2017

ANNUAL REPORT

BNCCORP

BNCCORP, INC. (BNCCORP or the Company) is a bank holding company registered under the Bank Holding Company Act of 1956 headquartered in Bismarck, North Dakota. It is the parent company of BNC National Bank (the Bank). The Company operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 15 locations. BNC also conducts mortgage banking from 13 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas, and Missouri.

CORPORATE PROFILE: THE BUSINESS OF BNC

BNC (or the Company) is a diversified community bank with three primary areas of focus: commercial banking, retail and mortgage banking, and wealth management.

Commercial Banking. We meet the needs of small to middle-market businesses with a range of commercial banking services, including: business financing, commercial real estate lending, SBA loans, business checking, cash management, corporate credit cards and merchant services. The core of our commercial banking relationships are in North Dakota, mainly in the capital region of Bismarck/Mandan. From Bismarck, and locations to the north and west, we serve communities in North Dakota that are economically influenced by oil and energy, and to a lesser extent, we serve the agricultural communities of central North Dakota. In recent years, our banking presence in Phoenix, Arizona has grown significantly. By operating banking locations in Phoenix and Minnesota we create further opportunities for growth while diversifying our credit exposure.

Retail and Mortgage Banking. BNC's services to consumers include retail banking, provided through a network of locations in North Dakota, Arizona and Minnesota. Among our broad array of retail banking services are personal checking and savings products, personal loans and card services. Our branch network is concentrated in North Dakota, where we are responsive to the preference of our customers for convenient face-to-face transactional banking. BNC has been rewarded with our customers' loyalty as our deposit growth and retention has been remarkable.

Our mortgage banking operations generate residential loans through a consumer direct channel, as well as a retail channel with locations in Arizona, Minnesota, North Dakota, Illinois, Kansas and Missouri. The consumer direct channel emphasizes the use of technology, including internet-generated leads and a call center, to originate loans throughout the U.S. The retail channel is more traditional and emphasizes relationships to originate loans near our branch network.

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

Timothy J. Franz
President and Chief Executive Officer

TO OUR COMMUNITY, SHAREHOLDERS, CUSTOMERS AND EMPLOYEES:

The dictionary definition of a bank is, "an establishment authorized to act as an intermediary in financial transactions and provide other services to its customers." While this definition may be functionally accurate, it lacks passion, a sense of community, and the value that comes from building customer-focused relationships. Furthermore, it certainly does not describe a place where I would entrust my family's financial well-being, or where I would turn for critical business needs.

At BNC, we are defined by a clear purpose and commitment. We are a community bank energized by people who are driven to improve the communities where they live, and we create value by delivering relationship-based services.

In 2017, as in years past, our focus on serving the needs of our community and nurturing strong financial relationships led to solid performance. BNC's financial and operating results were distinguished by exceptional deposit growth, solid loan growth, and significant expansion in wealth management assets. We also continued to manage our business in an entrepreneurial and resourceful manner, streamlining operations and costs in areas such as mortgage banking.

Most importantly, our team is united by the common purpose of providing relationship-based services that create value for clients and shareholders, as well as a commitment to community participation. We will showcase examples of our relationship-based client service and community engagement throughout this report.

BNC employees preparing to transport over 18,000 employee-donated food items to a local food bank.

The Power of Relationship-Based Banking

Serving the needs of small and medium sized businesses is a primary focus for BNC. The foundation of our approach to this market niche is relationship-based business banking. Our bankers invest time with our clients and their businesses, so we can deliver a high level of customer service and be a valued partner. We're at the business owner's side to provide thoughtful solutions tailored to their needs, not simple, standardized financial products and services. As a business-focused community bank, our strategic advantage is that we can be more nimble than large banks – thinking "outside the box" to offer flexible approaches to business challenges and opportunities.

While enabling a more personalized level of customer service, relationship-based banking also enhances shareholder value. Our model leads to stable, enduring client relationships that grow over time, as customers turn to us for additional products and services when their needs evolve. BNC has business customer relationships and trust accounts that have lasted for decades; for example, our wealth management division has serviced the same family for four generations.

BNC's approach to customer service is "high-touch," but clients also benefit from access to advances in banking technology. For example, we offer mobile wallet services, mobile phone based transaction capabilities, and online banking. Unfortunately, cybersecurity threats are routine in the current environment, which is why we support our services with a robust systems, operational and information security infrastructure.

An Entrepreneurial Bank for Entrepreneurial Customers

At BNC, we share our clients' entrepreneurial spirit. We know how important it is to be agile and flexible in responding to – and even anticipating – customers' needs in a fast-changing business climate. We partner with our clients to provide them with the products, services, and enterprising thought that enables them to fulfill their dreams. Our entrepreneurial approach and dedication to relationship-based banking are evident in the following "real world" examples of community banking in action.

- Several decades ago, a young man in North Dakota had the vision to recognize that energy deregulation would create opportunity. He created a new business to compete against large-scale utilities by providing energy to local municipalities and businesses. Today, that business has grown to a size, scope and complexity that would have been hard to imagine some years ago. BNC, the banking partner from the beginning, has helped this long-term client grow every step of the way.

- After spending years in the field acquiring the skills needed to survive and succeed on a mission, a retired Army Special Forces disabled veteran wanted to start a company in Arizona to train active duty military personnel in the same skills. His company won a significant U.S. military contract, but needed working capital to fund the contract. BNC partnered with this distinguished veteran to provide financing using a little-known SBA program. His company is now an approved "prime" contractor and well positioned for future contracts that will drive the growth of the business and provide critical training to save the lives of American service men and women.

Over 30 BNC employees serve 473 meals at a community based food shelf that provides meals and fellowship to hundreds of people each week.

- For the new owner of a book publishing company in Minneapolis, a weekend trip to the neighborhood grocery store resulted in a chance encounter with a familiar face: a BNC banker. While her publishing business self-finances and is unlikely to need a bank loan, she believed the BNC banker could provide business advice tailored to her circumstances. After a quickly arranged visit to discuss her new business, BNC is now home to her business deposits.

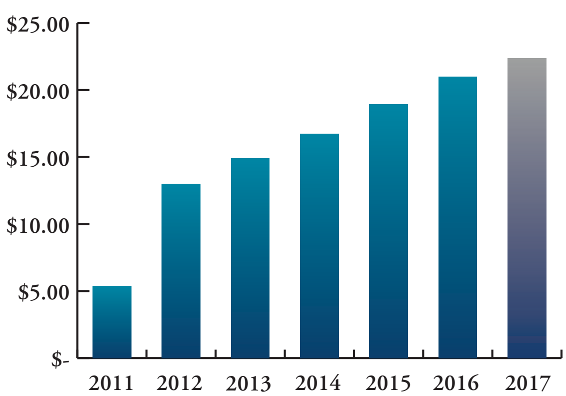
- The owner of a business was working with a "big box bank" – only to be transferred to the loan workout group when the business hit tough times. This owner, realizing that a community bank would understand the difference between a short-term event and a broken business, turned to BNC. We listened and provided a solution, by refinancing via loans that fit the circumstances of the business while freeing the owner from burdensome debt.

In each of these cases, and many more, BNC worked side-by-side with the business owners to deliver solutions to help them succeed. As a community bank, we are able to be more responsive than the generic "big box bank". That responsiveness, combined with our customer-centric focus, represents a strategic advantage. When we do community banking right, we help our customers grow – which helps our own business grow in turn and creates value for our shareholders.

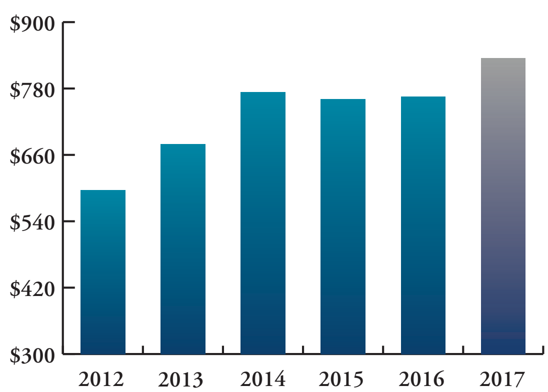
2017 Financial Performance

Net income was $4.9 million, or $1.38 per diluted share, for 2017. This included a $1.2 million tax charge to revalue net deferred tax assets as a result of tax reform, as well as the sale of certain securities at an after-tax loss of $307,000 to maximize federal tax deductibility. Excluding these events linked to tax reform, BNC's adjusted net income would have been $6.4 million, or $1.81 per diluted share. Net income in 2016 was $7.2 million, or $2.03 per diluted share. The trend in net income from 2016 to 2017 was largely due to an $8.2 million decrease in mortgage banking income, which was partly offset by higher net interest income and reduced non-interest expenses. The 2017 results also demonstrated BNC's entrepreneurial and resourceful spirit in driving value for shareholders as we sold a branch for an $864,000 gain and received settlement funds related to litigation. We reduced our operating expenses by more than $2.0 million, as we right-sized mortgage-banking operations and contained costs across all lines of business.

Book Value per Share (Excluding OCI)



Core Deposits (in millions)



Our earnings and return on average equity in 2017 did not quite measure up to the exceptionally strong results of the period from 2013 to 2016, when our average return on equity was 12.5%. The 2017 results were due in part to a very difficult market for mortgage banking due to compressed margins and higher interest rates, and continued softness in commodity pricing, which negatively influenced the markets we serve in North Dakota. As a result of these challenges, our adjusted return on equity was a more modest 8.5% in 2017. That said, we focused sharply on the factors under our control. We improved banking operations, resulting in a

7.1% increase in net interest income, while reducing non-interest expenses 5.0%, which should provide a strong foundation for future profitable growth. We also continued to increase BNC's book value per share to $22.40 at the end of 2017, which compares very favorably to our book value per share of $5.35 at the end of 2011.

"Team BNC" employees support those who cannot walk for themselves at the Walk to Defeat ALS fundraiser, directly supporting ALS education and access to care services.

Total assets were $946.1 million at December 31, 2017, increasing 3.9% from a year earlier. Loans held for investment totaled $428.3 million at the end of 2017, an increase of 3.3% year-over-year. The modest loan growth was impacted by sizeable loan prepayments from borrowers in North Dakota, who opted to deleverage in response to market conditions.

Importantly, we enjoyed strong growth in total deposits during 2017, which rose 8.7% to $817.8 million at December 31, 2017. This reflected especially robust growth in core deposits, which increased 9.2% after considering the December 2017 sale of a North Dakota bank branch. Growing deposits in a cost effective manner is a key value proposition for community banks. BNC remains a deposit-rich franchise and the continued growth in deposits during 2017 notably improved the results of operations and created value for shareholders. We are also pleased with the significant increase in trust assets under management or administration, which rose 17.4%, to $321.3 million at December 31, 2017. Our customers, particularly business owners, are generating wealth for themselves and, with increasing frequency, we are helping them manage their wealth.

Asset quality remained strong. Nonperforming assets were $2.0 million at December 31, 2017, down from $2.7 million a year earlier. The ratio of nonperforming assets to total assets was 0.21% at December 31, 2017, down from 0.29% at December 31, 2016.

Great People Make the Difference

The success of BNC's community banking model – and of the Company overall – depends largely on the skill, professionalism and dedication of our people. We have been fortunate to attract and retain talented people who are passionate about serving their community and customers. They are aligned with our relationship-based approach and work as a united team, each and every day. We think we have one of the most experienced teams in our core market area, and are proud that 30% of our banking operations employees have been with the Company for 10 years or more.

Committed to Our Communities

BNC and its employees recognize the connection between community banking and the vibrancy of our local neighborhoods. Our obligation is to provide financial services to individuals and businesses and to support activities that enhance the places where we, our team members and our customers live and work. That is why BNC enthusiastically invests in arts, education, business development and youth programs that bring vitality to our communities. Our people also embrace this vision and devote their time and talent to community activities of all kinds. Pictured on these pages are some of the many community organizations which we were involved in the past year.

Looking Ahead

As we look toward the future, there are many reasons for an optimistic outlook. Generally speaking, global and national economic conditions appear to be strengthening. The recent U.S. tax reform legislation bodes well for many individuals and businesses, including BNC. At the same time, the trend toward less restrictive government regulation, particularly in the banking industry, should be a positive in terms of our cost structure and competitiveness.

Most importantly, at BNC our fundamentals are strong. We have a relationship-based banking model that works, and delivers value for our clients, communities and shareholders. We have resilient, profitable businesses supported by a solid capital foundation. And we have a team of talented people who are on the front lines each and every day, doing their jobs with professionalism, energy and passion. We thank our colleagues for their hard work and integrity, our board members for their guidance, our shareholders for their investment, and our customers and community for their loyalty and trust.

Sincerely,

Timothy J. Franz

Timothy J. Franz
President and Chief Executive Officer

Forward-Looking Statements

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

Year End Financial Report

For the Year Ended December 31, 2017

BNCCORP, INC.

