www.bnccorp.com

Annual Report '08

BNCCORP, Inc.

Corporate Profile

BNCCORP, Inc. (Pink Sheets: BNCC) operates community banking and wealth management businesses from 20 locations in Arizona, Minnesota and North Dakota. In 2008, we expanded mortgage banking operations to originate residential mortgage loans from five locations in Arizona, Iowa, Kansas and Missouri.

GREGORY K. CLEVELAND
President and Chief Executive Officer

"…we believe BNC is well-positioned to navigate turbulent times and concurrently serve our customers, community and stockholders."

To Our Stockholders, Customers, Employees and Friends:

The economic environment during the past year was one of the most challenging in decades, especially for the financial institution sector. I am pleased to report that despite nearly unprecedented market disruption, BNCCORP delivered solid results for 2008. We recorded growth in net income, in sharp contrast to the severe losses experienced by much of the nation's banking industry. More important, we strengthened our capital base as an added measure of security against the fiscal pressures that are expected to persist well into 2009, if not beyond. While no institution is immune to the global economic downturn, we believe BNC is well-positioned to navigate turbulent times and concurrently serve our customers, community and stockholders.

FINANCIAL PERFORMANCE

In 2008, BNC delivered one of its strongest performances, benefitting from our efforts in prior years to refocus on the Company's core businesses. Net income rose to $2.22 million, or $0.67 per diluted share, from $1.98 million, or $0.57 per diluted share, for 2007. The key factors contributing to our earnings from continuing operations were an increase in net interest income due to the growth in our balance sheet, higher non-interest income from mortgage banking revenues, and reduced non-interest expenses. These improvements were partly offset by a $4 million increase in the provision for loan losses resulting from the difficult credit environment.

Our total assets amounted to $861.5 million at the end of 2008, growing $161.9 million from the prior year. Loans held for investment contributed $45.2 million of this increase, as we continued to serve the needs of businesses and individuals in our marketplace through prudent and responsible lending. At the same time, the investment portfolio increased by $86.9 million year-over-year, as a result of leverage strategies designed to increase our net interest income. Total deposits reached $675.3 million at December 31, 2008, growing by $133.5 million, a $63.7 million increase in core deposits contributed significantly to deposit growth.

THE BENEFITS OF STRATEGIC TRANSFORMATION

To a major extent, our performance in 2008 was the direct outcome of our earlier efforts to restructure and reposition BNC's business. In the 2007 Annual Report, we described our strategic initiatives to sell our former insurance agency subsidiary and to use the sale proceeds to significantly increase our capital base, reduce or refinance higher-cost debt, and reinvest in higher-yielding assets. Due to this transformation, BNC now has a far stronger balance sheet, greater capacity to deliver revenue and earnings from recurring sources, and virtually no exposure to the cyclicality and seasonality of the insurance segment.

Candidly, we did not fully anticipate the global economic turmoil at the time we planned this strategic transformation. None-the-less, we were confident the transformation would make the Company's core businesses more sustainable – and our capital base stronger. These actions have positioned BNC well for the severe conditions the global economy faces today and opportunities we believe will emerge tomorrow.

CAPITAL – AND CONFIDENCE

BNC's solid capital foundation provides an important measure of assurance to customers and investors in a difficult economy, while supporting our capacity to make loans, serve our market and grow our business. The Company and its BNC National Bank subsidiary maintained strong capital ratios throughout the year and continued to exceed regulatory standards for "well-capitalized" institutions at December 31, 2008.

In January 2009, we further strengthened our capital base by becoming one of the select institutions permitted to participate in the U.S. Treasury's Capital Purchase Program. Under the program, which is available only to strong, sound community banks, the U.S. Treasury purchased shares of non-voting senior preferred stock in BNCCORP, Inc. and exercised warrants for an additional class of preferred shares. The proceeds from our participation in the program added approximately $20.1 million to our capital.

We recognize that there is uncertainty as to future conditions or restrictions that may be imposed by governmental agencies on banks that have participated in this program. However, in view of our responsibility to guard against the even greater uncertainties of the current economic climate, and the opportunity to build a more robust capital foundation, we believed it was in the best interests of our Company, our depositors and our shareholders to take part in the Treasury program.

ASSET QUALITY

In view of the weakness in economic conditions, credit risk has increased industry-wide during 2008 and is expected to remain an issue in periods beyond. Accordingly, our classified loans, non-accrual loans and other real estate owned – as well as related provisions for credit and other real estate losses – were higher in 2008 than in recent years. All of these metrics are likely to be elevated for the foreseeable future.

Due to the extremely illiquid markets for virtually every asset class, and the possibility of further declines in asset valuations, it is very likely that asset quality will continue to come under pressure. We believe this is one of the primary risks inherent in the financial system for the foreseeable future. Given these conditions, we continue to carefully monitor our asset quality while at the same time remaining committed to serving the needs of credit-worthy borrowers in our marketplace.

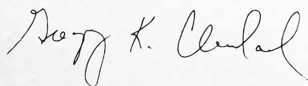
CHALLENGE – AND OPPORTUNITY

While it is easy to see challenges in the present economic environment, we also believe there will be opportunities for BNC. Our mortgage banking operations, for example, may benefit from lower interest rates. We are also seeing a return to more realistic pricing of lending products, as the marketplace now has a clearer understanding of the impact of risk on asset pricing. In the deposit area, we would expect a "flight to quality" as customers shift to better-capitalized institutions. Overall, we see the potential to gain market share from competitors that may be unable or unwilling to meet customers' needs under current business conditions.

Our view of these potential opportunities does not change the fact that the global business climate is expected to remain unforgiving in the coming year. It is not possible to predict the length or depth of the economic downturn. As a result, expectations for financial performance should remain modest for the near term. What we do know is that BNC is approaching this period from a position of strength. We have abundant capital to support our business and to enhance our ability to serve customers. We are maintaining a close watch over our asset quality and have a disciplined focus on managing expenses. Fortunately, our business is geographically diverse, with banking operations in Arizona, Minnesota and North Dakota. Weak economies is some of our markets can be offset by stability in other regions. And, we have a talented, dedicated and experienced team that is driven to deliver solid results under adverse circumstances. In summary, we are confident that the Company is positioned to withstand the harsh economic headwinds and to benefit from opportunities that may arise.

On behalf of the Board of Directors of BNC and our entire team, we want to thank our customers, shareholders and community for their support, and assure you that we remain committed to the continued strong, sound operation of BNC for the long term.

Sincerely,



GREGORY K. CLEVELAND
President and Chief Executive Officer

BNCCORP, INC.

INDEX TO YEAR END FINANCIAL REPORT

December 31, 2008

TABLE OF CONTENTS

Selected Financial Data 4

Business 7

Management's Discussion and Analysis of Financial Condition and Results of Operations 8

Quantitative and Qualitative Disclosures about Market Risk 27

Selected Financial Data

The selected consolidated financial data presented below under the captions "Income Statement Data" and "Balance Sheet Data" as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 is derived from the historical audited consolidated financial statements of the Company. The financial data below should be read in conjunction with and is qualified by the Consolidated Financial Statements and the notes thereto.

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(dollars in thousands, except share and per share data)				
Income Statement Data from Continuing Operations:					
Total interest income	$ 46,026	$ 44,241	$ 42,408	$ 37,264	$ 30,141
Total interest expense	19,215	21,994	23,606	19,718	14,146
Net interest income	26,811	22,247	18,802	17,546	15,995
Provision for credit losses	7,750	3,750	210	250	175
Non-interest income	10,395	3,853	5,138	5,823	5,235
Non-interest expense	26,501	28,147	23,075	21,859	19,924
Income tax expense (benefit)	737	(2,728)	(363)	238	(177)
Income (loss) from continuing operations	$ 2,218	$ (3,069)	$ 1,018	$ 1,022	$ 1,308
Balance Sheet Data: (at end of period)					
Total assets	$ 861,498	$ 699,591	$ 692,276	$ 740,016	$ 673,710
Investments securities available for sale	209,857	122,899	182,974	227,185	235,916
Federal Funds Sold	-	-	24,000	-	-
Federal Reserve Bank and Federal Home Loan Bank stock	5,989	4,918	5,003	5,791	7,541
Loans held for sale	13,403	-	1,669	266	25,682
Participating interests in mortgage loans	28,584	24,357	56,125	101,336	34,515
Loans and leases held for investment, net of unearned income	542,753	497,556	333,934	310,368	293,814
Allowance for credit losses	(8,751)	(6,599)	(3,370)	(3,188)	(3,335)
Total deposits	675,321	541,874	529,252	548,790	455,343
Short-term borrowings	16,844	5,365	9,709	21,416	33,697
Federal Home Loan Bank advances	84,500	61,400	62,200	82,200	97,200
Long-term borrowings	-	-	1,167	3,850	10,079
Guaranteed preferred beneficial interests in Company's subordinated debentures	23,025	23,075	22,711	22,648	22,509
Common stockholders' equity	53,947	59,730	55,602	51,612	42,596
Book value per common share outstanding	$ 16.35	$ 17.11	$ 15.44	$ 14.97	$ 14.77
Tangible book value	$ 16.23	$ 16.99	$ 7.15	$ 6.63	$ 4.42
Earnings Performance / Share Data from Continuing Operations:					
Return (loss) on average total assets	0.28%	(0.47)%	0.14%	0.14%	0.21%
Return (loss) on average common stockholders' equity	3.85%	(5.25)%	1.92%	2.14%	2.86%
Efficiency ratio	71.22%	107.85%	96.39%	93.54%	93.85%
Net interest margin	3.64%	3.81%	3.04%	2.79%	2.85%
Net interest spread	3.46%	3.31%	2.73%	2.58%	2.71%
Basic earnings (loss) per common share	$ 0.67	$ (0.89)	$ 0.29	$ 0.33	$ 0.39
Diluted earnings (loss) per common share	$ 0.67	$ (0.89)	$ 0.29	$ 0.33	$ 0.38
Average common shares outstanding	3,291,697	3,456,993	3,473,670	2,988,440	2,813,531
Average common and common equivalent shares	3,319,225	3,515,852	3,514,709	3,048,139	2,896,241
Shares outstanding at year end	3,299,163	3,491,337	3,600,467	3,447,945	2,884,876
Balance Sheet and Other Key Ratios from Continuing Operations:					
Nonperforming assets to total assets	3.84%	0.77%	0.02%	0.02%	0.09%
Nonperforming loans to loans and leases held for investment	4.22%	1.09%	0.03%	0.03%	0.17%
Net loan charge-offs to average loans and leases held for investment	(0.534)%	(0.129)%	(0.008)%	(0.130)%	(0.579)%
Allowance for credit losses to total loans	1.50%	1.26%	0.86%	0.77%	1.02%
Allowance for credit losses to total nonperforming loans	38%	122%	3,304%	2,229%	607%
Average common stockholders' equity to average total assets	7.25%	9.16%	7.87%	6.75%	6.79%

Quarterly Financial Data

	2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
Interest income	$ 11,385	$ 11,496	$ 11,694	$ 11,451	$ 46,026
Interest expense	5,113	4,731	4,884	4,487	19,215
Net interest income	6,272	6,765	6,810	6,964	26,811
Provision for credit losses	800	2,000	1,800	3,150	7,750
Net interest income after provision for credit losses	5,472	4,765	5,010	3,814	19,061
Non-interest income	2,300	3,358	2,409	2,328	10,395
Non-interest expense	5,739	7,078	6,875	6,809	26,501
Income (loss) from continuing operations before income taxes	2,033	1,045	544	(667)	2,955
Income tax expense (benefit)	671	345	39	(318)	737
Income (loss) from continuing operations	1,362	700	505	(349)	2,218
Discontinued operations:					
Income from discontinued insurance segment	-	-	-	-	-
Income tax expense	-	-	-	-	-
Income from discontinued operations		-			
Net income (loss)	$ 1,362	$ 700	$ 505	$ (349)	$ 2,218
Basic earnings per common share:					
Income (loss) from continuing operations	$ 0.40	$ 0.22	$ 0.16	$ (0.11)	$ 0.67
Income from discontinued insurance segment, net of income taxes	0.00	0.00	0.00	0.00	0.00
Basic earnings (loss) per common share	$ 0.40	$ 0.22	$ 0.16	$ (0.11)	$ 0.67
Diluted earnings per common share:					
Income (loss) from continuing operations	$ 0.39	$ 0.21	$ 0.15	$ (0.11)	$ 0.67
Income from discontinued insurance segment, net of income taxes	0.00	0.00	0.00	0.00	0.00
Diluted earnings (loss) per common share	$ 0.39	$ 0.21	$ 0.15	$ (0.11)	$ 0.67
Average common shares:					
Basic	3,407,821	3,248,101	3,243,388	3,233,740	3,291,697
Diluted	3,449,481	3,294,559	3,261,945	3,237,177	3,319,225

	2007				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
Interest income	$ 10,875	$ 11,133	$ 10,988	$ 11,245	$ 44,241
Interest expense	6,076	5,773	5,047	5,098	21,994
Net interest income	4,799	5,360	5,941	6,147	22,247
Provision for credit losses	250	700	2,800	-	3,750
Net interest income after provision for credit losses	4,549	4,660	3,141	6,147	18,497
Non-interest income (loss)	1,697	(284)	310	2,130	3,853
Non-interest expense	5,986	7,739	6,859	7,563	28,147
Income (loss) from continuing operations before income taxes	260	(3,363)	(3,408)	714	(5,797)
Income tax expense (benefit)	(1)	(1,386)	(1,345)	4	(2,728)
Income (loss) from continuing operations	261	(1,977)	(2,063)	710	(3,069)
Discontinued operations:					
Income from discontinued insurance segment, (including a gain on sale of $6,083 for the second, third and fourth quarters)	2,070	6,084	(12)	(26)	8,116
Income tax expense (benefit)	774	2,280	62	(49)	3,067
Income (loss) from discontinued operations	1,296	3,804	(74)	23	5,049
Net income (loss)	$ 1,557	$ 1,827	$ (2,137)	$ 733	$ 1,980
Basic earnings per common share:					
Income (loss) from continuing operations	$ 0.06	$ (0.56)	$ (0.60)	$ 0.21	$ (0.89)
Income (loss) from discontinued insurance segment, net of income taxes	0.40	1.08	(0.02)	-	1.46
Basic earnings (loss) per common share	$ 0.46	$ 0.52	$ (0.62)	$ 0.21	$ 0.57
Diluted earnings per common share:					
Income (loss) from continuing operations	$ 0.07	$ (0.56)	$ (0.60)	$ 0.20	$ (0.89)
Income (loss) from discontinued insurance segment, net of income taxes	0.39	1.08	(0.02)	0.01	1.46
Diluted earnings (loss) per common share	$ 0.46	$ 0.52	$ (0.62)	$ 0.21	$ 0.57
Average common shares:					
Basic	3,500,810	3,501,544	3,414,670	3,439,571	3,456,993
Diluted	3,555,984	3,573,181	3,475,599	3,487,268	3,515,852

Business

General

BNCCORP, Inc. (BNCCORP or the Company) is a bank holding company registered under the Bank Holding Company Act of 1956 headquartered in Bismarck, North Dakota. It is the parent company of BNC National Bank (the Bank). The Company operates community banking and wealth management businesses from 20 locations in Arizona, Minnesota and North Dakota. In 2008, we expanded mortgage banking operations to originate residential mortgage loans from five locations in Arizona, Iowa, Kansas and Missouri.

During 2007 we sold substantially all of the assets of BNC Insurance, Inc, our insurance agency. The proceeds from the sale were primarily used to fortify the balance sheet and capital of the Bank.

Operating Strategy

In our banking and wealth management operations we provide relationship-based services to small and mid-sized businesses, business owners, professionals and consumers in our primary market areas of Arizona, Minnesota and North Dakota. Key elements of our operating strategy are:

- Provide individualized, high-level customer service;
- Offer diversified products and services;
- Emphasize deposit growth;
- Expand opportunistically; and
- Manage credit risk.

In 2008 we continued to execute this strategy by expanding our mortgage banking operations. We believe this expansion was opportunistic because the cost of entry in this industry was low and these operations enhanced our line of products. We are optimistic it can be expanded into markets where we have banking and wealth management operations to further synergize our business.

Current Operating Environment

The global economy is experiencing a recessionary decline in asset values. Governments throughout the world are attempting to support economies because private capital is either unable or unwilling to counteract the decline in asset values. It is not unreasonable to presume we are in a depression.

Recessionary devaluation can impact many asset classes. Cash positions can be devalued by inflation and devaluation of the dollar. Investments can be devalued by illiquidity and declines in the assets supporting the investments. Real estate loans can be devalued by declines in their collateral. Commercial business loans can be devalued when businesses suffer in a recessionary environment. Maturities of debt can be accelerated when the assets collateralizing debt devalue. Devaluation of our assets, or assets collateralizing our loans, could adversely impact earnings and regulatory capital.

Our business is significantly influenced by asset values. Maintaining sufficient capital and liquidity is essential to survival of all businesses, including BNCCORP.

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

Overview

The following table summarizes net income (loss) and basic and diluted earnings (loss) per share for the year ended December 31 (dollars are in thousands):

	2008	2007
Net income (loss) attributable to continuing operations	$ 2,218	$ (3,069)
Net income attributable to discontinued operations	-	5,049
Net income attributable to common shareholders	$ 2,218	$ 1,980
Net income per share		
Basic earnings (loss) per share from continuing operations	$ 0.67	$ (0.89)
Basic earnings per share from discontinued operations	$ -	$ 1.46
Basic earnings per share	$ 0.67	$ 0.57
Diluted earnings (loss) per share from continuing operations	$ 0.67	$ (0.89)
Diluted earnings per share from discontinued operations	$ -	$ 1.46
Diluted earnings per share	$ 0.67	$ 0.57

Highlights. The following information highlights key developments in 2008:

- Assets increased by $161.9 million, or 23.1%, from $699.6 million to $861.5 million;
- Investment securities increased by $86.9 million as a result of leverage strategies implemented to increase net interest income;
- Loans held for investment increased $45.2 million primarily due to organic growth;
- Nonperforming assets increased significantly, including other real estate owned which increased by $10.2 million due to foreclosures;
- Total deposits increased by $133.5 million to $675.3 million;
- Core deposits increased $63.7 million to $575.6 million;
- Wholesale deposits increased by $69.7 million as proceeds were used to fund purchases of investment securities;
- Net interest income increased approximately 21% to $26.811 million;
- Provisions for credit losses increased by $4 million to $7.750 million;
- Non-interest income increased significantly to $10.4 million; and
- Non-interest expenses decreased by 5.85 % to $26.501 million.

