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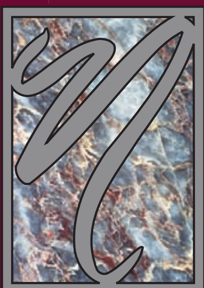
2009 Annual Report



BNCCORP, INC.

BNCCORP, Inc. (BNCCORP or the Company) is a bank holding company registered under the Bank Holding Company Act of 1956 headquartered in Bismarck, North Dakota. It is the parent company of BNC National Bank (the Bank). The Company operates community banking and wealth management businesses in Arizona, Minnesota and North Dakota from 20 locations. BNC also conducts mortgage banking from ten locations in Arizona, Minnesota, Iowa, Kansas, Nebraska and Missouri.

GREGORY K. CLEVELAND
President and Chief Executive Officer

"While 2009 was the most difficult environment BNC has faced since we began operating in 1988, we remained focused on the task at hand and made progress in several key areas of the business."

To Our Stockholders, Customers, Employees and Friends:

It is important to view BNCCORP's performance in the context of the challenging 2009 economic climate, and the likelihood that conditions will remain unsettled during the coming year.

At the onset of the current recession, markets were roiled by concerns of impending defaults in subprime credit. Fairly soon, it became apparent that the extent of the financial mismanagement was much broader than the subprime component. As the exposures of major banks, insurance companies, investment firms and other financial institutions became known, many questioned how far the risk of losses would spread. Not knowing the extent of the financial mismanagement caused participants in the financial services industry to lose confidence in the ability of their counterparties to honor obligations. The resulting lack of trust nearly froze the financial and credit markets in late 2008 and early 2009.

Gradually the liquidity crisis eased, but the aftermath was a global economy operating at levels well below previous peaks. This decline has been manifested in high unemployment, elevated default rates on most types of credit, and reduced incomes for households, businesses and governments. Due to these factors, economic recovery is likely to be fragile, and the new economic base will likely be lower than what we have been used to – at least until the economy shakes off the "hangover effects" of the financial mismanagement.

FACING UP TO THE CHALLENGE

In response to this difficult environment, we were determined to manage our capital aggressively, to take a prudent approach to asset quality, and to control costs. As a result, BNC remains financially sound and, more than ever, is committed to serving our customers and communities.

With respect to capital, we elected to participate in the U.S. Treasury Capital Purchase Program (CPP) because other forms of capital were generally not accessible by community banks. We also augmented our capital by reducing the size of the balance sheet and through gains on disposition of certain assets. As a result, we ended 2009 with Tier 1 capital of more than 8.5% and total risk based capital of more than 13.5%. That said, we do not believe that private institutions can operate effectively with the government as an investor, and repaying the CPP funds will be a priority when financial conditions moderate.

As the recession in 2009 led to elevated levels of non-performing assets for both BNC and the industry, we have endeavored to address our credit issues in a very direct fashion. In order to increase the allowance for loan losses and to address credit quality issues, we recorded a very large provision for loan losses in the third quarter. Based on the fourth quarter results and early 2010 activities, it appears that we were able to substantively address our issues. However, it would be imprudent to reduce our focus on asset quality, as we expect credit losses to persist as long as businesses and individuals remain economically challenged.

To control costs, we asked our employees to make sacrifices, and salaries were frozen for virtually all employees in 2009. I am grateful to our people for accepting this hardship in a cooperative spirit. Our senior management team was not awarded bonuses for 2009 and their salaries remain frozen as 2010 begins.

MAINTAINING OUR FOCUS

While 2009 was the most difficult environment BNC has faced since we began operating in 1988, we remained focused on the task at hand and made progress in several key areas of the business.

Core deposits increased during the year and provide a stable and cost-effective source of funding. We delivered growth in mortgage banking revenues. Our treasury operation contributed to an increase in our net interest income and generated gains that helped build our capital. We are also fortunate to have a diverse regional base, as our North Dakota operations have been virtually untouched by the economic challenges facing the rest of the country. The people of North Dakota are benefitting from oil, agriculture and relatively low unemployment.

Although the net loss attributable to common shareholders in 2009 was $(20.0) million, largely due to a $27 million provision for loan losses in the third quarter, BNC returned to profitability in the fourth quarter with earnings of nearly $2.0 million.

2010 OUTLOOK AND OPERATING STRATEGY

We firmly believe the operating environment in 2010 will continue to present serious challenges for community banks. The economy is likely to be constrained by high unemployment and the excessive debt levels of many businesses, individuals and governments. As a result, we anticipate credit issues will persist. To some extent, the current regulatory climate may limit the flexibility of bank managements to respond to economic conditions.

To counter these challenges, we will have a concentrated focus on credit administration and reducing nonperforming assets when the cost to eliminate a problem is acceptable.

We will also manage capital aggressively by preserving assets available to fortify the bank and continuing to reduce the size of our balance sheet, thereby increasing the relative amount of capital.

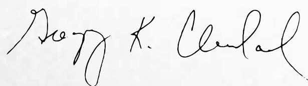
We will again focus on growing core deposits, building on our success in this area in 2009, and will extend initiatives aimed at increasing this key element of franchise value.

We believe our expanding mortgage banking operations will continue to be a profitable element of our business in 2010. While housing in this country remains problematic and volume can be impacted by higher interest rates, we can create value in the residential lending business by running a tight ship.

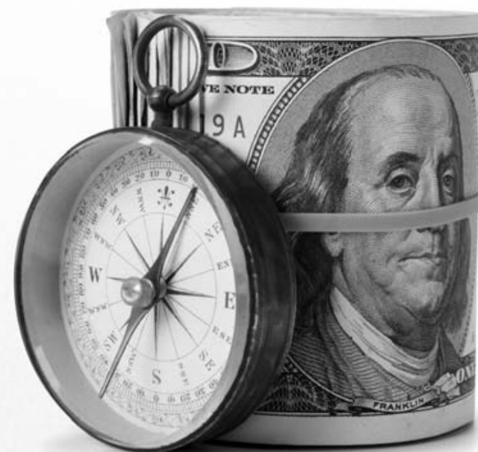
Our treasury function has capitalized on investment opportunities in recent periods and it appears this success will also continue in early 2010. While our treasury can create value by optimizing earnings, we also recognize that the need to maintain liquidity in this challenging period may oblige us to accept lower returns on the investment portfolio.

Despite the challenges ahead, we take confidence that thus far, we have successfully navigated an extremely difficult cycle. On behalf of the Board of Directors of BNC and our entire team, we want to thank our customers and shareholders for their support. We remain committed to building a strong sound BNC that is positioned to create long term value.

Sincerely,



GREGORY K. CLEVELAND
President and Chief Executive Officer



BNCCORP, INC.

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Selected Financial Data

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

	For the Years Ended December 31,				
	2009	2008	2007	2006	2005
Income Statement Data from Continuing Operations:					
Total interest income	$ 44,588	$ 46,026	$ 44,241	$ 42,408	$ 37,264
Total interest expense	14,899	19,215	21,994	23,606	19,718
Net interest income	29,689	26,811	22,247	18,802	17,546
Provision for credit losses	27,000	7,750	3,750	210	250
Non-interest income	16,013	10,395	3,853	5,138	5,823
Non-interest expense	39,103	26,501	28,147	23,075	21,859
Income tax expense (benefit)	(1,625)	737	(2,728)	(363)	238
Income (loss) from continuing operations	$ (18,776)	$ 2,218	$ (3,069)	$ 1,018	$ 1,022
Balance Sheet Data: (at end of period)					
Total assets	$ 868,083	$ 861,498	$ 699,591	$ 692,276	$ 740,016
Investments securities available for sale	212,661	209,857	122,899	182,974	227,185
Federal Funds Sold	-	-	-	24,000	-
Federal Reserve Bank and Federal Home Loan Bank stock	3,048	5,989	4,918	5,003	5,791
Loans held for sale	24,130	13,403	-	1,669	266
Participating interests in mortgage loans	38,534	28,584	24,357	56,125	101,336
Loans and leases held for investment, net of unearned income	517,108	542,753	497,556	333,934	310,368
Allowance for credit losses	(18,047)	(8,751)	(6,599)	(3,370)	(3,188)
Total deposits	755,963	675,321	541,874	529,252	548,790
Core deposits	640,169	575,637	541,874	529,054	512,552
Short-term borrowings	10,190	16,844	5,365	9,709	21,416
Federal Home Loan Bank advances	15,000	84,500	61,400	62,200	82,200
Other borrowings	-	-	-	1,167	3,850
Guaranteed preferred beneficial interests in Company’s subordinated debentures	22,890	23,025	23,075	22,711	22,648
Common stockholders’ equity	36,980	53,947	59,730	55,602	51,612
Book value per common share outstanding	$ 11.24	$ 16.35	$ 17.11	$ 15.44	$ 14.97
Tangible book value	$ 11.24	$ 16.23	$ 16.99	$ 7.15	$ 6.63
Earnings Performance / Share Data from Continuing Operations:					
Return (loss) on average total assets	(2.09)%	0.28%	(0.47)%	0.14%	0.14%
Return (loss) on average common stockholders’ equity	(38.88)%	3.85%	(5.25)%	1.92%	2.14%
Efficiency ratio	85.56%	71.22%	107.85%	96.39%	93.54%
Net interest margin	3.58%	3.64%	3.81%	3.04%	2.79%
Net interest spread	3.37%	3.46%	3.31%	2.73%	2.58%
Basic earnings (loss) per common share	$ (6.14)	$ 0.67	$ (0.89)	$ 0.29	$ 0.33
Diluted earnings (loss) per common share	$ (6.14)	$ 0.67	$ (0.89)	$ 0.29	$ 0.33
Average common shares outstanding	3,261,831	3,291,697	3,456,993	3,473,670	2,988,440
Average common and common equivalent shares	3,273,722	3,319,225	3,515,852	3,514,709	3,048,139
Shares outstanding at year end	3,290,219	3,299,163	3,491,337	3,600,467	3,447,945
Other Key Ratios					
Nonperforming assets to total assets	4.97%	3.84%	0.77%	0.02%	0.02%
Nonperforming loans to loans and leases held for investment	6.94%	4.22%	1.09%	0.03%	0.03%
Net loan charge-offs to average loans and leases held for investment	(3.235)%	(1.066)%	(0.129)%	(0.008)%	(0.130)%
Allowance for credit losses to total loans	3.11%	1.50%	1.26%	0.86%	0.77%
Allowance for credit losses to total nonperforming loans	50%	38%	122%	3,304%	2,229%
Tier 1 leverage (Consolidated)	8.58%	9.01%	12.01%	7.12%	5.90%
Total risk-based capital (Consolidated)	14.15%	12.95%	14.26%	10.89%	10.12%
Tangible common equity (Consolidated)	4.23%	6.21%	8.47%	3.72%	3.09%
Tier 1 leverage (BNC National Bank)	8.54%	9.34%	12.57%	7.70%	6.98%
Total risk-based capital (BNC National Bank)	13.52%	12.81%	14.26%	10.94%	10.67%

Quarterly Financial Data

	2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
			(Unaudited)		
Interest income	$ 10,679	$ 11,413	$ 11,611	$ 10,885	$ 44,588
Interest expense	3,797	3,797	3,758	3,547	14,899
Net interest income	6,882	7,616	7,853	7,338	29,689
Provision for credit losses	1,700	2,000	22,300	1,000	27,000
Net interest income (loss) after provision for credit losses	5,182	5,616	(14,447)	6,338	2,689
Non-interest income	3,696	4,345	3,488	4,484	16,013
Non-interest expense	8,060	9,390	12,745	8,908	39,103
Income (loss) before income taxes	818	571	(23,704)	1,914	(20,401)
Income tax expense (benefit)	202	48	(1,814)	(61)	(1,625)
NET INCOME (LOSS)	$ 616	$ 523	$ (21,890)	$ 1,975	$ (18,776)
Preferred stock costs	(266)	(327)	(330)	(331)	(1,254)
Net income (loss) available to common shareholders	$ 350	$ 196	$ (22,220)	$ 1,644	$ (20,030)
Basic earnings (loss) per common share	$ 0.11	$ 0.06	$ (6.81)	$ 0.50	$ (6.14)
Diluted earnings (loss) per common share	$ 0.11	$ 0.06	$ (6.81)	$ 0.50	$ (6.14)
Average common shares:					
Basic	3,261,831	3,261,831	3,261,831	3,275,279	3,261,831
Diluted	3,274,595	3,290,400	3,269,355	3,275,279	3,273,722

	2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
			(Unaudited)		
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) before income taxes	2,033	1,045	544	(667)	2,955
Income tax expense (benefit)	671	345	39	(318)	737
NET INCOME (LOSS)	$ 1,362	$ 700	$ 505	$ (349)	$ 2,218
Preferred stock costs	-	-	-	-	-
Net income (loss) available to common shareholders	$ 1,362	$ 700	$ 505	$ (349)	$ 2,218
Basic earnings (loss) per common share	$ 0.40	$ 0.22	$ 0.16	$ (0.11)	$ 0.67
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

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 in Arizona, Minnesota and North Dakota from 20 locations. BNC also conducts mortgage banking from ten locations in Arizona, Minnesota, Iowa, Kansas, Nebraska and Missouri.