(OTCQX: BNCC)

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BNCCORP, INC.
INDEX TO YEAR END FINANCIAL REPORT
December 31, 2017
TABLE OF CONTENTS

Selected Financial Data

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

	For the Years Ended December 31,				
	2017	2016	2015	2014	2013
Income Statement Data:					
Total interest income	$ 31,443	$ 29,346	$ 27,915	$ 29,264	$ 23,706
Total interest expense	3,578	3,343	2,570	3,308	3,861
Net interest income	27,865	26,003	25,345	25,956	19,845
Provision (reduction) for credit losses	350	800	(400)	(800)	700
Non-interest income	19,499	25,777	24,950	20,454	29,285
Non-interest expense	39,116	41,193	37,544	34,683	35,981
Income tax expense (1)	3,020	2,631	3,945	4,071	3,822
Net income (1)	$ 4,878	$ 7,156	$ 9,206	$ 8,456	$ 8,627
Preferred stock costs	-	-	1,656	1,796	1,320
Net income available to common shareholders	$ 4,878	$ 7,156	$ 7,550	$ 6,660	$ 7,307
Balance Sheet Data: (at end of period)					
Total assets	$ 946,150	$ 910,400	$ 904,246	$ 934,419	$ 843,123
Investments securities available for sale	411,917	400,136	419,346	449,333	435,719
Loans held for sale-mortgage banking	36,601	39,641	50,445	47,109	32,870
Loans and leases held for investment, net of unearned income	428,325	414,673	379,903	360,789	317,928
Allowance for credit losses	(7,861)	(8,285)	(8,611)	(8,601)	(9,847)
Total deposits	817,806	752,627	780,449	811,231	723,229
Core deposits	835,850	765,138	760,937	773,279	678,670
Short-term borrowings	18,043	12,510	13,851	16,002	19,967
Federal Home Loan Bank advances	-	38,000	7,300	-	-
Long-term borrowings	10,000	10,000	10,000	-	-
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,011	15,013	15,015	15,018	22,432
Preferred stockholders' equity	-	-	-	21,098	21,098
Common stockholders' equity	77,626	74,195	68,988	62,390	48,767
Book value per common share outstanding	$ 22.40	$ 21.47	$ 20.12	$ 18.28	$ 14.45
Book value per common share outstanding, excluding accumulated other comprehensive income	$ 22.38	$ 20.98	$ 18.93	$ 16.72	$ 14.89
Tangible common equity ratio	8.18%	8.13%	7.62%	6.67%	5.78%
Earnings Performance / Share Data:					
Return on average total assets (1)	0.50%	0.78%	1.01%	0.94%	1.07%
Return on average common stockholders' equity, excluding accumulated other comprehensive income (1)	6.45%	10.35%	12.21%	12.37%	15.15%
Efficiency ratio	82.59%	79.55%	74.65%	74.73%	73.24%
Net interest margin	3.05%	3.03%	2.96%	3.07%	2.65%
Net interest spread	2.92%	2.93%	2.86%	2.97%	2.54%
Basic earnings per common share (1)	$ 1.40	$ 2.08	$ 2.23	$ 1.98	$ 2.22
Diluted earnings per common share (1)	$ 1.38	$ 2.03	$ 2.16	$ 1.91	$ 2.11
Average common shares outstanding	3,474,988	3,447,635	3,386,600	3,369,021	3,297,235
Average common and common equivalent shares	3,540,698	3,520,818	3,497,740	3,491,254	3,468,390
Shares outstanding at year end	3,465,992	3,456,008	3,428,416	3,413,854	3,374,601
Other Key Ratios					
Nonperforming assets to total assets	0.21%	0.29%	0.09%	0.03%	0.79%
Nonperforming loans to total assets	0.21%	0.27%	0.06%	0.01%	0.67%
Nonperforming loans to loans and leases held for investment	0.46%	0.59%	0.15%	0.02%	1.77%
Allowance for credit losses to total loans	1.69%	1.82%	2.00%	2.11%	2.81%

(1) The 2017 results include amounts linked to tax reform legislation aggregating $1.515 million. Excluding the impact of these amounts, the Company's would have reported income tax expense of $1.505 million and net income of $6.393 million. Return on average total assets would have been 8.46% and Return on average common stockholder's equity would have been 0.66%. Basic and diluted earnings per share would be $1.84 and $1.81, respectively.

Quarterly Financial Data

	2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
Interest income	$ 7,314	$ 7,901	$ 8,219	$ 8,009	$ 31,443
Interest expense	781	862	962	973	3,578
Net interest income	6,533	7,039	7,257	7,036	27,865
Provision for credit losses	-	150	100	100	350
Net interest income after provision for credit losses	6,533	6,889	7,157	6,936	27,515
Non-interest income	4,747	5,157	5,180	4,415	19,499
Non-interest expense	9,858	10,131	9,576	9,551	39,116
Income before income taxes	1,422	1,915	2,761	1,800	7,898
Income tax expense	361	480	708	1,471	3,020
Net income	$ 1,061	$ 1,435	$ 2,053	$ 329	$ 4,878
Basic earnings per common share	$ 0.31	$ 0.41	$ 0.59	$ 0.09	$ 1.40
Diluted earnings per common share	$ 0.30	$ 0.41	$ 0.58	$ 0.09	$ 1.38
Average common shares:					
Basic	3,472,401	3,473,025	3,477,916	3,482,527	3,474,988
Diluted	3,541,246	3,540,264	3,542,989	3,544,209	3,540,698

	2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
Interest income	$ 7,175	$ 7,346	$ 7,408	$ 7,417	$ 29,346
Interest expense	899	864	776	804	3,343
Net interest income	6,276	6,482	6,632	6,613	26,003
Provision for credit losses	-	400	400	-	800
Net interest income after provision for credit losses	6,276	6,082	6,232	6,613	25,203
Non-interest income	5,651	7,495	7,759	4,872	25,777
Non-interest expense	9,846	10,628	10,718	10,001	41,193
Income before income taxes	2,081	2,949	3,273	1,484	9,787
Income tax expense	666	914	1,014	37	2,631
Net income	$ 1,415	$ 2,035	$ 2,259	$ 1,447	$ 7,156
Basic earnings per common share	$ 0.41	$ 0.59	$ 0.65	$ 0.42	$ 2.08
Diluted earnings per common share	$ 0.40	$ 0.58	$ 0.64	$ 0.41	$ 2.03
Average common shares:					
Basic	3,444,797	3,447,687	3,453,949	3,459,033	3,447,635
Diluted	3,519,855	3,522,033	3,529,279	3,527,030	3,520,818

Operating Strategy

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

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

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

- *Expand opportunistically*. We emphasize organic growth within the markets that we serve and look to opportunistically expand into new lines of business and attractive markets. Organic growth in North Dakota is an emphasis as we believe in the viability of the energy and agricultural industries over the long term. In Arizona, our organic loan growth focuses on small businesses and the SBA arena. We are also willing to opportunistically grow through acquisitions.

- *Managing risk*. Community banking is faced with several forms of inherent risk. We strive to manage risk by balancing the potential costs of various risks and the various rewards of banking opportunities.

- *Emphasize deposit growth.* Growing low-cost core deposits is a key strategy. Our platforms and technology offers us a strategic opportunity to deliver high level deposit services to the businesses and professionals we serve and permits us to attract funds at a low cost.

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

Overview

The following table summarizes selected income statement data and earnings per share data (in thousands, except per share data):

	2017	2016
SELECTED INCOME STATEMENT DATA		
Interest income	$ 31,443	$ 29,346
Interest expense	3,578	3,343
Net interest income	27,865	26,003
Provision for credit losses	350	800
Non-interest income	19,499	25,777
Non-interest expense	39,116	41,193
Income before income taxes	7,898	9,787
Income tax expense	3,020	2,631
Net income	$ 4,878	$ 7,156
EARNINGS PER SHARE DATA		
Basic earnings per common share	$ 1.40	$ 2.08
Diluted earnings per common share	$ 1.38	$ 2.03

The following is a brief overview of recent periods:

- In 2017, net interest income increased 7.2% from 2016 due primarily to higher loans held for investment balances and investment balances as well as higher yields on investment securities.
- Non-interest income decreased $6.3 million, or 24.4%, in 2017, compared to 2016. The decrease primarily relates to a 41.9% decrease in mortgage banking revenue, which was partially offset by increased gains on sales of loans of $502 thousand, a gain on the sale of a bank branch of $864 thousand, and receipt of litigation settlement funds.
- Credit quality remained steady in 2017. At December 31, 2017, our non-performing assets were 0.21% of total assets, compared to 0.29% at December 31, 2016.
- Non-interest expense decreased by $2.1 million, or 5.0%, in 2017. Salaries and employee benefits decreased $938 thousand, or 4.4%, as headcount decreased related to mortgage support staff as the business was being right-sized to fit current revenues. Professional services expense decreased $653 thousand, or 14.3%, in response to significantly lower mortgage loan production and reduced legal expenses. Marketing and promotion expenses decreased $351 thousand, or 9.2%, primarily related to lower mortgage activity.
- In 2017, the effective tax rate increased to 38.2% from 26.9% in 2016. The increase is primarily due to the Company recording $1.208 million of income tax expense to revalue net deferred tax assets as a result of the December 22, 2017 Tax Cuts and Jobs Act that reduced the federal tax rate to 21.0% beginning January 1, 2018. Excluding the effect of the revaluation adjustment, the effective rate would have been 22.9%.

General

Net income in 2017 was $4.878 million compared to net income of $7.156 million in 2016. Earnings per diluted share was $1.38 in 2017 and $2.03 in 2016.

Net Interest Income

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

	For the Year ended December 31, 2017			For the Year ended December 31, 2016			For the Year ended December 31, 2015		
	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost	Average balance	Interest earned or owed	Average yield or cost
Assets									
Federal funds sold/interest-bearing due from banks	$ 38,367	$ 416	1.08%	$ 1,937	$ 11	0.57%	$ 22,691	$ 50	0.22%
Taxable investments	345,621	7,546	2.18%	324,350	6,127	1.89%	357,802	6,549	1.83%
Tax-exempt investments	90,324	2,695	2.98%	91,431	2,704	2.96%	87,495	2,706	3.09%
Loans held for sale-mortgage banking	27,271	1,009	3.70%	49,944	1,649	3.30%	46,829	1,603	3.42%
Loans and leases held for investment	420,906	19,777	4.70%	399,669	18,855	4.72%	350,840	17,007	4.85%
Allowance for credit losses	(7,949)	-	0.00%	(8,562)	-	0.00%	(8,670)	-	0.00%
Total interest-earning assets	914,540	31,443	3.42%	858,769	29,346	3.42%	856,987	27,915	3.26%
Non-interest-earning assets:									
Cash and due from banks	8,901			8,774			9,150		
Other	47,591			46,474			43,214		
Total assets	$ 971,032			$ 914,017			$ 909,351		
Liabilities and Stockholders' Equity									
Deposits:									
Interest checking and money market accounts	$ 487,063	$ 953	0.20%	$ 424,393	$ 571	0.13%	$ 430,838	$ 530	0.12%
Savings	35,067	11	0.03%	32,146	10	0.03%	29,724	9	0.03%
Certificates of deposit	158,266	1,545	0.98%	150,720	1,593	1.06%	153,168	1,609	1.05%
Total interest-bearing deposits	680,396	2,509	0.37%	607,259	2,174	0.36%	613,730	2,148	0.35%
Borrowings:									
Short-term borrowings	14,732	27	0.18%	13,919	22	0.16%	16,299	26	0.16%
FHLB advances	1,903	16	0.84%	36,942	198	0.54%	3,357	10	0.30%
Long-term borrowings	10,000	635	6.35%	10,000	634	6.34%	2,016	128	6.35%
Subordinated debentures	15,012	391	2.60%	15,013	315	2.10%	15,016	258	1.72%
Total interest-bearing liabilities	722,043	3,578	0.50%	683,133	3,343	0.49%	650,418	2,570	0.40%
Non-interest-bearing demand	163,603	-	0.00%	145,842	-	0.00%	163,755	-	0.00%
Total deposits and interest-bearing liabilities	885,646			828,975			814,173		
Other non-interest-bearing liabilities	6,967			9,525			9,428		
Total liabilities	892,613			838,500			823,601		
Stockholders' equity	78,419			75,517			85,750		
Total liabilities and stockholders' equity	$ 971,032			$ 914,017			$ 909,351		
Net interest income		$ 27,865			$ 26,003			$ 25,345	
Net interest spread			2.92%			2.93%			2.86%
Net interest margin			3.05%			3.03%			2.96%
Ratio of average interest-earning assets to average interest-bearing liabilities	126.66%			125.71%			131.76%		

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

	For the Years Ended December 31, 2017 Compared to 2016			For the Years Ended December 31, 2016 Compared to 2015		
	Change Due to			Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earned on Interest-Earning Assets						
Federal funds sold/interest-bearing due from banks	$ 388	$ 17	$ 405	$ (72)	$ 33	$ (39)
Taxable investments	386	1,033	1,419	(627)	205	(422)
Tax-exempt investments	(33)	24	(9)	119	(121)	(2)
Loans held for sale- mortgage banking	(823)	183	(640)	104	(58)	46
Loans held for investment	946	(24)	922	2,314	(466)	1,848
Total increase (decrease) in interest income	864	1,233	2,097	1,838	(407)	1,431
Interest Expense on Interest-Bearing Liabilities						
Interest checking and money market accounts	141	241	382	(8)	49	41
Savings	1	-	1	1	-	1
Certificates of Deposit	8	(56)	(48)	(238)	222	(16)
Short-term borrowings	1	4	5	(4)	-	(4)
FHLB advances	(254)	72	(182)	174	14	188
Long-term borrowings	-	1	1	506	-	506
Subordinated debentures	-	76	76	-	57	57
Total increase (decrease) in interest expense	(103)	338	235	431	342	773
Increase (decrease) in net interest income	$ 967	$ 895	$ 1,862	$ 1,407	$ (749)	$ 658

Net interest income was $27.865 million in 2017 compared to $26.003 million in 2016, an increase of $1.862 million or 7.2%. The net interest margin increased to 3.05% for the year ended December 31, 2017 from 3.03% in 2016. Overall, yields on earning assets were 3.42% in 2017 and 2016. Average loans held for investment increased $21.2 million in 2017, or 5.3%, compared to 2016, while average loans held for sale decreased $22.7 million and average investments increased $21.6 million. The cost of interest bearing deposits was 0.37% in 2017 and 0.36% in 2016. The cost of interest bearing liabilities increased to 0.50% from 0.49%.

Net interest income was $26.003 million in 2016 compared to $25.345 million in 2015, an increase of $658 thousand, or 2.6%. The net interest margin increased to 3.03% for the year ended December 31, 2016 from 2.96% in 2015. Overall, yields on earning assets increased to 3.42% in 2016, compared to 3.26% in the same period of 2015. Average loans held for investment increased $48.8 million in 2016 compared to 2015, while average loans held for sale increased $3.1 million and average investments decreased $29.5 million. The cost of interest bearing deposits remained mostly unchanged from 0.35% in 2015 to 0.36% in 2016. The cost of interest bearing liabilities increased to 0.49% from 0.40% related to the issuance of $10 million of subordinated debt in the fourth quarter of 2015 that was used to redeem preferred stock and increased utilization of short-term FHLB advances as flexible borrowings in periods of higher mortgage lending volume.