Results from Continuing Operations

Net income from continuing operations in 2008 was $2.218 million, or $0.67 per diluted share, compared to a net loss of $(3.069) million, or $(0.89) per diluted share in 2007.

Net Interest Income in Continuing Operations

The following table sets forth information relating to our average balance sheet data and reflects the yield on average assets and cost of average liabilities. Such yields and costs are derived by dividing income and expense by the average balance of assets and liabilities. All average balances have been derived from monthly averages, which are indicative of daily averages (dollars are in thousands):

Analysis of Changes in Net Interest Income

	For the Year ended December 31, 2008			For the Year ended December 31, 2007			For the Year ended December 31, 2006		
	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
	(dollars in thousands)			(dollars in thousands)			(dollars in thousands)		
Assets									
Federal funds sold/interest-bearing due from	$ 95	$ 1	1.05%	$ 14,616	$ 754	5.16%	$ 42,121	$ 2,069	4.91%
Taxable investments	172,383	9,864	5.72%	124,242	6,001	4.83%	174,995	8,044	4.60%
Tax-exempt investments	16,994	839	4.94%	18,815	926	4.92%	36,249	1,644	4.54%
Loans held for sale	3,586	220	6.13%	417	-	0.00%	1,088	-	0.00%
Participating interests in mortgage loans	24,688	1,408	5.70%	27,469	2,137	7.78%	33,180	2,344	7.06%
Loans and leases held for investment	525,311	33,694	6.41%	402,616	34,423	8.55%	334,058	28,307	8.47%
Allowance for credit losses	(7,105)	-		(4,335)	-		(3,326)	-	
Total interest-earning assets	735,952	46,026	6.25%	583,840	44,241	7.58%	618,365	42,408	6.86%
Non-interest-earning assets:									
Assets from discontinued operations	-			13,344			31,129		
Cash and due from banks	10,481			12,468			15,360		
Other	47,835			41,653			40,004		
Total assets	$ 794,268			$ 651,305			$ 704,858		
Liabilities and Stockholders' Equity									
Deposits:									
Interest checking and money market accounts	$ 244,279	4,074	1.67%	$ 249,246	8,007	3.21%	$ 246,476	7,440	3.02%
Savings	9,859	33	0.33%	8,399	66	0.79%	8,398	66	0.79%
Certificates of deposit:									
Under $100,000	232,367	8,981	3.87%	149,010	7,141	4.79%	150,194	6,440	4.29%
$100,000 and over	58,378	2,011	3.44%	44,824	2,319	5.17%	54,155	2,499	4.61%
Total interest-bearing deposits	544,883	15,099	2.77%	451,479	17,533	3.88%	459,223	16,445	3.58%
Borrowings:									
Short-term borrowings	7,049	144	2.04%	8,706	398	4.57%	14,480	685	4.73%
FHLB advances	87,159	2,291	2.63%	32,991	1,915	5.80%	73,060	4,020	5.50%
Long-term borrowings	519	25	4.82%	131	11	8.40%	2,659	201	7.56%
Subordinated debentures	22,734	1,656	7.29%	22,641	2,137	9.44%	22,458	2,255	10.04%
Total interest-bearing liabilities	662,344	19,215	2.90%	515,948	21,994	4.26%	571,880	23,606	4.13%
Non-interest-bearing demand accounts	66,388			68,277			68,743		
Total deposits and interest-bearing liabilities	728,732			584,225			640,623		
Liabilities from discontinued operations	-			2,584			6,062		
Other non-interest-bearing liabilities	7,928			6,089			5,161		
Total liabilities	736,660			592,898			651,846		
Stockholders' equity	57,608			58,407			53,012		
Total liabilities and stockholders' equity	$ 794,268			$ 651,305			$ 704,858		
Net interest income		$ 26,811			$ 22,247			$ 18,802	
Net interest spread			3.35%			3.32%			2.73%
Net interest margin			3.64%			3.81%			3.04%
Ratio of average interest-earning assets to average interest-bearing liabilities	111.11%			113.16%			108.13%		

The following table illustrates the dollar amount of changes in our interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguishes between the changes related to volume and rates (changes attributable to the combined impact of volume and rate have been allocated proportionately):

	For the Years Ended December 31, 2008 Compared to 2007			For the Years Ended December 31, 2007 Compared to 2006		
	Change Due to			Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
		(in thousands)			(in thousands)	
Interest Earned on Interest-Earning Assets						
Federal funds sold/interest-bearing due from	$ (418)	$ (335)	$ (753)	$ (1,425)	$ 110	$ (1,315)
Taxable investments	2,616	1,247	3,863	(2,477)	434	(2,043)
Tax-exempt investments	(91)	4	(87)	(873)	155	(718)
Loans held for sale	97	123	220	-	-	-
Participating interests in mortgage loans	(200)	(529)	(728)	(503)	296	(207)
Loans held for investment	9,051	(9,780)	(729)	5,859	257	6,116
Total increase (decrease) in interest income	11,055	(9,270)	1,785	581	1,252	1,833
Interest Expense on Interest-Bearing Liabilities						
Interest checking and money market accounts	(157)	(3,776)	(3,933)	84	483	567
Savings	14	(47)	(33)	-	-	-
Certificates of Deposit:						
Under $100,000	2,814	(974)	1,840	(50)	751	701
$100,000 and over	2,948	(3,256)	(308)	(606)	426	(180)
Short-term borrowings	(65)	(189)	(254)	(265)	(22)	(287)
FHLB advances	565	(189)	376	(2,339)	234	(2,105)
Long-term borrowings	16	(2)	14	(215)	25	(190)
Subordinated debentures	9	(490)	(481)	19	(137)	(118)
Total increase (decrease) in interest expense	6,144	(8,923)	(2,779)	(3,372)	1,760	(1,612)
Increase (decrease) in net interest income	$ 4,911	$ (347)	$ 4,564	$ 3,953	$ (508)	$ 3,445

Net interest income was $26.811 million in 2008 compared to $22.247 million in 2007, an increase of $4.564 million or 21%. The net interest margin decreased to 3.64% for the year ended December 31, 2008, from 3.81% in 2007. The margin decreased in 2008 due to the impact of non-accrual loans and other nonperforming assets.

Interest income increased in 2008 primarily due to higher balances of investment securities and higher rates earned thereon. These increases are the result of a leverage strategy implemented to increase net interest income. Loan balances increased primarily due to organic growth. This increase partially offset the decline in interest income due to decreasing interest rates and nonaccrual loans.

Interest expense decreased in 2008 primarily because interest rates decreased significantly in 2008. Increases in the balances of deposits and borrowings partially offset the decline in rates.

Net interest income was $22.247 million in 2007 compared to $18.802 million in 2006, an increase of $3.445 million or 18.3%. The net interest margin increased to 3.81% for the year ended December 31, 2007, from 3.04% in 2006. The margin increased in 2007 as a result of transactions that restructured our balance sheet.

Interest income increased in 2007 primarily due to higher balances of loans and leases held for investment. These balances were higher due to purchases of loans aggregating $70.0 million and organic loan growth. A significant portion of loan purchases related to loan participations we had previously sold, which we were able to repurchase when our lending limit increased after the sale of BNC Insurance. The increase in interest income resulting from the increase in loans and leases held for investment was partially offset by a decrease in investment securities and Federal Funds sold. Interest rates on all of our interest earning assets were higher in 2007 than in 2006.

Interest expense decreased in 2007 primarily because of lower balances of FHLB advances which we prepaid in the middle of the year. Interest rates paid on deposits increased in 2007 compared to 2006.

Non-interest Income in Continuing Operations

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

Non-interest Income

	For the Years Ended December 31,		Increase (Decrease) 2008 – 2007		
	2008	2007	$	%	
Bank charges and service fees	$ 2,337	$ 2,010	$ 327	16 %	(a)
Wealth management revenues	2,826	2,041	785	38 %	(b)
Mortgage banking revenues	2,101	158	1,943	1,230 %	(c)
Gain on sales of commercial real estate loans	1,116	1,731	(615)	(36) %	(d)
Net gain on sale of premises and equipment	775	-	775	100 %	(e)
Net gain (loss) on sales of securities	247	(3,277)	3,524	(108) %	(f)
Other	993	1,190	(197)	(17) %	
Total non-interest income	$ 10,395	$ 3,853	$ 6,542	170 %	

(a) Reducing waived service charges was an area of focus in 2008. We also received a significant fee charged to a client for not utilizing its line of credit.
(b) We earn custodial fees for accumulating and maintaining documents related to insurance products sold by others. These transaction based services were significant in early 2008 and tapered dramatically by the end of the year.
(c) We expanded our mortgage banking operations in mid 2008.
(d) Gains on sales of commercial real estate loans can fluctuate significantly from period to period. Early in the year we had a significant amount of sales, by the end of the year these transactions had virtually ceased.
(e) In the second quarter of 2008, we sold a building previously occupied by our insurance segment.
(f) Gains and losses on sales of securities vary depending on the nature and volume of transactions. In 2007, we sold a relatively large volume of securities at a loss in order to improve net interest income in future periods.

Non-interest Expense in Continuing Operations

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

Non-interest Expense

	For the Years Ended December 31,		Increase (Decrease) 2008 – 2007		
	2008	2007	$	%	
Salaries and employee benefits	$ 14,673	$ 14,868	$ (195)	(1) %	(a)
Data processing fees	2,202	2,524	(322)	(13) %	
Occupancy	2,140	2,074	66	3 %	
Depreciation and amortization	1,375	1,697	(322)	(19) %	(b)
Marketing and promotion	1,127	703	424	60 %	(c)
Professional services	1,177	840	337	40 %	(d)
FDIC and other assessments	400	228	172	75 %	(e)
Office supplies, telephone and postage	533	499	34	7 %	
ORE expenses	515	-	515	100 %	(f)
Debt extinguishment costs	-	2,724	(2,724)	(100) %	(g)
Other	2,359	1,990	369	19 %	
Total non-interest expense	$ 26,501	$ 28,147	$ (1,646)	(6) %	
Efficiency ratio	71.22%	107.85%	(36.63)%		

(a) In 2008, compensation increased due to expanded mortgage banking operations and merit increases. Despite these increases, compensation was lower in 2008 than 2007 because we incurred a compensation charge of $1.160 million when one of the founders of the Company retired in 2007 and he was awarded retirement compensation.
(b) Depreciation and amortization declined because of properties that have been divested after the sale of our insurance segment.
(c) Marketing costs increased due to new locations, mortgage banking and promotions for depository products.
(d) Professional services increased because of legal fees associated with problem credits and services required by mortgage banking operations.
(e) FDIC assessments increased when the benefits of reduced assessments expired in the third quarter of 2008. We expect FDIC assessments to increase in future periods.
(f) ORE expenses increased concurrently with foreclosure activities.
(g) Debt extinguishment costs were incurred in 2007 when FHLB advances were prepaid and subordinated debentures were refinanced. These costs were incurred in order to improve net interest margin in future periods.

Income Tax Expense in Continuing Operations

We recorded an income tax expense of $737 thousand and an income tax benefit of $(2.728) million for the years ended December 2008 and 2007, respectively. In 2008 the effective tax rate was 24.9%. In 2007, the benefit primarily related to losses on sales of securities, debt extinguishment costs incurred, the provision for credit losses and interest earned on tax exempt securities.

Results from Discontinued Operations

Net income from discontinued operations in 2007 was $5.049 million, or $1.46 per diluted share. The 2007 discontinued operations included a pre-tax gain on sale of our former insurance segment aggregating $6.083 million. See Note 2 of the Consolidated Financial Statements for a discussion of our rationale for the sale of this segment.

Net Income in 2008 compared to 2007

Net income, which combines the results of continuing operations and discontinued operations, was $2.218 million, or $0.67 per diluted share, in 2008 compared to net income of $1.980 million, or $0.57 per diluted share, in 2007.

Financial Condition

Assets

The following table presents our assets by category as of December 31, 2008 and 2007 (dollars are in thousands):

	As of December 31,		Increase (Decrease) 2008 – 2007		
	2008	2007	$	%	
Cash and cash equivalents	$ 10,569	$ 14,856	$ (4,287)	(29) %	(a)
Investment securities available for sale	209,857	122,899	86,958	71 %	(b)
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	5,989	4,918	1,071	22 %	(c)
Loans held for sale	13,403	-	13,403	100 %	(d)
Participating interests in mortgage loans	28,584	24,357	4,227	17 %	(e)
Loans and leases held for investment, net	534,002	490,957	43,045	9 %	(f)
Other real estate owned	10,189	-	10,189	100 %	(g)
Premises and equipment, net	20,810	19,448	1,362	7 %	
Interest receivable	3,263	3,290	(27)	(1) %	
Other assets	24,832	15,294	9,538	62 %	(h)
Premises and equipment held for sale, net	-	3,572	(3,572)	(100) %	(i)
Total assets	$ 861,498	$ 699,591	$ 161,907	23 %	

(a) Cash balances can vary significantly on a daily basis.
(b) Investments increased as a result of our strategy to leverage the balance sheet in order to increase net interest income.
(c) Increases in these stocks are required when we increase utilization of FHLB advances.
(d) Loans held for sale increased after we expanded mortgage banking operations in the second quarter of 2008.
(e) Participating interests in mortgage loans are collateralized by loans held for sale by mortgage banking counterparties. These balances will vary depending on the volume of loans originated by the counterparties.
(f) Loans and leases held for investment increased due to organic growth.
(g) OREO increased due to several foreclosures in 2008.
(h) Other assets increased due to deferred tax assets, derivatives and cash surrender value of insurance products.
(i) Assets held for sale at the end of 2007 were sold in 2008.

Investment Securities Available for Sale

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

Investment Portfolio Composition

	December 31,					
	2008		2007		2006	
	Amortized cost	Estimated fair market value	Amortized cost	Estimated fair market value	Amortized cost	Estimated fair market Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 1,505	$ 1,543	$ 1,799	$ 1,784	$ 2,165	$ 2,122
U.S. government agency mortgage-backed securities issued by FNMA	2,891	2,917	3,329	3,333	8,149	8,139
Collateralized mortgage obligations guaranteed by GNMA	23,037	23,170	2,394	2,413	9,533	9,370
Collateralized mortgage obligations issued by FNMA or FHLMC	37,896	39,024	62,384	63,306	148,119	144,477
Other collateralized mortgage obligations	138,851	129,185	32,830	33,079	-	-
State and municipal bonds	13,482	14,018	17,885	18,984	17,727	18,866
Total investments	$ 217,662	$ 209,857	$ 120,621	$ 122,899	$ 185,693	$ 182,974

See Note 1 of our Consolidated Financial Statements for management's conclusion on other than temporary impairment.

The following table presents maturities for all securities available for sale (other than equity securities) and yields for all securities in our investment portfolio at December 31, 2008 (dollars are in thousands):

Investment Portfolio - Maturity and Yields

	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years		Total	
	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]
U.S. government agency mortgage-backed securities guaranteed by GNMA (2) (3)	$ -	0.00%	$ 21	4.34%	$ 1,484	5.25%	$ -	0.00%	$ 1,505	5.24%
U.S. government agency mortgage-backed securities issued by FNMA (2) (3)	-	0.00%	-	0.00%	-	0.00%	2,892	6.52%	2,891	6.52%
Collateralized mortgage obligations guaranteed by GNMA (2) (3)	-	0.00%	-	0.00%	-	0.00%	23,037	4.99%	23,037	4.99%
Collateralized mortgage obligations issued by FNMA or FHLMC (2) (3)	-	0.00%	3,212	4.74%	7,305	4.89%	27,378	5.08%	37,896	5.01%
Other collateralized mortgage obligations (2) (3)	-	0.00%	-	0.00%	26,365	5.95%	112,486	5.79%	138,851	5.82%
State and municipal bonds (2)	2,480	8.40%	3,052	7.56%	3,647	7.63%	4,303	7.16%	13,482	7.61%
Total book value of investment securities	$ 2,480	8.40%	$ 6,285	6.11%	$ 38,801	5.88%	$ 170,096	5.61%	$ 217,662	5.71%
Unrealized holding loss on securities available for sale									(7,805)	
Total investment in securities available for sale									$ 209,857	5.92%

(1) Yields include adjustments for tax-exempt income.
(2) Based on amortized cost rather than fair value.
(3) Maturities of mortgage-backed securities and collateralized obligations are based on contractual maturities. Actual maturities may vary because obligors may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2008, we had $209.9 million of available-for-sale securities in the investment portfolio compared to $122.9 and $183.0 million at December 31, 2007 and 2006, respectively.

In 2008, investment securities increased because we leveraged our balance sheet in order to increase net interest income. We have unrealized losses because credit spreads have widened for many types of investments. See Notes 1 and 4 of our Consolidated Financial Statements for a discussion of impairment assessments.

During 2007, investment securities declined because we sold approximately $59.5 million of securities to finance repayment of $62.0 million of FHLB advances. Unrealized gains in the investment portfolio have increased primarily because interest rates have declined. During 2007, $3.277 million of net losses on sales of securities were realized. We elected to incur these losses in order to improve net interest income in future periods.