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:

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

Since mid 2008, we have been expanding our mortgage banking operations. We believe this expansion is opportunistic because the cost of entry has been low, the division is profitable and these operations enhance our line of products.

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, except per share data):

	2009	2008
Net income (loss) attributable to common shareholders	$ (20,030)	$ 2,218
Net income (loss) per share		
Basic earnings (loss) per share	$ (6.14)	$ 0.67
Diluted earnings (loss) per share	$ (6.14)	$ 0.67

The following summarizes key information related to 2009:

- Net interest income increases by $2.9 million, or 10.7%;
- Non-interest income grows by $5.6 million, or 54.0%;
- Mortgage banking revenues increased by $6.3 million;
- Non-interest expense, excluding other real estate costs, increased by $4.9 million;
- Provisions for loan and real estate losses aggregate $35.1 million
- Allowance for credit losses more than doubles and is $18.047 million, 3.49% of loans held for investment
- Core deposits increase $64.6 million, or 11.2%, in 2009

General

Net loss in 2009 was $(18.776) million, or $(6.14) per diluted share, compared to a net income of $2.218 million, or $0.67 per diluted share in 2008.

Net Interest Income

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

Analysis of Changes in Net Interest Income

	For the Year ended December 31, 2009			For the Year ended December 31, 2008			For the Year ended December 31, 2007		
	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	$ 5,755	$ 9	0.16%	$ 95	$ 1	1.05%	$ 14,616	$ 754	5.16%
Taxable investments	226,309	14,397	6.36%	172,383	9,864	5.72%	124,242	6,001	4.83%
Tax-exempt investments	8,165	409	5.01%	16,994	839	4.94%	18,815	926	4.92%
Loans held for sale	23,570	1,182	5.01%	3,586	220	6.13%	417	-	0.00%
Participating interests in mortgage loans	29,683	1,312	4.42%	24,688	1,408	5.70%	27,469	2,137	7.78%
Loans and leases held for investment	547,336	27,279	4.98%	525,311	33,694	6.41%	402,616	34,423	8.55%
Allowance for credit losses	(11,962)	-		(7,105)	-		(4,335)	-	
Total interest-earning assets	828,856	44,588	5.38%	735,952	46,026	6.25%	583,840	44,241	7.58%
Non-interest-earning assets:									
Assets from discontinued operations	13			-			13,344		
Cash and due from banks	9,749			10,481			12,468		
Other	61,598			47,835			41,653		
Total assets	$ 900,216			$ 794,268			$ 651,305		
Liabilities and Stockholders' Equity									
Deposits:									
Interest checking and money market accounts	$ 266,537	2,379	0.89%	$ 244,279	4,074	1.67%	$ 249,246	8,007	3.21%
Savings	11,685	13	0.11%	9,859	33	0.33%	8,399	66	0.79%
Certificates of deposit:									
Under $100,000	324,902	8,653	2.66%	232,367	8,981	3.87%	149,010	7,141	4.79%
$100,000 and over	47,358	1,341	2.83%	58,378	2,011	3.44%	44,824	2,319	5.17%
Total interest-bearing deposits	650,482	12,386	1.90%	544,883	15,099	2.77%	451,479	17,533	3.88%
Borrowings:									
Short-term borrowings	17,953	179	1.00%	7,049	144	2.04%	8,706	398	4.57%
FHLB advances	51,738	1,078	2.08%	87,159	2,291	2.63%	32,991	1,915	5.80%
Other borrowings	58	3	5.17%	519	25	4.82%	131	11	8.40%
Subordinated debentures	22,686	1,253	5.52%	22,734	1,656	7.29%	22,641	2,137	9.44%
Total interest-bearing liabilities	742,917	14,899	2.01%	662,344	19,215	2.90%	515,948	21,994	4.26%
Non-interest-bearing demand accounts	77,736			66,388			68,277		
Total deposits and interest-bearing liabilities	820,653			728,732			584,225		
Liabilities from discontinued operations	316			-			2,584		
Other non-interest-bearing liabilities	8,363			7,928			6,089		
Total liabilities	829,332			736,660			592,898		
Stockholders' equity	70,884			57,608			58,407		
Total liabilities and stockholders' equity	$ 900,216			$ 794,268			$ 651,305		
Net interest income		$ 29,689			$ 26,811			$ 22,247	
Net interest spread			3.37%			3.35%			3.32%
Net interest margin			3.58%			3.64%			3.81%
Ratio of average interest-earning assets to average interest-bearing liabilities	111.57%			111.11%			113.16%		

The following table allocates changes in our interest income and interest expense between the changes related to volume and rates:

	For the Years Ended December 31, 2009 Compared to 2008			For the Years Ended December 31, 2008 Compared to 2007		
	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	$ 10	$ (2)	$ 8	$ (418)	$ (335)	$ (753)
Taxable investments	3,340	1,193	4,533	2,616	1,247	3,863
Tax-exempt investments	(442)	12	(430)	(91)	4	(87)
Loans held for sale	1,114	(152)	962	97	123	220
Participating interests in mortgage loans	255	(351)	(96)	(200)	(529)	(728)
Loans held for investment	1,362	(7,777)	(6,415)	9,051	(9,780)	(729)
Total increase (decrease) in interest income	5,639	(7,077)	(1,438)	11,055	(9,270)	1,785
Interest Expense on Interest-Bearing Liabilities						
Interest checking and money market accounts	343	(2,038)	(1,695)	(157)	(3,776)	(3,933)
Savings	5	(25)	(20)	14	(47)	(33)
Certificates of Deposit:						
Under $100,000	2,952	(3,280)	(328)	2,814	(974)	1,840
$100,000 and over	(345)	(325)	(670)	2,948	(3,256)	(308)
Short-term borrowings	137	(102)	35	(65)	(189)	(254)
FHLB advances	(803)	(410)	(1,213)	565	(189)	376
Other borrowings	(24)	2	(22)	16	(2)	14
Subordinated debentures	(3)	(400)	(403)	9	(490)	(481)
Total increase (decrease) in interest expense	2,262	(6,578)	(4,316)	6,144	(8,923)	(2,779)
Increase (decrease) in net interest income	$ 3,377	$ (499)	$ 2,878	$ 4,911	$ (347)	$ 4,564

Net interest income was $29.689 million in 2009 compared to $26.811 million in 2008, an increase of $2.878 million or 10.7%. The net interest margin decreased to 3.58% for the year ended December 31, 2009, from 3.64% in 2008. Investment earnings and lower interest rates on liabilities combined to increase net interest income. Increases in non-accrual loans and other nonperforming assets compressed net interest margin.

Interest income decreased in 2009 primarily due to the lower interest rate environment. The impact of lower interest rates was partially offset by an increase in investments. We emphasized investments in recent periods because the yield on investments was attractive compared to other assets. Increases in nonperforming assets reduced interest income.

Interest expense decreased in 2009 primarily due to lower interest rates in 2009. Increases in the balances of deposits partially offset the decline in rates.

Net interest income was $26.811 million in 2008 compared to $22.247 million in 2007, an increase of $4.564 million or 20.5%. The net interest margin decreased to 3.64% for the year ended December 31, 2008, from 3.81% in 2007. Net interest income increased in 2008 primarily due higher balances of loans and investments and lower rates on deposits. The margin decreased in 2008, compared to 2007, because of increases in nonperforming assets.

Non-interest Income

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

	For the Years Ended December 31,		Increase (Decrease) 2009 – 2008		
	2009	2008	$	%	
Bank charges and service fees	$ 2,332	$ 2,337	(5)	(0) %	
Wealth management revenues	2,056	2,826	(770)	(27) %	(a)
Mortgage banking revenues	8,390	2,101	6,289	299 %	(b)
Gains (losses) on sales of loans, net	(339)	1,116	(1,455)	(130) %	(c)
Gain on sales of premises and equipment	-	775	(775)	(100) %	(d)
Gains on sales of securities, net	2,850	247	2,603	1,054 %	(e)
Other	724	993	(269)	(27) %	
Total non-interest income	$ 16,013	$ 10,395	$ 5,618	54 %	

(a) Wealth management revenues decreased because of fewer fees for managing documents on insurance products sold by others. We expect this trend to continue.

(b) Mortgage banking revenues increased because we have been expanding these operations since the middle of 2008. In 2009, mortgage banking originations were robust because of lower interest rates.

(c) Gains (losses) on sales of loans, net declined because the secondary market for commercial real estate loans functioned at reduced levels from mid 2008 throughout most of 2009. In order to reduce exposure to commercial real estate, we sold $18.5 million of loans late in 2009. One of the sales incurred a loss.

(d) In the second quarter of 2008, we sold a building previously occupied by our insurance segment and generated a gain.

(e) Gains on sales of securities, net vary depending on the nature and volume of transactions. In 2009, the value of securities increased primarily due to lower interest rates and we were able to sell securities at gains.

Non-interest Expense

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

	For the Years Ended December 31,		Increase (Decrease) 2009 – 2008		
	2009	2008	$	%	
Salaries and employee benefits	$ 15,008	$ 14,673	$ 335	2 %	
Professional services	3,064	1,177	1,887	160 %	(a)
Other real estate costs	8,169	515	7,654	1,486 %	(b)
Data processing fees	2,330	2,202	128	6 %	
Occupancy	2,508	2,140	368	17 %	(c)
Marketing and promotion	1,277	1,127	150	13 %	(d)
Regulatory assessments	1,466	400	1,066	267 %	(e)
Depreciation and amortization	1,465	1,375	90	7 %	
Office supplies and postage	611	533	78	15 %	
Other	3,205	2,359	846	36 %	(f)
Total non-interest expense	$ 39,103	$ 26,501	$ 12,602	48 %	
Efficiency ratio	85.56%	71.22%	14.34%		

(a) Professional services increased because of legal fees associated with problem credits and services required by mortgage banking operations.
(b) Other real estate costs increased because of valuation allowances recorded to reduce the carrying value of foreclosed properties.
(c) Occupancy has increased due to more mortgage banking locations.
(d) Marketing costs increased due to new locations, mortgage banking and promotions for depository products.
(e) The FDIC has increased assessments for most banks to replenish the depository insurance fund and also imposed a special assessment in June 2009 for all banks. Our portion of the special assessment was approximately $400 thousand. We expect regulatory assessments to increase in future periods.
(f) Other expenses increased primarily due to an impairment of goodwill aggregating $409 thousand in the third quarter of 2009.

Income Tax Expense

The tax benefit in 2009 was $1.625 million, or 8.0%, of pre-tax losses 2009. This benefit reflects the net effect of tax benefits resulting from operating losses and the cost of recording a valuation allowance for net deferred tax assets. In the same period of 2008, tax expense was $737 thousand, resulting in an effective tax rate of 24.9%. There was no expense in 2008 associated with a valuation allowance for net deferred tax assets.

Financial Condition

Assets

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

	As of December 31,		Increase (Decrease) 2009 – 2008		
	2009	2008	$	%	
Cash and cash equivalents	$ 35,362	$ 10,569	$ 24,793	235 %	(a)
Investment securities available for sale	212,661	209,857	2,804	1 %	
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	3,048	5,989	(2,941)	(49) %	(b)
Loans held for sale	24,130	13,403	10,727	80 %	(c)
Participating interests in mortgage loans	38,534	28,584	9,950	35 %	(d)
Loans and leases held for investment, net	499,061	534,002	(34,941)	(7) %	(e)
Other real estate, net	7,253	10,189	(2,936)	(29) %	(f)
Premises and equipment, net	20,422	20,810	(388)	(2) %	
Interest receivable	2,970	3,263	(293)	(9) %	
Other assets	24,642	24,832	(190)	(1) %	
Total assets	$ 868,083	$ 861,498	$ 6,585	1 %	

(a) In 2009, we have been increasing liquid assets as part of a focus on managing liquidity. As a result, cash balances increased. Cash balances can vary significantly on a daily basis.
(b) Investment in these stocks are mandated by third parities. Our required investment decreased with reduced FHLB advances.
(c) Loans held for sale have increased as we expanded mortgage banking operations.
(d) 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.
(e) Loans and leases held for investment have decreased as we have attempted to manage our credit exposure by reducing loans outstanding and increasing the allowance for credit losses.
(f) OREO decreased due to valuation allowances and sales of foreclosed properties, late in 2009.

