27,414
Loans held for sale-mortgage banking, floating rate	-	-	-	-	-
Loans held for investment, fixed rate	34,009	29,576	58,208	30,115	151,908
Loans held for investment, floating rate	104,454	6,833	56,709	4,279	172,275
Total interest-earning assets	$ 295,957	$ 102,344	$ 264,887	$ 205,359	$ 868,547
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 376,526	$ -	$ -	$ -	$ 376,526
Savings	24,439	-	-	-	24,439
Time deposits under $100,000	12,130	29,993	49,566	29,676	121,365
Time deposits $100,000 and over	20,903	47,394	11,063	375	79,735
Short-term borrowings	23,178	-	-	-	23,178
FHLB advances	-	-	-	-	-
Other borrowing	-	-	-	-	-
Subordinated debentures	15,000	-	-	7,433	22,433
Total interest-bearing liabilities	$ 472,176	$ 77,387	$ 60,629	$ 37,484	$ 647,676
Interest rate gap	$ (176,219)	$ 24,957	$ 204,258	$ 167,875	$ 220,871
Cumulative interest rate gap at March 31, 2014	$ (176,219)	$ (151,262)	$ 52,996	$ 220,871	
Cumulative interest rate gap to total assets	(18.99)%	(16.30)%	5.71%	23.80%	

(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, 2014 and do not contemplate any actions we might undertake in response to changes in market interest rates.

Other Information

Item 1. 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 19, 2014	By:	/s/ Timothy J. Franz
			Timothy J. Franz
			President and Chief Executive Officer
		By:	/s/ Daniel Collins
			Daniel Collins
			Chief Financial Officer