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)		
	2017	2016	$	%	
Bank charges and service fees	$ 2,719	$ 2,731	$ (12)	- %	
Wealth management revenues	1,717	1,532	185	12 %	(a)
Mortgage banking revenues	11,301	19,465	(8,164)	(42) %	(b)
Gains on sales of loans, net	736	234	502	215 %	(c)
Gains on sales of securities, net	745	729	16	2 %	
Other	2,281	1,086	1,195	110 %	(d)
Total non-interest income	$ 19,499	$ 25,777	$ (6,278)	(24) %	

(a) Wealth management revenues increased as assets under management increased by $47.6 million.
(b) Mortgage banking revenues were lower in 2017 as increasing rates resulted in lower mortgage production and compressed margins.
(c) Gains on the sale of loans increased as a result of SBA loan activity in the fourth quarter of 2016 and first quarter of 2017 resulting in higher gains during the first quarter of 2017. Gains on sale of loans can vary significantly from period to period.
(d) Other income increased during the twelve month period due to the confidential settlement of a litigation matter and the sale of a ND Branch.

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)		
	2017	2016	$	%	
Salaries and employee benefits	$ 20,494	$ 21,432	$ (938)	(4) %	(a)
Professional services	3,928	4,581	(653)	(14) %	(b)
Data processing fees	3,716	3,666	50	1 %	
Marketing and promotion	3,447	3,798	(351)	(9) %	(c)
Occupancy	2,436	2,160	276	13 %	(d)
Regulatory costs	556	675	(119)	(18) %	(e)
Depreciation and amortization	1,627	1,519	108	7 %	(f)
Office supplies and postage	629	687	(58)	(8) %	
Other real estate costs	(31)	34	(65)	(191) %	(g)
Other	2,314	2,641	(327)	(12) %	(h)
Total non-interest expense	$ 39,116	$ 41,193	$ (2,077)	(5) %	
Efficiency ratio	82.59%	79.55%	3.04%		

(a) Salaries and employee benefits decreased as we reduced mortgage support staff as the business is being right-sized to fit current revenues and decreased incentive compensation expense.
(b) Professional service expense is lower due to reduced mortgage banking activity and legal costs.
(c) Marketing and promotion decreased primarily due to reduced mortgage activity.
(d) Occupancy increased in the first quarter of 2017 due to higher seasonal maintenance expense in banking locations and costs incurred to modify mortgage banking locations.
(e) Regulatory costs decreased due to a decrease in the FDIC assessment rate.
(f) Depreciation increased due to updates to our older branch facilities.
(g) Other real estate costs will vary from period to period depending on valuation adjustments on our foreclosed properties– see Note 6. At December 31, 2017, the Company held no property in other real estate.
(h) Other decreased due to managements cost containment focus across all lines of business.

Income Tax Expense

During 2017, we recorded tax expense of $3.020 million which resulted in an effective tax rate of 38.2%. The recorded tax expense includes a $1.208 million charge to revalue net deferred tax assets as a result of the Tax Cuts and Jobs Act that was signed into law during the fourth quarter of 2017. Excluding this charge, the effective tax rate for 2017 would have been 22.9%, which is lower than the federal statutory rate primarily due a portion of the Company's pretax income being derived from tax-exempt securities in 2017. Subject to certain statutory limitations, the Company is able to carry forward state tax net operating losses aggregating $392 thousand as of December 31, 2017. The state net operating losses expire between 2018 and 2031.

During 2016, we recorded tax expense of $2.631 million which resulted in an effective tax rate of 26.9%. Subject to certain statutory limitations, the Company is able to carry forward state tax net operating losses aggregating $483 thousand as of December 31, 2016. The state net operating losses expire between 2017 and 2031.

Financial Condition

Assets

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

	As of December 31,		Increase (Decrease)		
	2017	2016	$	%	
Cash and cash equivalents	$ 25,830	$ 11,113	$ 14,717	132 %	(a)
Investment securities available for sale	411,917	400,136	11,781	3 %	
Federal Reserve Bank and Federal Home Loan Bank	2,897	4,411	(1,514)	(34) %	(b)
Loans held for sale-mortgage banking	36,601	39,641	(3,040)	(8) %	(c)
Loans and leases held for investment, net	420,464	406,388	14,076	3 %	(d)
Other real estate and repossessed assets, net	-	218	(218)	(100) %	(e)
Premises and equipment, net	19,403	19,381	22	- %	
Accrued interest receivable	4,848	4,444	404	9 %	(f)
Other assets	24,190	24,668	(478)	(2) %	
Total assets	$ 946,150	$ 910,400	$ 35,750	4 %	

(a) Cash balances can fluctuate significantly.
(b) The change in FHLB stock varies in proportion to the level of FHLB advances outstanding.
(c) Loans held for sale decreased as balances will fluctuate with the timing of loan funding and sales.
(d) Growth in Loans and leases held for investment was restrained in 2017 by sales of SBA loans and our North Dakota customers prepaid balances after their liquidity improved.
(e) Decrease relates to the sale of other real estate and repossessed asset. See Note 6.
(f) Accrued interest receivable can fluctuate from period to period, but has generally increased with higher levels of cash, investments and loan interest earning assets.

Investment Securities Available for Sale

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

	December 31,			
	2017		2016	
	Amortized cost	Estimated fair market value	Amortized cost	Estimated fair market value
U.S. Treasury securities	$ 40,002	$ 39,466	$ 24,967	$ 24,715
U.S. government agency mortgage-backed securities guaranteed by GNMA	-	-	46,003	45,270
U.S. government agency mortgage-backed securities issued by FNMA	4,522	4,512	-	-
U.S. government agency small business administration pools guaranteed by SBA	141,837	139,392	122,519	122,863
Collateralized mortgage obligations guaranteed by GNMA/VA	69,296	67,916	85,462	84,220
Collateralized mortgage obligations issued by FNMA or FHLMC	51,550	50,517	35,849	35,342
Asset-backed securities	16,071	16,010	-	-
State and municipal bonds	90,048	94,104	84,143	87,726
Total investments	$ 413,326	$ 411,917	$ 398,943	$ 400,136

There were no securities that management concluded were other-than-temporarily impaired during 2017 or 2016. See Note 2 of our Consolidated Financial Statements.

The following table presents contractual maturities for securities available for sale and yields thereon at December 31, 2017 (dollars are in thousands):

	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury securities(1)	$ -	0.00%	$ 14,981	1.78%	$ 25,021	2.11%	$ -	0.00%	$ 40,002	1.99%
U.S. government agency mortgage-backed securities issued by FNMA(1) (2)	-	0.00%	-	0.00%	-	0.00%	4,522	2.96%	4,522	2.96%
U.S. government agency small business administration pools guaranteed by SBA(1) (2)	-	0.00%	870	2.22%	15,522	1.22%	125,445	2.40%	141,837	2.27%
Collateralized mortgage obligations guaranteed by GNMA/VA(1) (2)	-	0.00%	-	0.00%	-	0.00%	69,297	2.63%	69,297	2.63%
Collateralized mortgage obligations issued by FNMA or FHLMC(1) (2)	-	0.00%	-	0.00%	-	0.00%	51,550	2.74%	51,550	2.74%
Asset-backed securities(1)(2)	-	0.00%	-	0.00%	16,071	2.26%	-	0.00%	16,071	2.26%
State and municipal bonds(2) (3)	-	0.00%	2,330	5.89%	14,162	5.70%	73,555	5.06%	90,047	5.18%
Total book value of investment securities	$ -	0.00%	$ 18,181	2.33%	$ 70,776	2.67%	$ 324,369	3.07%	413,326	3.01%
Net unrealized gain on securities available for sale									(1,409)	
Total investment in securities available for sale									$ 411,917	3.02%

(1) Based on amortized cost rather than fair value.
(2) Maturities are based on contractual maturities. Actual cash flows from securities may vary from contractual maturities due to call options, cash flow structures of securitizations, and prepayments.
(3) Yields include adjustment for tax exempt income.

As of December 31, 2017, we had $411.9 million of available-for-sale securities in the investment portfolio compared to $400.1 million at December 31, 2016.

In 2017, available-for-sale investment securities increased as we deployed proceeds from deposit growth.

In 2016, available-for-sale investment securities decreased as we deployed proceeds from maturities and sales of securities toward other earning assets and redeemed $33.4 million of brokered certificates of deposit.

At December 31, 2017, U.S. Treasury securities, U.S. Government agency small business administration pools, U.S. Government Agency collateralized mortgage obligations, asset-backed securities, and state and municipal bonds exceeded 10% of stockholders' equity. A portion of our investment securities portfolio was pledged as collateral.

See Note 2 of our Consolidated Financial Statements for more information about investment securities.

Federal Reserve Bank and Federal Home Loan Bank

Our equity securities consisted of $1.8 million of Federal Reserve Bank ("FRB") stock and $1.1 million of Federal Home Loan Bank ("FHLB") stock as of December 31, 2017 and $1.8 million and $2.6 million of FRB and FHLB stock, as of December 31, 2016, respectively.

Loans

The following table presents our loan portfolio as of December 31 (dollars are in thousands):

	2017		2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans held for sale-mortgage banking	$ 36,601	100.0	$ 39,641	100.0	$ 50,445	100.0	$ 47,109	100.0	$ 32,870	100.0
Loans Held for Investment:										
Commercial and industrial	126,169	29.4	123,604	29.8	125,009	32.9	132,229	36.6	132,983	41.8
Commercial real estate	177,429	41.4	171,972	41.5	149,099	39.3	108,122	30.0	93,330	29.3
SBA	25,064	5.9	31,518	7.6	25,860	6.8	26,972	7.5	18,215	5.7
Consumer	71,876	16.8	59,183	14.3	47,073	12.4	40,470	11.2	32,612	10.3
Land and land development	14,168	3.3	15,982	3.9	17,627	4.6	28,220	7.8	27,582	8.7
Construction	13,167	3.1	12,215	2.9	15,187	4.0	24,916	6.9	13,286	4.2
	427,873	99.9	414,474	100.0	379,855	100.0	360,929	100.0	318,008	100.0
Unearned income and net unamortized deferred fees and costs	452	0.1	199	-	48	-	(140)	-	(80)	-
Loans, net of unearned income and unamortized fees and costs	$ 428,325	100.0	$ 414,673	100.0	$ 379,903	100.0	$ 360,789	100.0	$ 317,928	100.0

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

	December 31,		Increase (Decrease)		
	2017	2016	$	%	
Loans held for sale-mortgage banking	$ 36,601	$ 39,641	$ (3,040)	(7.7) %	(a)
Loans Held for Investment:					
Commercial and industrial	126,169	123,604	2,565	2.1 %	
Commercial real estate	177,429	171,972	5,457	3.2 %	
SBA	25,064	31,518	(6,454)	(20.5) %	
Consumer	71,876	59,183	12,693	21.4 %	(b)
Land and land development	14,168	15,982	(1,814)	(11.4) %	
Construction	13,167	12,215	952	7.8 %	
	427,873	414,474	13,399	3.2 %	
Unearned income and net unamortized deferred fees and costs	452	199	253	127.1 %	
Loans, net of unearned income and unamortized fees and costs	$ 428,325	$ 414,673	$ 13,652	3.3 %	(c)

(a) Loans held for sale balances can vary at year-end based on the timing of loan sales within the December holiday season.
(b) Consumer loans increased primarily due to North Dakota indirect vehicle lending.
(c) Loans held for investment increased due to continued loan production in our core markets. However, growth was restrained due to sales of SBA loans and prepayments by North Dakota customers after their liquidity improved.

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.

Loan participations sold on a nonrecourse basis to outside financial institutions were as follows as of December 31 (in thousands):

2017	$	176,733
2016		182,224
2015		176,439
2014		180,192
2013		222,765

Concentrations of Credit

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

	2017		2016	
North Dakota	$ 304,129	71 %	$ 291,412	70 %
Arizona	65,284	15 %	67,751	16 %
Minnesota	24,144	6 %	23,083	6 %
Other	34,316	8 %	32,228	8 %
Total gross loans held for investment	$ 427,873	100 %	$ 414,474	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 (dollars are in thousands):

	2017		2016	
North Dakota	$ 286,075	67 %	$ 272,717	66 %
Arizona	88,514	21 %	88,196	21 %
Minnesota	16,697	4 %	14,628	4 %
California	9,965	2 %	10,422	3 %
Colorado	8,416	2 %	9,141	2 %
Ohio	8,134	2 %	8,440	2 %
Other	10,072	2 %	10,930	2 %
Total gross loans held for investment	$ 427,873	100 %	$ 414,474	100 %

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

	2017	2016
	Total Loans and Leases Held for Investment	Total Loans and Leases Held for Investment
North Dakota		
Commercial and industrial	$ 36,590	$ 41,769
Construction	4,747	6,819
Agricultural	23,004	19,351
Land and land development	8,494	9,674
Owner-occupied commercial real estate	44,173	45,350
Commercial real estate	108,191	100,975
Small business administration	4,558	4,512
Consumer	56,318	44,267
Subtotal	$ 286,075	$ 272,717
Consolidated		
Commercial and industrial	$ 51,524	$ 54,037
Construction	13,167	12,215
Agricultural	23,773	20,273
Land and land development	14,168	15,982
Owner-occupied commercial real estate	50,872	49,294
Commercial real estate	177,429	171,972
Small business administration	25,064	31,518
Consumer	71,876	59,183
Subtotal	$ 427,873	$ 414,474

Loan Maturities [1]

The following table sets forth the remaining maturities of loans in our portfolio as of December 31, 2017 (in thousands):

	One year or less	Over 1 year through 5 years Fixed Rate	Over 1 year through 5 years Floating Rate	Over 5 years Fixed Rate	Over 5 years Floating Rate	Total Loans and Leases Held for Investment
Commercial and industrial	$ 13,915	$ 2,568	$ 11,199	$ 46,058	$ 52,429	$ 126,169
Commercial real estate	1,296	2,777	7,923	38,716	126,717	177,429
SBA	406	-	2,416	1,999	20,243	25,064
Consumer	1,234	285	5,457	55,731	9,169	71,876
Land and land development	-	530	1,905	6,333	5,400	14,168
Construction	1,526	1,765	9,876	-	-	13,167
Total principal amount of loans	$ 18,377	$ 7,925	$ 38,776	$ 148,837	$ 213,958	$ 427,873

(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 inherent in the portfolio as of each balance sheet date. In 2017, we recorded a provision for credit losses of $350 thousand, compared to $800 thousand in 2016.

Allowance for Credit Losses

See Notes 1 and 5 of our Consolidated Financial Statements and “Significant Accounting Policies” for further information concerning accounting policies associated with the allowance for credit losses.