Investment Securities Available for Sale

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

Investment Portfolio Composition

	December 31,					
	2009		2008		2007	
	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	$ 1,223	$ 1,262	$ 1,505	$ 1,543	$ 1,799	$ 1,784
U.S. government agency mortgage-backed securities issued by FNMA	2,500	2,599	2,891	2,917	3,329	3,333
Collateralized mortgage obligations guaranteed by GNMA	86,600	87,017	23,037	23,170	2,394	2,413
Collateralized mortgage obligations issued by FNMA or FHLMC	1,797	1,887	37,896	39,024	62,384	63,306
Other collateralized mortgage obligations	118,375	117,211	138,851	129,185	32,830	33,079
State and municipal bonds	2,521	2,685	13,482	14,018	17,885	18,984
Total investments	$ 213,016	$ 212,661	$ 217,662	$ 209,857	$ 120,621	$ 122,899

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

The following table presents contractual maturities for securities available for sale and yields thereon at December 31, 2009 (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%	$ -	0.00%	$ 1,223	5.56%	$ -	0.00%	$ 1,223	5.56%
U.S. government agency mortgage-backed securities issued by FNMA (2) (3)	-	0.00%	-	0.00%	-	0.00%	2,500	6.68%	2,500	6.68%
Collateralized mortgage obligations guaranteed by GNMA (2) (3)	-	0.00%	-	0.00%	-	0.00%	86,600	2.78%	86,600	2.78%
Collateralized mortgage obligations issued by FNMA or FHLMC (2) (3)	-	0.00%	51	2.70%	673	5.37%	1,073	6.52%	1,797	5.98%
Other collateralized mortgage obligations (2) (3)	-	0.00%	-	0.00%	9,093	6.96%	109,282	7.56%	118,375	7.52%
State and municipal bonds (2)	702	8.23%	-	0.00%	1,086	6.93%	733	7.36%	2,521	7.42%
Total book value of investment securities	$ 702	8.23%	$ 51	2.70%	$ 12,075	6.73%	$ 200,188	5.47%	$ 213,016	5.55%
Unrealized holding loss on securities available for sale									(355)	
Total investment in securities available for sale									$ 212,661	5.56%

(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, 2009, we had $212.7 million of available-for-sale securities in the investment portfolio compared to $209.9 and $122.9 million at December 31, 2008 and 2007, respectively.

In 2009, investment securities were relatively flat. We increased our holdings of collateralized mortgage obligations guaranteed by GNMA while reducing our holdings of those issued by FNMA or FHLMC. Unrealized losses decreased as credit spreads narrowed from 2008. In addition we realized $2.850 million of realized gains on sales of securities. See Notes 1 and 4 of our Consolidated Financial Statements for a discussion of impairment assessments.

Since early 2008 we have emphasized investment securities because yields on certain investments have been attractive compared to other assets. These assets can also offer more liquidity than other types of assets.

At December 31, 2009, we held five securities, other than U.S. Government Agency CMOs that exceeded 10% of stockholders' equity. The total carrying value of these five securities was $35.8 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, 2009 and 2008, and $1.8 million and $4.7 million of FHLB of Des Moines stock as of December 31, 2009 and 2008, respectively.

Loan Portfolio

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

	December 31,									
	2009		2008		2007		2006		2005	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial and industrial	$ 124,773	23.2	$ 138,671	24.6	$ 125,555	24.4	$ 100,127	25.9	$ 88,467	21.6
Real estate mortgage	266,051	49.5	265,360	47.2	181,000	35.1	124,551	32.2	122,785	30.1
Real estate construction	96,327	17.9	108,713	19.3	167,345	32.5	89,619	23.2	80,296	19.7
Participating interests in mortgage loans	38,534	7.2	28,584	5.1	24,357	4.7	56,125	14.5	101,336	24.8
Agricultural	23,142	4.3	22,023	3.9	17,074	3.3	14,286	3.7	12,706	3.1
Other	7,397	1.4	8,793	1.5	7,693	1.5	6,037	1.6	6,849	1.7
Total principal amount of loans	556,224	103.5	572,144	101.6	523,024	101.5	390,745	101.0	412,439	101.0
Unearned income and net unamortized deferred fees and costs	(582)	(0.1)	(807)	(0.1)	(1,111)	(0.2)	(686)	(0.2)	(735)	(0.2)
Loans, net of unearned income and unamortized fees and costs	555,642	103.4	571,337	101.5	521,913	101.3	390,059	100.9	411,704	100.8
Less allowance for credit losses	(18,047)	(3.4)	(8,751)	(1.5)	(6,599)	(1.3)	(3,370)	(0.9)	(3,188)	(0.8)
Net loans	$ 537,595	100.0	$ 562,586	100.0	$ 515,314	100.0	$ 386,689	100.0	$ 408,516	100.0

Change in Loan Portfolio Composition

	As of December 31,		Increase (Decrease) 2009 – 2008		
	2009	2008	$	%	
Commercial and industrial	$ 124,773	$ 138,671	$ (13,898)	(10) %	(a)
Real estate mortgage	266,051	265,360	691	0 %	
Real estate construction	96,327	108,713	(12,386)	(11) %	(b)
Participating interests in mortgage loans	38,534	28,584	9,950	35 %	(c)
Agricultural	23,142	22,023	1,119	5 %	
Other	7,397	8,793	(1,396)	(16) %	
Total principal amount of loans	556,224	572,144	(15,920)	(3) %	
Unearned income and net unamortized deferred fees and costs	(582)	(807)	(225)	(28) %	
Loans, net of unearned income and unamortized deferred fees and costs	555,642	571,337	(15,695)	(3)	
Less allowance for credit losses	(18,047)	(8,751)	(9,296)	106 %	
Net loans	$ 537,595	$ 562,586	$ (24,991)	(4) %	

(a) Commercial and industrial loans decreased as we sold a portfolio of SBA loans late in 2009 and charged off problematic loans throughout the year.

(b) Construction loans have decreased because certain projects under construction have been completed and certain problematic loans were charged-off during the year.

(c) 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 concentration limits, 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)	
2009	$ 330,204
2008	315,469
2007	201,776
2006	188,994
2005	183,795

Concentrations of Credit

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

	2009		2008	
Minnesota	$ 199,831	36 %	$ 185,947	33 %
North Dakota	154,007	28	173,509	30
Arizona	125,579	22	145,643	25
Other	76,807	14	67,045	12
Totals	$ 556,224	100 %	$ 572,144	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):

	2009		2008	
North Dakota	$ 184,282	33 %	$ 181,066	32 %
Arizona	134,967	24	126,326	22
Minnesota	81,514	15	106,786	19
California	39,848	7	23,894	4
Texas	28,944	5	37,032	6
Kentucky	11,927	2	11,000	2
Wisconsin	9,840	2	10,301	2
Idaho	9,292	2	8,146	1
Georgia	6,465	1	6,559	1
New York	5,270	1	7,496	1
Arkansas	5,199	1	5,260	1
South Dakota	5,111	1	5,864	1
Other	33,565	6	42,414	8
Totals	$ 556,224	100 %	$ 572,144	100 %

The following table presents loans by type within our three primary states as of December 31 (in thousands):

	2009	2008
North Dakota		
Commercial and industrial	$ 84,400	$ 80,412
Construction	4,572	4,205
Agricultural	22,422	21,229
Land and land development	12,321	10,278
Owner-occupied commercial real estate	27,960	29,123
Non-owner-occupied commercial real estate	12,419	13,221
Small business administration	2,434	2,478
Consumer	17,754	20,120
Subtotal	$ 184,282	$ 181,066
Arizona		
Commercial and industrial	$ 19,740	$ 15,834
Construction	2,136	10,474
Agricultural	-	-
Land and land development	18,541	31,018
Owner-occupied commercial real estate	23,508	16,633
Non-owner-occupied commercial real estate	32,497	28,797
Small business administration	5,042	6,250
Consumer	33,503	17,320
Subtotal	$ 134,967	$ 126,326
Minnesota		
Commercial and industrial	$ 10,589	$ 19,827
Construction	4,698	8,973
Agricultural	33	81
Land and land development	12,641	17,671
Owner-occupied commercial real estate	18,675	29,060
Non-owner-occupied commercial real estate	25,203	19,300
Small business administration	1,025	1,017
Consumer	8,650	10,857
Subtotal	$ 81,514	$ 106,786

The bank has a concentration of loans exceeding 10% of the total loan portfolio in real estate loans. Within the real estate portfolio we also have concentrations of land and land development and construction loans as of December 31 (in thousands):

	2009		2008	
Land and land development loans	$ 47,986	8 %	$ 61,814	11 %
Construction loans	19,143	3	37,746	7
Totals	$ 67,129	11 %	$ 99,560	18 %

Construction loans include loans for which construction is complete and are expected to be refinanced to permanent loans within the foreseeable future.

Loan Maturities

The following table sets forth the remaining maturities of loans in our portfolio as of December 31, 2009 (in thousands):

Maturities of Loans (1)

	One year or less	Over 1 year through 5 years		Over 5 years		Total
		Fixed rate	Floating rate	Fixed rate	Floating rate	
Commercial and industrial	$ 62,833	$ 34,033	$ 5,444	$ 13,667	$ 8,796	$ 124,773
Real estate mortgage	63,540	74,950	68,354	25,200	34,007	266,051
Real estate construction	55,519	13,201	12,348	559	14,700	96,327
Participating interests in mortgage loans	38,534	-	-	-	-	38,534
Agricultural	12,485	7,076	447	873	2,261	23,142
Other	2,545	3,750	400	158	544	7,397
Total principal amount of loans	$ 235,456	$ 133,010	$ 86,993	$ 40,457	$ 60,308	$ 556,224

(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 substantially 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 adequate to cover 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, 2009 was $27.000 million as compared to $7.750 million in 2008. The higher provision for credit losses in 2009 reflects macro economic forces which impaired the ability of borrowers to repay debt which resulted in higher credit losses throughout the financial industry. Specific factors that contributed to our large provision include the migration of several credits to nonperforming status, decline in collateral values and efforts to restructure problem loans.

Allowance for Credit Losses

See a discussion of critical accounting policies in Note 1 of our Consolidated Financial Statements for a summary of the processes we use to estimate the allowance for credit losses.

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,				
	2009	2008	2007	2006	2005
Balance of allowance for credit losses, beginning of period	$ 8,751	$ 6,599	$ 3,370	$ 3,188	$ 3,335
Charge-offs:					
Commercial and industrial	(6,408)	(738)	(1,504)	(19)	(534)
Real estate mortgage	(2,258)	(426)	(500)	-	(24)
Real estate construction	(9,080)	(4,529)	-	-	-
Agricultural	-	-	-	-	-
Other	(130)	(253)	(123)	(32)	(31)
Total charge-offs	(17,876)	(5,946)	(2,127)	(51)	(589)
Recoveries:					
Commercial and industrial	12	84	1,500	3	95
Real estate mortgage	1	-	-	-	10
Real estate construction	149	196	-	-	16
Agricultural	-	-	-	-	-
Other	10	68	106	20	71
Total recoveries	172	348	1,606	23	192
Net charge-offs	(17,704)	(5,598)	(521)	(28)	(397)
Provision for credit losses charged to operations	27,000	7,750	3,750	210	250
Balance of allowance for credit losses, end of period	$ 18,047	$ 8,751	$ 6,599	$ 3,370	$ 3,188
Ratio of net charge-offs to average total loans	(2.948)%	(0.507)%	(0.121)%	(0.008)%	(0.102)%
Ratio of net charge-offs to average loans and leases held for investment	(3.235)%	(1.066)%	(0.129)%	(0.008)%	(0.130)%
Average gross loans and leases held for investment	$ 547,336	$ 525,311	$ 402,615	$ 334,058	$ 305,073
Ratio of allowance for credit losses to loans and leases held for investment	3.49%	1.61%	1.33%	1.01%	1.03%
Ratio of allowance for credit losses to total nonperforming loans	50%	38%	122%	3,304%	2,229%

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.

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 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,									
	2009		2008		2007		2006		2005	
	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 (a)	$ 5,779	23%	$ 1,268	24%	$ 1,410	24%	$ 1,602	26%	$ 1,632	21%
Real estate mortgage (a)	6,672	48%	2,829	47%	1,956	35%	838	32%	846	30%
Real estate construction (a)	4,692	17%	4,293	19%	2,740	32%	534	23%	467	19%
Participating interests in mortgage loans	105	7%	86	5%	85	5%	140	14%	-	25%
Agricultural	704	4%	180	4%	276	3%	171	4%	158	3%
Other	95	1%	95	1%	132	1%	85	1%	85	2%
Total	$ 18,047	100%	$ 8,751	100%	$ 6,599	100%	$ 3,370	100%	$ 3,188	100%

(a) The portion of our allowance allocated to these types of loans increased because of deterioration of the macro economy, devaluation of real estate and/or impaired ability of our borrowers to repay their obligations.

Allowance for Credit Losses; Impact on Earnings.

We have estimated the allowance for credit losses to cover for estimated losses inherent to the loans and lease portfolio at December 31, 2009. The allowance for credit losses is an estimate based upon several judgmental factors. We are not aware of known trends, commitments or other events that could reasonably occur that would materially affect our methodology or the assumptions used to estimate the allowance for credit losses. However, changes in qualitative and quantitative factors could occur at any time and such changes could be of a material nature. In addition, economic situations change, financial conditions of borrowers morph and other factors we consider in arriving at our estimates may evolve. To the extent that these matters have negative developments our future earnings could be reduced by high provisions for credit losses.