At December 31, 2008, we held ten securities, other than U.S. Government Agency CMOs that exceeded 10% of stockholders' equity. The total carrying value of these ten securities was $73.2 million. A significant portion of our investment securities portfolio was pledged as collateral. (See Note 4 of our Consolidated Financial Statements for the amount of investments that serve as collateral.)

Federal Reserve Bank and Federal Home Loan Bank of Des Moines Stock

Our equity securities consisted of $1.3 million of Federal Reserve Bank ("FRB") stock as of December 31, 2008 and 2007, and $4.7 and $3.6 million of FHLB of Des Moines stock as of December 31, 2008 and 2007, respectively.

Loan Portfolio

The following table presents the composition of our loan portfolio (dollars are in thousands):

	December 31,									
	2008		2007		2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial and industrial	$ 138,671	24.6	$ 125,555	24.4	$ 100,127	25.9	$ 88,467	21.6	$ 75,460	23.2
Real estate mortgage	265,360	47.2	181,000	35.1	124,551	32.2	122,785	30.1	129,321	39.8
Real estate construction	108,713	19.3	167,345	32.5	89,619	23.2	80,296	19.7	68,967	21.2
Agricultural	22,023	3.9	17,074	3.3	14,286	3.7	12,706	3.1	13,919	4.3
Consumer/other	7,506	1.3	5,878	1.1	4,237	1.1	4,718	1.2	5,480	1.7
Participating interests in mortgage loans	28,584	5.1	24,357	4.7	56,125	14.5	101,336	24.8	34,515	10.6
Lease financing	1,287	0.2	1,815	0.4	1,800	0.5	2,131	0.5	1,540	0.5
Total principal amount of loans	572,144	101.6	523,024	101.5	390,745	101.0	412,439	101.0	329,202	101.3
Unearned income and net unamortized deferred fees and costs	(807)	(0.1)	(1,111)	(0.2)	(686)	(0.2)	(735)	(0.2)	(873)	(0.3)
Loans, net of unearned income and unamortized fees and costs	571,337	101.5	521,913	101.3	390,059	100.9	411,704	100.8	328,329	101.0
Less allowance for credit losses	(8,751)	(1.5)	(6,599)	(1.3)	(3,370)	(0.9)	(3,188)	(0.8)	(3,335)	(1.0)
Net loans	$ 562,586	100.0	$ 515,314	100.0	$ 386,689	100.0	$ 408,516	100.0	$ 324,994	100.0

Change in Loan Portfolio Composition

	As of December 31,		Increase (Decrease) 2008 – 2007		
	2008	2007	$	%	
Commercial and industrial	$ 138,671	$ 125,555	$ 13,116	10 %	(a)
Real estate mortgage	265,360	181,000	84,360	47 %	(b)
Real estate construction	108,713	167,345	(58,632)	(35) %	(b)
Agricultural	22,023	17,074	4,949	29 %	(c)
Consumer/other	7,506	5,878	1,628	28 %	
Participating interests in mortgage loans	28,584	24,357	4,227	17 %	(d)
Lease financing	1,287	1,815	(528)	(29) %	
Total principal amount of loans	572,144	523,024	49,120	9 %	
Unearned income and net unamortized deferred fees and costs	(807)	(1,111)	304	(27) %	
Loans, net of unearned income and unamortized deferred fees and costs	571,337	521,913	49,424	9 %	
Less allowance for credit losses	(8,751)	(6,599)	(2,152)	33 %	
Net loans	$ 562,586	$ 515,314	$ 47,272	9 %	

(a) The increase is partially due to higher outstanding balances with existing customers. We are also obtaining better opportunities for new loans because some of our competitors have been weakened due to the challenging economy.
(b) Real estate loans have increased and construction loans have decreased because projects under construction have been completed and reclassified between categories.
(c) The increase in agricultural loans is due to additional lending activities in North Dakota.
(d) Participating interests in mortgage loans are collateralized mortgage loans held for sale by mortgage banking counterparties. These loans will vary significantly depending on the volume of originations by the counterparties.

Loan Participations

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

The Bank generally retains the right to service the loans as well as the right to receive a portion of the interest income on the loans. Loan participations sold on a nonrecourse basis to outside financial institutions were as follows as of the dates indicated:

Loan Participations Sold

December 31,	(in thousands)
2008	$ 315,469
2007	201,776
2006	188,994
2005	183,795
2004	131,317

Concentrations of Credit
See Note 6 of our Consolidated Financial Statements for concentration of credit information.

Loan Maturities
The following table sets forth the remaining maturities of loans in each major category of our portfolio as of December 31, 2008 (in thousands):

Maturities of Loans (1)

		Over 1 year through 5 years		Over 5 years		
	One year or less	Fixed rate	Floating rate	Fixed rate	Floating rate	Total
Commercial and industrial	$ 81,218	$ 19,878	$ 10,104	$ 12,121	$ 15,350	$ 138,671
Real estate mortgage	71,320	63,381	64,534	30,157	35,968	265,360
Real estate construction	60,598	2,341	37,296	105	8,373	108,713
Agricultural	12,395	6,664	390	1,546	1,028	22,023
Consumer/other	3,170	2,796	670	203	667	7,506
Participating interests in mortgage loans	28,584	906	-	-	-	28,584
Lease financing	381	-	-	-		1,287
Total principal amount of loans	$ 257,666	$ 95,966	$ 112,994	$ 44,132	$ 61,386	$ 572,144

(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.

Provision for Credit Losses
We provide for credit losses to maintain our allowance for credit losses at a level considered adequate for estimated probable losses in the loan and lease portfolio as of each balance sheet date. The provision for credit losses for the year ended December 31, 2008 was $7.750 million as compared to $3.750 million in 2007. The provision for loan losses increased in 2008 due to loan growth, an increase in nonperforming loans and deteriorating economic conditions.

Allowance for Credit Losses
Credit risk is the risk of loss from a customer default. We have in place a process to identify and manage our credit risk. The process includes initial credit review and approval, periodic monitoring to measure compliance with credit agreements and internal credit policies, internal credit review, monitoring changes in the risk ratings of loans and leases, identification of problem loans and leases and special procedures for collection of problem loans and leases. The risk of loss is difficult to estimate and is subject to fluctuations in values, general economic conditions and other factors. The determination of the allowance for credit losses is a critical accounting policy, which involves estimates and our judgment on a number of factors such as net charge-offs, delinquencies in the loan and lease portfolio and general and economic conditions.

The following table summarizes activity in the allowance for credit losses and certain ratios:

Analysis of Allowance for Credit Losses

(dollars are in thousands)	For the Years ended December 31,				
	2008	2007	2006	2005	2004
Balance of allowance for credit losses, beginning of period	$ 6,599	$ 3,370	$ 3,188	$ 3,335	$ 4,763
Charge-offs:					
Commercial and industrial	738	1,504	19	534	1,578
Real estate mortgage	426	500	-	24	-
Real estate construction	4,529	-	-	-	-
Agricultural	-	-	-	-	97
Consumer/other	253	123	32	31	208
Lease financing	-	-	-	-	--
Total charge-offs	5,946	2,127	51	589	1,883
Recoveries:					
Commercial and industrial	84	1,500	3	95	141
Real estate mortgage	-	-	-	10	33
Real estate construction	196	-	-	16	-
Agricultural	-	-	-	-	-
Consumer/other	68	106	20	69	97
Lease financing	-	-	-	2	9
Total recoveries	348	1,606	23	192	280
Net charge-offs	(5,598)	(521)	(28)	(397)	(1,603)
Provision for credit losses charged to operations	7,750	3,750	210	250	175
Balance of allowance for credit losses, end of period	$ 8,751	$ 6,599	$ 3,370	$ 3,188	$ 3,335
Ratio of net charge-offs to average total loans	(0.507)%	(0.121)%	(0.008)%	(0.102)%	(0.548)%
Ratio of net charge-offs to average loans and leases held for investment	(0.534)%	(0.129)%	(0.008)%	(0.130)%	(0.579)%
Average gross loans and leases held for investment	$ 525,311	$ 402,615	$ 334,058	$ 305,073	$ 276,652
Ratio of allowance for credit losses to loans and leases held for investment	1.61%	1.33%	1.01%	1.03%	1.14%
Ratio of allowance for credit losses to total nonperforming loans	38%	122%	3,304%	2,229%	607%

The allowance for credit losses increased significantly in recent periods because of growth in the loan and lease portfolio, an increase in nonperforming assets and deteriorating economic conditions. The carrying value of non performing assets is supported by recent appraisals.

We consider the allowance for credit losses adequate to cover losses inherent in the loan and lease portfolio. However, no assurance can be given that we will not sustain loan and lease losses that are sizable in relation to the amount reserved, or that subsequent evaluations of the loan and lease portfolio will not require significant increases in the allowance for credit losses. A protracted economic slowdown and/or a decline in commercial, industrial or real estate segments may have an adverse impact on the adequacy of the allowance for credit losses by increasing credit risk and the risk of potential loss.

See Notes 1 and 7 of our Consolidated Financial Statements and “Critical Accounting Policies” for further information concerning accounting policies associated with the allowance for credit 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.

Allocation of the Allowance for Loan Losses

(dollars are in thousands)

	December 31,									
	2008		2007		2006		2005		2004	
	Amount of allowance	Loans in category as a percentage of total gross loans	Amount of allowance	Loans in category as a percentage of total gross loans	Amount of allowance	Loans in category as a percentage of total gross loans	Amount of allowance	Loans in category as a percentage of total gross loans	Amount of allowance	Loans in category as a percentage of total gross loans
Commercial and industrial	$ 1,268	24%	$ 1,410	24%	$ 1,602	26%	$ 1,632	21%	$ 1,583	23%
Real estate mortgage (a)	2,829	47%	1,956	35%	838	32%	846	30%	1,116	39%
Real estate construction (a)	4,293	19%	2,740	32%	534	23%	467	19%	379	21%
Agricultural	180	4%	276	3%	171	4%	158	3%	186	4%
Consumer/other	85	1%	112	1%	70	1%	73	1%	62	2%
Participating interests in mortgage loans	86	5%	85	5%	140	14%	-	25%	-	11%
Lease financing	10	-	20	-	15	-	12	1%	9	0%
Total	$ 8,751	100%	$ 6,599	100%	$ 3,370	100%	$ 3,188	100%	$ 3,335	100%

(a) In recent periods the portion of our allowance allocated to real estate loans increased because real estate is devaluing.

Allowance for Credit Losses; Impact on Earnings.
The allowance for credit losses is an estimate that reflects uncertain matters. Additionally, a different estimate that could have been used in the current period could have had a material impact on reported financial condition or results of operations. We are not aware of known trends, commitments, events or other uncertainties reasonably likely to occur that would materially affect our methodology or the assumptions used, although changes in qualitative and quantitative factors could occur at any time and such changes could be of a material nature. We have calculated the allowance for credit losses to provide for estimated probable losses in the loan and lease portfolio as of December 31, 2008.

From period to period, economic situations change, financial conditions of borrowers may deteriorate or improve and other factors we consider in arriving at our estimates may change. However, our basic methodology for determining an appropriate allowance for credit losses has remained relatively stable. The amount of the provision for credit losses charged to operations is directly related to our estimates of the appropriate level of the allowance for credit losses. Charge-offs and recoveries during the applicable periods also impact the level of the allowance for credit losses resulting in a provision for credit losses that could be higher or lower in order to bring the allowance for credit losses in line with our estimates.

Nonperforming Loans and Assets

The following table sets forth, as of the dates indicated, the amounts of nonperforming loans and other assets, the allowance for credit losses and certain related ratios (dollars are in thousands):

Nonperforming Assets

	December 31,				
	2008	2007	2006	2005	2004
	(dollars in thousands)				
Nonperforming loans:					
Loans 90 days or more delinquent and still accruing interest	$ 6	$ -	$ 2	$ -	$ 25
Nonaccrual loans	22,909	5,399	100	143	524
Total nonperforming loans	22,915	5,399	102	143	549
Other real estate	10,189	-	-	-	-
Total nonperforming assets	$ 33,104	$ 5,399	$ 102	$ 143	$ 549
Allowance for credit losses	$ 8,751	$ 6,599	$ 3,370	$ 3,188	$ 3,335
Ratio of total nonperforming loans to total loans	3.92%	1.03%	0.03%	0.03%	0.16%
Ratio of total nonperforming loans to loans and leases held for investment	4.22%	1.09%	0.03%	0.05%	0.19%
Ratio of total nonperforming assets to total assets	3.84%	0.77%	0.02%	0.02%	0.09%
Ratio of allowance for credit losses to nonperforming loans	38%	122%	3,304%	2,229%	607%

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

	2008
Interest income that would have been recorded	$ 1,661
Interest income recorded	1,247
Effect on interest income	$ 414

Loans 90 days or more delinquent and still accruing interest include loans over 90 days past due which we believe, based on our specific analysis of the loans, do not present doubt about the collection of interest and principal in accordance with the loan contract. Loans in this category must be well secured and in the process of collection. Our lending and management personnel monitor these loans closely.

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 of the current period. 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.

Restructured loans are those for which concessions, including a reduction of the interest rate or the deferral of interest or principal, have been granted due to the borrower's weakened financial condition. Interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur. If collection of principal and interest on restructured loans is in doubt, interest income is recognized on a cash basis. A loan that has performed in accordance with its restructured terms for one year is no longer reported as a restructured loan.

The table below summarizes the amounts of restructured loans. All of the restructured loans were also non-accrual loans.

Restructured Loans As of December 31, (in thousands)	
2008	$ 2,379
2007	2,585
2006	54
2005	91
2004	-

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

Impaired loans
See Note 6 of our Consolidated Financial Statements for impaired loans information.

Potential Problem Loans
Asset values are declining throughout most of the country. So long as this devaluation continues, virtually all real estate loans are potential problem assets.

Notwithstanding the prior paragraph, we attempt to quantify potential problem loans with more immediate credit risk. We estimate such loans totaled $13.2 million and $4.5 million at December 31, 2008 and 2007, respectively.

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.

Liabilities and Stockholders' Equity

The following table presents our liabilities and stockholders' equity of December 31, 2008 and 2007 (dollars are in thousands):

Liabilities and Stockholders' Equity

	As of December 31,		Increase (Decrease) 2008 – 2007		
	2008	2007	$	%	
Deposits:					
Non-interest-bearing	$ 68,996	$ 72,234	$ (3,238)	(4) %	(a)
Interest-bearing-					
Savings, interest checking and money market	266,851	245,722	21,129	9 %	(b)
Time deposits $100,000 and over	42,342	44,038	(1,696)	(4) %	
Other time deposits	297,132	179,880	117,252	65 %	(c)
Short-term borrowings	16,844	5,365	11,479	214 %	(d)
FHLB advances	84,500	61,400	23,100	38 %	(e)
Long-term borrowings	-	-	-	- %	
Guaranteed preferred beneficial interests in Company's subordinated debentures	23,025	23,075	(50)	- %	
Accrued interest payable	1,679	2,843	(1,164)	(41) %	
Accrued expenses	3,325	3,387	(62)	(2) %	
Other liabilities	2,857	1,917	940	49 %	
Total liabilities	807,551	639,861	167,690	26 %	
Stockholders' equity	53,947	59,730	(5,783)	(10) %	
Total liabilities and stockholders' equity	$ 861,498	$ 699,591	$ 161,907	23 %	

(a) These accounts fluctuate daily due to the cash management activities of our customers.
(b) Our customers have migrated to insured deposits as other investment vehicles have incurred losses.
(c) We used certificate of deposits to fund our investment securities as part of our leverage strategy.
(d) Short-term borrowings increased because a client has provided funds via customer repurchase agreements.
(e) FHLB advances were used to fund purchases of investments.

Deposits

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

Average Deposits and Deposits Costs

	For the Years Ended December 31,								
	2008			2007			2006		
	Average balance	Percent of deposits	Wgtd. avg. rate	Average balance	Percent of deposits	Wgtd. avg. rate	Average balance	Percent of deposits	Wgtd. avg. rate
Interest checking and MMDAs	$ 244,279	39.96%	1.67%	$ 249,246	47.95%	3.21%	$ 246,476	46.68%	3.02%
Savings deposits	9,859	1.61%	0.33%	8,399	1.62%	0.79%	8,398	1.59%	0.79%
Time deposits (CDs):									
CDs under $100,000	232,367	38.01%	3.87%	149,010	28.67%	4.79%	150,194	28.45%	4.29%
CDs $100,000 and over	58,378	9.55%	3.44%	44,824	8.62%	5.17%	54,155	10.26%	4.61%
Total time deposits	290,745	47.56%	3.78%	193,834	37.29%	4.88%	204,349	38.70%	4.37%
Total interest-bearing deposits	544,883	89.14%	2.77%	451,479	86.86%	3.88%	459,223	86.98%	3.58%
Non-interest-bearing demand deposits	66,388	10.86%	-	68,277	13.14%	-	68,743	13.02%	-
Total deposits	$ 611,271	100.00%	2.47%	$ 519,756	100.00%	3.37%	$ 527,966	100.00%	3.11%

Time deposits, in denominations of $100,000 and more, totaled $42.3 million at December 31, 2008 as compared to $44.0 million at December 31, 2007. The following table sets forth the amount and maturities of time deposits of $100,000 and more as of December 31, 2008 (in thousands):

Time Deposits of $100,000 and Over

Maturing in:	
3 months or less	$ 11,662
Over 3 months through 6 months	7,458
Over 6 months through 12 months	16,884
Over 12 months	6,338
Total	$ 42,342

Borrowed Funds

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

Short-Term Borrowings

	2008	2007	2006
Short-term borrowings outstanding at period end	$ 16,844	$ 5,365	$ 9,709
Weighted average interest rate at period end	0.88%	3.64%	4.81%
Maximum month-end balance during the period	$ 16,844	$ 15,518	$ 21,059
Average borrowings outstanding for the period	$ 7,049	$ 8,706	$ 14,480
Weighted average interest rate for the period	2.04%	4.57%	4.73%

Note 12 of our Consolidated Financial Statements summarizes the general terms of our short-term borrowings outstanding at December 31, 2008 and 2007.

