Strong, Stable, Future-Focused

BNCCORP, INC.

2020 ANNUAL REPORT

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 13 locations. The Bank also conducts mortgage banking from 11 locations in Arizona, North Dakota, Illinois, Kansas, Missouri, and Michigan.

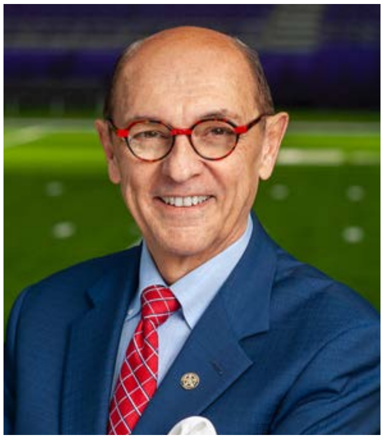
CORPORATE PROFILE

BNCCORP, INC. (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. Our commercial banking relationships are primarily 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 and southern North Dakota. In recent years, our banking presence in Phoenix, Arizona, has grown significantly. By operating banking locations in Phoenix, 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 and Arizona, complimented by on-line and mobile banking solutions. 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. Our mortgage banking operations generate residential loans through a consumer-direct channel with locations in Kansas and Michigan, as well as a retail channel with locations in Arizona, 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: personal wealth advisory services, 401(k) and other retirement plan administration, and trust services. 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 business and financial goals.



Michael M. Vekich
Chairman, Board of Directors

TO OUR SHAREHOLDERS, CUSTOMERS, EMPLOYEES, AND COMMUNITY:

In a year of extraordinary uncertainty and challenge, BNC has grown as an organization and achieved success on many fronts. The COVID-19 pandemic has affected everyone. We have seen firsthand its impact on our customers, employees and communities. By striving to meet their needs in trying times, we've grown as an organization, accelerating our digital evolution and amplifying BNC's unique strengths in the marketplace.

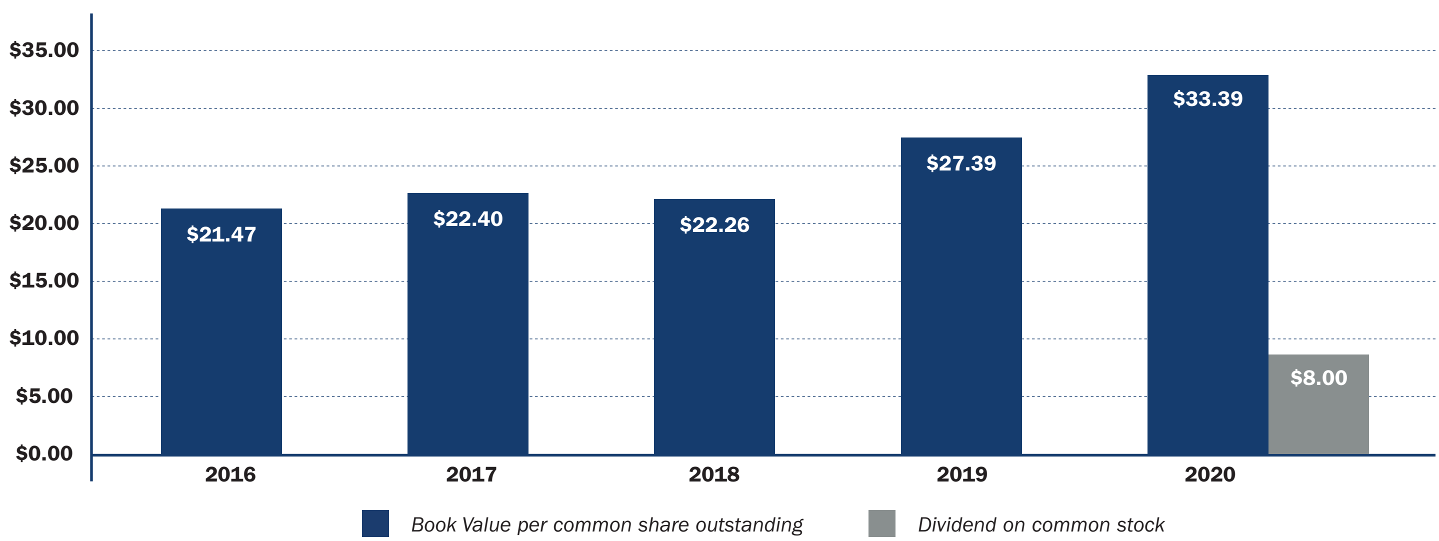
We accomplished this by remaining ***strong, stable and future-focused.*** We have emphasized building relationships, providing high-quality service, delivering solid financial results and meeting the needs of our customers. Concurrently, we have diligently worked to transform our business for a changing marketplace and new customer needs to remain competitive.