Nonperforming Loans and Assets

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

	December 31,				
	2009	2008	2007	2006	2005
Nonperforming loans:					
Loans 90 days or more delinquent and still accruing interest	$ 1	$ 6	$ -	$ 2	$ -
Nonaccrual loans	35,889	22,909	5,399	100	143
Total nonperforming loans	35,890	22,915	5,399	102	143
Other real estate, net	7,253	10,189	-	-	-
Total nonperforming assets	$ 43,143	$ 33,104	$ 5,399	$ 102	$ 143
Allowance for credit losses	$ 18,047	$ 8,751	$ 6,599	$ 3,370	$ 3,188
Ratio of total nonperforming loans to total loans	6.19%	3.92%	1.03%	0.03%	0.03%
Ratio of total nonperforming loans to loans and leases held for investment	6.94%	4.22%	1.09%	0.03%	0.05%
Ratio of total nonperforming assets to total assets	4.97%	3.84%	0.77%	0.02%	0.02%
Ratio of allowance for credit losses to nonperforming loans	50%	38%	122%	3,304%	2,229%

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):

	2009	2008
Interest income that would have been recorded	$ 1,684	$ 1,661
Interest income recorded	1	1,247
Effect on interest income	$ 1,683	$ 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.

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

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

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

Restructured Loans December 31,	
	(in thousands)
2009	$ 14,337
2008	2,379
2007	2,585
2006	54
2005	91

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

See Note 8 of our Consolidated Financial Statements for information on other real estate owned.

Impaired loans

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

Potential Problem Loans

The macro economic environment is very challenging and asset values are declining throughout most of the country. So long as these conditions persist, many loans are potentially problematic assets.

Notwithstanding the prior paragraph, we attempt to quantify potential problem loans with more immediate credit risk. We estimate such loans totaled $22.0 million and $13.2 million at December 31, 2009 and 2008, 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 (dollars are in thousands):

	As of December 31,		Increase (Decrease) 2009 – 2008		
	2009	2008	$	%	
Deposits:					
Non-interest-bearing	$ 98,658	$ 68,996	$ 29,662	43 %	(a)
Interest-bearing-					
Savings, interest checking and money market	280,571	266,851	13,720	5 %	(a)
Time deposits $100,000 and over	52,222	42,342	9,880	23 %	(b)
Other time deposits	324,512	297,132	27,380	9 %	(c)
Short-term borrowings	10,190	16,844	(6,654)	(40) %	(d)
FHLB advances	15,000	84,500	(69,500)	(82) %	(e)
Other borrowings	-	-	-	- %	
Guaranteed preferred beneficial interests in Company's subordinated debentures	22,890	23,025	(135)	(1) %	
Accrued interest payable	1,468	1,679	(211)	(13) %	
Accrued expenses	2,946	3,325	(379)	(11) %	
Other liabilities	2,361	2,857	(496)	(17) %	
Total liabilities	810,818	807,551	3,267	0 %	
Stockholders' equity	57,265	53,947	3,318	6 %	
Total liabilities and stockholders' equity	$ 868,083	$ 861,498	$ 6,585	1 %	

(a) We have emphasized deposit growth and marketing initiatives focused on lower cost deposits. These types of 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 have used brokered certificate of deposits to fund our investment securities.
(d) Short-term borrowings are primarily customer repurchase agreements. These balances can vary significantly depending on customer preferences.
(e) FHLB advances have decreased as the growth in deposits has been used to reduce borrowings.

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,								
	2009			2008			2007		
	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	$ 266,537	36.60%	0.89%	$ 244,279	39.96%	1.67%	$ 249,246	47.95%	3.21%
Savings deposits	11,685	1.61%	0.11%	9,859	1.61%	0.33%	8,399	1.62%	0.79%
Time deposits (CDs):									
CDs under $100,000	324,902	44.62%	2.66%	232,367	38.01%	3.87%	149,010	28.67%	4.79%
CDs $100,000 and over	47,358	6.50%	2.83%	58,378	9.55%	3.44%	44,824	8.62%	5.17%
Total time deposits	372,260	51.12%	2.68%	290,745	47.56%	3.78%	193,834	37.29%	4.88%
Total interest-bearing deposits	650,482	89.33%	1.90%	544,883	89.14%	2.77%	451,479	86.86%	3.88%
Non-interest-bearing demand deposits	77,736	10.67%	-	66,388	10.86%	-	68,277	13.14%	-
Total deposits	$ 728,218	100.00%	1.70%	$ 611,271	100.00%	2.47%	$ 519,756	100.00%	3.37%

Time deposits, in denominations of $100,000 and more, totaled $52.2 million at December 31, 2009 as compared to $42.3 million at December 31, 2008. The following table sets forth the amount and maturities of time deposits of $100,000 and more as of December 31, 2009 (in thousands):

Time Deposits of $100,000 and Over

Maturing in:	
3 months or less	$ 14,470
Over 3 months through 6 months	12,283
Over 6 months through 12 months	16,146
Over 12 months	9,323
Total	$ 52,222

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

	2009	2008	2007
Short-term borrowings outstanding at period end	$ 10,190	$ 16,844	$ 5,365
Weighted average interest rate at period end	0.70%	0.88%	3.64%
Maximum month end balance during the period	$ 23,818	$ 16,844	$ 15,518
Average borrowings outstanding for the period	$ 17,953	$ 7,049	$ 8,706
Weighted average interest rate for the period	1.00%	2.04%	4.57%

Note 11 of our Consolidated Financial Statements summarizes the general terms of our short-term borrowings outstanding at December 31, 2009 and 2008.

FHLB advances totaled $15.0 million and $84.5 million at December 31, 2009 and 2008, respectively, while long-term borrowings totaled $0, for the same periods.

Notes 12 and 13 of our Consolidated Financial Statements summarize the general terms of our FHLB advances and other borrowings at December 31, 2009 and 2008.

Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures
See Note 14 of our Consolidated Financial Statements for a description of the subordinated debentures.

Capital Resources and Expenditures
See Note 2 of our Consolidated Financial Statements for a discussion of regulatory capital and the current operating environment.

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. See Notes 17 and 19 of our Consolidated Financial Statements for a detailed description of each of these instruments.

Contractual Obligations, Contingent Liabilities and Commitments
We are a party to financial instruments with risks that 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.

At December 31, 2009, the aggregate contractual obligations (excluding bank deposits), contingent liabilities and commitments were as follows (in thousands):

Contractual Obligations:	Payments due by period				
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	Total
Total borrowings	$ 10,190	$ -	$ 15,000	$ 22,890	$ 48,080
Commitments to sell loans	23,876	-	-	-	23,876
Annual rental commitments under non-cancelable operating leases	1,302	1,676	278	1,967	5,223
Total	$ 35,368	$ 1,676	$ 15,278	$ 24,857	$ 77,179

Other Commitments:	Amount of Commitment - Expiration by Period				
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	Total
Commitments to lend	$ 89,546	$ 9,267	$ 3,056	$ 161	$ 102,030
Standby and commercial letters of credit	1,362	2,719	-	-	4,081
Total	$ 90,908	$ 11,986	$ 3,056	$ 161	$ 106,111

Liquidity Risk Management

Liquidity risk is the possibility of being unable to meet financial obligations in a timely manner. The objectives of liquidity management policies are to maintain adequate liquid assets and diversified liabilities. Diversification is provided by varying debt instruments, maturities and counterparties.

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. We obtain funding and liquidity through repayments and sales of assets. In addition, we obtain liquidity and funding from core deposits, brokered deposits, repurchase agreements and overnight Federal funds. The Bank is a member of the FHLB of Des Moines, which provides an opportunity to borrow funds on a short term and long term basis. We have also obtained funding through the issuance of subordinated notes, subordinated debentures and long-term borrowings.

We assess liquidity 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 our policies and guidelines will provide for

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, and forecasts of sources and uses of funds under stressed scenarios.

As of December 31, 2009, the Bank had established Federal funds purchase programs with two banks, totaling $4 million. At December 31, 2009, the Bank had purchased Federal funds of $0 under these programs leaving $4 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 of 1933 and Section 21E of the Securities Exchange Act of 1934. We caution readers that these forward-looking statements, including without limitation, those relating to our future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income and expenses, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to several important factors. 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 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 rates of similar maturity; and (4) Yield curve risk – risk resulting from unexpected changes in rates of different maturities from the same type of instrument. We have risk management policies to monitor and limit exposure to interest rate risk. Historically, 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.

Our interest rate risk exposure is managed with the objective of managing the level and potential volatility of net interest income, bearing in mind that we are in the business of taking 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. 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 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 16 of our Consolidated Financial Statements for a summary of our accounting policies pertaining to such instruments.

Our primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes our assumptions regarding the changes in interest rates and the impact on our current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month end balances of the various balance sheet accounts are held constant at their December 31, 2009 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, 2009 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.

We monitor the results of net interest income simulation on a quarterly basis. 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 level of interest rates as of December 31, 2009, the downward scenarios for interest rate movements is limited to -100bp, but a + 400bp scenario was also measured. 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 2009 is shown below:

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp	+400bp
Projected 12-month net interest income	$ 27,998	$ 27,620	$ 28,218	$ 28,897	$ 29,391	$ 30,036
Dollar change from unchanged scenario	$ 378	-	$ 598	$ 1,277	$ 1,771	$ 2,416
Percentage change from unchanged scenario	1.37%	-	2.17%	4.62%	6.41%	8.75%
Policy guidelines (decline limited to)	(5.00)%	-	(5.00)%	(10.00)%	(15.00)%	(20.00)%

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, 15, and 20 percent from the rates unchanged scenario for the +/- 100bp, 200bp, 300bp, and 400bp interest rate ramp scenarios, respectively. When a given scenario falls outside of these limits, we review 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, 2009 (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, 2009. 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, 2009				
	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	13,431	38,962	110,706	49,562	212,661
FRB and FHLB stock	3,048	-	-	-	3,048
Loans held for sale, fixed rate	-	-	-	-	-
Loans held for sale, floating rate	-	62,664	-	-	62,664
Loans held for investment, fixed rate	37,885	53,068	106,971	19,039	216,963
Loans held for investment, floating rate	270,922	7,370	20,093	1,760	300,145
Total interest-earning assets	$ 325,286	$ 162,064	$ 237,770	$ 70,361	$ 795,481
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 269,875	$ -	$ -	$ -	$ 269,875
Savings	10,696	-	-	-	10,696
Time deposits under $100,000	69,146	131,801	62,672	60,893	324,512
Time deposits $100,000 and over	14,469	28,430	8,335	988	52,222
Short-term borrowings	10,190	-	-	-	10,190
FHLB advances	-	-	15,000	-	15,000
Other borrowings	-	-	-	-	-
Subordinated debentures	15,000	-	-	7,890	22,890
Total interest-bearing liabilities	$ 389,376	$ 160,231	$ 86,007	$ 69,771	$ 705,385
Interest rate gap	$ (64,090)	$ 1,833	$ 151,763	$ 590	$ 90,096
Cumulative interest rate gap at December 31, 2009	$ (64,090)	$ (62,257)	$ 89,506	90,096	
Cumulative interest rate gap to total assets	(7.38%)	(7.17%)	10.31%	10.38%	

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, 2009 and do not contemplate any actions we might undertake in response to changes in market interest rates.

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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, 2009 and 2008, and the related consolidated statements of operations, comprehensive income (loss), 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, 2009 and 2008, 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 17, 2010

FINANCIAL INFORMATION

Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
As of December 31
(In thousands, except share data)

ASSETS	2009	2008
CASH AND CASH EQUIVALENTS	$ 35,362	$ 10,569
INVESTMENT SECURITIES AVAILABLE FOR SALE	212,661	209,857
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	3,048	5,989
LOANS HELD FOR SALE	24,130	13,403
PARTICIPATING INTERESTS IN MORTGAGE LOANS	38,534	28,584
LOANS AND LEASES HELD FOR INVESTMENT	517,108	542,753
ALLOWANCE FOR CREDIT LOSSES	(18,047)	(8,751)
Net loans and leases held for investment	537,595	562,586
OTHER REAL ESTATE, net	7,253	10,189
PREMISES AND EQUIPMENT, net	20,422	20,810
INTEREST RECEIVABLE	2,970	3,263
OTHER ASSETS	24,642	24,832
Total assets	$ 868,083	$ 861,498
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 98,658	$ 68,996
Interest-bearing –		
Savings, interest checking and money market	280,571	266,851
Time deposits $100,000 and over	52,222	42,342
Other time deposits	324,512	297,132
Total deposits	755,963	675,321
SHORT-TERM BORROWINGS	10,190	16,844
FEDERAL HOME LOAN BANK ADVANCES	15,000	84,500
OTHER BORROWINGS	-	-
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	22,890	23,025
ACCRUED INTEREST PAYABLE	1,468	1,679
ACCRUED EXPENSES	2,946	3,325
OTHER LIABILITIES	2,361	2,857
Total liabilities	810,818	807,551
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value. Authorized 2,000,000 shares:		
Preferred Stock – 5% Series A 20,093 shares issued and outstanding;	19,187	-
Preferred Stock – 9% Series B 1,005 shares issued and outstanding;	1,098	-
Common stock, $.01 par value. Authorized 10,000,000 shares; 3,290,219 and 3,299,163 shares issued and outstanding	33	33
Capital surplus – common stock	26,885	26,628
Retained earnings	16,078	36,104
Treasury stock (363,434 and 357,738 shares, respectively)	(5,068)	(5,020)
Accumulated other comprehensive (loss), net	(948)	(3,798)
Total stockholders' equity	57,265	53,947
Total liabilities and stockholders' equity	$ 868,083	$ 861,498

See accompanying notes to consolidated financial statements.