Analysis of Allowance for Credit Losses

The following table summarizes activity in the allowance for credit losses and certain ratios (dollars are in thousands):

	For the Years ended December 31,				
	2017	2016	2015	2014	2013
Balance of allowance for credit losses, beginning of period	$ 8,285	$ 8,611	$ 8,601	$ 9,847	$ 10,091
Charge-offs:					
Commercial and industrial	(84)	(1,004)	(47)	-	(916)
Commercial real estate	-	-	-	(439)	(87)
SBA	(566)	(71)	(145)	(109)	-
Consumer	(123)	(99)	(43)	(42)	(106)
Land and land development	(103)	-	-	(190)	-
Construction	-	-	-	-	-
Total charge-offs	(876)	(1,174)	(235)	(780)	(1,109)
Recoveries:					
Commercial and industrial	-	-	7	-	69
Commercial real estate	12	13	551	8	8
SBA	48	15	68	5	2
Consumer	40	20	19	21	15
Land and land development	2	-	-	300	71
Construction	-	-	-	-	-
Total recoveries	102	48	645	334	165
Net (charge-offs) recoveries	(774)	(1,126)	410	(446)	(944)
Provision (reduction) for credit losses charged to operations	350	800	(400)	(800)	700
Balance of allowance for credit losses, end of period	$ 7,861	$ 8,285	$ 8,611	$ 8,601	$ 9,847
Ratio of net (charge-offs) recoveries to average total loans	(0.173)%	(0.250)%	0.103%	(0.123)%	(0.277)%
Ratio of net (charge-offs) recoveries to average loans and leases held for investment	(0.184)%	(0.282)%	0.117%	(0.134)%	(0.332)%
Average gross loans and leases held for investment	$ 420,906	$ 399,669	$ 350,840	$ 331,982	$ 284,344
Ratio of allowance for credit losses to loans and leases held for investment	1.84%	2.00%	2.27%	2.38%	3.10%
Allowance for credit losses to total loans	1.69%	1.82%	2.00%	2.11%	2.81%
Ratio of nonperforming loans to total assets	0.21%	0.27%	0.06%	0.01%	0.67%

Allocation of the Allowance for Loan 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 as of December 31 (dollars are in thousands).

	2017		2016		2015		2014		2013	
	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment	Allocation of Allowance	Loans as a % of Gross Loans Held for Investment
Commercial and industrial	$ 2,158	30%	$ 2,323	30%	$ 3,205	33%	$ 2,686	37%	$ 2,215	42%
Commercial real estate	3,471	41%	3,231	41%	1,999	39%	2,496	30%	4,041	29%
SBA	834	6%	1,433	8%	1,578	7%	1,190	7%	579	6%
Consumer	914	17%	772	14%	640	12%	516	11%	478	10%
Land and land development	358	3%	413	4%	1,041	5%	1,436	8%	2,371	9%
Construction	126	3%	113	3%	148	4%	277	7%	163	4%
Total	$ 7,861	100%	$ 8,285	100%	$ 8,611	100%	$ 8,601	100%	$ 9,847	100%

The amount of the allowance for losses can vary depending on macroeconomic conditions and risk in the portfolio. The allocation of the allowance for losses can vary depending on relative volume of asset groups in the portfolio and risks therein.

Allowance for Credit Losses; Impact on Earnings

We have established the allowance for credit losses to cover probable losses inherent within the loan and lease portfolio at the balance sheet dates. 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, financial conditions of borrowers, and other factors we consider in arriving at our estimates may change. To the extent that these matters have negative developments, our future earnings could be reduced by provisions for credit losses. See the Concentrations of Credit section within this report for additional information.

Nonperforming Loans and Assets

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

	As of December 31,				
	2017	2016	2015	2014	2013
Nonperforming loans:					
Loans 90 days or more delinquent and still accruing interest	$ 26	$ 20	$ 175	$ 5	$ 961
Non-accrual loans	1,952	2,425	390	56	4,656
Total nonperforming loans	1,978	2,445	565	61	5,617
Other real estate and repossessed assets, net	-	218	242	256	1,056
Total nonperforming assets	$ 1,978	$ 2,663	$ 807	$ 317	$ 6,673
Allowance for credit losses	$ 7,861	$ 8,285	$ 8,611	$ 8,601	$ 9,847
Ratio of total nonperforming loans to total loans	0.43%	0.54%	0.13%	0.01%	1.60%
Ratio of total nonperforming loans to loans and leases held for investment	0.46%	0.59%	0.15%	0.02%	1.77%
Ratio of total nonperforming assets to total assets	0.21%	0.29%	0.09%	0.03%	0.79%
Ratio of nonperforming loans to total assets	0.21%	0.27%	0.06%	0.01%	0.67%
Ratio of allowance for credit losses to total nonperforming loans	397%	339%	1,524%	14,100%	175%

Nonperforming Loans

The following table sets forth information concerning our nonperforming loans as of December 31 (in thousands):

	2017	2016
Balance, beginning of period	$ 2,445	$ 565
Additions to nonperforming	938	3,086
Charge-offs	(790)	(912)
Reclassified back to performing	-	(176)
Principal payments received	(551)	(114)
Transferred to repossessed assets	(24)	(4)
Transferred to other real estate owned	(40)	-
Balance, end of period	$ 1,978	$ 2,445

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):

	2017	2016
Interest income that would have been recorded	$ 372	$ 314
Interest income recorded	89	92
Effect on interest income	$ 283	$ 222

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.

Troubled Debt Restructuring (TDR)

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

	Total	Accrual	Non-accrual
2017	$ 1,908	$ 1,801	$ 107
2016	2,153	1,845	308
2015	2,197	1,884	313
2014	5,105	5,105	-
2013	8,544	4,356	4,188

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

Other real estate owned and repossessed assets represent properties and other assets acquired through, or in lieu of, loan foreclosure, and property transferred from premises and equipment. They are initially recorded at fair value less cost to sell at the date of acquisition establishing a new cost basis. Write-downs to fair value at the time of acquisition are charged to the allowance for credit losses. After foreclosure, 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 6 of our Consolidated Financial Statements for information on other real estate owned.

Impaired loans

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

Potential Problem Loans

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

	Watch List			Substandard		
	Impaired	Other	Total	Impaired	Other	Total
2017	$ -	$ 1,730	$ 1,730	$ 52	$ 9,062	$ 9,114
2016	-	8,125	8,125	6	10,511	10,517
2015	-	7,945	7,945	11	9,398	9,409
2014	1,587	473	2,060	56	9,077	9,133
2013	-	176	176	4,656	8,062	12,718

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)		
	2017	2016	$	%	
Deposits:					
Non-interest-bearing	$ 164,401	$ 147,027	$ 17,374	12 %	(a)
Interest-bearing-					
Savings, interest checking and money market	498,044	453,897	44,147	10 %	(a)
Time deposits	155,361	151,703	3,658	2 %	
Short-term borrowings	18,043	12,510	5,533	44 %	(b)
Federal Home Loan Bank advances	-	38,000	(38,000)	(100) %	(c)
Long-term borrowings	10,000	10,000	-	- %	
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,011	15,013	(2)	- %	
Accrued interest payable	950	777	173	22 %	(d)
Accrued expenses	6,107	6,685	(578)	(9) %	(e)
Other liabilities	607	593	14	2 %	
Total liabilities	868,524	836,205	32,319	4 %	
Stockholders' equity	77,626	74,195	3,431	5 %	
Total liabilities and stockholders' equity	$ 946,150	$ 910,400	$ 35,750	4 %	

(a) BNC markets have been successful in generating deposit growth throughout 2017. This increase largely relates to significant deposits by customers experiencing large cash generating transactions in the first quarter 2017.
(b) Short-term borrowings will vary depending on our customers need to use repurchase agreements.
(c) The Company has borrowed on a short-term basis from the Federal Home Loan Bank as an efficient source of liquidity. As deposits have increased, and mortgage funding levels decreased, the utilization of this liquidity option decreased.
(d) Accrued interest payable increased predominantly due to increased time deposit balances.
(e) The decrease is primarily due to decreased incentive accruals.

Mortgage Banking Obligations

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated $1.1 million and $1.3 million at December 31, 2017 and 2016, respectively. Although we sell mortgage banking loans without recourse, industry standards require standard representations and warranties which require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk is also evident within the mortgage banking industry as disputes arise between lenders and investors. Such requests for repurchase are commonly due to purported fraudulent or faulty representations and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the obligation, we track historical reimbursements and calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, we estimate the future reimbursement amounts and record the estimated obligation. See Note 18 of our Consolidated Financial Statements for a description of financial instruments with off-balance-sheet risk.

Deposits

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

	For the Years Ended December 31,								
	2017			2016			2015		
	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	$ 487,063	57.7%	0.20%	$ 424,393	56.4%	0.13%	$ 430,838	55.4%	0.12%
Savings deposits	35,067	4.1%	0.03%	32,146	4.3%	0.03%	29,724	3.8%	0.03%
Time deposits	158,266	18.8%	0.98%	150,720	20.0%	1.05%	153,168	19.7%	1.05%
Total interest-bearing deposits	680,396	80.6%	0.37%	607,259	80.7%	0.36%	613,730	78.9%	0.35%
Non-interest-bearing demand deposits	163,603	19.4%	0.00%	145,842	19.3%	0.00%	163,755	21.1%	0.00%
Total deposits (1)	$ 843,999	100.0%	0.30%	$ 753,101	100.0%	0.29%	$ 777,485	100.0%	0.28%

(1) Included in average total deposits are $0, $11.7 million, and $41.0 million of average brokered deposits for the years ending 2017, 2016, and 2015, respectively.

During periods of higher energy prices our North Dakota deposits grew rapidly. In 2017, a ND Bakken branch with $14.0 million of deposits was sold for a gain of $864 thousand. Excluding the effect of the sold branch, ND Bakken deposits rose slightly compared to December 2016. ND Non-Bakken deposits grew $50.8 million in 2017 compared to year-end 2016. In recent periods, deposits in Arizona have also grown significantly. The table below shows total deposits since 2013 (in thousands):

	As of December 31,				
	2017	2016	2015	2014	2013
ND Bakken Branches	$ 168,981	$ 178,677	$ 190,670	$ 178,565	$ 166,904
ND Non-Bakken Branches	435,255	384,476	388,630	433,129	382,225
Total ND Branches	604,236	563,153	579,300	611,694	549,129
Brokered Time Deposits	-	-	33,363	53,955	64,525
Other	213,570	189,474	167,786	145,582	109,575
Total Deposits	$ 817,806	$ 752,627	$ 780,449	$ 811,231	$ 723,229

Time deposits, in denominations of $250,000 and over, totaled $28.9 million at December 31, 2017 as compared to $22.3 million at December 31, 2016. The following table sets forth the amount and maturities of time deposits of $250,000 and over as of December 31, 2017 (in thousands):

Maturing in:	
3 months or less	$ 3,873
Over 3 months through 6 months	8,366
Over 6 months through 12 months	9,691
Over 12 months	6,984
	$ 28,914

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):

	2017	2016	2015
Short-term borrowings outstanding at period end	$ 18,043	$ 12,510	$ 13,851
Weighted average interest rate at period end	0.25%	0.15%	0.14%
Maximum month end balance during the period	$ 24,671	$ 16,901	$ 20,799
Average borrowings outstanding for the period	$ 14,732	$ 13,919	$ 16,299
Weighted average interest rate for the period	0.18%	0.16%	0.16%

Note 9 of our Consolidated Financial Statements summarizes the general terms of our short-term borrowings outstanding at December 31, 2017 and 2016.

FHLB advances totaled $0 at December 31, 2017 and $38 million at December 31, 2016, respectively.

Notes 10, 11 and 12 of our Consolidated Financial Statements summarize the general terms of our FHLB advances, long-term borrowings and other borrowings at December 31, 2017 and 2016.

Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures

See Note 13 of our Consolidated Financial Statements for a description of the subordinated debentures.

Capital Resources

	2017	2016	2015	2014	2013
Tier 1 leverage (Consolidated)	9.53%	9.47%	9.00%	9.94%	10.94%
Total risk based capital (Consolidated)	19.98%	19.96%	20.07%	21.10%	23.15%
Common equity tier 1 risk based capital (Consolidated)	14.15%	13.90%	13.57%	N/A	N/A
Tier 1 risk based capital (Consolidated)	16.90%	16.78%	16.72%	19.85%	21.67%
Tangible common equity (Consolidated)	8.18%	8.13%	7.62%	6.67%	5.79%
Tier 1 leverage (BNC Bank)	9.62%	9.67%	9.45%	9.13%	10.06%
Total risk based capital (BNC Bank)	18.31%	18.41%	18.71%	19.73%	21.40%
Common equity tier 1 risk based capital (BNC Bank)	17.06%	17.16%	17.45%	N/A	N/A
Tier 1 risk based capital (BNC Bank)	17.06%	17.16%	17.45%	18.48%	20.13%

See Note 14 and Note 15 of our Consolidated Financial Statements for a discussion of stockholders equity and regulatory capital and the current operating environment.

The Common equity tier 1 (CET 1) ratio, which is generally a comparison of a bank's core equity capital with its total risk weighted assets, is a measure of the current risk profile of our asset base from a regulatory perspective. The Tier 1 leverage ratio, which is calculated by dividing Tier 1 capital by average total assets, does not consider the mix of risk weighted assets. Regulators have required Tier 1 ratios that significantly exceed the "Well Capitalized" ratio levels. As such, we are managing our Tier 1 leverage ratio to levels significantly above the "Well Capitalized" thresholds. Although Tangible Common Equity (TCE) is not a regulatory capital measure, TCE is a ratio that is commonly used to assess the capital strength of banking entities. Accordingly, we have included the ratio in the regulatory capital table below.

The Company routinely evaluates the sufficiency of capital in order to insure compliance with regulatory capital standards and be a source of strength for the Bank. We manage capital by assessing the composition of capital and amounts available for growth, risk or other purposes. Management will continue to evaluate capital requirements and prudent capital management opportunities. See Note 13 and Note 14 of our Consolidated Financial Statements for a detailed description of Subordinated Debentures and Preferred Stock.

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 18 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, commitments to sell mortgage loans, commercial letters of credit and performance and financial standby letters of credit. See Note 19 of our Consolidated Financial Statements.