Thanks to the dedication and resiliency of our team, and their tireless service and steadfast commitment to these important areas, we're succeeding. In 2020, we achieved record levels of net income, and returns on assets and equity, as well as a 22% increase in tangible book value per share. Equally important, we were able to reward shareholders with a special dividend, while still maintaining our position of financial strength.

SHAREHOLDER COMMITMENT

As an organization, BNC has a strong commitment to shareholders. Our Board's management philosophy prioritizes returning capital to shareholders beyond what is needed to grow the Company's businesses, investments, and healthy reserve and liquidity levels. In 2020, we declared a special cash dividend of $8.00 per share, totaling an aggregate payment of approximately $28.7 million. Additionally, we approved a 175,000 share repurchase program. Both actions highlight our continuing confidence in BNC's financial strength and flexibility.

BOOK VALUE PER SHARE



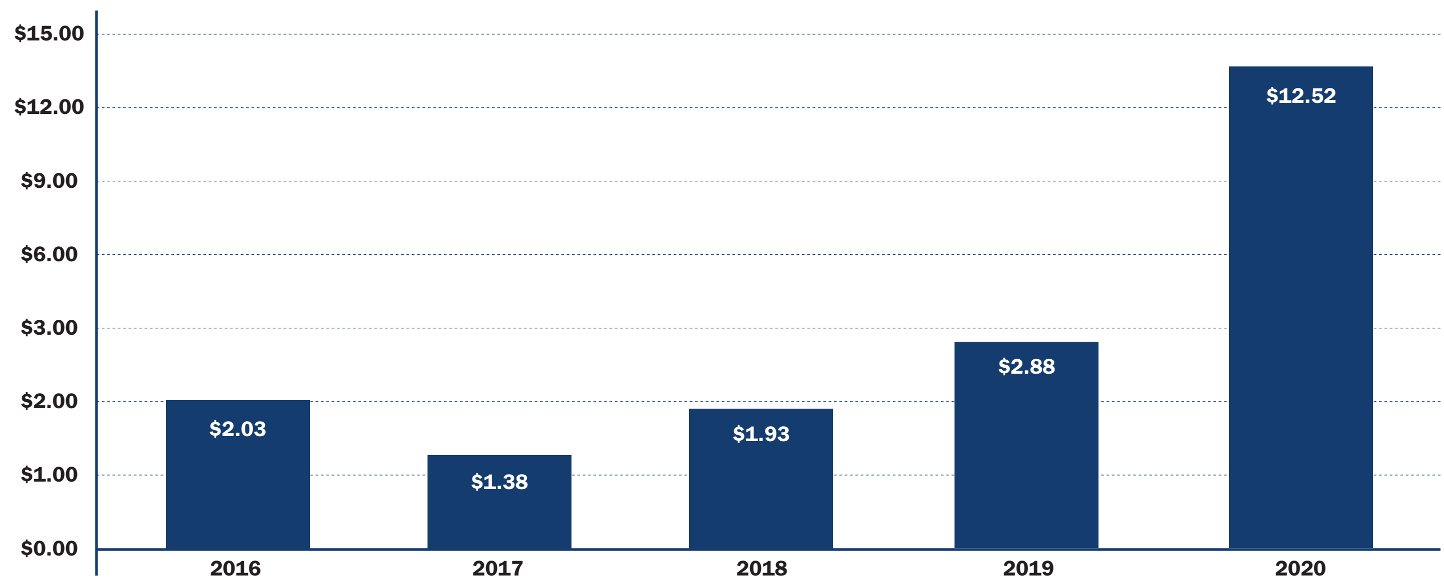
Daniel Collins
Interim President and Chief Executive Officer

Our performance over the past five years also has resulted in significant shareholder value increases. As the chart above shows, BNC's tangible book value per common share rose more than 56% between 2016 and 2020 – from $21.47 to $33.39. We are pleased with our track record of increasing shareholder value, yet we remain keenly aware of the changing world around us. As we look to the future, we will continue to closely monitor the economic environment and make prudent decisions regarding capital management and deployment to ensure the long-term health of the organization and shareholder value.

RECORD FINANCIAL PERFORMANCE

2020 was another year of strong performance for BNC. Record low mortgage rates and our scalable, national mortgage origination platform drove record earnings in 2020. Net income rose significantly to $44.6 million, or $12.52 per diluted share as compared to $10.2 million, or $2.88 per diluted share in 2019.