FHLB advances totaled $84.5 million and $61.4 million at December 31, 2008 and 2007, respectively, while long-term borrowings totaled $0 million, for the same periods.

Notes 13 and 14 of our Consolidated Financial Statements summarize the general terms of our FHLB advances and long-term borrowings at December 31, 2008 and 2007.

Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures
See Note 15 of our Consolidated Financial Statements for a description of the subordinated debentures.

Capital Resources and Expenditures
We actively monitor compliance with regulatory capital requirements, including risk-based and leverage capital measures. Under the risk-based capital method of capital measurement, the ratio computed is dependent on the amount and composition of assets recorded on the balance sheet, and the amount and composition of off-balance-sheet items and the level of capital. Note 18 of our Consolidated Financial Statements includes a summary of the risk-based and leverage capital ratios of BNCCORP and the Bank as of December 31, 2008 and 2007.

Although there is currently no regulation requiring a minimum ratio of tangible common equity to tangible assets, the banking industry has historically used this ratio. Our ratios of tangible capital to tangible assets at December 31, 2008 are as follows:

	Actual		For Capital Adequacy		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2008						
Tangible Common Equity (to total assets):						
Consolidated	$ 53,538	6.21 %	N/A	N/A	N/A	N/A
BNC National Bank	75,573	8.77	N/A	N/A	N/A	N/A

On January 16, 2009, BNC announced that it has received net proceeds of approximately $20.1 million through the sale of shares of non-voting senior preferred stock to the U.S. Department of the Treasury under the Capital Purchase Program. The Treasury Department also received a warrant exercisable for shares of an additional class of BNCCORP, Inc. preferred stock which has an aggregate liquidation preference of approximately $1.0 million. The Treasury Department exercised this warrant at the closing of the transaction. The proceeds of the sale will further increase the Company's capital ratios and strengthen its capital position. If the Capital Purchase Program transaction had been consummated as of December 31, 2008, the pro forma capital of the Company would have been as follows:

	Actual		For Capital Adequacy		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2008						
Pro forma Capital (to total assets):						
Total Capital (to risk-weighted assets) Consolidated	$ 109,041	15.88 %	N/A	N/A	N/A	N/A
Tier 1 Capital (to risk-weighted assets) Consolidated	103,375	15.05	N/A	N/A	N/A	N/A
Tier 1 Capital (to average assets) Consolidated	103,375	12.16	N/A	N/A	N/A	N/A

Off-Balance-Sheet Arrangements

In the normal course of business, we are a party to various financial instruments with off-balance-sheet risk. These instruments include commitments to extend credit, commercial letters of credit, performance and financial standby letters of credit and interest rate swaps, caps and floors. Such instruments help us to meet the needs of our customers, manage our interest rate risk and effectuate various transactions. These instruments and commitments, which we enter into for purposes other than trading, carry varying degrees of credit, interest rate or liquidity risk in excess of the amount reflected in the consolidated balance sheets. See Notes 21 and 22 to the Consolidated Financial Statements for a detailed description of each of these instruments.

Contractual Obligations, Contingent Liabilities and Commitments

As disclosed in the Notes to the Consolidated Financial Statements, we have certain contractual obligations, contingent liabilities and commitments. At December 31, 2008, the aggregate contractual obligations (excluding bank deposits), contingent liabilities and commitments were as follows (in thousands):

	Payments due by period				
Contractual Obligations:	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
Total borrowings	$ 79,344	$ -	$ 15,000	$ 30,025	$ 124,369
Commitments to sell loans	13,832	-	-	-	13,832
Annual rental commitments under non-cancelable operating leases	1,256	2,004	742	1,560	5,562
Total	$ 94,432	$ 2,004	$ 15,742	$ 31,585	$ 143,763

	Amount of Commitment - Expiration by Period				
Other Commitments:	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
Commitments to lend	$ 105,258	$ 35,362	$ 2,770	$ 397	$ 143,787
Standby and commercial letters of credit	3,968	2,514	27	-	6,509
Total	$ 109,226	$ 37,876	$ 2,797	$ 397	$ 150,296

We are a party to transactions involving financial instruments that create risks that may or may not be reflected on a traditional balance sheet. These financial instruments can be subdivided into two categories:

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

Credit-related financial instruments, generally characterized as off-balance-sheet items, include such instruments as commitments to extend credit, commercial letters of credit and performance and financial standby letters of credit.

Liquidity Risk Management

Liquidity risk is the possibility of being unable 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, which affords it the opportunity to borrow funds in terms ranging from overnight to 10 years and beyond. 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 measured by our ability to raise cash when we need it at a reasonable cost and with a minimum of losses. 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 accessed as needed.

We measure our liquidity position on a monthly basis. Key factors that determine our liquidity are the reliability or stability of our deposit base, the pledged/non-pledged status of our investments and potential loan demand. Our liquidity management system divides the balance sheet into liquid assets and short-term liabilities that are assumed to be vulnerable to non-replacement under abnormally stringent conditions. The excess of liquid assets over short-term liabilities is measured over a 30-day planning horizon. Assumptions for short-term liabilities vulnerable to non-replacement under abnormally stringent conditions are based on a historical analysis of the month-to-month percentage changes in deposits. In addition, we subject these assumptions to stress tests to measure the degree of volatility our liquidity position could manage over the 30-day horizon. The excess of liquid assets over short-term liabilities and other key factors such as expected loan demand as well as access to other sources of liquidity such as lines with the FHLB, Federal funds and those other supplemental sources listed above are tied together to provide a measure of our liquidity. We have a targeted range of liquidity metrics and manage our operations such that these targets can be achieved. We believe that our prudent management policies and guidelines will ensure adequate levels of liquidity to fund anticipated needs of on- and off-balance-sheet items. In addition, a contingency funding policy statement identifies actions to be taken in response to an adverse liquidity event.

As of December 31, 2008, the Bank had established Federal funds purchase programs with other lending institutions, totaling $9 million. At December 31, 2008, the Bank had purchased Federal funds of $7 million under these programs leaving $2 million available. The Federal funds purchase programs, if advanced upon, mature daily with interest rates that float at the Federal funds rate.

Forward-Looking Statements

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

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

Critical Accounting Policies
Note 1 of our Consolidated Financial Statements includes a summary of our critical accounting policies and their related impact on the Company.

Quantitative and Qualitative Disclosures About Market Risk

Market risk arises from changes in interest rates, exchange rates, and commodity prices and equity prices and represents the possibility that changes in future market rates or prices will have a negative impact on 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. To date we have not conducted trading activities as a means of managing 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 "-Loan Portfolio-Interest Rate Caps and Floors" "-Borrowings-Interest Rate Caps and Floors" and Notes 1 and 17 to the 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 December 31, 2008 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month-end balance constant at its December 31, 2008 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 quarterly basis at regularly scheduled ALCO meetings. Each quarter net interest income is generally simulated for the upcoming 12-month horizon in seven interest scenarios. The scenarios generally modeled are parallel interest ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the low absolute level of interest rates as of December 31, 2008, the downward scenarios for interest rate movements is limited to -100bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected prime rate is projected to increase from 3.25% to 4.25% 12 months later. The prime rate in this example will increase 1/12th of the overall decrease of 100 basis points each month.

The net interest income simulation result for the 12-month horizon that covers the calendar year of 2008 is shown below:

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 27,984	$ 27,613	$ 27,129	$ 26,809	$ 26,483
Dollar change from unchanged scenario	$ 371	-	$ (484)	$ (804)	$ (1,130)
Percentage change from unchanged scenario	1.34%	-	(1.75)%	(2.91)%	(4.09)%
Policy guidelines (decline limited to)	(5.00)%	-	(5.00)%	(10.00)%	(15.00)%

Because one of the objectives of asset/liability management is to manage net interest income over a one-year planning horizon, policy guidelines are stated in terms of maximum potential percentage reduction in net interest income resulting from changes in interest rates over the 12-month period. It is no less important, however, to give attention to the absolute dollar level of projected net interest income over the 12-month period.

Our general policy is to limit the percentage decrease in projected net interest income to 5, 10, and 15 percent from the rates unchanged scenario for the +/- 100bp, 200bp, and 300bp interest rate ramp scenarios, respectively. When a given scenario falls outside of these limits, the ALCO reviews the circumstances surrounding the exception and, considering the level of net interest income generated in the scenario and other related factors, may approve the exception to the general policy or recommend actions aimed at bringing the respective scenario within the general limits noted above.

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 December 31, 2008 (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 December 31, 2008. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated maturity or repricing at December 31, 2008				
	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	$ -	$ -	$ -	$ -	$ -
Investment securities	19,637	47,025	90,665	52,530	209,857
FRB and FHLB stock	5,989	-	-	-	5,989
Fed Funds Sold	-	-	-	-	-
Loans held for sale, fixed rate	-	-	-	-	-
Loans held for sale, floating rate	-	41,987	-	-	41,987
Loans held for investment, fixed rate	26,571	56,674	93,271	20,439	196,955
Loans held for investment, floating rate	314,086	3,027	26,544	2,141	345,798
Total interest-earning assets	$ 366,283	$ 148,713	$ 210,480	$ 75,110	$ 800,586
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 256,091	$ -	$ -	$ -	$ 256,091
Savings	10,760	-	-	-	10,760
Time deposits under $100,000	95,417	103,273	92,985	5,456	297,131
Time deposits $100,000 and over	11,662	24,343	6,338	-	42,343
Short-term borrowings	16,844	-	-	-	16,844
FHLB advances	62,500	-	15,000	7,000	84,500
Long-term borrowings	-	-	-	-	-
Subordinated debentures	-	-	-	23,025	23,025
Total interest-bearing liabilities	$ 453,274	$ 127,616	$ 114,323	$ 35,481	$ 730,694
Interest rate gap	$ (86,991)	$ 21,097	96,157	$ 39,629	$ 69,892
Cumulative interest rate gap at December 31, 2008	$ (86,991)	$ (65,894)	$ 30,263	69,892	
Cumulative interest rate gap to total assets	(10.10)%	(7.65)%	3.51%	8.11%	

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 aggressive 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 December 31, 2008 and do not contemplate any actions we might undertake in response to changes in market interest rates.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Independent Auditors' Report	31
Consolidated Balance Sheets as of December 31, 2008 and 2007	32
Consolidated Statements of Income for the years ended December 31, 2008 and 2007	33
Consolidated Statements of Comprehensive Income for the years ended December 31, 2008 and 2007	35
Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007	36
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008 and 2007	38
Notes to Consolidated Financial Statements	39

KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Directors and Stockholders
BNCCORP, Inc.:

We have audited the accompanying consolidated balance sheets of BNCCORP, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BNCCORP, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Omaha, Nebraska
March 23, 2009

FINANCIAL INFORMATION

Financial Statements

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

ASSETS	2008	2007
CASH AND CASH EQUIVALENTS	$ 10,569	$ 14,856
INVESTMENT SECURITIES AVAILABLE FOR SALE	209,857	122,899
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	5,989	4,918
LOANS HELD FOR SALE	13,403	-
PARTICIPATING INTERESTS IN MORTGAGE LOANS	28,584	24,357
LOANS AND LEASES HELD FOR INVESTMENT	542,753	497,556
ALLOWANCE FOR CREDIT LOSSES	(8,751)	(6,599)
Net loans and leases	562,586	515,314
OTHER REAL ESTATE OWNED	10,189	-
PREMISES AND EQUIPMENT, net	20,810	19,448
INTEREST RECEIVABLE	3,263	3,290
OTHER ASSETS	24,832	15,294
PREMISES AND EQUIPMENT HELD FOR SALE, net	-	3,572
Total assets	$ 861,498	$ 699,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Noninterest-bearing	$ 68,996	$ 72,234
Interest-bearing –		
Savings, interest checking and money market	266,851	245,722
Time deposits $100,000 and over	42,342	44,038
Other time deposits	297,132	179,880
Total deposits	675,321	541,874
SHORT-TERM BORROWINGS	16,844	5,365
FEDERAL HOME LOAN BANK ADVANCES	84,500	61,400
LONG-TERM BORROWINGS	-	-
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	23,025	23,075
ACCRUED INTEREST PAYABLE	1,679	2,843
ACCRUED EXPENSES	3,325	3,387
OTHER LIABILITIES	2,857	1,917
Total liabilities	807,551	639,861
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value – 2,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $.01 par value – 10,000,000 shares authorized; 3,299,163 and 3,491,337 shares issued and outstanding	33	35
Capital surplus – common stock	26,628	26,355
Retained earnings	36,104	34,105
Treasury stock, at cost (357,738 and 150,116 shares)	(5,020)	(2,424)
Accumulated other comprehensive income (loss), net	(3,798)	1,659
Total stockholders' equity	53,947	59,730
Total liabilities and stockholders' equity	$ 861,498	$ 699,591

See accompanying notes to consolidated financial statements.

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

	2008	2007
INTEREST INCOME:		
Interest and fees on loans	$ 35,322	$ 36,560
Interest and dividends on investments		
Taxable	9,599	6,541
Tax-exempt	839	926
Dividends	266	214
Total interest income	46,026	44,241
INTEREST EXPENSE:		
Deposits	15,099	17,533
Short-term borrowings	144	398
Federal Home Loan Bank advances	2,291	1,915
Long-term borrowings	25	11
Subordinated debentures	1,656	2,137
Total interest expense	19,215	21,994
Net interest income	26,811	22,247
PROVISION FOR CREDIT LOSSES	7,750	3,750
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	19,061	18,497
NON-INTEREST INCOME:		
Bank charges and service fees	2,337	2,010
Wealth management revenues	2,826	2,041
Mortgage banking revenues	2,101	158
Gains on sales of commercial real estate loans	1,116	1,731
Gain on sales of premises and equipment	775	-
Net gain (loss) on sales of securities	247	(3,277)
Other	993	1,190
Total non-interest income	10,395	3,853
NON-INTEREST EXPENSE:		
Salaries and employee benefits	14,673	14,868
Data processing fees	2,202	2,524
Occupancy	2,140	2,074
Depreciation and amortization	1,375	1,697
Marketing and promotion	1,127	703
Professional services	1,177	840
FDIC and other assessments	400	228
Office supplies, telephone and postage	533	499
ORE expenses	515	-
Debt extinguishment costs	-	2,724
Other	2,359	1,990
Total non-interest expense	26,501	28,147
Income (loss) from continuing operations before income taxes	2,955	(5,797)
Income tax expense (benefit)	737	(2,728)
Income (loss) from continuing operations	$ 2,218	$ (3,069)

See accompanying notes to consolidated financial statements.

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

	2008	2007
Discontinued Operations:		
Income from discontinued insurance segment	$ -	$ 8,116
Income tax expense	-	3,067
Income from discontinued operations	-	5,049
NET INCOME	$ 2,218	$ 1,980
BASIC EARNINGS PER COMMON SHARE:		
Income (loss) from continuing operations	$ 0.67	$ (0.89)
Income from discontinued insurance segment, net of income taxes	-	1.46
Basic earnings per common share	$ 0.67	$ 0.57
DILUTED EARNINGS PER COMMON SHARE		
Income (loss) from continuing operations	$ 0.67	$ (0.89)
Income from discontinued insurance segment, net of income taxes	-	1.46
Diluted earnings per common share	$ 0.67	$ 0.57

See accompanying notes to consolidated financial statements.

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

	2008		2007	
NET INCOME		$ 2,218		$ 1,980
Unrealized gain on cash flow hedge, net	$ 1,332		$ 690	
Unrealized gain (loss) on securities available for sale	(9,836)		1,720	
Reclassification adjustment for (gains) losses included in net income	(247)		3,277	
Other comprehensive income (loss), before tax	(8,751)		5,687	
Income tax (expense) benefit related to items of other comprehensive income	3,294		(2,117)	
Other comprehensive income (loss)	(5,457)	(5,457)	3,570	3,570
TOTAL COMPREHENSIVE INCOME (LOSS)		$ (3,239)		$ 5,550

See accompanying notes to consolidated financial statements.

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

	2008	2007
OPERATING ACTIVITIES:		
Net income	$ 2,218	$ 1,980
Adjustments to reconcile net income to net cash provided by (used in) operating activities -		
Provision for credit losses	7,750	3,750
Depreciation and amortization	1,375	1,752
Net amortization of premiums (discounts) on investment securities and subordinated debentures	(1,164)	163
Fair value adjustment for loans held for sale	(268)	-
Share-based compensation	273	298
Change in other assets, net	(3,877)	(419)
Loss on sale of ORE	38	-
(Gain) loss on sales of bank premises and equipment, net	(775)	11
Net realized (gain) loss on sales of investment securities	(247)	3,277
Deferred income taxes	(1,158)	(1,325)
Unamortized premium related to early extinguishment of subordinated debt	-	289
Change in other liabilities, net	(138)	1,733
Originations of loans to be participated	(201,489)	(205,929)
Proceeds from participations of loans	201,489	205,929
Funding of originations of loans held for sale	(102,040)	(11,364)
Proceeds from sale of loans held for sale	88,905	13,033
Change in operating accounts of discontinued operations	-	(2,540)
Gain on sale of discontinued operations	-	(6,083)
Net cash (used in) provided by operating activities	(9,108)	4,555
INVESTING ACTIVITIES:		
Changes in federal funds sold, net	-	24,000
Purchases of investment securities	(141,821)	(71,196)
Proceeds from sales of investment securities	14,209	106,450
Proceeds from maturities of investment securities	31,981	26,379
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(8,618)	(2,817)
Sales of Federal Reserve and Federal Home Loan Bank Stock	7,547	2,902
Net (increase) decrease in participating interests in mortgage loans	(4,227)	31,768
Net increase in loans, excluding participating interests in mortgage loans	(61,511)	(164,143)
Proceeds from sales of ORE	222	-
Additions to bank premises and equipment	(2,990)	(1,889)
Proceeds from sales of bank premises and equipment	4,600	836
Proceeds from sale of insurance operations, net	-	35,204
Net cash used in investing activities	(160,608)	(12,506)

See accompanying notes to consolidated financial statements.