At December 31, 2017, the aggregate contractual obligations (excluding bank deposits) and commitments were as follows (in thousands):

	Payments due by period				
Contractual Obligations:	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
Total borrowings	$ 18,043	$ -	$ -	$ 25,011	$ 43,054
Commitments to sell loans	35,802	-	-	-	35,802
Annual rental commitments under non-cancelable operating leases	1,144	1,855	1,447	1,230	5,676
Total	$ 54,989	$ 1,855	$ 1,447	$ 26,241	$ 84,532

	Amount of Commitment - Expiration by Period				
Other Commitments:	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**After 5 years**	**Total**
Commitments to originate loans	$ 128,433	$ 17,744	$ 7,034	$ 303	$ 153,514
Commitments to sell loans	111,691	-	-	-	111,691
Standby and commercial letters of credit	1,026	23	-	-	1,049
Total	$ 241,150	$ 17,767	$ 7,034	$ 303	$ 266,254

Liquidity Risk Management

Liquidity risk is the possibility of being unable to meet all present and future financial obligations in a timely manner. Liquidity risk management encompasses our ability to meet all present and future financial obligations in a timely manner. The objectives of our liquidity management policies are to maintain adequate liquid assets, liability diversification among instruments, maturities and customers and a presence in both the wholesale purchased funds market and the retail deposit market.

The Consolidated Statements of Cash Flows in the Consolidated Financial Statements present data on cash and cash equivalents provided by and used in operating, investing and financing activities. In addition to liquidity from core deposit growth, together with repayments and maturities of loans and investments, we utilize brokered deposits, sell securities under agreements to repurchase and borrow overnight Federal funds. The Bank is a member of the FHLB. Advances from the FHLB are collateralized by the Bank's mortgage loans and various investment securities. We have also obtained funding through the issuance of subordinated notes, subordinated debentures and long-term borrowings.

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

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

1. Estimated liquid assets less estimated volatile liabilities using the aforementioned methodology ($112.9 million as of December 31, 2017);
2. Borrowing capacity from the FHLB ($152.0 million as of December 31, 2017); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($133.5 million as of December 31, 2017).

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

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

Our liquidity assessment process segregates our balance sheet into liquid assets and short-term liabilities assumed to be vulnerable to non-replacement over a 30 day horizon in abnormally stringent conditions. Assumptions for the vulnerable short-term liabilities are based upon historical factors. We have a targeted range for our liquidity position over this horizon and manage operations to achieve these targets.

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

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

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

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; the impact of lower oil prices in our major market; 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.

Accounting Policies

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

Quantitative and Qualitative Disclosures About Market Risk

Market risk arises from changes in interest rates, exchange rates, and commodity prices and equity prices and represents the possibility that changes in future market rates or prices will have a negative impact on our earnings or value. Our principal market risk is interest rate risk.

Interest rate risk arises from changes in interest rates. Interest rate risk can result from: (1) Repricing risk – timing differences in the maturity/repricing of assets, liabilities, and off-balance-sheet contracts; (2) Options risk – the effect of embedded options, such as loan prepayments, interest rate caps/floors, and deposit withdrawals; (3) Basis risk – risk resulting from unexpected changes in the spread between two or more different rates of similar maturity, and the resulting impact on the behavior of lending and funding rates; and (4) Yield curve risk – risk resulting from unexpected changes in the spread between two or more rates of different maturities from the same type of instrument. We have risk management policies to monitor and limit exposure to interest rate risk. To date we have not conducted trading activities as a means of managing interest rate risk. Our asset/liability management process is utilized to manage our interest rate risk. The measurement of interest rate risk associated with financial instruments is meaningful only when all related and offsetting on-and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

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

Our primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes our assumptions regarding the changes in interest rates and the impact on our current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month end balances of the various balance sheet accounts are held constant at their December 31, 2017 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, 2017 level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

We monitor the results of net interest income simulation on a regular basis. Net interest income is generally simulated for the upcoming 12-month horizon in seven interest rate scenarios. The scenarios generally modeled are parallel interest rate ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of December 31, 2017, the downward scenarios for interest rate movements is limited to -200bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 4.50% to 5.50% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

The net interest income simulation result for the 12-month horizon that covers the calendar year of 2018 is shown below:

Net Interest Income Simulation

Movement in interest rates	-200bp	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 28,077	$ 29,029	$ 29,814	$ 29,481	$ 29,165	$ 28,854
Dollar change from unchanged scenario	$ (1,737)	$ (785)	-	$ (333)	$ (649)	$ (960)
Percentage change from unchanged scenario	(5.83)%	(2.63)%	-	(1.12)%	(2.18)%	(3.22)%

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, 2017 (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, 2017. 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, 2017				
	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	$ 25,830	$ -	$ -	$ -	$ 25,830
Investment securities (a)	127,767	10,323	95,236	142,356	375,682
FRB and FHLB stock	2,897	-	-	-	2,897
Fed funds sold	-	-	-	-	-
Loans held for sale-mortgage banking, fixed rate	36,601	-	-	-	36,601
Loans held for sale-mortgage banking, floating rate	-	-	-	-	-
Loans held for investment, fixed rate	10,313	35,916	99,568	18,246	164,043
Loans held for investment, floating rate	77,784	26,182	155,834	4,482	264,282
Total interest-earning assets	$ 291,192	$ 72,421	$ 350,638	$ 165,084	$ 869,335
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 463,028	$ -	$ -	$ -	$ 463,028
Savings	35,016	-	-	-	35,016
Time deposits	51,884	55,852	39,198	8,427	155,351
Short-term borrowings	18,043	-	-	-	18,043
FHLB advances	-	-	-	-	-
Long-term borrowings	-	-	-	10,000	10,000
Subordinated debentures	15,000	-	-	11	15,011
Total interest-bearing liabilities	$ 582,971	$ 55,852	$ 39,198	$ 18,438	$ 696,459
Interest rate gap	$ (301,779)	$ 16,569	$ 311,440	$ 146,646	$ 172,876
Cumulative interest rate gap at December 31, 2017	$ (301,779)	$ (285,210)	$ 26,230	$ 172,876	
Cumulative interest rate gap to total assets	(31.90%)	(30.14%)	2.77%	18.27%	

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

The table assumes that all savings and interest-bearing demand deposits reprice in the earliest period presented, however, we believe a significant portion of these accounts constitute a core component and are generally not rate sensitive. Our position is supported by the fact that reductions in interest rates paid on these deposits historically have not caused notable reductions in balances in net interest income because the repricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, assets and liabilities indicated as repricing within the same period may in fact reprice at different times and at different rate levels.

Static gap analysis does not fully capture the impact of embedded options, lagged interest rate changes, administered interest rate products, or certain off-balance-sheet sensitivities to interest rate movements. Therefore, this tool generally cannot be used in isolation to determine the level of interest rate risk exposure in banking institutions.

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of December 31, 2017 and do not contemplate any actions we might undertake in response to changes in market interest rates.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

KPMG LLP
Suite 300
1212 N. 96th Street
Omaha, NE 68114-2274

Suite 1120
1248 O Street
Lincoln, NE 68508-1493

Independent Auditors' Report

The Board of Directors
BNCCORP, INC.:

We have audited the accompanying consolidated financial statements of BNCCORP, INC. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

March 22, 2018

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

	2017	2016
ASSETS		
CASH AND CASH EQUIVALENTS	$ 25,830	$ 11,113
INVESTMENT SECURITIES AVAILABLE FOR SALE	411,917	400,136
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	2,897	4,411
LOANS HELD FOR SALE-MORTGAGE BANKING	36,601	39,641
LOANS AND LEASES HELD FOR INVESTMENT	428,325	414,673
ALLOWANCE FOR CREDIT LOSSES	(7,861)	(8,285)
Net loans and leases held for investment	420,464	406,388
OTHER REAL ESTATE and REPOSSESSED ASSETS, net	-	218
PREMISES AND EQUIPMENT, net	19,403	19,381
ACCRUED INTEREST RECEIVABLE	4,848	4,444
OTHER	24,190	24,668
Total assets	$ 946,150	$ 910,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 164,401	$ 147,027
Interest-bearing –		
Savings, interest checking and money market	498,044	453,897
Time deposits	155,361	151,703
Total deposits	817,806	752,627
SHORT-TERM BORROWINGS	18,043	12,510
FEDERAL HOME LOAN BANK ADVANCES	-	38,000
LONG-TERM BORROWINGS	10,000	10,000
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	15,011	15,013
ACCRUED INTEREST PAYABLE	950	777
ACCRUED EXPENSES	6,107	6,685
OTHER	607	593
Total liabilities	868,524	836,205
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,465,992 and 3,456,008 shares issued and outstanding	35	35
Capital surplus – common stock	26,072	25,996
Retained earnings	54,206	49,328
Treasury stock (202,661 and 212,645 shares, respectively)	(2,741)	(2,847)
Accumulated other comprehensive income, net	54	1,683
Total stockholders' equity	77,626	74,195
Total liabilities and stockholders' equity	$ 946,150	$ 910,400

See accompanying notes to consolidated financial statements.

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

	2017	2016
INTEREST INCOME:		
Interest and fees on loans	$ 20,786	$ 20,504
Interest and dividends on investments		
Taxable	7,838	5,970
Tax-exempt	2,695	2,705
Dividends	124	167
Total interest income	31,443	29,346
INTEREST EXPENSE:		
Deposits	2,509	2,174
Short-term borrowings	27	22
Federal Home Loan Bank advances	16	198
Long-term borrowings	635	634
Subordinated debentures	391	315
Total interest expense	3,578	3,343
Net interest income	27,865	26,003
PROVISION FOR CREDIT LOSSES	350	800
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	27,515	25,203
NON-INTEREST INCOME:		
Bank charges and service fees	2,719	2,731
Wealth management revenues	1,717	1,532
Mortgage banking revenues, net	11,301	19,465
Gains on sales of loans, net	736	234
Gains on sales of securities, net	745	729
Other	2,281	1,086
Total non-interest income	19,499	25,777
NON-INTEREST EXPENSE:		
Salaries and employee benefits	20,494	21,432
Professional services	3,928	4,581
Data processing fees	3,716	3,666
Marketing and promotion	3,447	3,798
Occupancy	2,436	2,160
Regulatory costs	556	675
Depreciation and amortization	1,627	1,519
Office supplies and postage	629	687
Other real estate costs	(31)	34
Other	2,314	2,641
Total non-interest expense	39,116	41,193
Income before income taxes	7,898	9,787
Income tax expense	3,020	2,631
Net income	$ 4,878	$ 7,156
Basic earnings per common share	$ 1.40	$ 2.08
Diluted earnings per common share	$ 1.38	$ 2.03

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
For the Years Ended December 31
(In thousands)

	2017		2016	
NET INCOME		$ 4,878		$ 7,156
Unrealized loss on investment securities available for sale	$ (1,857)		$ (3,138)	
Reclassification adjustment for gains on sales of investment securities, net, included in net income	(745)		(729)	
Other comprehensive loss before tax	(2,602)		(3,867)	
Income tax benefit related to items of other comprehensive loss	973		1,469	
Other comprehensive loss	(1,629)	(1,629)	(2,398)	(2,398)
TOTAL COMPREHENSIVE INCOME		$ 3,249		$ 4,758

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

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

	Common Stock		Capital Surplus Common	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Earnings	Stock	Income (Loss)	Total
BALANCE, December 31, 2015	3,428,416	$ 34	$ 25,979	$ 42,172	$ (3,278)	$ 4,081	$ 68,988
Net income	-	-	-	7,156	-	-	7,156
Other comprehensive loss	-	-	-	-	-	(2,398)	(2,398)
Impact of share-based compensation	27,592	1	17	-	431	-	449
BALANCE, December 31, 2016	3,456,008	$ 35	$ 25,996	$ 49,328	$ (2,847)	$ 1,683	$ 74,195
Net income	-	-	-	4,878	-	-	4,878
Other comprehensive loss	-	-	-	-	-	(1,629)	(1,629)
Impact of share-based compensation	9,984		76	-	106	-	182
BALANCE, December 31, 2017	3,465,992	$ 35	$ 26,072	$ 54,206	$ (2,741)	$ 54	$ 77,626

See accompanying notes to consolidated financial statements.

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

	2017	2016
OPERATING ACTIVITIES:		
Net income	$ 4,878	$ 7,156
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for credit losses	350	800
Provision (reduction) for other real estate losses	(10)	28
Depreciation and amortization	1,627	1,519
Net amortization of premiums and (discounts) on investment securities and subordinated debentures	7,743	7,524
Share-based compensation	182	449
Change in accrued interest receivable and other assets, net	(1,019)	(4,134)
Gain on sale of other real estate	-	(4)
Gain on sale of bank premises and equipment	(8)	(1)
Gain on sale of bank branch	(864)	-
Net realized gains on sales of investment securities	(745)	(729)
Decrease in deferred taxes	1,518	300
Change in other liabilities, net	110	990
Funding of loans held for sale, mortgage banking	(686,302)	(1,026,734)
Proceeds from sales of loans held for sale, mortgage banking	689,017	1,037,524
Fair value adjustment for loans held for sale, mortgage banking	326	23
Fair value adjustment on mortgage banking derivatives	170	67
Proceeds from sales of loans	7,191	1,532
Gains on sales of loans, net	(736)	(234)
Net cash provided by operating activities	23,428	26,076
INVESTING ACTIVITIES:		
Purchases of investment securities	(157,034)	(122,052)
Proceeds from sales of investment securities	99,910	97,415
Proceeds from maturities of investment securities	36,369	34,655
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(2,633)	(24,042)
Sales of Federal Reserve and Federal Home Loan Bank Stock	4,147	22,850
Net increase in loans held for investment	(20,923)	(37,194)
Proceeds from sales of other real estate	264	4
Proceeds from sales of premises and equipment	205	14
Additions to premises and equipment	(1,728)	(3,339)
Net cash used in investing activities	(41,423)	(31,689)

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)

	2017	2016
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$ 65,179	$ (27,822)
Net increase (decrease) in short-term borrowings	5,533	(1,341)
Repayments of Federal Home Loan Bank advances	(101,450)	(635,450)
Proceeds from Federal Home Loan Bank advances	63,450	666,150
Net cash provided by financing activities	32,712	1,537
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,717	(4,076)
CASH AND CASH EQUIVALENTS, beginning of period	11,113	15,189
CASH AND CASH EQUIVALENTS, end of period	$ 25,830	$ 11,113
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 3,405	$ 3,052
Income taxes paid	$ 821	$ 3,209
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in the settlement of loans	$ 40	$ -

See accompanying notes to consolidated financial statements.