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

	2009	2008
INTEREST INCOME:		
Interest and fees on loans	$ 29,774	$ 35,322
Interest and dividends on investments -		
Taxable	14,261	9,599
Tax-exempt	409	839
Dividends	144	266
Total interest income	44,588	46,026
INTEREST EXPENSE:		
Deposits	12,386	15,099
Short-term borrowings	179	144
Federal Home Loan Bank advances	1,078	2,291
Other borrowings	3	25
Subordinated debentures	1,253	1,656
Total interest expense	14,899	19,215
Net interest income	29,689	26,811
PROVISION FOR CREDIT LOSSES	27,000	7,750
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	2,689	19,061
NON-INTEREST INCOME:		
Bank charges and service fees	2,332	2,337
Wealth management revenues	2,056	2,826
Mortgage banking revenues	8,390	2,101
Gains (losses) on sales of loans, net	(339)	1,116
Gain on sales of premises and equipment	-	775
Gain on sales of securities, net	2,850	247
Other	724	993
Total non-interest income	16,013	10,395
NON-INTEREST EXPENSE:		
Salaries and employee benefits	15,008	14,673
Professional services	3,064	1,177
Other real estate costs	8,169	515
Data processing fees	2,330	2,202
Occupancy	2,508	2,140
Marketing and promotion	1,277	1,127
Regulatory assessments	1,466	400
Depreciation and amortization	1,465	1,375
Office supplies and postage	611	533
Other	3,205	2,359
Total non-interest expense	39,103	26,501
Income (loss) before income taxes	(20,401)	2,955
Income tax expense (benefit)	(1,625)	737
NET INCOME (LOSS)	$ (18,776)	$ 2,218
Preferred stock costs	(1,254)	-
Net income (loss) available to common shareholders	$ (20,030)	$ 2,218
Basic earnings (loss) per common share	$ (6.14)	$ 0.67
Diluted earnings (loss) per common share	$ (6.14)	$ 0.67

See accompanying notes to consolidated financial statements.

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

	2009		2008	
NET INCOME (LOSS)		$ (18,776)		$ 2,218
Unrealized gain (loss) on cash flow hedge, net	$ (375)		$ 1,332	
Amortization of deferred gain in other comprehensive income	(1,126)		-	
Unrealized gain (loss) on securities available for sale	10,299		(9,836)	
Reclassification adjustment for gains included in net income	(2,850)		(247)	
Other comprehensive income (loss), before tax	5,948		(8,751)	
Income tax (expense) benefit related to items of other comprehensive income	(3,098)		3,294	
Other comprehensive income (loss)	2,850	2,850	(5,457)	(5,457)
TOTAL COMPREHENSIVE LOSS		$ (15,926)		$ (3,239)

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
For the Years Ended December 31
(In thousands)

	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, 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
Net loss	-	-	-	-	-	(18,776)	-	-	(18,776)
Other comprehensive gain	-	-	-	-	-	-	-	2,850	2,850
Preferred stock issued	21,098	21,098	-	-	-	-	-	-	21,098
Discount on preferred stock, net	-	(1,005)	-	-	-	-	-	-	(1,005)
Preferred stock amortization, net	-	192	-	-	-	(192)	-	-	-
Cash dividend on preferred stock	-	-	-	-	-	(1,058)	-	-	(1,058)
Impact of share-based compensation	-	-	(8,944)	-	257	-	(48)	-	209
BALANCE, December 31, 2009	21,098	$ 20,285	3,290,219	$ 33	$ 26,885	$ 16,078	$ (5,068)	$ (948)	$ 57,265

See accompanying notes to consolidated financial statements

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

	2009	2008
OPERATING ACTIVITIES:		
Net income (loss)	$ (18,776)	$ 2,218
Adjustments to reconcile net income (loss) to net cash used in operating activities -		
Provision for credit losses	27,000	7,750
Provision for other real estate losses	8,057	269
Depreciation and amortization	1,465	1,375
Net amortization of premiums and (discounts) on investment securities and subordinated debentures	(2,836)	(1,164)
Share-based compensation	257	273
Change in interest receivable and other assets, net	(5,656)	(4,146)
Impairment of goodwill	409	-
(Gain) loss on sale of other real estate	(1)	38
(Gain) on disposals of bank premises and equipment, net	-	(775)
Net realized (gain) on sales of investment securities	(2,850)	(247)
Provision for deferred income taxes	2,473	(1,158)
Change in other liabilities, net	(1,532)	(138)
Originations of loans to be participated	(67,173)	(201,489)
Proceeds from participations of loans	67,173	201,489
Funding of originations of loans held for sale	(491,027)	(102,040)
Proceeds from sale of loans held for sale	480,279	88,905
Fair value adjustment for loans held for sale	21	(268)
Net cash used in operating activities	(2,717)	(9,108)
INVESTING ACTIVITIES:		
Purchases of investment securities	(138,560)	(141,821)
Proceeds from sales of investment securities	71,553	14,209
Proceeds from maturities of investment securities	76,021	31,981
Purchases of Federal Reserve and Federal Home Loan Bank Stock	-	(8,618)
Sales of Federal Reserve and Federal Home Loan Bank Stock	2,941	7,547
Net (increase) in participating interests in mortgage loans	(9,950)	(4,227)
Net (increase) in loans held for investment	(190)	(61,511)
Proceeds from sales of other real estate	3,012	222
Additions to bank premises and equipment	(1,091)	(2,990)
Sales of bank premises and equipment	13	4,600
Net cash (used in) provided by investing activities	3,749	(160,608)

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)

	2009	2008
FINANCING ACTIVITIES:		
Net increase in deposits	80,643	133,448
Net increase (decrease) in short-term borrowings	(6,654)	11,479
Repayments of Federal Home Loan Bank advances	(1,087,300)	(3,413,530)
Proceeds from Federal Home Loan Bank advances	1,017,800	3,436,630
Proceeds from issuance of preferred stock	20,093	-
Dividends paid on preferred stock	(821)	-
Purchase of treasury stock	-	(2,598)
Net cash provided by financing activities	23,761	165,429
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,793	(4,287)
CASH AND CASH EQUIVALENTS, beginning of year	10,569	14,856
CASH AND CASH EQUIVALENTS, end of year	$ 35,362	$ 10,569
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 15,110	$ 15,892
Income taxes paid	$ 2,498	$ 2,231
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in settlement of loans	$ 8,132	$ 10,717

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 subsidiary, BNC Insurance Services, Inc., collectively the Bank). The Company operates community banking and wealth management businesses in Arizona, Minnesota and North Dakota from 20 locations. The Bank also conducts mortgage banking from ten locations in Arizona, Minnesota, Iowa, Kansas, Nebraska and Missouri.

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 significantly dependent on subjective assessments or estimates that may be susceptible to significant change. The following items 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 the loan and lease portfolio as of the balance sheet dates. The loan and lease portfolio and other credit exposures are reviewed regularly to evaluate the adequacy of the allowance for credit losses.

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

Qualitative factors include the general economic environment, the state of certain industries and factors unique to our market areas. Size, complexity of individual credits, loan structure, waivers of loan policies and pace of portfolio growth are other qualitative factors that are considered when we estimate the allowance for credit losses.

Our methodology has been consistently applied. However, we enhance our methodology as circumstances dictate to keep pace with the complexity of the portfolio.

The allowance for credit losses has three components as follows:

Specific Reserves. The amount of specific reserves is determined through a loan-by-loan analysis of loans over a minimum size. Included in problem loans are non-accrual, or renegotiated, loans that meet the criteria as being “impaired” under the definition in FASB ASC 310. A loan is impaired when, based on current information, it is probable that a creditor will be unable to collect all amounts due according to the contractual

terms of the loan agreement. Any allowance on impaired loans is generally based on one of three methods: the present value of expected cash flows at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral of the loan. Specific reserves may also be established for credits that have been internally classified as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns.

Reserves for Homogeneous Loan Pools. The Bank makes a significant number of loans 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, which have been excluded from the specific reserve allocation. The Bank segments the homogeneous pools by type and uses historical loss information to estimate a loss reserve for each pool.

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

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

Loans, leases and other extensions of credit deemed uncollectible are charged off against the allowance for losses. 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 as well as 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.

A provision for credit losses is made to adjust the allowance to the amount determined appropriate through application of the above processes.

Income Taxes

The Company files consolidated federal and unitary state income tax returns.

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

Deferred income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Management assesses net deferred tax assets to determine whether they are realizable based upon accounting standards and specific facts and circumstances. A valuation allowance is established to reduce net deferred tax assets to amounts that are more likely than not expected to be realized.

Other-Than-Temporary Impairment
Declines in the fair value of individual available-for-sale or held-to-maturity securities below amortized cost, which are deemed other-than-temporary, could result in a charge to earnings and establishment of a new cost basis. Write-downs for other-than-temporary impairment are recorded in non-interest income as realized losses. The Company assesses available information about our securities to determine whether impairment is other-than-temporary. The information we consider includes, but is not limited to, the following:

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

Determining whether other-than-temporary impairment has occurred requires judgment of factors that may indicate an impairment loss has incurred. The Company adopted the guidance on other-than-temporary impairments Accounting Standards Codification (ASC) 320, *Investments-Debt and Equity Securities*, which changed the accounting for other-than-temporary impairments into credit-related and other factors. Any credit-related impairments are realized through a change to earnings.

Note 4 to these consolidated financial statements includes a summary of investment securities in a loss position at December 31, 2009 and 2008.

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.

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

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Management assigns a level to assets and liabilities accounted for at fair value and uses the methodologies prescribed by ASC 820 to determine fair value.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Investment Securities
Investment securities that the Bank intends to hold indefinitely as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, or prepayment risk are classified as available for sale. Available for sale securities are carried at fair value. Net unrealized gains and losses, net of deferred income taxes, on securities available for sale are reported as a separate component of stockholders' equity until realized (see Comprehensive Income). All securities were classified as available for sale as of December 31, 2009 and 2008, except for Federal Reserve Bank (FRB) and the Federal Home Loan Bank (FHLB) stock, which have an indeterminable maturity.

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, 2009 or 2008.

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
Loans held for sale are accounted for at fair value pursuant to the fair value option permitted by FASB ASC 825, *Financial Instruments.* Gains and losses from the 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 counterparties. 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 the accrual basis using the interest method prescribed in the loan agreement except when collectibility is in doubt.

Loans and leases 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, uncollected interest accrued in prior years is charged off against the allowance for credit losses, unless collection of the principal and interest is assured. Interest accrued 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 may be resumed when it is determined that all amounts due are expected to be collected and the loan has exhibited a sustained level of performance, generally at least six months.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are reviewed for impairment on an individual basis. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's initial effective interest rate. The fair value of collateral of an impaired collateral-dependent loan or an observable market price 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.

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

Cash receipts on impaired loans are generally applied to principal except when the loan is well collateralized or there are other circumstances that support recognition of interest. When an impaired loan is in non-accrual status, cash receipts 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 deemed to be immaterial.

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

Loan Servicing and Transfers of Financial Assets
The Bank sells commercial business loans to third parties. The loans are generally sold on a non-recourse basis. 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, 2009 and 2008, the Bank was servicing loans for the benefit of others with aggregate unpaid principal balances of $330.2 million and $315.5 million, respectively. In 2009 and 2008, $295.6 million and $285.6 million, respectively, are loans sold by the Bank 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 FASB ASC 860, *Transfers and Servicing*.

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. If the carrying amount of an asset acquired through foreclosure is in excess of the fair value less estimated costs to sell, the excess amount is charged to the allowance for credit losses. Fair value is primarily determined based upon appraisals of the assets involved and management periodically assesses appraised values to ascertain continued relevancy of the valuation. 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 expense. Operating expenses of properties are charged to ORE expense.

Impairment of Long-Lived Assets and Intangible Assets
The Company reviews long-lived assets and intangible assets 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. During 2009, an impairment charge of $409 thousand was recorded related to goodwill. No impairment losses were recorded during 2008.

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. 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.

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. The intangible value of long-term customer relationships with depositors is not taken into account in the fair values disclosed.

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. Loans held for sale are accounted for at fair value pursuant to the fair value option permitted by FASB ASC 825, *Financial Instruments*.

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.