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

	2008	2007
FINANCING ACTIVITIES:		
Net increase in deposits	133,448	12,622
Net increase (decrease) in short-term borrowings	11,479	(4,344)
Repayments of Federal Home Loan Bank advances	(3,413,530)	(320,200)
Proceeds from Federal Home Loan Bank advances	3,436,630	319,400
Repayments of long-term borrowings	-	(16,167)
Proceeds from long-term borrowings	-	15,000
Purchases of treasury stock	(2,598)	(1,720)
Net cash provided by financing activities	165,429	4,591
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,287)	(3,360)
CASH AND CASH EQUIVALENTS, beginning of year	14,856	18,216
CASH AND CASH EQUIVALENTS, end of year	$ 10,569	$ 14,856
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 15,892	$ 21,981
Income taxes paid	$ 2,231	$ 3,367
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in settlement of loans	$ 10,717	$ -

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2008 and 2007
(In thousands, except share data)

	Preferred Stock		Common Stock		Capital Surplus Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
BALANCE, December 31, 2006	-	$ -	3,600,467	$ 36	$ 25,950	$ 32,125	$ (598)	$ (1,911)	$ 55,602
Net income	-	-	-	-	-	1,980	-	-	1,980
Other comprehensive income	-	-	-	-	-	-	-	3,570	3,570
Impact of share-based compensation	-	-	(14,348)	-	405	-	(107)	-	298
Purchase of common shares	-	-	(94,782)	(1)	-	-	(1,719)	-	(1,720)
BALANCE, December 31, 2007	-	$ -	3,491,337	$ 35	$ 26,355	$ 34,105	$ (2,424)	$ 1,659	$ 59,730
Net income	-	-	-	-	-	2,218	-	-	2,218
Other comprehensive (loss)	-	-	-	-	-	-	-	(5,457)	(5,457)
Cumulative effect of change in accounting principle related to split dollar life insurance policies	-	-	-	-	-	(219)	-	-	(219)
Impact of share-based compensation	-	-	8,152	-	273	-	-	-	273
Purchase of common shares	-	-	(200,326)	(2)	-	-	(2,596)	-	(2,598)
BALANCE, December 31, 2008	-	$ -	3,299,163	$ 33	$ 26,628	$ 36,104	$ (5,020)	$ (3,798)	$ 53,947

See accompanying notes to consolidated financial statements.

NOTE 1. Description of Business and Significant Accounting Policies

Description of Business

BNCCORP, Inc. ("BNCCORP") is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (together with its wholly owned subsidiaries, BNC Insurance Services, Inc., and BNC Asset Management, Inc., collectively the "Bank"). The Company operates community banking, and wealth management businesses in Arizona, Minnesota and North Dakota from 20 locations. BNC also conducts mortgage banking from five locations in Iowa, Kansas, Missouri and Arizona.

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

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are dependent on estimates that are particularly susceptible to significant change and include the determination of the allowance for credit losses, income taxes, other than temporary impairment and fair value. The following have been identified as "critical accounting policies".

Allowance for Credit Losses

The Bank maintains an estimate of its allowance for credit losses at a level considered adequate to provide for probable losses related to specifically identified loans as well as the remaining loan and lease portfolio that have been incurred as of each balance sheet date. The loan and lease portfolio and other credit exposures are reviewed regularly to evaluate the adequacy of the allowance for credit losses. The Bank evaluates the allowance necessary for specific nonperforming loans and also estimates losses in other credit exposures. The resultant three allowance components are as follows:

Specific Reserves. The amount of specific reserves is determined through a loan-by-loan analysis of problem loans over a minimum size. Included in problem loans are those non-accrual or renegotiated loans that meet the criteria as being "impaired" under the definition in Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan". A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Any allowance on impaired loans is generally based on one of three methods, as SFAS No. 114 requires that impaired loans be measured at either the present value of expected cash flows at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral of the loan. Problem loans also include those credits that have been internally classified as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns.

Reserves for Homogeneous Loan Pools. The Bank makes a significant number of loans and leases that, due to their underlying similar characteristics, are assessed for loss as "homogeneous" pools. Included in the homogeneous pools are consumer loans and commercial loans under a certain size which have been excluded from the specific reserve allocation as previously discussed. The Bank segments the homogeneous pools by type of loan or lease and, using historical loss information, estimates a loss reserve for each pool.

Qualitative Reserve. The Bank's senior lending management also allocates reserves for special circumstances which are unique to the measurement period. These include, among other things, prevailing trends and economic conditions in certain geographic, industry or lending segments of the portfolio; management's assessment of credit risk inherent in the loan portfolio, delinquency data; historical loss experience and peer-group loss history.

Continuous credit monitoring and analysis of loss components are the principal processes relied upon by management to determine changes in estimated credit losses are reflected in the Bank's allowance for credit losses on a timely basis. Management also considers experience of peer institutions and regulatory guidance in addition to the Bank's own experience. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require additions to the allowance based on their judgment about information available to them at the time of their examination.

Loans, leases and other extensions of credit deemed uncollectible are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. Management's estimate of the allowance for credit losses is highly dependent upon variables affecting valuation, including, appraisals of collateral, evaluations of performance and status, and the amounts and timing of future cash flows expected to be received on impaired loans. These variables are reviewed periodically. Actual losses may vary from the current estimated allowance for credit losses. The provision for credit losses is the amount necessary to adjust the allowance to the level determined appropriate through application of the above processes.

Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for credit losses that we believe is appropriate at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements and borrowers' sensitivity to quantifiable external factors that occur in a particular period.

Qualitative factors include the general economic environment in our markets and the state of certain industries in our market areas. Size and complexity of individual credits, loan structure, the extent and nature of waivers of loan policies and pace of portfolio growth are other qualitative factors that are considered in our methodology.

Our methodology is, and has been, consistently applied. However, we will enhance our methodology as circumstances dictate to keep pace with the complexity of the loan and lease portfolio. We believe that our systematic methodology is appropriate given our size and level of complexity.

Income Taxes

The Company files consolidated federal and unitary state income tax returns. Deferred income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Such differences can relate to differences in accounting for credit losses, depreciation, unrealized gains and losses on investment securities, deferred compensation and leases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

The Company adopted Financial Accounting Standards Board (FASB) Financial Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes", on January 1, 2007. FIN 48 is an interpretation of SFAS No. 109, "Accounting for Income Taxes", and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FIN 48 requires that the Company recognize in its financial statements, the impact of a tax position if that position is more likely than not of being sustained on audit based on the technical merits of the position. The adoption of FIN 48 did not have a material impact on the Company's results of operations or financial position. See Footnote 24 to these consolidated financial statements, for additional information.

Other Than Temporary Impairment
Declines in the fair value of individual available-for-sale or held-to-maturity securities below their cost, which are deemed other than temporary, could result in a charge to earnings and the corresponding establishment of a new cost basis for the security. Such write-downs would be included in non-interest income as realized losses. The Company assesses available information regarding the collectability of securities such as past events, current conditions and reasonable and supportable forecasts. Consideration is also given to a variety of factors including, but not limited to, the following:

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

Determining whether an other than temporary impairment has occurred requires management's judgment of factors that may indicate an impairment loss has incurred. There were no securities that management concluded were other than temporarily impaired in either 2008 or 2007.

Note 4 to these consolidated financial statements includes a summary of investment securities in a loss position at December 31, 2008 and a discussion concerning such securities.

Fair Value
Several accounting standards require recording assets and liabilities based on their fair values. Determining the fair value of assets and liabilities can be highly subjective.

SFAS No. 157 "Fair Value Measurements" 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.

Management assigns a level to assets and liabilities accounted for at fair value and uses the methodologies prescribed by SFAS 157 to determine fair value.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Investment Securities

Investment securities that the Bank intends to hold for indefinite periods of time as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or similar factors are classified as available for sale. Available for sale securities are carried at market value. Net unrealized gains and losses, net of deferred income taxes, on investment and mortgage-backed securities available for sale are reported as a separate component of stockholders' equity until realized (see "Comprehensive Income"). All securities, other than the securities of the Federal Reserve Bank ("FRB") and the Federal Home Loan Bank ("FHLB"), were classified as available for sale as of December 31, 2008 and 2007.

Investment securities that the Bank intends to hold until maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts using a level yield method over the period to maturity. There were no such securities as of December 31, 2008 or 2007.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income is recognized when earned. Realized gains and losses on the sale of investment securities are determined using the specific-identification method and recognized in non-interest income on the trade date.

Federal Reserve Bank and Federal Home Loan Bank of Des Moines Stock

Investments in FRB and FHLB stock are carried at cost, which approximates fair value.

Loans Held For Sale

At December 31, 2007 loans held for sale were accounted for at the lower of cost or market.

In 2008, loans held for sale were accounted for at fair value pursuant to the fair value option permitted by SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities". We elected the fair value option for loans held for sale because they are economically hedged with forward sales commitments. We expect that changes in the fair value of loans held for sale and forward sales commitments will be offsetting. Adopting SFAS No. 159 had no impact on retained earnings.

For mortgage loans held for sale carried at fair value under SFAS 159, gains and losses from the initial measurement and subsequent changes in fair value are included in mortgage banking revenue.

Participating Interests in Mortgage Loans
The Bank purchases participating interests in mortgage loans owned by mortgage banking counter-parties. The participating interests are generally outstanding for a short duration as funds are advanced to finance loans closed by the counterparties and are repaid when the counterparties sell the loans. The participating interests are stated at the aggregate amount of the loans financed by the counterparties. An allowance for losses is estimated on the participating interests and is included in the allowance for credit losses.

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

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

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

Cash receipts on impaired loans, excluding impaired loans that are on non-accrual status, are applied to principal except when the loan is well collateralized or there are other circumstances that support recognition of interest. Cash receipts on impaired loans that are on non-accrual status are applied to principal.

Loan Origination Fees and Costs; Other Lending Fees
For Loans and Leases Held for Investment, origination fees and costs incurred to extend credit are deferred and amortized over the term of the loan as an adjustment to yield using the interest method, except where the net amount is immaterial.

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

Mortgage Servicing and Transfers of Financial Assets
The Bank sells loans to others on a non-recourse basis. Sold loans are not included in the accompanying consolidated balance sheets. The Bank generally retains the right to service the loans as well as the right to receive a portion of the interest income on the loans. At December 31, 2008 and 2007, the Bank was servicing loans for the benefit of others with aggregate unpaid principal balances of $315.5 and $201.8 million, respectively. In 2008 and 2007, $285.6 million and $187.5 million, respectively of loans sold by the Bank are commercial lines of credit, or construction loans, for which balances and related payment streams cannot be reasonably estimated in order to determine the fair value of the servicing assets or liabilities and/or future interest income retained by the Bank. Upon sale, unearned net loan fees and/or costs are recognized in non-interest income and included in gains on sale of loans.

The sales of loans are accounted for pursuant to SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities".

Premises and Equipment
Land is carried at cost. Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization for financial reporting purposes is charged to operating expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are up to 40 years for buildings and three to 10 years for furniture and equipment. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvement. The costs of improvements are capitalized. Maintenance and repairs, as well as gains and losses on dispositions of premises and equipment, are included in non-interest income or expense as incurred.

Other Real Estate Owned and Repossessed Property
Real estate properties and other assets acquired through loan foreclosures are stated at the lower of carrying amount or fair value less estimated costs to sell. When an asset is acquired, the excess of the recorded investment in the asset over fair value less estimated costs to sell, if any, is charged to the allowance for credit losses. Management performs valuations periodically. Fair value is generally determined based upon appraisals of the assets involved. Subsequent declines in the estimated fair value, net operating results and gains and losses on disposition of the asset are included in other non-interest income. Operating expenses of properties are charged to ORE expense.

Impairment of Long-Lived Assets
The Company reviews long-lived assets, including property and equipment for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. If impairment is identified, the assets are written down to their fair value through a charge to non-interest expense. No such impairment losses were recorded during 2008 or 2007.

Long-Lived Assets Held for Sale
Long-lived assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell. Assets classified as long-lived assets held for sale are available for immediate sale in their present condition and are actively marketed for sale. The Company does not record depreciation expense on long-lived assets held for sale.

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

Fair Values of Financial Instruments
The Company is required to disclose the estimated fair value of financial instruments for which it is practicable to estimate fair value. Fair value estimates are subjective in nature, involving uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Non-financial instruments are excluded from fair value of financial instrument disclosure requirements. The following methods and assumptions are used by the Company in estimating fair value disclosures for its financial instruments, all of which are issued or held for purposes other than trading.

Cash and Cash Equivalents, Non-interest-Bearing Deposits and Demand Deposits. The carrying amounts approximate fair value due to the short maturity of the instruments. The fair value of deposits with no stated maturity, such as interest checking, savings and money market accounts, is equal to the amount payable on demand at the reporting date.

Investment Securities Available for Sale. The fair value of the Company's securities are 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.

Federal Reserve Bank and Federal Home Loan Bank Stock. The carrying amount of FRB and FHLB stock is their cost, which approximates fair value.

Loans Held for Sale. The fair value of the Company's loans held for sale was stated at the lower of cost or market value of the loans at December 31, 2007. In 2008 loans held for sale were accounted for at fair value pursuant to the fair value option permitted by SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities". See recently issued or adopted accounting pronouncement disclosure.

Participating Interests in Mortgage Loans, Loans and Leases Held for Investment. Fair values of these assets are estimated by discounting future cash flow payment streams using rates at which current loans to borrowers with similar credit ratings and similar loan maturities are being made.

Accrued Interest Receivable. The fair value of accrued interest receivable equals the amount receivable due to the current nature of the amounts receivable.

Derivative Financial Instruments. The fair value of the Company's derivatives are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which significant assumptions are observable in the market.

Interest-Bearing Deposits. Fair values of interest-bearing deposit liabilities are estimated by discounting future cash flow payment streams using rates at which comparable current deposits with comparable maturities are being issued. The intangible value of long-term customer relationships with depositors is not taken into account in the fair values disclosed.

Borrowings and Advances. The carrying amount of short-term borrowings approximates fair value due to the short maturity and the instruments' floating interest rates, which are tied to market conditions. The fair values of long-term borrowings are estimated by discounting future cash flow payment streams using rates at which comparable borrowings are currently being offered.

Accrued Interest Payable. The fair value of accrued interest payable equals the amount payable due to the current nature of the amounts payable.

Guaranteed Preferred Beneficial Interests In Company's Subordinated Debentures. The fair values of the Company's subordinated debentures are estimated by discounting future cash flow payment streams using discount rates estimated to reflect those at which comparable instruments could currently be offered.

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

Derivative Financial Instruments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS No. 133, the Company records all derivatives at fair value.

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

All derivative instruments that qualify for specific hedge accounting are recorded at fair value and classified either as a hedge of the fair value of a recognized asset or liability ("fair value" hedge) or as a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or a forecasted transaction ("cash flow" hedge). All relationships between hedging instruments and hedged items are formally documented, including the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the balance sheet.

Changes in the fair value of a derivative that is highly effective and designated as a fair value hedge and the offsetting changes in the fair value of the hedged item are recorded in income. Changes in the fair value of a derivative that is highly effective and designated as a cash flow hedge are recognized in other comprehensive income until income from the cash flows of the hedged item are recognized. The Company performs an assessment, both at the inception of the hedge and on a quarterly basis thereafter, to determine whether these derivatives are highly effective in offsetting changes in the value of the hedged items. Any change in fair value resulting from hedge ineffectiveness is immediately recorded in income.

Revenue Recognition
The Company recognizes revenue on an accrual basis for interest and dividend income on loans, investment securities, Federal funds sold and interest bearing cash and cash equivalent accounts. Non-interest income is recognized when it has been realized and has been earned. In accordance with existing accounting and industry standards, the Company considers revenue to be realized or realizable and earned when the following criteria have been met: persuasive evidence of an arrangement exists (generally, there is contractual documentation); delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured. Additionally, there can be no outstanding contingencies that could ultimately cause the revenue to be passed back to the payor. In instances where these criteria have not been met, receipts are deferred until such time as they can be recognized as revenue.

Earnings Per Common Share
Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Such potential dilutive instruments include stock options and contingently issuable stock. Note 25 to these consolidated financial statements includes disclosure of the Company's EPS calculations.

Comprehensive Income
Comprehensive income is the total of net income and other comprehensive income, which for the Company, is generally comprised of unrealized gains and losses on securities available for sale and unrealized gains and losses on hedging instruments qualifying for cash flow hedge accounting treatment pursuant to SFAS No. 133, as amended. The Company presents consolidated statements of comprehensive income.

Cash and Cash Equivalents
For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, cash due from banks and federal funds sold.

Share-Based Compensation
As of January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment ("FAS 123R"), which requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date.

At December 31, 2008, the Company had three stock-based employee compensation plans, which are described more fully in Note 28 to these consolidated financial statements.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

The Company adopted FIN 48, "Accounting for Uncertainty in Income Taxes" on January 1, 2007. FIN 48 is an interpretation of SFAS No. 109, "Accounting for Income Taxes", and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FIN 48 requires that the Company recognize in its financial statements, the impact of a tax position if that position is more likely than not of being sustained on audit based on the technical merits of the position. The adoption of FIN 48 did not have a material impact on the Company's results of operations or financial position. See Note 24 to these consolidated financial statements for additional information.