NOTE 1. Description of Business and Significant Accounting Policies

Description of Business
BNCCORP, INC. (BNCCORP or BNC) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank or BNC Bank). BNC operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 15 locations. The Bank also conducts mortgage banking through a consumer-direct channel complimented by retail channels from 13 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas and Missouri. The consumer direct channel emphasizes technology (internet leads and call center) to originate mortgage loans throughout the United States. The retail channel is primarily relationship driven and originations are generally near mortgage banking locations.

The 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. Significant items subject to such estimates and assumptions include the allowance for credit losses, valuation of other real estate, reserve for potential mortgage banking obligations, fair values of financial instruments (including derivatives), impairments, deferred tax assets, and income taxes. Ultimate results could differ from those estimates.

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are significantly dependent on subjective assessments or estimates that may be susceptible to significant change. The following items have been identified as "accounting policies".

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.

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, 2017 and 2016, except for Federal Reserve Bank (FRB) and the Federal Home Loan Bank (FHLB) stock, which have an indeterminable maturity.

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.

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

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

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

Note 2 to these consolidated financial statements includes a summary of investment securities in a loss position at December 31, 2017 and 2016.

Federal Reserve Bank and Federal Home Loan Bank
Investments in Federal Reserve Bank and Federal Home Loan Bank stock are carried at cost, which approximates fair value.

Loans Held For Sale-Mortgage Banking
Loans held for sale-mortgage banking are accounted for at fair value pursuant to the fair value option permitted by Accounting Standards Codification 825, *Financial Instruments.* Gains and losses from the changes in fair value are included in mortgage banking revenue, net.

Loans and Leases Held For Investment
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 collectability 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 is also used as an alternative to discounting cash flows. If the measure of the impaired loan is less than the recorded investment in the loan, impairment will be recognized as a charge-off through the allowance for credit losses.

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

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, the Company periodically reviews use of lines on a retrospective basis and recognizes non-usage fees in non-interest income.

Loan Servicing and Transfers of Financial Assets

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

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

Allowance for Credit Losses

The Bank maintains its allowance for credit losses at a level considered adequate to provide for probable losses related to the loan and lease portfolio as of the consolidated 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 the Bank's historical loss experience, delinquency information, charge-off trends, collateral values, changes in nonperforming loans and other factors. Quantitative factors also incorporate known information about individual borrowers, including sensitivity to interest rate movements or other quantifiable external factors.

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

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

The allowance for credit losses has three components as follows:

> **Specific Reserves**. The amount of specific reserves is determined through a loan-by-loan analysis of problematic loans over a minimum size. Included in problem loans are non-accrual or restructured loans that meet the impairment criteria in ASC 310. 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 loans which have been excluded from the specific reserve allocation. The Company's methodology incorporates an estimated loss emergence period for each risk group. The loss emergence period is the period of time from when a borrower experiences a loss event and when the actual loss is recognized in the consolidated financial statements, generally at the time of initial charge-off of the loan balance.

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

Monitoring loans and analysis of loss components are the principal means by which management determines estimated credit losses are reflected in the Bank's allowance for credit losses on a timely basis. 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.

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. For nonperforming or impaired loans, appraisals are generally performed annually or whenever circumstances warrant a new appraisal. Management regularly evaluates the appraised value and costs to liquidate in order to estimate fair value. A provision for credit losses is made to adjust the allowance to the amount determined appropriate through application of the above processes.

Other Real Estate Owned and Repossessed Assets, net

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

Premises and Equipment

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

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. If impairment is identified, the assets are written down to their fair value through a charge to non-interest expense.

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

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

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

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

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

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability.

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.

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

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, other than treasury 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. Treasury securities are based upon quoted prices for identical instruments traded in active markets.

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

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

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

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, 2017, the Company had four stock-based compensation plans, which are described more fully in Note 24 and Note 25 to these consolidated financial statements.

Income Taxes
The Company files consolidated federal and unitary state income tax returns where allowed.

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

Deferred income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in income in the period of enactment regardless of the balance sheet classification of the underlying deferred tax asset or liability.

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

Earnings Per Share
Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Such potential dilutive instruments include stock options and contingently issuable stock. Note 22 to these consolidated financial statements includes disclosure of the Company's EPS calculations.

Comprehensive Income
Comprehensive income is the total of net income and other comprehensive income (loss), which for the Company, is generally comprised of unrealized gains and losses on securities available for sale, net of corresponding tax effects.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

Accounting Standards Codification (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in generally accepted accounted principles when it becomes effective. The new standard is effective for the Company for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2017. The Company plans to adopt the amended guidance using the modified retrospective approach on January 1, 2018. The Company has assessed its revenue streams and identified those contracts that are specifically excluded from the scope of the amended guidance and those that may be subject to the amended guidance. Based on the evaluation of the contracts that may be subject to the guidance, the adoption of this accounting pronouncement is not expected to have a significant impact on the Company's Consolidated Financial Statements. The Company continues to evaluate the impact the amended guidance will have on its related disclosures.

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

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

NOTE 2. 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, 2017 or 2016. The carrying amount of available-for-sale securities and their estimated fair values were as follows as of December 31 (in thousands):

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

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 24,967	$ -	$ (252)	$ 24,715
U.S. government agency mortgage-backed securities guaranteed by GNMA	46,003	295	(1,028)	45,270
U.S. government agency small business administration pools guaranteed by SBA	122,519	731	(387)	122,863
Collateralized mortgage obligations guaranteed by GNMA/VA	85,462	607	(1,849)	84,220
Collateralized mortgage obligations issued by FNMA or FHLMC	35,849	180	(687)	35,342
State and municipal bonds	84,143	3,918	(335)	87,726
	$ 398,943	$ 5,731	$ (4,538)	$ 400,136

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at December 31, 2017, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	18,181	18,097
Due after five years through ten years	70,776	71,088
Due after ten years	324,369	322,732
Total	$ 413,326	$ 411,917

The table above is not intended to reflect actual maturities, cash flows, or interest rate risk. Actual maturities may differ from the contractual maturities shown above as a result of prepayments.

Securities carried at approximately $118.8 million and $117.8 million at December 31, 2017 and 2016, 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):

	2017	2016
Sales proceeds	$ 99,910	$ 97,415
Gross realized gains	1,398	796
Gross realized losses	(653)	(67)
Net realized gains	$ 745	$ 729

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):

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

	2016								
	Less than 12 months			12 months or more			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. Treasury securities	2	$ 24,715	$ (252)	-	$ -	$ -	2	$ 24,715	$ (252)
U.S. government agency mortgage-backed securities guaranteed by GNMA	5	28,357	(1,028)	-	-	-	5	28,357	(1,028)
U.S. government agency small business administration pools guaranteed by SBA	7	31,123	(182)	7	13,152	(205)	14	44,275	(387)
Collateralized mortgage obligations guaranteed by GNMA/VA	6	44,257	(1,849)	-	-	-	6	44,257	(1,849)
Collateralized mortgage obligations issued by FNMA or FHLMC	3	16,618	(649)	1	2,330	(38)	4	18,948	(687)
State and municipal bonds	7	15,643	(335)	-	-	-	7	15,643	(335)
Total temporarily impaired securities	30	$ 160,713	$ (4,295)	8	$ 15,482	$ (243)	38	$ 176,195	$ (4,538)

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

There were no securities that management concluded were other-than-temporarily impaired during 2017 or 2016.

NOTE 3. Federal Reserve Bank and Federal Home Loan Bank Stock

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

	2017	2016
Federal Reserve Bank Stock, at cost	$ 1,807	$ 1,807
Federal Home Loan Bank, at cost	1,090	2,604
Total	$ 2,897	$ 4,411

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

NOTE 4. Loans and Leases

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

	2017	2016
Loans held for sale-mortgage banking	$ 36,601	$ 39,641
Commercial and industrial	$ 126,169	$ 123,604
Commercial real estate	177,429	171,972
SBA	25,064	31,518
Consumer	71,876	59,183
Land and land development	14,168	15,982
Construction	13,167	12,215
Gross loans and leases held for investment	427,873	414,474
Unearned income and net unamortized deferred fees and costs	452	199
Loans, net of unearned income and unamortized fees and costs	428,325	414,673
Allowance for credit losses	(7,861)	(8,285)
Net loans and leases held for investment	$ 420,464	$ 406,388

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

Loans Pledged as Collateral
The table below present's loans pledged as collateral to the Federal Home Loan Bank, Federal Reserve Bank, and the Bank of North Dakota as of December 31(in thousands):

	2017	2016
Commercial and industrial	$ 39,274	$ 38,747
Commercial real estate	98,647	90,798
Consumer	33,123	30,943
Construction	-	575
	$ 171,044	$ 161,063

NOTE 5. Allowance for Credit Losses

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

	2017						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,323	$ 3,231	$ 1,433	$ 772	$ 413	$ 113	$ 8,285
Provision (reduction)	(81)	228	(81)	225	46	13	350
Loans charged off	(84)	-	(566)	(123)	(103)	-	(876)
Loan recoveries	-	12	48	40	2	-	102
Balance, end of period	$ 2,158	$ 3,471	$ 834	$ 914	$ 358	$ 126	$ 7,861

	2016						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 3,205	$ 1,999	$ 1,578	$ 640	$ 1,041	$ 148	$ 8,611
Provision (reduction)	122	1,219	(89)	211	(628)	(35)	800
Loans charged off	(1,004)	-	(71)	(99)	-	-	(1,174)
Loan recoveries	-	13	15	20	-	-	48
Balance, end of period	$ 2,323	$ 3,231	$ 1,433	$ 772	$ 413	$ 113	$ 8,285

The following table shows the balance in the allowance for credit losses at December 31, 2017, and December 31, 2016, and the related loan balances, segregated on the basis of impairment methodology (in thousands). Impaired loans are loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment.

	Allowance For Credit Losses			Gross Loans and Leases Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
December 31, 2017						
Commercial and industrial	$ 407	$ 1,751	$ 2,158	$ 1,737	$ 124,432	$ 126,169
Commercial real estate	87	3,384	3,471	1,510	175,919	177,429
SBA	64	770	834	143	24,921	25,064
Consumer	10	904	914	311	71,565	71,876
Land and land development	-	358	358	52	14,116	14,168
Construction	-	126	126	-	13,167	13,167
Total	$ 568	$ 7,293	$ 7,861	$ 3,753	$ 424,120	$ 427,873
December 31, 2016						
Commercial and industrial	$ 514	$ 1,809	$ 2,323	$ 1,909	$ 121,695	$ 123,604
Commercial real estate	286	2,945	3,231	1,547	170,425	171,972
SBA	376	1,057	1,433	481	31,037	31,518
Consumer	14	758	772	333	58,850	59,183
Land and land development	-	413	413	-	15,982	15,982
Construction	-	113	113	-	12,215	12,215
Total	$ 1,190	$ 7,095	$ 8,285	$ 4,270	$ 410,204	$ 414,474

Performing and non-accrual loans

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

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

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

	2016					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 52,107	$ -	$ 20	$ 52,127	$ 1,909	$ 54,036
Agriculture	20,206	67	-	20,273	-	20,273
Owner-occupied commercial real estate	49,295	-	-	49,295	-	49,295
Commercial real estate	171,972	-	-	171,972	-	171,972
SBA	31,037	-	-	31,037	481	31,518
Consumer:						
Automobile	7,098	15	-	7,113	35	7,148
Home equity	8,787	-	-	8,787	-	8,787
1st mortgage	13,472	-	-	13,472	-	13,472
Other	29,722	54	-	29,776	-	29,776
Land and land development	15,827	155	-	15,982	-	15,982
Construction	12,215	-	-	12,215	-	12,215
Total loans held for investment	411,738	291	20	412,049	2,425	414,474
Loans held for sale	39,637	4	-	39,641	-	39,641
Total gross loans	$ 451,375	$ 295	$ 20	$ 451,690	$ 2,425	$ 454,115

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

	2017	2016
Interest income that would have been recorded	$ 161	$ 104
Interest income recorded	-	-
Effect on interest income	$ 161	$ 104

Credit Risk by Internally Assigned Grade

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

At December 31, 2017, the Company had $415.1 million of loans categorized as pass rated loans. This compares to $393.4 million at December 31, 2016.

Loans designated as watch list are loans that possess some credit deficiency that deserves close attention due to emerging problems. Such loans pose unwarranted financial risk that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. At December 31, 2017 the Company had $1.7 million of loans categorized as watch list loans compared to $8.1 million at December 31, 2016.

Loans graded as Substandard or Doubtful are considered "Classified" loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a higher probability of loss. At December 31, 2017, the Company had $9.1 million of substandard loans and $1.9 million of doubtful loans. This compares to $10.5 million of substandard loans and $2.4 million doubtful loans as of December 31, 2016.

Impaired loans

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

The following table summarizes impaired loans and related allowances as of and for the years ended December 31, 2017 and 2016 (in thousands):

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

	2016				
	Unpaid Principal	Recorded Investment	Related Allowance	Average Recorded Balance	Interest Income Recognized (12 months)
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 2,714	$ 1,909	$ 514	$ 2,128	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,846	1,547	286	1,569	80
SBA	510	481	376	489	-
Consumer:					
Automobile	30	28	14	33	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 5,100	$ 3,965	$ 1,190	$ 4,219	$ 80
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	-	-	-	-	-
Consumer:					
Automobile	10	7	-	7	-
Home equity	-	-	-	-	-
1st mortgage	1,878	298	-	302	12
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 1,888	$ 305	$ -	$ 309	$ 12
TOTAL IMPAIRED LOANS	$ 6,988	$ 4,270	$ 1,190	$ 4,528	$ 92

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

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

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

	2016			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,547	-	1,547	286
SBA	-	308	308	308
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	298	-	298	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,845	$ 308	$ 2,153	$ 594

TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of real estate or other assets in full or partial satisfaction of the debt. Loan modifications are not reported as TDR's after 12 months if the loan was modified at a market rate of interest for comparable risk loans, and the loan is performing in accordance with the terms of the restructured agreement for at least six months.

When a loan is modified as a TDR, there may be a direct, material impact on the loan balances, as principal balances may be partially forgiven. For the year ended December 31, 2017 there was no new TDRs. For the year ended

December 31, 2016 there was one new TDR with a pre-modification balance of $119 thousand and a post-modification balance of $119 thousand.