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

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

The 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.

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 the 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 collectibility 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 (Loss) Per Share

Basic earnings (loss) 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 23 to these consolidated financial statements includes disclosure of the Company's EPS calculations.

Comprehensive Income (Loss)
Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss), 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 FASB ASC 815.

The Company separately presents consolidated statements of comprehensive income (loss).

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
FASB ASC 718 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, 2009, the Company had three stock-based employee compensation plans, which are described more fully in Note 26 to these consolidated financial statements.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued ASC 105, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,* which establishes the FASB Accounting Standards Codification (Codification) to become the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the U.S. Securities and Exchange Commission (SEC) and its staff. All guidance contained in the Codification carries an equal level of authority. The provisions of ASC 105 are effective for interim and annual periods ending after September 15, 2009. As the Codification is not intended to change GAAP, the adoption of the provisions of ASC 105 did not have any impact on our consolidated financial statements.

In April 2009, FASB ASC 820, *Fair Value Measurements and Disclosures*, was issued This ASC gives guidance for determining whether market activity for a financial asset or liability has significantly decreased, as well as for identifying circumstances that indicate that transactions are not orderly. This ASC reiterates that if a market is determined to be inactive and the related market price is deemed to be reflective of a “distressed sale” price, then management judgment may be required to estimate fair value. This ASC identifies factors to be considered when determining whether or not a market is inactive. This ASC was effective as of June 30, 2009, with early adoption permitted as of March 31, 2009. The effect of adopting this ASC was not material.

FASB ASC 320, *Investments-Debt and Equity Securities,* determines whether impairment of debt securities is other-than-temporary. This ASC requires other-than-temporary impairment to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses), which is recognized in earnings, and the amount related to other factors, which is recognized in other comprehensive income. The non-credit loss component of the impairment can only be classified in other comprehensive income if the holder of the security concludes (a) that it does not intend to sell the security and (b) that it is more likely than not that it will not be required to sell the security before the security recovers its value. If these two conditions are not met, the non-credit loss component of the impairment must also be recognized in earnings. Upon adoption of this ASC, the entity is required to record a cumulative-effect adjustment, as of the beginning of the period of adoption, to reclassify the non-credit loss component of previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income. This ASC is effective as of June 30, 2009, with early adoption permitted as of March 31, 2009. The effect of adopting this ASC was not material.

FASB ASC 715, *Compensation-Retirement Benefits,* requires recognition of a liability for future benefits. ASC 715 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company adopted ASC 715 on January 1, 2008 and recognized a cumulative-effect adjustment to decrease retained earnings.

FASB ASC 810, *Consolidation,* establishes 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 ASC 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 ASC was effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years. Adopting FASB ASC 810 on January 1, 2009 did not have a material impact on the Company's results of operations or financial position.

FASB ASC 810 also requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a variable interest entity (VIE) for consolidation purposes. The primary beneficiary of a VIE is the enterprise that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and also has the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. The provisions of ASC 810 are effective January 1, 2010. We do not anticipate that the adoption of ASC 810 will have a material impact on our consolidated financial statements.

FASB ASC 815, *Derivatives and Hedging,* 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 and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FASB ASC 815 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of derivatives and gains and losses on thereon, as well as disclosures about credit risk related to derivative instruments. This ASC was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

FASB ASC 860, *Transfers and Servicing,* removes the concept of a qualifying special-purpose entity. It clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. The provisions of ASC 860 are effective for financial asset transfers occurring after December 31, 2009. We do not anticipate that the adoption of ASC 860 will have a material impact on our 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. Regulatory Capital and Current Operating Environment

Actual capital amounts and ratios of BNCCORP and the Bank as of December 31 are presented in the tables below (dollars in thousands):

	Actual	
	Amount	Ratio
2009		
Total Capital (to risk-weighted assets):		
Consolidated	$ 89,102	14.15 %
BNC National Bank	85,195	13.52
Tier 1 Capital (to risk-weighted assets):		
Consolidated	77,617	12.32
BNC National Bank	77,192	12.25
Tier 1 Capital (to average assets):		
Consolidated	77,617	8.58
BNC National Bank	77,192	8.54
Tangible Capital (to total assets):		
Consolidated tangible equity	57,018	6.57
BNC National Bank	74,989	8.65
Tangible Common Capital (to total assets):		
Consolidated tangible common equity	36,733	4.23
2008		
Total Capital (to risk-weighted assets):		
Consolidated	$ 88,949	12.95 %
BNC National Bank	87,956	12.81
Tier 1 Capital (to risk-weighted assets):		
Consolidated	76,585	11.15
BNC National Bank	79,368	11.56
Tier 1 Capital (to average assets):		
Consolidated	76,585	9.01
BNC National Bank	79,368	9.34
Tangible Capital (to total assets):		
Consolidated tangible equity	53,297	6.19
BNC National Bank	75,573	8.77
Tangible Common Capital (to total assets):		
Consolidated tangible common equity	53,297	6.19

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.

As of December 31, 2009, the most recent notifications from the OCC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. Management believes the Bank remains well-capitalized through the date for which subsequent events have been evaluated.

In February of 2010, the Bank entered into an agreement with the OCC with three articles primarily pertaining to credit administration. The agreement requires the Bank's board of directors to address three articles that can be summarized as follows:

(1) Develop, and implement a written program to identify and monitor credit and underwriting exceptions from loan policy;

(2) Adopt, implement and ensure adherence to a written asset diversification program that limits concentrations of assets to prescribed limits; and

(3) Adopt, implement and ensure adherence to work out plans designed to reduce criticized assets. The work out plans are to be updated quarterly.

Management believes these articles are prudent and will strengthen credit administration. While the agreement allows 60 days to implement, management had substantially implemented the articles and submitted correspondence to the OCC documenting implementation by February 2010.

NOTE 3. Restrictions on Cash and Cash Equivalents

The Bank is required to maintain reserve balances in cash on hand or with the FRB. The required reserve balances were $25,000 as of December 31, 2009 and 2008.

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, 2009 or 2008. The carrying amount of available-for-sale securities and their approximate fair values were as follows as of December 31 (in thousands):

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 1,223	$ 39	$ -	$ 1,262
U.S. government agency mortgage-backed securities issued by FNMA	2,500	102	(3)	2,599
Collateralized mortgage obligations guaranteed by GNMA	86,600	531	(114)	87,017
Collateralized mortgage obligations issued by FNMA or FHLMC	1,797	90	-	1,887
Other collateralized mortgage obligations	118,375	3,349	(4,513)	117,211
State and municipal bonds	2,521	164	-	2,685
	$ 213,016	$ 4,275	$ (4,630)	$ 212,661

	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

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at December 31, 2009, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 702	$ 703
Due after one year through five years	51	51
Due after five years through ten years	12,075	12,217
Due after ten years	200,188	199,690
Total	$ 213,016	$ 212,661

For many types of investments, the actual payment will vary significantly from contractual maturities.

Securities carried at approximately $129.0 million and $197.5 million at December 31, 2009 and 2008, 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):

	2009	2008
Sales proceeds	$ 71,553	$ 14,209
Gross realized gains	2,850	256
Gross realized losses	-	(9)

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 (in thousands):

	2009								
	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	-	$ -	$ -	-	$ -	$ -	-	$ -	$ -
U.S. government agency mortgage-backed securities issued by FNMA	-	-	-	1	57	(3)	1	57	(3)
Collateralized mortgage obligations guaranteed by GNMA	6	34,394	(114)	-	-	-	6	34,394	(114)
Collateralized mortgage obligations issued by FNMA or FHLMC	-	-	-	-	-	-	-	-	-
Other collateralized mortgage obligations	8	29,622	(1,715)	8	22,591	(2,798)	16	52,213	(4,513)
State and municipal bonds	-	-	-	-	-	-	-	-	-
Total temporarily impaired securities	14	$ 64,016	$ (1,829)	9	$ 22,648	$ (2,801)	23	$ 86,664	$ (4,630)

Description of Securities	2008 Less than 12 months #	Fair Value	Unrealized Loss	12 months or more #	Fair Value	Unrealized Loss	Total #	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 issued by FNMA or FHLMC	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)

Management regularly evaluates each security with unrealized losses to determine whether losses are other–than-temporary. When the evaluation is performed, management considers several factors including, but not limited to, the amount of the unrealized loss, the length of time the security has been in a loss position, guarantees provided by third parties, ratings on the security, cash flow from the security and collateral backing the security.

We have been receiving principal payments on all securities since acquisition and the current credit support on all securities is higher than the credit support provided at the inception of the bond.

For the non-agency securities with unrealized losses at December 31, 2009, the collateral is generally based on loans originated between 2001 and 2004, and as a result the loan to value ratios of the underlying loans generally indicates risk of loss is relatively low. For the securities that were structured in 2008 or later, we own early sequential bonds that are currently paying down and the securities are senior to subordinated securities. Principal payments on the subordinated securities are redirected to reduce principal on our securities until the securities have been paid in full.

All securities owned are investment grade, except one. For this security, and a few other securities that have been in an unrealized loss position for a longer period, we obtained credit surveillance reports that provide prospective analysis of the securities performance under various scenarios. The credit surveillance reports do not currently project credit losses.

There were no securities that management concluded were other-than-temporarily impaired in either 2009 or 2008.

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):

	2009	2008
Federal Reserve Bank Stock, at cost	$ 1,297	$ 1,297
Federal Home Loan Bank of Des Moines Stock, at cost	1,751	4,692
Total	$ 3,048	$ 5,989

There is no contractual maturity on these investments; the investments are required by counterparties.

NOTE 6. Loans and Leases

Loan Portfolio Composition

The composition of loans held for investment classified as we present on our regulatory reports are as follows at December 31 (in thousands):

	2009	2008
Commercial and industrial	$ 124,773	$ 138,671
Real estate:		
Mortgage	266,051	265,360
Construction	96,327	108,713
Participating interests in mortgage loans	38,534	28,584
Agricultural	23,142	22,023
Other	7,397	8,793
Total gross loans held for investment	556,224	572,144
Unearned income and net unamortized deferred fees and costs	(582)	(807)
Loans, net of unearned income and unamortized fees and costs	555,642	571,337
Allowance for credit losses	(18,047)	(8,751)
Net loans and leases	$ 537,595	$ 562,586

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.

Impaired Loans

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

	2009		2008	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans -				
Valuation allowance required	$ 33,821	$ 3,998	$ 17,355	$ 1,619
No valuation allowance required	2,377	-	-	-
Total impaired loans	$ 36,198	$ 3,998	$ 17,355	$ 1,619

Impaired loans include loans the Bank will not be able to collect all amounts due in accordance with the terms of the loan agreement. The Bank generally considers loans risk-graded substandard, risk rated doubtful, non-accrual and recently restructured loans, as impaired loans.

The valuation allowance on impaired loans is included in the Bank's allowance for credit losses. The following tables present information on impaired loans for the years ended December 31 (in thousands):

	2009	2008
Average recorded investment in impaired loans	$ 37,766	$ 17,917
Average recorded investment in impaired loans as a percentage of average total loans	6.29%	3.41%

	Year Ended December 31, 2009	Year Ended December 31, 2008
Interest income recognized on impaired loans	$ 1	$ 170
Interest income recognized on a cash basis during the time of impairment	1	169

Nonperforming Loans

As of December 31, the Bank's nonperforming loans were as follows (in thousands):

	2009	2008
Loans 90 days or more delinquent and still accruing interest	$ 1	$ 6
Non-accrual loans	35,889	22,909
Total nonperforming loans	$ 35,890	$ 22,915

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

	December 31,	
	2009	2008
	(in thousands)	
Restructured loans	$ 14,337	$ 2,379

Loans to Related Parties

Note 21 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, 2009, the future minimum annual lease payments for direct finance lease obligations were as follows (in thousands):

2010	$ 258
2011	225
2012	24
2013	-
2014	-
Thereafter	-
Total future minimum lease payments	507
Unguaranteed residual values	243
Total all payments	750
Unearned income	(56)
Net outstanding principal amount	$ 694

Loans Pledged as Collateral

The table below presents loans pledged as collateral as of December 31(in thousands):

	2009	2008
Single and multi-family residential mortgage	$ 7,833	$ 12,245
Commercial real estate first mortgage	98,055	58,174
Home equity lines of credit	8,008	7,644
Residential second mortgage	5,525	7,227
Loans held for sale	22,826	10,718
Total	$ 142,247	$ 96,008

NOTE 7. Allowance for Credit Losses

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

	2009	2008
Balance, beginning of year	$ 8,751	$ 6,599
Provision for credit losses	27,000	7,750
Loans charged off	(17,876)	(5,946)
Loans recovered	172	348
Balance, end of year	$ 18,047	$ 8,751

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. Each property is evaluated regularly and the amounts provided to decrease the carrying amount are included in non-interest expense. A summary of the activity related to ORE is presented below for the years ended December 31 (in thousands):

	2009	2008
Balance, beginning of year	$ 10,189	$ -
Transfers from nonperforming loans	8,132	10,718
Real estate sold	(3,012)	(222)
Net gains (losses) on sale of assets	1	(38)
Provision	(8,057)	(269)
Balance, end of year	$ 7,253	$ 10,189

NOTE 9. Premises and Equipment, net

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

	2009	2008
Land and improvements	$ 6,692	$ 6,692
Buildings and improvements	12,957	12,914
Leasehold improvements	1,807	1,795
Furniture, fixtures and equipment	9,440	8,643
Total cost	30,896	30,044
Less accumulated depreciation and amortization	(10,474)	(9,234)
Net premises, leasehold improvements and equipment	$ 20,422	$ 20,810

Depreciation and amortization expense charged to continuing operations totaled approximately $1.5 million and $1.4 million for the years ended December 31, 2009 and 2008, respectively.