Emerging Issues Task Force ("EITF") 06-04, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" (EITF 06-04) requires recognition of a liability for future benefits in accordance with SFAS No. 106, "Employers Accounting for Post Retirement Benefits Other Than Pension" (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board ("APB") Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The EITF is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company adopted EITF 06-04 on January 1, 2008 and recognized a cumulative-effect adjustment to decrease retained earnings by $219,000.

SFAS No. 156, "Accounting for Servicing of Financial Assets" – an amendment of SFAS No. 140, requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset. SFAS No. 156 requires that all separately recognized servicing assets and liabilities be initially measured at fair value and permits, but does not require the subsequent measurement of servicing assets and liabilities at fair value. The provisions of SFAS No. 156 were adopted by the Company on January 1, 2007 and did not have a material impact on the Company's results of operations or financial position. The Company elected to measure the subsequent measurements of the servicing assets and liabilities using the amortization method.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about the use of fair value to measure assets and liabilities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The impact of adopting SFAS No. 157 on January 1, 2008 did not have a material impact on the Company's results of operations or financial position. In accordance with the provisions of FASB Staff Position, or FSP, No. FAS 157-2 *Effective Date of FASB Statement No. 157,* we elected to defer implementation of SFAS No. 157, as it relates to our nonfinancial assets and nonfinancial liabilities that are recognized and disclosed at fair value in our consolidated financial statements on a non-recurring basis, until January 1, 2009. We are evaluating the impact, if any, the adoption of SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities will have on our financial position, results of operations or liquidity**.**

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", including an amendment of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". This Statement permits entities to measure many financial instruments and other items at fair value and most of the provisions of the Statement apply only to entities that elect the fair value option. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The impact of adopting SFAS No. 159 on January 1, 2008 had no impact on retained earnings.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51". This Statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement applies to all for-profit entities that prepare consolidated financial statements, but affects only those entities that have an outstanding noncontrolling interest in subsidiaries or that deconsolidate a subsidiary. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years. The

impact of adopting SFAS No. 160 on January 1, 2009 had no impact on the Company's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations". This Statement replaces SFAS No. 141, "Business Combinations" and retains the fundamental requirements of SFAS No. 141 that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. This Statement established principles and requirements for how the acquirer recognizes and measures the assets acquired (including goodwill), the liabilities assumed, and any controlling interest in the acquiree. It also determines what information is to be disclosed to enable users of the financial statements to evaluate the nature and financial effect of the business combination. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133". This Statement applies to all entities and requires enhanced disclosures about an entity's derivative hedging activities including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We have not completed our analysis of the Statement but we believe the impact of adopting SFAS No. 161 on January 1, 2009 will not have a material impact on the Company's results of operations or financial position.

REGULATORY ENVIRONMENT

BNCCORP and its subsidiaries are subject to regulations of certain state and federal agencies, including periodic examinations by those regulatory agencies. BNCCORP and the Bank are also subject to minimum regulatory capital requirements. At December 31, 2008, capital levels exceeded minimum capital requirements (see Note 18 to these consolidated financial statements).

RECLASSIFICATIONS

Certain amounts in the financial statements for the prior year have been reclassified to conform to the current year's presentation. These reclassifications had no effect on net income or stockholders' equity.

NOTE 2. Acquisitions and Divestitures

On June 1, 2007, the Company completed the sale of substantially all of the assets of BNC Insurance Services, Inc. (BNC Insurance). Management considered the benefits of the sale including, but not limited to the following:

- Monetizes the value of a segment the Company had nurtured;
- Strengthens the regulatory capital of Company;
- Decreases the risk of impaired revenue due to a decline in contingency income;
- Decreases exposure to the cyclicality of the insurance business; and
- Permits replacement of a significant portion of the income generated by the agency.

The Company initiated actions related to the sale late in 2006 and reached an agreement to sell substantially all of the assets of the insurance segment in March 2007. Stockholders approved the transaction in May 2007. The gross proceeds from sale were $37.25 million and a pre-tax gain on sale of $6.083 million was recognized in the second quarter of 2007.

The financial statements of the Company report BNC Insurance in discontinued operations for all periods presented. The gain on sale is also reported in discontinued operations of the Company in 2007. Pre-tax revenues of BNC Insurance were $9.111 million in 2007.

NOTE 3. Restrictions on Cash and Cash Equivalents

The Bank is required to maintain reserve balances in cash on hand or with the FRB under the Federal Reserve Act and FRB's Regulation D required reserve balances were $25,000 as of December 31, 2008 and 2007.

NOTE 4. 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 December 31, 2008 or 2007. The carrying amount of available-for-sale securities and their approximate fair values were as follows as of December 31 (in thousands):

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 1,505	$ 39	$ (1)	$ 1,543
U.S. government agency mortgage-backed securities issued by FNMA	2,891	33	(7)	2,917
Collateralized mortgage obligations guaranteed by GNMA	23,037	177	(44)	23,170
Collateralized mortgage obligations issued by FNMA or FHLMC	37,896	1,128	-	39,024
Other collateralized mortgage obligations	138,851	233	(9,899)	129,185
State and municipal bonds	13,482	541	(5)	14,018
	$ 217,662	$ 2,151	$ (9,956)	$ 209,857

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 1,799	$ 1	$ (16)	$ 1,784
U.S. government agency mortgage-backed securities issued by FNMA	3,329	33	(29)	3,333
Collateralized mortgage obligations guaranteed by GNMA	2,394	19	-	2,413
Collateralized mortgage obligations issued by FNMA or FHLMC	62,384	933	(11)	63,306
Other collateralized mortgage obligations	32,830	312	(63)	33,079
State and municipal bonds	17,885	1,099	-	18,984
	$ 120,621	$ 2,397	$ (119)	$ 122,899

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at December 31, 2008, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,480	$ 2,527
Due after one year through five years	6,285	6,430
Due after five years through ten years	38,801	38,648
Due after ten years	170,096	162,252
Total	$ 217,662	$ 209,857

Securities carried at approximately $197.5 million and $118.3 million at December 31, 2008 and 2007, respectively, were pledged as collateral for public and trust deposits and borrowings, including borrowings from the FHLB and repurchase agreements with customers.

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

	2008	2007
Sales proceeds	$ 14,209	$ 106,450
Gross realized gains	256	-
Gross realized losses	(9)	(3,277)

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 at December 31, 2008 and 2007 (in thousands):

As of December 31, 2008	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	-	$ -	$ -	1	$ 81	$ (1)	1	$ 81	$ (1)
U.S. government agency mortgage-backed securities issued by FNMA	-	-	-	3	1,555	(7)	3	1,555	(7)
Collateralized mortgage obligations guaranteed by GNMA	2	10,402	(44)	-	-	-	2	10,402	(44)
Other collateralized mortgage obligations	26	109,322	(9,767)	1	2,490	(132)	27	111,812	(9,899)
State and municipal bonds	2	892	(5)	-	-	-	2	892	(5)
Total temporarily impaired securities	30	$ 120,616	$ (9,816)	5	$ 4,126	$ (140)	35	$ 124,742	$ (9,956)

As of December 31, 2007	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	-	$ -	$ -	3	$ 1,399	$ (16)	3	$ 1,399	$ (16)
U.S. government agency mortgage-backed securities issued by FNMA	-	-	-	5	2,194	(29)	5	2,194	(29)
Collateralized mortgage obligations issued by FNMA or FHLMC	2	514	(2)	2	2,499	(9)	4	3,013	(11)
Other collateralized mortgage obligations	3	11,704	(63)	-	-	-	3	11,704	(63)
State and municipal bonds	-	-	-	-	-	-	-	-	-
Total temporarily impaired securities	5	$ 12,218	$ (65)	10	$ 6,092	$ (54)	15	$ 18,310	$ (119)

In reaching the conclusion that the impairments disclosed in the tables above are temporary and not other-than-temporary in nature, the Company considered the nature of the securities, the associated guarantees and collateralization, the securities ratings and the level of impairment of the securities. As of December 31, 2008, there were nine U.S. government agency mortgage-backed securities with unrealized losses, four issued and guaranteed by GNMA, the other five by FNMA or FHLMC, and there were two general obligation bank-qualified, municipal bonds with underlying ratings of "A" or above.

The 27 other collateralized mortgage obligations that were in an unrealized loss position are senior tranches, backed by fixed-rate collateral generated in 2004 or earlier. All but one of these securities have been in an unrealized loss positions for less than twelve months. The weighted average amortized loan-to-value (LTV) of the collateral underlying 15 of the 27 securities in an unrealized loss position is less than 60%. The largest weighted average amortized LTV of any of the securities in an unrealized loss position is 70.4%. All but three of these securities were originally issued in 2003 or in the first half of 2004. The three securities in an unrealized loss position that were issued in 2005 are off of mortgage collateral that was originated in 2001, 2002, 2003 and 2004 and have collateral ages of 61, 63, and 79 months respectively.

All of the securities are rated investment grade by Moody’s, Standard & Poor’s, and/or Fitch. Twenty-six of the 27 securities carry “AAA” ratings by two of the three ratings agencies. None of the securities are currently “on-watch” for downgrade from their current ratings. None of the impairments were due to deterioration in credit quality that might result in the non-collection of contractual principal and interest. The cause of the impairments is, in general, attributable to changes in interest rates. Further, we have both the intent and ability to hold these impaired securities for a sufficient period of time to allow for their recovery in market value. For management’s conclusion on other than temporary impairment, please refer to the other than temporary impairment discussion in the critical accounting policies in Note 1 to these consolidated financial statements.

NOTE 5. Federal Reserve Bank and Federal Home Loan Bank of Des Moines Stock

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

	2008	2007
Federal Reserve Bank Stock, at cost	$ 1,297	$ 1,297
Federal Home Loan Bank of Des Moines Stock, at cost	4,692	3,621
Total	$ 5,989	$ 4,918

There is no contractual maturity on these investments; they represent required investments.

NOTE 6. Loans and Leases

Loan Portfolio Composition

The composition of loans and leases, including participating interests in mortgage loans, classified as we present on our regulatory reports was as follows at December 31 (in thousands):

	2008	2007
Commercial and industrial	$ 138,671	$ 125,555
Real estate:		
Mortgage	265,360	181,000
Construction	108,713	167,345
Agricultural	22,023	17,074
Consumer	6,873	5,445
Lease financing	1,287	1,815
Other	633	433
Subtotal	543,560	498,667
Participating interests in mortgage loans	28,584	24,357
Total gross loans held for investment	572,144	523,024
Unearned income and net unamortized deferred fees and costs	(807)	(1,111)
Loans, net of unearned income and unamortized fees and costs	571,337	521,913
Allowance for credit losses	(8,751)	(6,599)
Net loans and leases	$ 562,586	$ 515,314

Commercial and industrial loan borrowers are generally small and mid-sized corporations, partnerships and sole proprietors in a wide variety of businesses. Real estate loans are fixed or variable rate and include both amortizing and revolving line-of-credit loans. Real estate mortgage loans include various types of loans for which the Bank holds real property as collateral. Agricultural loans include loans to grain and/or livestock producers, agricultural real estate loans, machinery and equipment and other types of loans. Loans to consumers are both secured and unsecured. Lease financing represents credit to borrowers under direct finance lease obligations. The Bank also extends financing to lease companies, securing the loan with an assignment of lease payments and a security filing against the underlying asset of the lease. These loans are classified as lease financing but are not direct finance lease obligations.

Concentrations of Credit

The following tables summarize the location of our borrowers as of December 31 (in thousands):

	2008		2007	
Minnesota	$ 185,947	33 %	$ 193,149	37 %
North Dakota	173,509	30	154,972	30
Arizona	145,643	25	136,371	26
Other	67,045	12	38,532	7
Totals	$ 572,144	100 %	$ 523,024	100 %

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

	2008		2007	
North Dakota	$ 181,073	32 %	$ 160,506	31 %
Arizona	126,327	22	120,931	23
Minnesota	106,786	19	130,085	25
Texas	37,032	6	26,966	5
California	23,894	4	20,715	4
Kentucky	11,000	2	9,916	2
Wisconsin	10,301	2	5,573	1
Idaho	8,146	1	5,621	1
New York	7,496	1	4,155	1
Georgia	6,559	1	6,566	1
South Dakota	5,864	1	1,723	-
Arkansas	5,260	1	5,171	1
Florida	5,228	1	2,862	1
Other	37,178	7	22,234	4
Totals	$ 572,144	100 %	$ 523,024	100 %

The bank has a concentration of loans exceeding 10% of the total loan portfolio in real estate loans. Significant concentrations within the real estate portfolio as defined by the loan's purpose code as of December 31 are as follows (in thousands):

	2008		2007	
Land and land development loans	$ 61,814	11 %	$ 78,992	15 %
Construction loans	37,746	7	68,849	13
Totals	$ 99,560	18 %	$ 147,841	28 %

Construction loans include loans for which construction is complete and the loans will be either sold or refinanced to permanent loans within the following year.

Impaired Loans

As of December 31, the Bank's recorded investment in impaired loans and the related valuation allowance was as follows (in thousands):

	2008		2007	
	Recorded Investment	**Valuation Allowance**	**Recorded Investment**	**Valuation Allowance**
Impaired loans -				
Valuation allowance required	$ 17,355	$ 1,619	$ 16,397	$ 1,572
No valuation allowance required	-	-	-	-
Total impaired loans	$ 17,355	$ 1,619	$ 16,397	$ 1,572

Impaired loans generally include loans which management believes it is probable that the Bank will not be able to collect all amounts due in accordance with the terms of the loan agreement and which are analyzed for a specific reserve allowance. The Bank generally considers all loans risk-graded substandard and doubtful, as well as non-accrual and restructured loans, as impaired loans.

The valuation allowance on impaired loans is included in the Bank's allowance for credit losses. The average recorded investment in impaired loans, and approximate interest income recognized for such loans, were as follows for the years ended December 31 (in thousands):

	2008	2007
Average recorded investment in impaired loans	$ 17,917	$ 16,228
Average recorded investment in impaired loans as a percentage of average total loans	3.41%	3.26%

	Twelve Months Ended December 31, 2008	Twelve Months Ended December 31, 2007
Interest income recognized on impaired loans	$ 267	$ 159
Interest income recognized on a cash basis during the time of impairment	169	18

Loans to Related Parties

Note 23 to these consolidated financial statements includes information relating to loans to executive officers, directors, principal shareholders and associates of such persons.

Leases

The Bank extends credit to borrowers under direct finance lease obligations. The direct finance lease obligations are stated at their outstanding principal amount net of unearned income and net unamortized deferred fees and costs. At December 31, 2008, the future minimum annual lease payments for direct finance lease obligations were as follows (in thousands):

2009	$ 486
2010	258
2011	225
2012	24
2013	-
Thereafter	-
Total future minimum lease	993
Unguaranteed residual values	414
Total all payments	1,407
Unearned income	(120)
Net outstanding principal amount	$ 1,287

Loans Pledged as Collateral

Single- and multi-family residential mortgage loans totaling $12.2 and $11.7 million at December 31, 2008 and 2007, respectively, were pledged as collateral for borrowings. Commercial real estate first mortgage loans totaling $58.2 and $68.5 million at December 31, 2008 and 2007, respectively, were pledged as collateral for borrowings. Home equity lines of credit, residential second mortgage loans, and warehouse mortgage loans held for sale of $7.6 million, $7.2 million, and $10.7 million respectively as of December 31, 2008 were pledged as collateral for borrowings. No home equity lines of credit, residential second mortgage loans, and warehouse mortgage loans held for sale were pledged as collateral for borrowings as of December 31, 2007.

NOTE 7. Allowance for Credit Losses

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

	2008	2007
Balance, beginning of year	$ 6,599	$ 3,370
Provision for credit losses	7,750	3,750
Loans charged off	(5,946)	(2,127)
Loans recovered	348	1,606
Balance, end of year	$ 8,751	$ 6,599

NOTE 8. 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. The property is evaluated regularly and any decreases in the carrying amount are included in non-interest expense. ORE consisted of the following at December 31 (in thousands):

	2008	2007
Other Real Estate		
Other real estate owned	$ 10,189	$ -
Real estate in judgment	-	-
In-substance foreclosure	-	-
Total other real estate owned	$ 10,189	$ -
Allowance for other real estate losses	-	-
Total other real estate owned, net	$ 10,189	$ -

NOTE 9. Premises and Equipment, net

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

	2008	2007
Land and improvements	$ 6,692	$ 6,692
Buildings and improvements	12,914	11,108
Leasehold improvements	1,795	1,686
Furniture, fixtures and equipment	8,643	8,085
Total cost	30,044	27,571
Less accumulated depreciation and amortization	(9,234)	(8,123)
Net premises, leasehold improvements and equipment	$ 20,810	$ 19,448

Depreciation and amortization expense charged to continuing operations totaled approximately $1.4 million and $1.6 million for the years ended December 31, 2008 and 2007, respectively.

NOTE 10. Premises and Equipment Held for Sale

In October 2007 the Company entered into an exclusive listing agreement with a commercial real estate broker to sell a commercial building which was no longer needed for operating purposes. The Company sold the building in the second quarter of 2008 and recognized a gain of $832,000.

NOTE 11. Deposits

The scheduled maturities of time deposits as of December 31, 2008 are as follows (in thousands):

2009	$ 234,695
2010	54,395
2011	12,440
2012	22,305
2013	10,183
Thereafter	5,456
	$ 339,474

At December 31, 2008 and 2007, the Bank had $99.7 million and $30.0 million, respectively, of time deposits that had been acquired through a broker.

Deposits Received from Related Parties

Note 23 to these consolidated financial statements includes information relating to deposits received from executive officers, directors, principal shareholders and associates of such persons.