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

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

	2017	2016
Interest income that would have been recorded	$ 211	$ 229
Interest income recorded	89	92
Effect on interest income	$ 122	$ 137

There were no additional funds committed to borrowers who are in TDR status at December 31, 2017 and December 31, 2016.

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

As of December 31, 2017 and December 31, 2016, the Bank had no restructured loans that were modified in a troubled-debt restructuring within the previous 12 months for which there was a payment default (i.e. 90 days delinquent).

NOTE 6. Other Real Estate, net

Other real estate (ORE), net 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):

	2017	2016
Balance, beginning of period	$ 214	$ 242
Transfers from nonperforming loans	40	-
Real estate sold	(264)	(4)
Net gains on sale of assets	-	4
Provision	10	(28)
Balance, end of period	$ -	$ 214

The following is a summary of ORE as of December 31 (in thousands):

	2017	2016
Other real estate	$ -	$ 954
Valuation allowance	-	(740)
Other real estate, net	$ -	$ 214

NOTE 7. Premises and Equipment, net

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

	2017	2016
Land and improvements	$ 4,949	$ 4,469
Buildings and improvements	16,973	16,436
Leasehold improvements	525	549
Furniture, fixtures, and equipment	9,987	10,409
Total cost	32,434	31,863
Less accumulated depreciation and amortization	(13,031)	(12,482)
Net premises and equipment	$ 19,403	$ 19,381

Depreciation and amortization expense totaled approximately $1.6 million and $1.5 million for the years ended December 31, 2017 and 2016, respectively.

NOTE 8. Deposits

The scheduled maturities of time deposits as of December 31, 2017 are as follows (in thousands):

2018	$ 104,021
2019	26,637
2020	16,276
2021	4,609
2022	3,721
Thereafter	97
	$ 155,361

At December 31, 2017 and 2016, the Bank had no time deposits that had been acquired through a traditional broker channel. In addition, the Company had $152.9 million and $126.9 million of interest-bearing deposits that meet the regulatory definition of a brokered deposit as of December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Bank had $28.9 million and $22.3 million, respectively, in time deposits greater than $250 thousand.

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

	2017	2016
Savings	$ 11	$ 9
Interest checking	64	60
Money market	889	512
Time deposits	1,545	1,593
	$ 2,509	$ 2,174

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

NOTE 9. 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):

	2017	2016
Federal reserve borrowings	$ -	$ -
Repurchase agreements with customers, renewable daily, interest payable monthly, rates ranging from 0.10% to 0.40% and 0.05% to 0.40%, respectively, secured by U.S. Treasury securities and general obligations of municipalities	18,043	12,510
	$ 18,043	$ 12,510

The weighted average interest rate on short-term borrowings outstanding as of December 31, 2017 and 2016 was 0.25% and 0.15%, 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, 2017, $18.0 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.25%, were collateralized by U.S. Treasury securities and general obligations of municipalities having a market value of $32.1 million and unamortized principal balances of $31.3 million. At December 31, 2016, $12.5 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.15%, were collateralized by U.S. Treasury securities and general obligations of municipalities having a market value of $25.8 million and unamortized principal balances of $24.5 million.

NOTE 10. Federal Home Loan Bank Advances

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

As of December 31, 2016, the Bank had $38.0 million of FHLB advances outstanding. At December 31, 2016, the Bank has mortgage loans with unamortized principal balances of approximately $158.2 million and securities with unamortized principal balances of approximately $49.2 million pledged as collateral to the FHLB. The Bank has the ability to draw advances up to approximately $122.6 million based upon the aggregate collateral that is currently pledged, subject to a requirement to purchase additional FHLB stock.

NOTE 11. Long-Term Borrowings

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

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

On October 19, 2015, the Company entered into a $10.0 million term loan agreement with another bank. The long term borrowing is subordinated debt that qualifies as Tier 2 capital for the Company. The loan agreement includes various covenants that are primarily operational rather than financial in nature. As of December 31, 2017, the Company was in compliance with these covenants. The note may be repaid by the Company at par in whole or in part beginning October 19, 2020.

NOTE 12. Other Borrowings

The following table presents selected information regarding other borrowings at December 31 (in thousands):

2017

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

Secured Borrowing Lines:	Collateral Pledged	Line	Outstanding	Available
BNC Line	$ 93,838	$ 10,000	$ -	$ 10,000
Total	$ 93,838	$ 10,000	$ -	$ 10,000

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

At December 31, 2017, the pledged collateral for the BNC Line is the common stock of BNC National Bank.

2016

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

Secured Borrowing Line:	Collateral Pledged	Line	Outstanding	Available
BNC National Bank Line	$ 575	$ 406	$ -	$ 406
BNC Line	91,435	10,000	-	10,000
Total	$ 92,010	$ 10,406	$ -	$ 10,406

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

At December 31, 2016, the pledged collateral for the BNC National Bank Line was comprised of collateralized mortgage obligations and the pledged collateral for the BNC Line is the common stock of BNC National Bank.

NOTE 13. Guaranteed Preferred Beneficial Interest's in Company's Subordinated Debentures

In July 2007, BNC issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at December 31, 2017 and December 31, 2016 was 2.74% and 2.05%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNCCORP, subject to approval by the Federal Reserve Board.

NOTE 14. Stockholders' Equity

Regulatory restrictions exist regarding the ability of the Bank to transfer funds to BNCCORP in the form of cash dividends. Approval of the Office of the Comptroller of the Currency (OCC), the Bank's principal regulator, is required for 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.

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

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

NOTE 15. Regulatory Capital and Current Operating Environment

BNC and BNC Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet capital requirements mandated by regulators can trigger certain mandatory and discretionary actions by regulators. Such actions, if undertaken, could have a direct material adverse effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, BNC and BNC Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Regulators continue to impose capital requirements that are specific to individual institutions. The requirements are generally above the statutory ratios.

At December 31, 2017, the capital ratios exceeded all regulatory capital thresholds and maintained sufficient capital conservation buffers to avoid limitations on certain types of capital distributions.

The capital amounts and ratios presented below for December 31, 2017 and December 31, 2016 were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2017								
Total Risk Based Capital:								
Consolidated	$ 109,187	19.98%	$ 43,717	≥8.0%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	99,933	18.31	43,657	≥8.0	54,572	10.0	45,361	8.31
Tier 1 Risk Based Capital:								
Consolidated	92,344	16.90	32,788	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	93,098	17.06	32,743	≥6.0	43,657	8.0	49,441	9.06
Common Equity Tier 1 Risk Based Capital:								
Consolidated	77,333	14.15	24,591	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	93,098	17.06	24,557	≥4.5	35,472	6.5	57,626	10.56
Tier 1 Leverage Capital:								
Consolidated	92,344	9.53	38,749	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	93,098	9.62	38,713	≥4.0	48,392	5.0	44,706	4.62
Tangible Common Equity (to total assets):								
Consolidated	77,407	8.18	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	93,618	9.91	N/A	N/A	N/A	N/A	N/A	N/A
2016								
Total Risk Based Capital:								
Consolidated	$ 103,887	19.96%	$ 41,646	≥8.0%	$ N/A	N/A%	$ N/A	N/A%
BNC National Bank	95,655	18.41	41,558	≥8.0	51,947	10.0	43,708	8.41
Tier 1 Risk Based Capital:								
Consolidated	87,358	16.78	31,235	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	89,139	17.16	31,168	≥6.0	41,558	8.0	47,581	9.16
Common Equity Tier 1 Risk Based Capital:								
Consolidated	72,345	13.90	23,426	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	89,139	17.16	23,376	≥4.5	33,766	6.5	55,373	10.66
Tier 1 Leverage Capital:								
Consolidated	87,358	9.47	36,902	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	89,139	9.67	36,873	≥4.0	46,092	5.0	43,048	4.67
Tangible Common Equity (to total assets):								
Consolidated	74,048	8.13	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	91,288	9.71	N/A	N/A	N/A	N/A	N/A	N/A

The most recent notifications from the Office of the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Management believes the Bank remains well capitalized through the date for which subsequent events have been evaluated.

NOTE 16. Fair Value Measurements

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

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

	Carrying Value at December 31, 2016				Twelve Months Ended December 31, 2016
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 400,136	$ 24,715	$ 375,421	$ -	$ 729
Loans held for sale	39,641	-	39,641	-	(23)
Commitments to originate mortgage loans	1,414	-	1,414	-	(379)
Commitments to sell mortgage loans	259	-	259	-	342
Total assets at fair value	$ 441,450	$ 24,715	$ 416,735	$ -	$ 669
LIABILITIES					
Commitments to sell mortgage loans	$ -	$ -	$ -	$ -	$ -
Mortgage banking short positions	53	-	53	-	(30)
Total liabilities at fair value	$ 53	$ -	$ 53	$ -	$ (30)

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

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

The Company may also be required from time to time to measure certain other 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):

	2017				
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 3,185	$ -	$ 3,185	$ -	$ (20)
Other real estate(2)	-	-	-	-	10
Total	$ 3,185	$ -	$ 3,185	$ -	$ (10)

	2016				
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
Impaired loans(1)	$ 3,080	$ -	$ 3,080	$ -	$ (1,714)
Other real estate(2)	214	-	214	-	4
Total	$ 3,294	$ -	$ 3,294	$ -	$ (1,710)

(1) The carrying value represents the book value less allocated reserves. The gain or loss reported is the change in the reserve balances allocated on individual impaired loans in addition to the actual write-downs for the period presented.
(2) The carrying value represents the fair value of the collateral less estimated selling costs and is based upon appraised values. The gain or loss reported is a combination of gains and/or losses on sales of other real estate and provisions for other real estate losses.

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

NOTE 17. Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	December 31, 2017		December 31, 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 25,830	$ 25,830	$ 11,113	$ 11,113
Investment securities available for sale	Level 1	39,466	39,466	24,715	24,715
Investment securities available for sale	Level 2	372,451	372,451	375,421	375,421
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	2,897	2,897	4,411	4,411
Loans held for sale-mortgage banking	Level 2	36,601	36,601	39,641	39,641
Commitments to originate mortgage loans	Level 2	1,457	1,457	1,414	1,414
Commitments to sell mortgage loans	Level 2	-	-	259	259
Loans and leases held for investment, net	Level 2	420,464	417,497	406,388	405,302
Accrued interest receivable	Level 2	4,848	4,848	4,444	4,444
		$ 904,014	$ 901,047	$ 867,806	$ 866,720
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 164,401	$ 164,401	$ 147,027	$ 147,027
Deposits, interest-bearing	Level 2	653,405	651,923	605,600	604,823
Borrowings and advances	Level 2	28,043	28,284	60,510	60,748
Accrued interest payable	Level 2	950	950	777	777
Accrued expenses	Level 2	6,107	6,107	6,685	6,685
Commitments to sell mortgage loans	Level 2	42	42	-	-
Mortgage banking short positions	Level 2	12	12	53	53
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,011	10,691	15,013	10,292
		$ 867,971	$ 862,410	$ 835,665	$ 830,405
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 181	$ -	$ 132
Standby and commercial letters of credit	Level 2	$ -	$ 11	$ -	$ 10

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.

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

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

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer, which are binding, provided there is no violation of any condition in the contract, and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Bank's exposure to credit loss in the event of default by the borrower. At December 31, 2017, 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 the mortgage banking operations, the Bank commits 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. See Note 1 and 16 to these consolidated financial statements for more information on financial instruments and derivatives related to mortgage banking operations.

Standby and Commercial Letters of Credit

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commercial letters of credit are issued on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Bank's credit loss exposure is up to the letter's contractual amount. At December 31, 2017, based on current information, no losses were anticipated as a result of these commitments. Management assesses the borrower's creditworthiness to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring the Bank to fund letters of credit may not occur, the Bank expects the liquidity requirements related to such letters of credit to be less than the total outstanding commitments.

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

	2017		2016	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 15,573	$ 62,052	$ 10,576	$ 57,039
Standby and commercial letters of credit	220	829	561	421

In addition to the amounts in the table above, mortgage banking commitments to fund loans totaled $75.9 million at December 31, 2017 and $84.6 million at December 31, 2016. Mortgage banking commitments to sell loans totaled $111.7 million at December 31, 2017 and $123.1 million at December 31, 2016.

Mortgage Banking Obligations

Through its mortgage banking operations, the Company originates and sells residential mortgage loans servicing released to third parties. These loans are sold without recourse to the Company. Although the Company sells mortgage banking loans without recourse, industry standards require standard representations and warranties which require sellers to reimburse investors for economic losses if loans default or prepay after the sale. Repurchase risk is also evident within the mortgage banking industry as continued disputes arise between lenders and investors. Such requests for repurchase are commonly due to faulty representation and generally emerge at varied timeframes subsequent to the original sale of the loan. To estimate the contingent obligation, the Company tracks historical reimbursements and calculates the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimates the future reimbursement amounts and records the estimated obligation. The following is a summary of activity related to mortgage banking reimbursement obligations at December 31 (in thousands):

	2017		2016	
Balance, beginning of period	$	1,339	$	1,781
Provision		-		90
Write offs, net		(236)		(532)
Balance, end of period	$	1,103	$	1,339

NOTE 19. 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, 2017 and 2016, the Bank had outstanding $238 thousand and $172 thousand, respectively, of performance standby letters of credit and $4.1 million and $3.2 million, respectively, 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 in an event of default by the account party in the performance of a nonfinancial or commercial obligation. Financial standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to repay money for the account of the account party or to make payment on account of any indebtedness undertaken by the account party, in the event that the account party fails to fulfill its obligation to the beneficiary. Under these arrangements, the Bank could, in the event of the account party's nonperformance, be required to pay a maximum of the amount of issued letters of credit. The Bank has recourse against the account party up to and including the amount of the performance standby letter of credit. The Bank evaluates each account party's creditworthiness on a case-by-case basis and the amount of collateral obtained varies and is based on management's credit evaluation of the account party.

NOTE 20. Commitments and Contingencies

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, 2017 and 2016 was $1.2 million and $1.1 million, respectively, for facilities, and $25,000 and $8,000, respectively, for equipment and other items. At December 31, 2017, the total minimum annual base lease payments for operating leases were as follows (in thousands):

2018	$	1,144
2019		980
2020		875
2021		771
2022		676
Thereafter		1,230

Legal Proceedings
From time to time, the Company may be a party to legal proceedings arising out of our lending, deposit operations or other activities. While the Company is not aware of any such actions or allegations that should reasonably give rise to any material adverse effect, it is possible that we could be subjected to such a claim in an amount that could be material. Based upon a review with our legal counsel, the Company believe that the ultimate disposition of such pending litigation will not have a material effect on our financial condition, results of operations or cash flows.