During 2008, the Company sold a building and recognized a gain of $832,000. The Company also periodically sells equipment no longer used in operations.

NOTE 10. Deposits

The scheduled maturities of time deposits as of December 31, 2009 are as follows (in thousands):

2010	$ 243,439
2011	27,279
2012	26,885
2013	1,278
2014	15,973
Thereafter	61,880
	$ 376,734

At December 31, 2009 and 2008, the Bank had $115.8 million and $99.7 million, respectively, of time deposits that had been acquired through a broker.

The following table shows a summary of interest expense by product type as of December 31 (in thousands):

	2009	2008
Savings	$ 13	$ 33
Interest checking	349	133
Money market	2,028	3,941
Time deposits	9,996	10,992
	$ 12,386	$ 15,099

Deposits Received from Related Parties
Note 21 to these consolidated financial statements includes information relating to deposits received from executive officers, directors, principal shareholders and associates of such persons.

NOTE 11. 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):

	2009	2008
Federal funds purchased and U. S. Treasury tax and loan retainer	$ 1,315	$ 9,345
Repurchase agreements with customers, renewable daily, interest payable monthly, rates ranging from 0.50% to 1.15%, and 0.25% to 1.70%, respectively, secured by government agency collateralized mortgage obligations	8,875	7,499
	$ 10,190	$ 16,844

The weighted average interest rate on short-term borrowings outstanding as of December 31, 2009 and 2008 was 0.70% and 0.88%, 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, 2009, $8.9 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.80%, maturing in 2010, were collateralized by government agency collateralized mortgage obligations having a carrying value of $19.5 million, a market value of $19.5 million and unamortized principal balances of $19.4 million. 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, 2009, the Bank had established Federal funds purchase programs with two banks, totaling $4 million. At December 31, 2009, the Bank had purchased Federal funds of $0 under these programs leaving $4 million available. 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 12. Federal Home Loan Bank Advances

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

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

As of December 31, 2009, the Bank had a $15.0 million FHLB advance maturing March 11, 2013. The Bank may repay this advance without a prepayment penalty, on March 10, 2010 and quarterly thereafter. On July 17, 2009, the Bank exercised its option to repay the $7 million advance maturing in 2015 that was outstanding as of December 31, 2008. The Bank exercised this option without a prepayment penalty.

At December 31, 2009, the advances from the FHLB were collateralized by the Bank's mortgage loans with unamortized principal balances of approximately $142.2 million. In addition, the advances from the FHLB were collateralized by securities with unamortized principal balances of approximately $66.3 million. The Bank has the ability to draw additional advances up to $110.6 million based upon the mortgage loans and securities that are currently pledged, subject to a requirement to purchase additional FHLB stock.

NOTE 13. Other Borrowings

As of December 31, 2009, BNCCORP had a $20.0 million established line of credit with the Bank of North Dakota (BND). Interest is payable quarterly at 30-day LIBOR plus 2.00%; maturity was February 15, 2010. No funds were drawn on the line as of December 31, 2009 or 2008. The line of credit has matured and management is working with BND to obtain a replacement line of credit.

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

In July 2007, BNCCORP issued $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, 2009 was 1.69% and the interest rate reset on January 2, 2010 to 1.65%. 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 approval by the Federal Reserve.

In July 2000, BNCCORP issued $7.5 million of trust preferred securities at 12.05%. 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 at declining redemption prices. Redemption is subject to approval by the Federal Reserve.

In January 2010, BNCCORP deferred interest payments on its subordinated debentures as it is permitted pursuant to contractual terms of the indentures. While indentures permit interest to be deferred for up to 60 months, interest on the debentures continues to accrue during deferment.

The indentures that contractually permit deferring interest on the subordinated debentures also require dividends on junior securities be suspended when interest on subordinated debentures are deferred.

NOTE 15. Stockholders' Equity

On January 16, 2009, BNCCORP 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 (CPP). 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 on January 16, 2009.

As a result of participating in the CPP, there are two series of preferred stock outstanding. One series is perpetual, non-voting and pays dividends at 5% of its liquidation preference per annum until the fifth anniversary of the Treasury Department's investment and thereafter pays a dividend of 9%. There are 20,093 shares of this series outstanding at December 31, 2009. Each share has a liquidation preference of $1,000 per share. This series of shares can not be redeemed without prior approval from regulatory authorities.

The second series of preferred stock has the same voting rights and privileges as the other series, except that this series pays dividends at 9% of its liquidation preference per annum and may not be redeemed until the other series has been redeemed. There are 1,005 shares of this series outstanding at December 31, 2009.

The relative fair value method was used to allocate the values of the two series of preferred stock. Management assumed both series of preferred stock would be redeemed in five years. A 6.51% discount rate was used to determine the values of the preferred stock.

As a result of deferring interest on subordinated debentures, BNCCORP is contractually required to cease payment on the CPP preferred stock. The Treasury department is permitted to appoint a representative to the Board of Directors (the Board) of BNCCORP if dividend payments on the CPP preferred stock have not been made for two years.

BNCCORP and the Bank are subject to certain minimum capital requirements (see Note 2 to these consolidated financial statements). BNCCORP is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval pursuant to the Federal Reserve Act. The terms of the preferred stock issued under the CPP precludes certain dividend payments to common shareholders and certain repurchases of outstanding shares of common stock until the preferred shares have been redeemed.

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, 2009, the Bank would require prior regulatory approval to pay any dividends to BNCCORP.

On May 30, 2001, BNCCORP's 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 16. Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages economic risks, including interest rate and liquidity risk, primarily by managing the amount, sources, and duration of its assets and liabilities and secondarily through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable-rate loan assets.

Fair Values of Derivative Instruments on the Consolidated Balance Sheets

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheets as of December 31, 2009 and 2008 (in thousands):

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	2009		2008		2009		2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments								
Interest Rate Floor	Other Assets	$ -	Other Assets	$ 1,896	Other Liabilities	$ -	Other Liabilities	$ -
Total Derivatives Designated as Hedging Instruments		$ -		$ 1,896		$ -		$ -
Derivatives **Not** Designated as Hedging Instruments								
Interest Rate Floor	Other Assets	$ 49	Other Assets	$ -	Other Liabilities	$ -	Other Liabilities	$ -
Total Derivatives **Not** Designated as Hedging Instruments		$ 49		$ -		$ -		$ -

Cash Flow Hedges of Interest Rate Risk

The Company's objective in using interest rate derivatives is to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate floors as part of its interest rate risk management strategy. Interest rate floors involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up front premium.

As of December 31, 2009, the Company had no interest rate floors that were designated as cash flow hedges of interest rate risk. During the second quarter of 2009, the Company's $50 million interest rate floor failed to qualify for hedge accounting due to a mismatch between the floor notional and the aggregate principal amount of the designated loan pools; accordingly, all changes in the fair value of the floor subsequent to March 31, 2009 were recognized directly in earnings. Amounts recognized in earnings during the period April 1, 2009 to December 31, 2009 are disclosed under the heading "Derivatives Not Designated as Hedging Instruments" throughout this footnote. During the twelve months ended December 31, 2009, the Company recognized a loss of $12,440 for hedge ineffectiveness attributable to the mismatch that caused the floor to disqualify for hedge accounting during the second quarter of 2009. No hedge ineffectiveness was recognized during 2008.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets. During the next twelve months, the Company estimates that $39,532 will be reclassified as an increase to interest income.

Effect of Derivative Instruments on the Statements of Operations

The tables below present the effect of the Company's derivative financial instruments on the Statements of Operations for the years ended December 31 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2009	2008		2009	2008		2009	2008
Interest Rate Floor	$ 43	$ 1,879	Interest Income	$ 1,545	$ 652	Other Income	$ (12)	$ 105
			Other Income	10	-			
Total	$ 43	$ 1,879		$ 1,555	$ 652		$ (12)	$ 105

Non-designated Hedges

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As noted under "Cash Flow Hedges of Interest Rate Risk," the Company's $50 million interest rate floor disqualified for hedge accounting as of April 1, 2009; accordingly, the changes in fair value of the floor subsequent to March 31, 2009 have been recognized directly in earnings.

The amount recorded in operations shown in the table below represents the net effect of changes in fair value of the interest rate floor and cash receipts for the years ended December 31 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2009	2008
Interest Rate Floor	Other Income	$ 23	$ -
Total		$ 23	$ -

NOTE 17. Fair Value Measurements

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

	2009			
	Total	Level 1	Level 2	Level 3
ASSETS				
Securities available for sale	$ 212,661	$ -	$ 212,661	$ -
Loans held for sale	24,130	-	24,130	-
Commitments to originate mortgage loans	427	-	427	-
Interest rate floor	49	-	49	-
Total assets at fair value	$ 237,267	$ -	$ 237,267	$ -
LIABILITIES				
Commitments to sell mortgage loans	$ 675	$ -	$ 675	$ -
Total liabilities at fair value	$ 675	$ -	$ 675	$ -

	2008			
	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 in the tables above had no net impact on our Consolidated Statements of Operations for the years ended December 31, 2009 and 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 U.S. generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower of cost or market accounting or write-down of individual assets. For assets measured at fair value on a nonrecurring basis the following table provides the level of valuation assumptions used to determine the carrying value at December 31 (in thousands):

	2009				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/ (losses)**
Impaired loans[1]	$ 32,200	$ -	$ -	$ 32,200	$ (7,268)
Other real estate[2]	7,253	-	-	7,253	(8,056)
Total	$ 39,453	$ -	$ -	$ 39,453	$ (15,324)

	2008				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/ (losses)**
Impaired loans[1]	$ 29,340	$ -	$ -	$ 29,340	$ (5,386)
Other real estate[2]	10,189	-	-	10,189	(307)
Total	$ 39,529	$ -	$ -	$ 39,529	$ (5,693)

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

NOTE 18. Fair Value of Financial Instruments

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

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 35,362	$ 35,362	$ 10,569	$ 10,569
Investment securities available for sale	212,661	212,661	209,857	209,857
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	3,048	3,048	5,989	5,989
Loans held for sale	24,130	24,130	13,403	13,403
Participating interests in mortgage loans	38,534	38,534	28,584	28,584
Loans and leases held for investment, net	499,061	494,242	534,002	533,008
Accrued interest receivable	2,970	2,970	3,263	3,263
Derivative financial instruments	216	216	1,896	1,896
	815,982	$ 811,163	807,563	$ 806,569
Other assets	52,101		53,935	
	$ 868,083		$ 861,498	
Liabilities and Stockholders' Equity:				
Deposits, non-interest-bearing	$ 98,658	98,658	$ 68,996	$ 68,996
Deposits, interest-bearing	657,305	658,647	606,325	608,275
Borrowings and advances	25,190	25,278	101,344	101,833
Accrued interest payable	1,468	1,468	1,679	1,679
Guaranteed preferred beneficial interests in Company's subordinated debentures	22,890	11,266	23,025	12,382
		$ 795,317	801,369	$ 793,165
Other liabilities	5,307		6,182	
Stockholders' equity	57,265		53,947	
	$ 868,083		$ 861,498	
Financial instruments with off-balance-sheet risk:				
Commitments to extend credit		$ 64		$ 300
Standby and commercial letters of credit		41		65
Mortgage banking commitments to fund loans		427		429
Mortgage banking commitments to sell loans		675		697
		$ 1,207		$ 1,491

NOTE 19. 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, which are binding, provided there is no violation of any condition in the contract, and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Bank's exposure to credit loss in the event of default by the borrower. At December 31, 2009, based on current information, no losses were anticipated as a result of these commitments. The Bank manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management's credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment or real estate. Since the Bank expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Bank's future liquidity requirements related to such commitments.

In our mortgage banking operations we commit to extend credit for purposes of originating residential loans. We underwrite these commitments to determine whether 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 three counterparties. As of December 31, 2009, there was a $43.5 million limit to our loan commitment with these relationships.

Standby and Commercial Letters of Credit
Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commercial letters of credit are issued on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Bank's credit loss exposure is up to the letter's contractual amount. At December 31, 2009, 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):

	2009		2008	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 11,996	$ 60,819	$ 20,613	$ 96,831
Standby and commercial letters of credit	761	3,320	244	6,265

In addition to the amounts in the table above, our mortgage banking commitments to fund loans totaled $29.2 million for 2009 and $25.9 million for 2008. Also, our mortgage banking commitments to sell loans totaled $53.1 million for 2009 and $39.0 million for 2008.