NOTE 12. Short-Term Borrowings

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

	2008	2007
Federal funds purchased and U. S. Treasury tax and loan retainer	$ 9,345	$ 1,876
Repurchase agreements with customers, renewable daily, interest payable monthly, rates ranging from 0.25% to 1.70% in 2008, and 3.15% to 4.00%, in 2007, secured by government agency collateralized mortgage obligations	7,499	3,489
	$ 16,844	$ 5,365

The weighted average interest rate on short-term borrowings outstanding as of December 31, 2008 and 2007 was 0.88% and 3.64% respectively.

Customer repurchase agreements are used by the Bank to acquire funds from customers where the customers are required, or desire, to have their funds supported by collateral consisting of government, government agency or other types of securities. The repurchase agreement is a promise to sell these securities to a customer at a certain price and repurchase them at a future date at that same price plus interest accrued at an agreed upon rate. The Bank uses customer repurchase agreements in its liquidity plan as well as an accommodation to customers. At December 31, 2008, $7.5 million of securities sold under repurchase agreements, with a weighted average interest rate of 1.27%, maturing in 2009, were collateralized by government agency collateralized mortgage obligations having a carrying value of $20.0 million, a market value of $20.0 million and unamortized principal balances of $19.5 million.

As of December 31, 2008, the Bank had established Federal funds purchase programs with two banks, totaling $9 million. At December 31, 2008, the Bank had purchased Federal funds of $7 million under these programs leaving $2 million available. The Federal funds purchase programs, if advanced upon, mature daily with interest rates that float at the Federal funds rate.

NOTE 13. Federal Home Loan Bank Advances

FHLB advances consisted of the following at December 31 (in thousands):

	2008		2007	
Year of Maturity	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2008	$ -	- %	$ 61,400	4.26 %
2009	62,500	0.91	-	-
2013	15,000	3.99	-	-
2015	7,000	5.16	-	-
	$ 84,500	1.81 %	$ 61,400	4.26 %

As of December 31, 2008 the Bank had $62.5 million of FHLB advances maturing in January 2009. These advances were renewed in the normal course of business. The Bank retains the option to call the $15 million advance maturing in 2013 without a prepayment penalty, on March 10, 2010 and quarterly thereafter. The Bank retains the option to call the $7 million advance maturing in 2015 without a prepayment penalty, on July 17, 2009 and quarterly thereafter.

At December 31, 2008 the advances from the FHLB were collateralized by the Bank's mortgage loans with unamortized principal balances of approximately $96 million resulting in a FHLB collateral equivalent of $59.5 million. In addition, the advances from the FHLB were collateralized by securities with unamortized principal balances of approximately $150.8 million. The Bank has the ability to draw additional advances of $109.3 million based upon the mortgage loans and securities that are currently pledged, subject to a requirement to purchase additional FHLB stock.

NOTE 14. Long-Term Borrowings

As of December 31, 2008, BNCCORP had a $20.0 million established line of credit with the Bank of North Dakota. Interest is payable quarterly at 30-day LIBOR plus 2.00%; maturity is February 15, 2010. No funds were drawn on the line as of December 31, 2008 or 2007.

NOTE 15. Guaranteed Preferred Beneficial Interest's in Company's Subordinated Debentures

In July 2007, BNCCORP established a special purpose trust, BNC Statutory Trust III, for the purpose of issuing $15.0 million of floating rate trust preferred securities. The interest rate paid on the securities is equal to three month LIBOR plus 1.40%. The interest rate at December 31, 2008 was 5.2825% and the interest rate reset on January 2, 2009 to 2.835%. The trust preferred securities mature on October 1, 2037. On or after October 1, 2012, the trust preferred securities may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to Federal Reserve Board approval.

BNC Statutory Trust III was used to refinance BNC Statutory Trust II. BNC Statutory Trust II securities had an outstanding balance of $15.0 million and we incurred a prepayment penalty of $1.189 million in 2007 when our obligation to BNC Statutory Trust II was settled.

In July 2000, BNCCORP established a special purpose trust, BNC Capital Trust I, for the purpose of issuing $7.5 million of trust preferred securities at 12.045%. The trust preferred securities are subject to mandatory redemption on July 19, 2030. On or after July 19, 2010, the trust preferred securities may be redeemed and the corresponding debentures may be prepaid at the option of BNCCORP, subject to Federal Reserve Board approval, at declining redemption prices.

BNCCORP fully and unconditionally guarantees all obligations of the special purpose trusts related to the trust preferred securities.

NOTE 16. Stockholders' Equity

BNCCORP and the Bank are subject to certain minimum capital requirements (see Note 18 to these consolidated financial statements). BNCCORP is also subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval in accordance with the Federal Reserve Act. In addition, certain 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 the Bank to pay dividends to BNCCORP in excess of the Bank's net profits from the current year plus retained net profits for the preceding two years. At December 31, 2008, approximately $961,000 of retained earnings were available for Bank dividend declaration without prior regulatory approval.

BNCCORP repurchased 200,326 shares of its common stock for $2.6 million or $13.03 per share in 2008. In 2007, the Company purchased 94,782 shares of its common stock for $1.7 million or $18.15 per share.

On May 30, 2001, BNCCORP's Board of Directors (the "Board") 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. BNCCORP has no knowledge that anyone is considering a takeover.

The rights were issued to each common stockholder of record on May 30, 2001, and they will be 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 will expire on May 30, 2011, unless redeemed or exchanged at an earlier date.

NOTE 17. Derivatives

The Company entered into an interest rate floor agreement during the first quarter of 2006. The $50.0 million prime rate interest rate floor has an effective date of January 9, 2006 and a maturity date of January 9, 2010. The floor is designated as a cash flow hedge. The terms of the floor result in the Company receiving payments when the prime interest rate is below the strike rate of 7.0%. At December 31, 2008 the prime rate was 3.25% and the Company was receiving payments under the terms of the agreement. At December 31, 2007 the prime rate was 7.25% and the Company was not entitled to receive a payment under the terms of the agreement. The floor was used to hedge the variable cash flows associated with $50.0 million of the Company's existing variable-rate loans. In 2008 we received $863,000 of payments on the floor.

At December 31, 2008, the fair value of the floor was $1.9 million, which was included in other assets. The change in unrealized gain of $1.3 million, net, during the year ended December 31, 2008, for the derivative designated as a cash flow hedge, is separately disclosed in the statement of changes in comprehensive income. There was $105,000 of hedge ineffectiveness on the cash flow hedge that was recognized during the year. The entire gain on the derivative was included in the assessment of the effectiveness.

At December 31, 2007, the fair value of the floor was $761,000, which was included in other assets. The change in unrealized gains of $690,000, net, during the year ended December 31, 2007, for the derivative designated as a cash flow hedge, is separately disclosed in the statement of changes in comprehensive income. No hedge ineffectiveness on the cash flow hedge was recognized during the year. The entire gain on the derivative was included in the assessment of the effectiveness.

In our mortgage banking operations, the Company makes commitments to originate and sell loans. Commitments to originate and commitments to sell residential loans are considered to be derivatives pursuant to SFAS No. 133.

Commitments to originate and sell residential loans are entered into concurrently in order to create economic hedges for changes in interest rates. The commitments are not formally designated as hedges. Because the commitments are derivatives, the value of the commitments is recorded at fair value.

At December 31, 2008 the fair value of commitments to originate residential loans was $429,000, which is recorded in other assets. The change in fair value of the commitment to originate loans in 2008 was $429,000, this change was recognized in the income statement.

At December 31, 2008 the fair value of the commitments to sell residential loans was $697,000, which is recorded in other liabilities. The change in fair value of the commitments to sell residential loans in 2008 was $697,000, this change was recognized in the income statement.

At December 31, 2007 commitments to originate and sell residential loans were $0 and the change in fair value of the commitment to originate loans was $0.

NOTE 18. Regulatory Capital

BNCCORP and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, BNCCORP and the 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. Capital amounts and classifications of BNCCORP and the Bank are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by the regulations to ensure capital adequacy require BNCCORP and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets.

Under current regulatory capital regulations, BNCCORP's subordinated debentures qualify as Tier 1 capital for purposes of the consolidated capital calculations up to 25% of Tier 1 capital prior to the deduction of intangible assets. The remainder of the subordinated debentures qualify as Tier 2 capital provided that the total of Tier 2 capital does not exceed Tier 1 capital. As of December 31, 2008, $19.2 million of the subordinated debentures qualified as Tier 1 capital with the remaining $3.8 million qualifying as Tier 2 capital. As of December 31, 2007, $19.4 million of the subordinated debentures qualified as Tier 1 capital with the remaining $3.7 million qualifying as Tier 2 capital.

As of December 31, 2008, the most recent notifications from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table that follows. There are no conditions or events since that notification that management believes have changed the institution's category. Actual capital amounts and ratios of BNCCORP and the Bank as of December 31 are also presented in the tables (dollars in thousands):

	Actual		For Capital Adequacy		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2008						
Total Capital (to risk-weighted assets):						
Consolidated	$ 88,949	12.95 %	$ 54,943	≥8.0 %	$ N/A	N/A
BNC National Bank	87,956	12.81	54,948	≥8.0	68,685	≥10.0 %
Tier 1 Capital (to risk-weighted assets):						
Consolidated	76,585	11.15	27,472	≥4.0	N/A	N/A
BNC National Bank	79,368	11.56	27,474	≥4.0	41,211	≥6.0
Tier 1 Capital (to average assets):						
Consolidated	76,585	9.01	33,994	≥4.0	N/A	N/A
BNC National Bank	79,368	9.34	33,982	≥4.0	42,478	≥5.0
2007						
Total Capital (to risk-weighted assets):						
Consolidated	$ 87,338	14.26 %	$ 48,991	≥8.0 %	$ N/A	N/A
BNC National Bank	87,240	14.26	48,959	≥8.0	61,199	≥10.0 %
Tier 1 Capital (to risk-weighted assets):						
Consolidated	77,021	12.58	24,496	≥4.0	N/A	N/A
BNC National Bank	80,641	13.18	24,479	≥4.0	36,719	≥6.0
Tier 1 Capital (to average assets):						
Consolidated	77,021	12.01	25,648	≥4.0	N/A	N/A
BNC National Bank	80,641	12.57	25,668	≥4.0	32,085	≥5.0

On January 16, 2009, BNC announced that it received net proceeds of approximately $20.1 million through the sale of shares of non-voting senior preferred stock to the U.S. Department of the Treasury under the Capital Purchase Program. The Treasury Department also received a warrant exercisable for shares of an additional class of BNCCORP, Inc. preferred stock which has an aggregate liquidation preference of approximately $1.0 million. The Treasury Department exercised this warrant at the closing of the transaction. The proceeds of the sale will further increase the Company's capital ratios and strengthen its capital position. See management's Discussion and Analysis for pro forma capital information.

NOTE 19. Fair Value of Financial Instruments

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

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 10,569	$ 10,569	$ 14,856	$ 14,856
Investment securities available for sale	209,857	209,857	122,899	122,899
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	5,989	5,989	4,918	4,918
Loans held for sale	13,403	13,403	-	-
Participating interests in mortgage loans	28,584	28,584	24,357	24,357
Loans and leases held for investment, net	534,002	533,008	490,957	492,251
Accrued interest receivable	3,263	3,263	3,290	3,290
Derivative financial instruments	1,896	1,896	761	761
	807,563	$ 806,569	662,038	$ 663,332
Other assets	53,935		37,553	
	$ 861,498		$ 699,591	
Liabilities and Stockholders' Equity:				
Deposits, noninterest-bearing	$ 68,996	$ 68,996	$ 72,234	$ 72,234
Deposits, interest-bearing	606,325	608,275	469,640	470,297
Borrowings and advances	101,344	101,833	66,765	66,760
Accrued interest payable	1,679	1,679	2,843	2,843
Guaranteed preferred beneficial interests in Company's subordinated debentures	23,025	12,382	23,075	20,906
	801,369	$ 793,165	634,557	$ 633,040
Other liabilities	6,182		5,304	
Stockholders' equity	53,947		59,730	
	$ 861,498		$ 699,591	
Financial instruments with off-balance-sheet risk:				
Commitments to extend credit		$ 300		$ 562
Standby and commercial letters of credit		65		91
Mortgage banking commitments to fund loans		26,343		-
Mortgage banking commitments to sell loans		13,832		-
		$ 40,540		$ 653

NOTE 20. Fair Value Measurements

The following table summarizes the financial assets and liabilities of the Company for which fair values are determined on a recurring basis as of December 31, 2008 (in thousands):

	Total	Level 1	Level 2	Level 3
ASSETS				
Securities available for sale	$ 209,857	$ -	$ 209,857	$ -
Loans held for sale	13,403	-	13,403	-
Commitments to originate mortgage loans	429	-	429	-
Interest rate floor	1,896	-	1,896	-
Total assets at fair value	$ 225,585	$ -	$ 225,585	$ -
LIABILITIES				
Commitments to sell mortgage loans	$ 697	$ -	$ 697	$ -
Total liabilities at fair value	$ 697	$ -	$ 697	$ -

Changes in the fair value of assets and liabilities determined on a recurring basis had no net impact on our Consolidated Statement of Income for the period ending December 31, 2008. See Note 1 to these consolidated financial statements for definitions of Level 1, Level 2 and Level 3 inputs.

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 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 that were still held at December 31, 2008, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios as of December 31, 2008 (in thousands):

	Carrying Value at December 31, 2008			
	Total	Level 1	Level 2	Level 3
Impaired Loans[(1)]	$ 29,340	$ -	$ 29,340	$ -
Total	$ 29,340	$ -	$ 29,340	$ -

(1) Represents the carrying value and related write-downs of loans based on the appraised value of the collateral.

NOTE 21. Financial Instruments with Off-Balance-Sheet Risk

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

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer, provided there is no violation of any condition in the contract, and are legally binding and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The contractual amount represents the Bank's exposure to credit loss in the event of default by the borrower; however, at December 31, 2008, based on current information, no losses were anticipated as a result of these commitments. The Bank manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments under contract based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment or real estate. Since the Bank expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Bank's future liquidity requirements related to such commitments.

In our mortgage banking operations we commit to extend credit for purposes of selling residential loans. We underwrite these commitments to determine if each loan meets criteria established by the secondary market for residential loans. Forward commitments represent commitments to sell loans to third party investors and are entered into in the normal course of business.

The Company's participating interests in mortgage loans is related to one counterparty relationship. As of December 31, 2008, there was a $28.6 million limit to our loan commitment with this relationship.

Standby and Commercial Letters of Credit
Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commercial letters of credit are issued on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Bank's credit loss exposure is the same as in any extension of credit, up to the letter's contractual amount. At December 31, 2008, based on current information, no losses were anticipated as a result of these commitments. Management assesses the borrower's credit to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring the Bank to fund letters of credit may not occur, the Bank expects our liquidity requirements related to such letters of credit to be less than the total outstanding commitments.

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

	2008		2007	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 46,527	$ 96,831	$ 15,497	$ 187,653
Standby and commercial letters of credit	244	6,265	273	8,859
Forward commitments	13,136	-	-	-

NOTE 22. Guarantees and Contingent Consideration

Guaranteed Preferred Beneficial Interests In Company's Subordinated Debentures
BNCCORP, concurrent with the issuance of preferred securities by BNC Capital Trust I and by BNC Statutory Trust III, fully and unconditionally guaranteed all obligations of the special purpose trusts related to the trust preferred securities (See Note 15 to these consolidated financial statements for a description of the trusts). There are no recourse provisions associated with these guarantees that would enable BNCCORP to recover from third parties any of the amounts paid under the guarantees and there are no assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantees, BNCCORP could obtain and liquidate to recover all or a portion of the amounts paid under the guarantees.

Performance and Financial Standby Letters of Credit
As of December 31, 2008 and 2007, the Bank had outstanding $4.3 million and $4.8 million of performance standby letters of credit and $30.6 million and $38.2 million of financial standby letters of credit. Performance standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to make payment on account of any default by the account party in the performance of a nonfinancial or commercial obligation. Financial standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to repay money for the account of the account party or to make payment on account of any indebtedness undertaken by the account party, in the event that the account party fails to fulfill its obligation to the beneficiary. Under these arrangements, the Bank could, in the event of the account party's nonperformance, be required to pay a maximum of the amount of issued letters of credit. The Bank has recourse against the account party up to and including the amount of the performance standby letter of credit. The Bank evaluates each account party's creditworthiness on a case-by-case basis and the amount of collateral obtained varies and is based on management's credit evaluation of the account party.

NOTE 23. Related-Party/Affiliate Transactions

The Bank has entered into transactions with related parties, such as opening deposit accounts for and extending credit to, employees of the Company. In the opinion of management, such transactions have been fair and reasonable to the Bank and have been entered into under terms and conditions substantially the same as those offered by the Bank to unrelated parties.

In the normal course of business, loans are granted to, and deposits are received from, executive officers, directors, principal stockholders and associates of such persons. The aggregate dollar amount of these loans, which exceeded $60,000, was $2.2 million and $1.9 million at December 31, 2008 and 2007, respectively. Originations in 2008 and 2007 totaled $237,000 and $1.5 million, respectively. Loan paydowns in 2008 and 2007 were $28,000 and $902,000, respectively. The total amount of deposits received from these parties was $1.1 million and $1.8 million at December 31, 2008 and 2007, respectively. Loans to, and deposits received from, these parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collection.

The Federal Reserve Act limits amounts of, and requires collateral on, extensions of credit by the Bank to BNCCORP, and with certain exceptions, its non-bank affiliates. There are also restrictions on the amounts of investment by the Bank in stocks and other subsidiaries of BNCCORP and such affiliates and restrictions on the acceptance of their securities as collateral for loans by the Bank. As of December 31, 2008, BNCCORP and its affiliates were in compliance with these requirements.