NOTE 21. Income Taxes

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

	2017	2016
Current:		
Federal	$ 1,232	$ 1,968
State	270	363
	1,502	2,331
Deferred:		
Federal	1,459	215
State	59	85
	1,518	300
Total	$ 3,020	$ 2,631

On December 22, 2017 the Tax Cuts and Jobs Act was signed into Federal law. This act restructured the corporate tax rates from a graduated schedule with a maximum effective tax rate of 35.0% to a flat effective tax rate of 21.0% for tax years beginning after December 31, 2017. As a result of this enactment, 2017 includes a $1.208 million tax charge to revalue net deferred tax assets.

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

	2017	2016
Tax expense at 34% statutory rate	$ 2,686	$ 3,328
Adjustment to deferred tax asset for change in Federal tax rate	1,208	-
State taxes (net of Federal benefit)	217	296
Tax-exempt interest	(895)	(901)
Bank-owned life insurance	(147)	(150)
Other, net	(49)	58
Total	$ 3,020	$ 2,631

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):

	2017	2016
Deferred tax asset:		
Loans, primarily due to credit losses	$ 2,045	$ 3,413
Compensation	406	560
Unrealized loss on securities available for sale	347	-
Acquired intangibles	125	193
Net operating loss carryforwards	19	20
Other real estate owned	-	74
Other	144	316
Deferred tax asset	3,086	4,576
Deferred tax liability:		
Unrealized gain on securities available for sale	-	459
Discount accretion on securities	15	16
Premises and equipment	499	721
Other	154	250
Deferred tax liability	668	1,446
	2,418	3,130
Valuation allowance	(14)	(14)
Net deferred tax asset	$ 2,404	$ 3,116

Subject to certain limiting statutes, the Company is able to carry forward state tax net operating losses aggregating $392 thousand as of December 31, 2017. The state net operating losses expire between 2024 and 2031.

The Company files consolidated federal and unitary state income tax returns where allowed. Tax years ended December 31, 2014 through 2017 remain open to federal examination. Tax years ended December 31, 2013 through 2017 remain open to state examinations.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefit recognized in the consolidated financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense is recognized on the full amount of deferred benefits for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax benefits in the income tax provision within the consolidated statements of income. At December 31, 2017 and 2016, the Company did not have any uncertain tax positions.

NOTE 22. Earnings Per Share

The following table shows the amounts used in computing per share results (in thousands, except share and per share data):

	2017	2016
Denominator for basic earnings per share:		
Average common shares outstanding	3,474,988	3,447,635
Dilutive effect of stock compensation	65,710	73,183
Denominator for diluted earnings per share	3,540,698	3,520,818
Numerator (in thousands):		
Net income	$ 4,878	$ 7,156
Basic earnings per common share	$ 1.40	$ 2.08
Diluted earnings per common share	$ 1.38	$ 2.03

NOTE 23. Related-Party/Affiliate Transactions

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

In the normal course of business, loans are granted to, and deposits are received from, executive officers, directors, principal stockholders and associates of such persons. The aggregate dollar amount of these loans was $1.1 million and $1.5 million at December 31, 2017 and 2016, respectively. Advances of loans to related parties in 2017 and 2016 totaled $170 thousand and $74 thousand, respectively. Loan pay downs and other reductions by related parties in 2017 and 2016 were $561 thousand and $821 thousand, respectively. Commitments to extend credit to related parties decreased to $239 thousand at December 31, 2017 from $278 thousand at December 31, 2016. The total amount of deposits received from these parties was $930 thousand at December 31, 2017 and $764 thousand at December 31, 2016. 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.

In 2017, the Company purchased a $500 thousand death benefit right on a split dollar life insurance policy from a director for $250 thousand.

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, 2017, BNCCORP and its affiliates were in compliance with these requirements.

NOTE 24. Benefit Plans

BNCCORP has a qualified 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 limits set by law. At their discretion, BNCCORP and its subsidiaries may provide matching contributions to the plan. In 2017 and 2016, 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 $620,000 and $599,000 for 2017 and 2016, 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, 2017, the assets in the plan totaled $26.2 million and included $869,000 (28,000 shares) invested in BNCCORP common stock. At December 31, 2016, the assets in the plan totaled $21.9 million and included $789,000 (30,000 shares) invested in BNCCORP common stock. On January 28, 2008, the Company voluntarily delisted from the NASDAQ Global Market and deregistered its common stock under the Securities Exchange Act of 1934 (as amended). As a result, the participants are prohibited from making new investments of the Company's common stock in the plan.

During 2015, the Company adopted a non-qualified deferred compensation plan for the benefit of select employees. The plan structure permits the Company to make discretionary awards into an in-service account or a retirement account of a plan participant established under the plan. BNC recognizes the expense for discretionary awards in the period it commits to such awards. Additionally, plan participants may defer some or all of their annual incentive awards into their in-service accounts. Company discretionary awards to the participant's in-service account are generally vested 50% upon initial participation with the remainder vesting over 5 years. A participant's retirement account generally vests 50% upon an initial contribution and thereafter over 10 years. Participants may allocate their in-service account balance among a fixed number of investment options. The value of the payout from the in-service account will depend on the performance of such investment options. Company discretionary awards into a participant's retirement account are denominated in shares of BNC common stock and upon retirement, the plan participant will receive the number of shares of BNC common stock credited to the participant's retirement account at that time. A separate Rabbi Trust has been established by the Company to hedge the change in value of this liability. Assets in the trust hedging in-service liabilities are recorded in other assets. BNC stock held in the trust related to the Company's retirement account obligation is recorded in treasury stock and equates to 22,800 shares as of December 31, 2017 and 19,500 shares as of December 31, 2016. As of December 31, 2017, the plan obligation totaled $878 thousand and $674 thousand as of December 31, 2016.

In December of 2015, the Company adopted a non-qualified deferred compensation plan for directors of BNCCORP. Effective with 2016 service, a director may voluntarily make contributions of earned director compensation to a deferred account that is ultimately payable with BNCCORP, INC. common stock at the time of separation from service with the Company. The deferred shares of BNCCORP, INC. stock were 6,464 shares and 5,371shares as of December 31, 2017 and 2016, respectively.

NOTE 25. Share-Based Compensation

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

Total shares in plan and total shares available as of December 31, 2017 are as follows:

	1995	2002	2010	2015	Total
Total Shares in Plan	250,000	125,000	250,000	50,000	675,000
Total Shares Available	45,951	-	250,000	42,684	338,635

The Company recognized share-based compensation expense of $18,000 and $94,000 for the years ended December 31, 2017 and 2016, respectively, related to restricted stock.

The tax benefits associated with share-based compensation was approximately $26,000 for the year ended December 31, 2017 and was approximately $74,000 for the year ended December 31, 2016.

At December 31, 2017, the Company had $81,000 of unamortized restricted stock compensation. At December 31, 2016, the Company had $18,000 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:

	2017		2016	
	Number Restricted Stock Shares	**Weighted Average Grant Date Fair Value**	**Number Restricted Stock Shares**	**Weighted Average Grant Date Fair Value**
Nonvested, beginning of year	3,334	$ 14.57	14,334	$ 12.91
Granted	2,800	28.78	-	-
Vested	(2,667)	14.06	(11,000)	12.41
Forfeited	-	-	-	-
Nonvested, end of year	3,467	26.45	3,334	14.57

The Company is permitted to issue shares from treasury shares already held when options are exercised.

Following is a summary of vested stock options and options expected to vest as of December 31, 2017:

	Stock Options Outstanding	**Stock Options Currently Exercisable**	**Stock Options Vested and Expected to Vest**
Number	68,600	68,600	68,600
Weighted-average exercise price	$3.00	$3.00	$3.00
Weighted-average remaining contractual term	2.20 years	2.20 years	2.20 years

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

	2017		2016	
	Options to Purchase Shares	**Weighted Average Exercise Price**	**Options to Purchase Shares**	**Weighted Average Exercise Price**
Outstanding, beginning of year	75,600	$ 3.00	107,200	$ 3.00
Granted	-	-	-	-
Exercised	(7,000)	3.00	(31,600)	3.00
Forfeited	-	-	-	-
Outstanding, end of year	68,600	3.00	75,600	3.00
Exercisable, end of year	68,600	3.00	75,600	3.00
Weighted average fair value of options:				
Granted	$ -		$ -	
Exercised	$ 27.36		$ 17.51	
Forfeited	$ -		$ -	

NOTE 26. Condensed Financial Information-Parent Company Only

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

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

	2017	2016
Assets:		
Cash and cash equivalents	$ 6,550	$ 4,165
Investment in subsidiaries	93,838	89,304
Receivable from subsidiaries	2,528	3,333
Other	714	1,108
Total assets	$ 103,630	$ 97,910
Liabilities and stockholders' equity:		
Subordinated debentures	$ 15,011	$ 15,013
Long-term borrowings	10,000	10,000
Payable to subsidiaries	76	119
Accrued expenses and other liabilities	917	717
Total liabilities	26,004	25,849
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,465,992 and 3,456,008 shares issued and outstanding	35	35
Capital surplus – common stock	26,072	25,996
Retained earnings	54,206	49,328
Treasury stock (202,661 and 212,645 shares, respectively)	(2,741)	(2,847)
Accumulated other comprehensive income (loss), net of income taxes	54	(451)
Total stockholders' equity	77,626	72,061
Total liabilities and stockholders' equity	$ 103,630	$ 97,910

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

	2017	2016
Income:		
Management fee income	$ 2,075	$ 1,875
Interest	8	6
Other	28	12
Total income	2,111	1,893
Expenses:		
Interest	1,038	958
Salaries and benefits	1,388	1,593
Legal and other professional	729	571
Other	757	769
Total expenses	3,912	3,891
Loss before income tax benefit and equity in earnings of subsidiaries	(1,801)	(1,998)
Income tax benefit	649	684
Loss before equity in earnings of subsidiaries	(1,152)	(1,314)
Equity in earnings of subsidiaries	6,030	8,470
Net income	$ 4,878	$ 7,156

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

	2017	2016
Operating activities:		
Net income	$ 4,878	$ 7,156
Adjustments to reconcile net income to net cash provided by (used in) operating activities -		
Equity in earnings of subsidiaries	(6,030)	(8,470)
Share-based compensation	182	449
Change in other assets	1,199	(2,996)
Change in other liabilities	156	175
Net cash provided by (used in) operating activities	385	(3,686)
Investing activities:		
Dividend paid by subsidiaries	2,000	2,500
Net cash provided by investing activities	2,000	2,500
Net increase (decrease) in cash and cash equivalents	2,385	(1,186)
Cash and cash equivalents, beginning of year	4,165	5,351
Cash and cash equivalents, end of year	$ 6,550	$ 4,165
Supplemental cash flow information:		
Interest paid	$ 1,019	$ 1,007
Income taxes paid	$ 707	$ 2,935

NOTE 27. Subsequent Events

The Company has evaluated subsequent events from the consolidated balance sheet date through March 22, 2018, the date at which the consolidated financial statements were available to be issued, and determined there are no other items to record or disclose related to subsequent events.

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CORPORATE DATA

Investor Relations

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322 East Main Avenue
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Telephone (701) 250-3040
Facsimile (701) 222-3653

Daniel Collins
Chief Financial Officer
612-305-2210

Timothy J. Franz
President/CEO
612-305-2213

Annual Meeting

The 2018 annual meeting of stockholders will be held on Wednesday, June 27, 2018 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
Suite 300
1212 N. 96th Street
Omaha, NE 68114-2274

Securities Listing

BNCCORP, INC.'s common stock is traded on the OTCQX Markets under the symbol: "BNCC."

Common Stock Prices

For the Years Ended December 31,

	2017(1)		2016(1)	
	High	Low	High	Low
First Quarter	$27.25	$25.50	$16.40	$14.26
Second Quarter	$26.49	$25.30	$15.50	$14.80
Third Quarter	$27.70	$25.26	$21.00	$15.25
Fourth Quarter	$31.00	$26.90	$26.35	$20.10

(1) The quotes represent the high and low closing sales prices as reported by OTCQX Markets.

Stock Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

Corporate Broker

D. A. Davidson Community Banking and Wealth Management Group
1-800-288-2811
cbwm@dadco.com

Directors, BNCCORP, INC.

(as of December 31, 2017)

Tracy Scott
Chairman of the Board and
Retired Co-Founder of BNCCORP, INC.

Timothy J. Franz
President and
Chief Executive Officer of BNCCORP, INC.

Nathan P. Brenna
Owner, Brenna Farm and Ranch
Former Attorney

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

Michael O'Rourke
Attorney / Author

Michael M. Vekich
CEO, Vekich Chartered

Directors, BNC National Bank

Doug Brendel
Shawn Cleveland
Daniel J. Collins
Timothy J. Franz
Dave Hoekstra
Mark E. Peiler
Scott Spillman
Cheryl A. Stanton

Bank Branches – North Dakota:

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

Bismarck South
219 South 3rd Street
Bismarck, ND 58504

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

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

Primrose Assisted Living Apartments
1144 College Drive
Bismarck, ND 58501

Crosby
206 South Main Street
Crosby, ND 58730

Garrison
92 North Main
Garrison, ND 58540

Linton
104 North Broadway
Linton, ND 58552

Stanley
210 South Main
Stanley, ND 58784

Watford City
205 North Main
Watford City, ND 58854

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

Bank Branches – Arizona

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

Perimeter
17550 North Perimeter Drive
Scottsdale, AZ 85255

Bank Branches – Minnesota

Golden Valley(2)
650 North Douglas Drive
Golden Valley, MN 55422

Mortgage Banking Offices:

Glendale
6685 W. Beardsley
Glendale, AZ 85383
Bloomington
7201 West 78th Street
Bloomington, MN 55439

Wichita
8558 W 21st Street N
Wichita, KS 67205

Wichita
12031 East 13th Street
Wichita, KS 67206

Andover
1718 N Webb Road
Andover, KS 67206

Overland Park
7007 College Boulevard
Overland Park, KS 66211

Moline
800 36th Avenue
Moline, IL 61265

Lebanon
1403 West Elm Street
Lebanon, Missouri 65336

(2) Bank branches offering mortgage banking services.

2017 ANNUAL REPORT

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OTCQX

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