NOTE 20. Guarantees and Contingent Consideration

Guaranteed Preferred Beneficial Interests In Company's Subordinated Debentures
BNCCORP fully and unconditionally guarantees the Company's subordinated debentures.

Performance and Financial Standby Letters of Credit
As of December 31, 2009 and 2008, the Bank had outstanding $481 thousand and $4.3 million of performance standby letters of credit and $13.3 million and $30.6 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 21. 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. The related party transactions have under terms substantially the same as those offered by the Bank to unrelated parties.

In the normal course of business, loans are granted to, and deposits are received from, executive officers, directors, principal stockholders and associates of such persons. The aggregate dollar amount of these loans, which exceeded $60,000, was $1.8 million and $2.2 million at December 31, 2009 and 2008, respectively. Originations in 2009 and 2008 totaled $417,000 and $237,000, respectively. Loan paydowns in 2009 and 2008 were $792,000 and $28,000, respectively. The total amount of deposits received from these parties was $1.4 million and $1.1 million at December 31, 2009 and 2008, 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, 2009, BNCCORP and its affiliates were in compliance with these requirements.

NOTE 22. Income Taxes

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

	2009	2008
Current:		
Federal	$ (4,138)	$ 1,499
State	40	396
	(4,098)	1,895
Deferred:		
Federal	(2,899)	(958)
State	(1,165)	(200)
Valuation allowance	6,537	-
	2,473	(1,158)
Total	$ (1,625)	$ 737

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

	2009	2008
Tax (benefit) at 34% statutory rate	$ (6,936)	$ 1,005
State taxes (net of Federal benefit)	(1,114)	142
Tax-exempt interest	(138)	(267)
Cash surrender values of bank-owned life insurance	(175)	(179)
Other, net	201	36
	(8,162)	737
Deferred tax valuation allowance	6,537	-
	$ (1,625)	$ 737

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):

	2009	2008
Deferred tax asset:		
Loans, primarily due to credit losses	$ 4,701	$ 3,585
Branch premium acquisition costs	28	117
Acquired intangibles	279	37
Unrealized loss on securities available for sale	135	2,965
Net operating loss carryforwards	1,469	-
Alternative minimum tax credits	551	-
Other real estate owned	2,596	904
Other	508	782
Deferred tax asset	10,267	8,390
Deferred tax liability:		
Unrealized gain on cash flow hedges	6	511
Discount accretion on securities	1,759	930
Leases	216	373
Premises and equipment	561	577
Other	199	148
Deferred tax liability	2,741	2,539
	7,526	5,851
Valuation allowance	(7,526)	(227)
Net deferred tax asset	$ -	$ 5,624

During 2009, the valuation allowance for net deferred tax assets was increased such that net deferred tax assets were reduced to $0. The valuation allowance was required because cumulative losses in the 36 month period ended September 30, 2009 exceeded earnings.

The Company is able to carry forward federal tax net operating losses aggregating $1.800 million as of December 31, 2009. The carry forward period is 20 years.

At December 31, 2009, the Company had an unrecognized tax benefit of $97,000. 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 $14,000 of interest accrued at December 31, 2009 and no penalties. Interest included in tax expense for 2009 is approximately a benefit of $4,000.

The Company files consolidated federal and unitary state income tax returns where allowed. Tax years ending December 31, 2006 through 2008 remain open to federal examination, although there are no examinations in progress at this time. Tax years ended December 31, 2005 through 2008 remain open to state examinations.

It is reasonably possible the unrecognized tax benefit discussed above may be reduced by $28,000 within the next twelve months. This amount includes $6,000 of interest and no penalties.

NOTE 23. Earnings (Loss) Per Share

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

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

	2009	2008
Denominator for basic earnings per share:		
Average common shares outstanding	3,261,831	3,291,697
Dilutive common stock options	11,891	27,528
Diluted common shares	3,273,722	3,319,225
Numerator:		
Net income (loss)	$ (18,776)	$ 2,218
Preferred stock costs	(1,254)	-
Net income (loss) available to common shareholders	$ (20,030)	$ 2,218
Basic earnings (loss) per common share	$ (6.14)	$ 0.67
Diluted earnings (loss) per common share	$ (6.14)	$ 0.67

At December 31, 2009 and 2008, options totaling 41,700 and 12,200, 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 $5.94 to $7.38.

NOTE 24. 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 75% 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 2009 and 2008, BNCCORP and its subsidiaries made matching contributions of up to 50% of eligible employee deferrals up to a maximum employer contribution of 5% of employee compensation. Generally, all participant contributions and earnings are fully and immediately vested. The Company makes its matching contribution during the first calendar quarter following the last day of each calendar year and an employee must be employed by the Company on the last day of the calendar year in order to receive the current year's employer 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 $365,000 and $387,000 for 2009, and 2008, 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, 2009, the assets in the plan totaled $13.9 million and included $280,000 (108,690 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 25. 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). However, the agreement governing the preferred stock issued to the Treasury department precludes payment of "golden parachutes" to senior executive officers of the Company so long as the preferred stock is outstanding.

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, 2009 and 2008 was $1.358 million and $994,000, respectively, for facilities, and $49,000 and $39,000, respectively, for equipment and other items. At December 31, 2009, the total minimum annual base lease payments for operating leases were as follows (in thousands):

2010	$	1,302
2011		1,039
2012		637
2013		137
2014		141
Thereafter		1,967

NOTE 26. 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 cannot exceed 250,000 shares. Under the 2002 Stock Incentive Plan, the aggregate number of shares cannot exceed 125,000 shares. Under the 2006 Stock Incentive Plan, the aggregate number of shares cannot 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, 2009 are as follows:

	1995 Stock Incentive Plan	2002 Stock Incentive Plan	2006 Stock Incentive Plan	Total
Total Shares Available	61,251	107,250	136,600	305,101
Maximum Restricted Shares Available	61,251	7,250	136,600	205,101

The Company recognized share-based compensation expense of $262,000 and $342,000 for the year ended December 31, 2009 and 2008, respectively, all of which related to restricted stock.

The tax benefits associated with share-based compensation were approximately $56,000 and $108,000 for the year ended December 31, 2009 and 2008, respectively.

At December 31, 2009, the Company had $91,000 of unamortized restricted stock compensation. At December 31, 2008, the Company had $352,000 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 activities for the years ended December 31:

	2009		2008	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	37,332	$ 12.35	51,766	$ 12.50
Granted	-	-	19,500	11.03
Vested	(28,832)	12.44	(26,434)	12.46
Forfeited	-	-	(7,500)	9.60
Nonvested, end of year	8,500	12.04	37,332	12.35

No stock options were granted during 2009 or 2008 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:

	2009		2008	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	44,200	$ 6.34	107,700	$ 11.76
Granted	-	-	-	-
Exercised	-	-	(8,000)	5.94
Forfeited	(2,500)	8.75	(55,500)	17.04
Outstanding, end of year	41,700	$ 6.20	44,200	$ 6.34
Exercisable, end of year	41,700	$ 6.20	44,200	$ 6.34
Weighted average fair value of				
Granted	$ -		$ -	
Exercised	$ -		$ 2.80	
Forfeited	$ 3.91		$ 7.53	

Following is a summary of the status of options outstanding at December 31, 2009:

	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 $7.38	41,700	1.4 years	$ 6.20	41,700	$ 6.20
	41,700			41,700	

NOTE 27. 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)

	2009	2008
Assets:		
Cash and cash equivalents	$ 4,339	$ 1,766
Investment securities available for sale	1,463	-
Investment in subsidiaries	77,894	76,526
Receivable from subsidiaries	159	570
Deferred charges and intangible assets, net	-	154
Other	7,404	446
Total assets	$ 91,259	$ 79,462
Liabilities and stockholders' equity:		
Subordinated debentures	$ 23,118	$ 23,115
Payable to subsidiaries	7,135	487
Accrued expenses and other liabilities	1,781	1,913
Total liabilities	32,034	25,515
Preferred stock, $.01 par value. Authorized 2,000,000 shares:		
Preferred Stock - 5% Series A 20,093 shares issued and outstanding;	19,187	-
Preferred Stock - 9% Series B 1,005 shares issued and outstanding;	1,098	-
Common stock, $.01 par value. Authorized 10,000,000 shares; 3,290,219 and 3,299,163 shares issued and outstanding	33	33
Capital surplus – common stock	26,885	26,628
Retained earnings	16,078	36,104
Treasury stock (363,434 and 357,738 shares, respectively)	(5,068)	(5,020)
Accumulated other comprehensive income (loss), net of income taxes	1,012	(3,798)
Total stockholders' equity	59,225	53,947
Total liabilities and stockholders' equity	$ 91,259	$ 79,462

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

	2009	2008
Income:		
Management fee income	$ 1,555	$ 1,599
Interest	1,376	17
Other	41	76
Total income	2,972	1,692
Expenses:		
Interest	1,292	1,728
Salaries and benefits	749	829
Legal and other professional	534	443
Depreciation and amortization	1	3
Other	958	610
Total expenses	3,534	3,613
Loss before income tax benefit and equity in income of subsidiaries	(562)	(1,921)
Income tax expense (benefit)	(783)	646
Loss before equity in income of subsidiaries	(1,345)	(1,275)
Equity in income (loss) of subsidiaries	(17,431)	3,493
Net income (loss)	$ (18,776)	$ 2,218

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

	2009	2008
Operating activities:		
Net income (loss)	$ (18,776)	$ 2,218
Adjustments to reconcile net income (loss) to net cash used in operating activities -		
Equity in undistributed income of subsidiaries	17,431	(3,493)
Depreciation and amortization	5	6
Impairment of goodwill	154	-
Other noncash expense	105	-
Deferred income taxes	352	110
Change in prepaid expenses and other receivables	(6,950)	(61)
Change in accrued expenses and other liabilities	5,961	(409)
Net cash used in operating activities	(1,718)	(1,629)
Investing activities:		
Increase (decrease) in investment in subsidiaries	(15,001)	4,766
Net cash (used in) provided by investing activities	(15,001)	4,766
Financing activities:		
Proceeds from issuance of preferred stock	20,093	-
Payment of preferred stock dividends	(1,058)	-
Proceeds from issuance of share-based compensation	257	273
Purchase of treasury stock	-	(2,598)
Net cash (used in) provided by financing activities	19,292	(2,325)
Net increase in cash and cash equivalents	2,573	812
Cash and cash equivalents, beginning of year	1,766	954
Cash and cash equivalents, end of year	$ 4,339	$ 1,766
Supplemental cash flow information:		
Interest paid	$ 1,149	$ 1,675
Income tax payments received from the subsidiary bank, net of income taxes paid	$ 2,310	$ 2,173

NOTE 28. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through March 17, 2010, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

Corporate Data

Investor Relations

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President/CEO
602-852-3526

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

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Annual Meeting

The 2010 annual meeting of stockholders will be held on Wednesday, June 16, 2010 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,

	2009[1]		2008[1]	
	High	**Low**	**High**	**Low**
First Quarter	$13.89	$11.75	$13.89	$11.75
Second Quarter	$13.00	$9.05	$13.00	$9.05
Third Quarter	$11.00	$7.80	$11.00	$7.80
Fourth Quarter	$8.90	$5.15	$8.90	$5.15

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

Stock Transfer Agent and Registrar

American Stock Transfer & Trust Company
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DIRECTORS
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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 and CFO
Tiller Corporation d/b/a Barton Sand & Gravel Co., Commercial Asphalt Co. and Barton Enterprises, Inc.

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Chief Executive Officer,
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Michael O'Rourke
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Shawn Cleveland
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B. Timothy Swanson

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Bismarck, ND 58504

Bismarck North
801 East Century Avenue
Bismarck, ND 58503

Primrose Assisted Living Apartments
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Bismarck, ND 58501

Waterford on West Century
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Bismarck, ND 58503

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Crosby, ND 58730

Garrison
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Garrison, ND 58540

Kenmare
103 1st Avenue SE
Kenmare, ND 58746

Linton
104 North Broadway
Linton, ND 58552

Stanley
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Stanley, ND 58784

Watford City
205 North Main
Watford City, ND 58854

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Minneapolis, MN 55402

Golden Valley
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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
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Scottsdale, AZ 85255

Glendale
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Glendale, AZ 85308

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Scottsdale, AZ 85255

Wichita
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Wichita, KS 67212

Overland Park
7007 College Boulevard
Overland Park, KS 66211

Davenport
3709 Harrison Street
Davenport, IA 52806

Belton
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Belton, MO 64012

Lincoln
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Lincoln, NE 68516

Grand Island
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Grand Island, NE 68803

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BNCCORP and Subsidiaries

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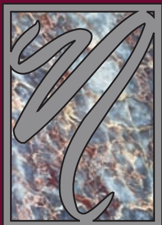
President and
Chief Executive Officer

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



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