NOTE 24. Income Taxes

The expense (benefit) for income taxes on continuing operations consists of the following for the years ended December 31 (in thousands):

	2008	2007
Continuing operations:-		
Current:		
Federal	$ 1,499	$ (1,133)
State	396	(270)
	1,895	(1,403)
Deferred:		
Federal	(958)	(1,057)
State	(200)	(268)
	(1,158)	(1,325)
Total from continuing operations	$ 737	$ (2,728)

Income tax expense on discontinued operations was $3.067 million for the year ended December 31, 2007

The expense (benefit) for federal income taxes on continuing operations expected at the statutory rate differs from the actual expense (benefit) for the years ended December 31 (in thousands):

	2008	2007
Tax expense (benefit) at 34% statutory rate	$ 1,005	$ (1,971)
State taxes (net of Federal benefit)	142	(262)
Tax-exempt interest	(267)	(283)
Increase in cash surrender values of bank-owned life insurance	(179)	(172)
Tax benefit as a result of the lapse of an uncertain tax positions	(25)	(62)
Other, net	61	22
	$ 737	$ (2,728)

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

	2008	2007
Deferred tax asset:		
Loans, primarily due to differences in accounting for credit losses	$ 3,585	$ 2,856
Difference between book and tax amortization of branch premium acquisition costs	117	206
Difference between book and tax amortization of acquired intangibles	37	59
Unrealized loss on securities available for sale	2,965	-
Expenses and write downs on other real estate owned	904	-
Other	-	37
Deferred tax asset	7,608	3,158
Deferred tax liability:		
Unrealized gain on cash flow hedges	511	945
Leases, primarily due to differences in accounting for leases	373	334
Premises and equipment, primarily due to differences in original cost basis and depreciation	577	563
Other	296	-
Deferred tax liability	1,757	1,842
Valuation allowance	(227)	(249)
Net deferred tax asset	$ 5,624	$ 1,067

The valuation allowance primarily represents the tax benefits of a certain state net operating loss carryforward which may expire without being utilized. During 2008, the valuation allowance decreased $22,000 due to the expiration of a portion of these benefits. In assessing the realizability of deferred tax assets, management believes it is more likely than not that the deferred taxes will be realized.

The Company adopted FIN 48 on January 1, 2007. Although the implementation of FIN 48 did not result in a cumulative affect to retained earnings at the date of adoption, the Company did have an unrecognized tax benefit of approximately $218,000 at January 1, 2007.

At December 31, 2008, the Company had an unrecognized tax benefit of $131,000. If this benefit was recognized, it would affect the Company's effective tax rate. The Company recognizes interest as a component of tax expense. We had approximately $18,000 of interest accrued at December 31, 2008 and no penalties. Interest included in tax expense for 2008 is approximately $2,000.

A reconciliation of unrecognized tax benefits at December 31 is as follows (in thousands):

	2008	2007
Balance at January 1	$ 156	$ 218
Change in unrecognized tax benefits in the current year	(25)	(62)
Balance at December 31	$ 131	$ 156

The Company files consolidated federal and unitary state income tax returns where allowed. Tax years ending December 31, 2005 through 2007 remain open to federal examination, although there are no examinations in progress at this time. Tax years ending December 31, 2004 through 2007 remain open to state examinations.

It is reasonably possible the unrecognized tax benefit discussed above may be reduced by $39,000 within the next twelve months. This amount includes $8,000 of interest and no penalties.

NOTE 25. Earnings Per Share

The following table shows the amounts used in computing EPS and the effect of weighted average number of shares of potential dilutive common stock issuances:

Net income (loss) per share was calculated as follows:

	2008	2007
Denominator for basic earnings per share:		
Average common shares outstanding	3,291,697	3,456,993
Dilutive common stock options	27,528	58,859
Denominator for diluted earnings per share	3,319,225	3,515,852
Numerator: Net income (loss) attributable to continuing operations	$ 2,218	$ (3,069)
Numerator: Net income attributable to discontinued operations	-	5,049
Numerator: Net income attributable to common shareholders	$ 2,218	$ 1,980
Net income per share		
Basic earnings (loss) per share from continuing operations	$ 0.67	$ (0.89)
Basic earnings per share from discontinued operations	-	1.46
Basic earnings per common share	$ 0.67	$ 0.57
Diluted earnings (loss) per share from continuing operations	$ 0.67	$ (0.89)
Diluted earnings per share from discontinued operations	-	1.46
Diluted earnings per common share	$ 0.67	$ 0.57

Pursuant to SFAS No. 128, no contingent shares are included in the computation of the diluted per share amounts because a loss exists in continuing operations in 2007.

At December 31, 2008 and 2007 options totaling 12,200 and 54,000, respectively were outstanding but not included in the computation of diluted EPS because their exercise prices were higher than the average price of the Company's common stock. Exercise prices ranged from $7.00 to $8.75.

NOTE 26. Benefit Plans

BNCCORP has a qualified, tax-exempt 401(k) savings plan covering all employees of BNCCORP and its subsidiaries who meet specified age and service requirements. Under the plan, eligible employees may elect to defer up to 50% of compensation each year not to exceed the dollar limit set by law. At their discretion, BNCCORP and its subsidiaries may provide matching contributions to the plan. In 2008 and 2007, BNCCORP and its subsidiaries made matching contributions of up to 50% of employee deferrals up to a maximum employer contribution of 5% of employee compensation. Generally, all participant contributions and earnings are fully and immediately vested. The Company makes its matching contribution during the first calendar quarter following the last day of each calendar year and an employee must be employed by the Company on the last day of the calendar year in order to receive the current year's employer match. The anticipated matching contribution is expensed monthly over the course of the calendar year based on employee contributions made throughout the year. The Company made matching contributions of $387,000 and $378,000 for 2008, and 2007, respectively. Under the investment options available under the 401(k) savings plan, prior to January 28, 2008 employees could elect to invest their salary deferrals in BNCCORP common stock. At December 31, 2008, the assets in the plan totaled $11.5 million and included $938,000 (138,805 shares) invested in BNCCORP common stock. On January 28, 2008 the Company voluntarily delisted from the NASDAQ Global Market and deregistered its common stock under the Securities Exchange Act of 1934 (as amended). As a result, the participants are prohibited from making new investments of the Company's common stock in the plan.

NOTE 27. Commitments and Contingencies

Employment Agreements and Noncompete Covenants

The Company has entered into an employment agreement with its President and Chief Executive Officer (the "President"). The President will be paid a minimum annual salary throughout the term of the agreement and annual incentive bonuses as may, from time to time, be determined by the Board. The President will also be provided with benefits under any employee benefit plan maintained by BNCCORP for its employees generally, or for its senior executive officers in particular, on the same terms as are applicable to other senior executives of BNCCORP. Under the agreement, if the President's status as an employee with the Company is terminated for any reason other than death, disability, cause, as defined in the agreement, or if he terminates his employment for good reason, as defined in the agreement, or following a change in control of BNCCORP, as defined in the agreement, then the President will be paid a lump-sum amount equal to three times his current annual compensation.

In December 2007, the Chairman of the Board announced his retirement. The former Chairman received an award of $1.160 million upon retirement from the Company which was reflected in accrued expenses on the consolidated balance sheet as of December 31, 2007.

Leases

The Bank has entered into operating lease agreements for certain facilities and equipment used in its operations. Rent expense for the years ended December 31, 2008 and 2007 was $1.063 million and $830,000, respectively, for facilities, and $39,000 and $51,000, respectively, for equipment and other items. At December 31, 2008, the total minimum annual base lease payments for operating leases were as follows (in thousands):

2009	$	1,256
2010		1,138
2011		866
2012		621
2013		121
Thereafter		1,560

NOTE 28. Share-Based Compensation

The Company has three 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. Under the 1995 Stock Incentive Plan, the aggregate number of options and shares granted can not exceed 250,000 shares. Under the 2002 Stock Incentive Plan, the aggregate number of shares can not exceed 125,000 shares. Under the 2006 Stock Incentive Plan, the aggregate number of shares can not exceed 200,000 shares. Pursuant to each plan, the compensation committee may grant options at prices equal to the fair value of the stock at the grant date.

Total shares available and maximum restricted shares available as of December 31, 2008 are as follows:

	1995 Stock Incentive Plan	2002 Stock Incentive Plan	2006 Stock Incentive Plan	Total
Total Shares Available	58,751	107,250	136,600	302,601
Maximum Restricted Shares Available	58,751	7,250	136,600	202,601

The Company recognized share-based compensation expense of $342,000 and $312,000 for the twelve months ended December 31, 2008 and 2007, respectively all of which related to restricted stock.

At December 31, 2008, the Company had $352,000 of unamortized restricted stock compensation. At December 31, 2007 the Company had $552,000 of unamortized restricted stock compensation. Restricted shares of stock granted generally have vesting and amortization periods of at least three years

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

	2008		2007	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	51,766	$ 12.50	100,500	$ 13.07
Granted	19,500	11.03	-	-
Vested	(26,434)	12.46	(34,734)	13.15
Forfeited	(7,500)	9.60	(14,000)	15.05
Nonvested, end of year	37,332		51,766	

No stock options were granted during 2008 or 2007 and the Company had no unrecognized share-based compensation expense related to stock options during these periods.

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

	2008		2007	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	107,700	$ 11.76	115,000	$ 11.49
Granted	-	-	-	-
Exercised	(8,000)	5.94	(6,000)	6.15
Forfeited	(55,500)	17.04	(1,300)	17.00
Outstanding, end of year	44,200	$ 6.34	107,700	$ 11.76
Exercisable, end of year	44,200	$ 6.34	107,700	$ 11.76
Weighted average fair value of				
Granted	$ -		$ -	
Exercised	$ 2.80		$ 2.99	
Forfeited	$ 7.53		$ 7.60	

Following is a summary of the status of options outstanding at December 31, 2008:

	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options with exercise prices ranging from:					
$5.94 to $8.75	44,200	2.3 years	$ 6.34	44,200	$ 6.34
	44,200			44,200	

NOTE 29. Condensed Financial Information-Parent Company Only

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

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

	2008	2007
Assets:		
Cash and cash equivalents	$ 1,766	$ 954
Investment in subsidiaries	76,526	83,254
Receivable from subsidiaries	570	545
Deferred charges and intangible assets, net	154	154
Other	446	525
Total assets	$ 79,462	$ 85,432
Liabilities and stockholders' equity:		
Subordinated debentures	$ 23,115	$ 23,112
Payable to subsidiaries	487	100
Accrued expenses and other liabilities	1,913	2,490
Total liabilities	25,515	25,702
Preferred stock, $.01 par value – 2,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $.01 par value – 10,000,000 shares authorized; 3,299,163 and 3,491,337 shares issued and outstanding	33	35
Capital surplus – common stock	26,628	26,355
Retained earnings	36,104	34,105
Treasury stock (357,738 and 150,116 shares)	(5,020)	(2,424)
Accumulated other comprehensive income (loss), net of income taxes	(3,798)	1,659
Total stockholders' equity	53,947	59,730
Total liabilities and stockholders' equity	$ 79,462	$ 85,432

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

	2008	2007
Income:		
Management fee income	$ 1,599	$ 1,730
Interest	17	40
Other	76	65
Total income	1,692	1,835
Expenses:		
Interest	1,728	2,212
Salaries and benefits	829	2,392
Legal and other professional	443	635
Depreciation and amortization	3	4
Other	610	1,924
Total expenses	3,613	7,167
Loss before income tax benefit and equity in income of subsidiaries	(1,921)	(5,332)
Income tax benefit	646	2,078
Loss before equity in income of subsidiaries	(1,275)	(3,254)
Equity in income of subsidiaries	3,493	5,234
Net income	$ 2,218	$ 1,980

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

	2008	2007
Operating activities:		
Net income	$ 2,218	$ 1,980
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of subsidiaries	(3,493)	(5,234)
Depreciation and amortization	6	340
Deferred income taxes	110	(395)
Change in prepaid expenses and other receivables	(61)	37
Change in accrued expenses and other liabilities	(408)	1,255
Net cash used in operating activities	(1,628)	(2,017)
Investing activities:		
Increase in investment in subsidiaries	4,765	4,675
Net cash provided by investing activities	4,765	4,675
Financing activities:		
Repayments of long term borrowings	-	(1,167)
Proceeds from issuance of share-based compensation	273	298
Purchase of treasury stock	(2,598)	(1,720)
Net cash used in financing activities	(2,325)	(2,589)
Net increase in cash and cash equivalents	812	69
Cash and cash equivalents, beginning of year	954	885
Cash and cash equivalents, end of year	$ 1,766	$ 954
Supplemental cash flow information:		
Interest paid	$ 1,675	$ 2,314
Income tax payments received from the subsidiary bank, net of income taxes paid	$ 2,173	$ 3,322

Corporate Data

Investor Relations

Gregory K. Cleveland, CPA
President/CEO
602-852-3526

Timothy J. Franz, CPA
Chief Financial Officer
612-305-2213

General Inquiries:
BNCCORP, Inc.
322 East Main Avenue
Bismarck, North Dakota 58501
Telephone (701) 250-3040
Facsimile (701) 222-3653

Annual Meeting

The 2009 annual meeting of stockholders will be held on Wednesday, June 17, 2009, at 8:30 a.m. (Central Daylight Time) at BNC National Bank, Second Floor Conference Room, 322 East Main Avenue, Bismarck, ND 58501.

Independent Public Accountants

KPMG LLP
233 South 13th Street
Suite 1600
Lincoln, NE 68508

Securities Listing

BNCCORP, Inc.'s common stock is traded on the Pink Sheets under the symbol: "BNCC." There were 73 record holders of the Company's common stock at March 6, 2009.

COMMON STOCK PRICES

For the Years Ended December 31,

	2008[1]		2007[2]	
	High	**Low**	**High**	**Low**
First Quarter	$13.89	$11.75	$18.00	$12.98
Second Quarter	$13.00	$9.05	$19.15	$15.16
Third Quarter	$11.00	$7.80	$18.50	$17.25
Fourth Quarter	$8.90	$5.15	$17.31	$12.60

(1) *The quotes represent the high and low closing sales prices as reported by Pink Sheets.*
(2) *The quotes represent the high and low closing sales prices as reported by the NASDAQ Stock Market.*

Stock Transfer Agent and Registrar

American Stock Transfer & Trust Company
59 Maiden Lane, Plaza Level
New York, NY 10038
(800) 937-5449

DIRECTORS
BNCCORP, Inc.

Mark W. Sheffert
Chairman of the Board of BNCCORP, Inc.
Chairman and Chief Executive Officer, Manchester Companies, Inc.

Gregory K. Cleveland, CPA
President and
Chief Executive Officer

Tracy Scott, CPA
Retired Co-Founder of BNCCORP, Inc.

Bradley D. Bonga
Founder and President/CEO
Bonga and Associates, LLC

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

Richard M. Johnsen, Jr.
Chairman of the Board and
Chief Executive Officer,
Johnsen Trailer Sales, Inc.

Michael O'Rourke
Attorney/Author

Stephen H. Roman
Partner
First Strategic LLC

DIRECTORS
BNC National Bank

Gregory K. Cleveland
Shawn Cleveland
Timothy J. Franz
David Hoekstra
Mark E. Peiler
Scott Spillman
B. Timothy Swanson

SUBSIDIARIES
BNC National Bank

Headquarters:

2425 East Camelback Road
Suite 100
Phoenix, AZ 85016

Branches:

Bismarck Main
322 East Main Avenue
Bismarck, ND 58501

Bismarck South
219 South 3rd Street
Bismarck, ND 58504

Bismarck North
801 East Century Avenue
Bismarck, ND 58503

Primrose Assisted Living Apartments
1144 College Drive
Bismarck, ND 58501

Waterford on West Century
1000 West Century Avenue
Bismarck, ND 58503

Crosby
107 North Main Street
Crosby, ND 58730

Ellendale
83 Main Street
Ellendale, ND 58436

Garrison
92 North Main
Garrison, ND 58540

Kenmare
103 1st Avenue SE
Kenmare, ND 58746

Linton
104 North Broadway
Linton, ND 58552

Stanley
210 South Main
Stanley, ND 58784

Watford City
205 North Main
Watford City, ND 58854

Minneapolis
333 South Seventh Street
Minneapolis, MN 55402

Golden Valley
650 North Douglas Drive
Golden Valley, MN 55422

The Heathers Estate
2900 North Douglas Drive
Crystal, MN 55422

The Heathers Manor
3000 North Douglas Drive
Crystal, MN 55422

Scottsdale
17045 N. Scottsdale Road
Scottsdale, AZ 85255

Ice Den
9375 East Bell Road, Suite 102
Scottsdale, AZ 85260

Glendale
20175 North 67th Avenue
Glendale, Arizona 85308

Scottsdale Mortgage
8330 East Hartford Drive
Scottsdale, Arizona 85255

Wichita
7200 West 13th, Suite 3
Wichita, KS 67212

Overland Park
7007 College Boulevard, Suite 330
Overland Park, KS 66211

Davenport
3709 Harrison Street
Davenport, IA 52806

Belton
17122 BelRay Place
Belton, MO 64012

EXECUTIVE OFFICERS
BNCCORP and Subsidiaries

Gregory K. Cleveland, CPA
President and
Chief Executive Officer

Timothy J. Franz, CPA
Chief Financial Officer

Shawn Cleveland, CPA
Chief Operating Officer,
BNC National Bank

Dave Hoekstra, CPA
Chief Credit Officer and
President – BNC National Bank, North Dakota Market

Mark E. Peiler, CFA
Senior Vice President – Chief Investment Officer

Scott Spillman
President – BNC National Bank, Arizona Market

Timothy Swanson
President – BNC National Bank, Minnesota Market

Clint Bowling
Executive Vice President – Commercial Real Estate
BNC National Bank, Arizona Market

Brian Whitemarsh
Executive Vice President – Commercial Real Estate
BNC National Bank, Minnesota Market

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

pinksheets® BNCC