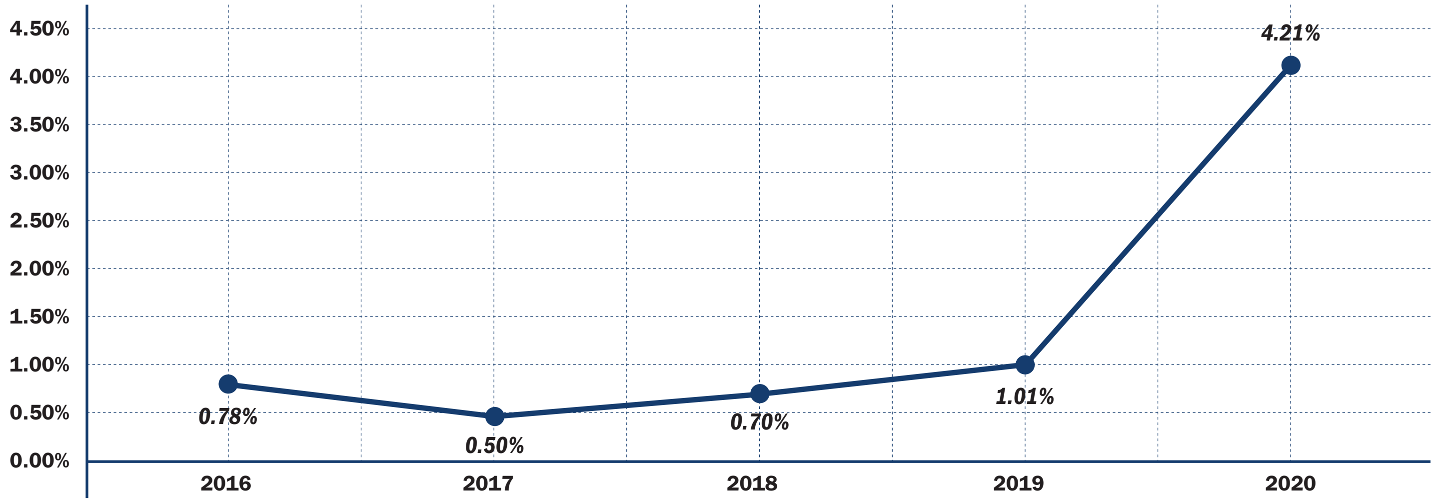
DILUTED EARNINGS PER COMMON SHARE



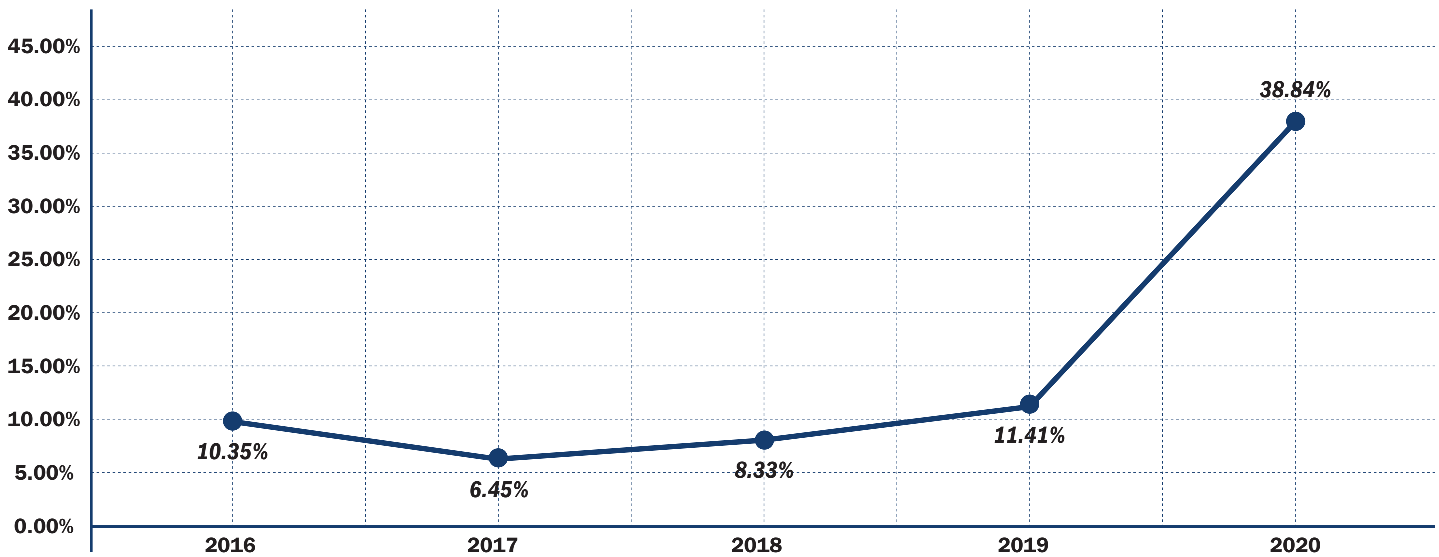
BNC's tangible book value per common share rose more than 56% between 2016 and 2020 – ***from $21.47 to $33.39.***

Our returns on average equity and assets for 2020 were 38.84% and 4.21%, respectively. This was significantly higher than corresponding 2019 levels of 11.41% and 1.01%.

RETURN ON AVERAGE TOTAL ASSETS



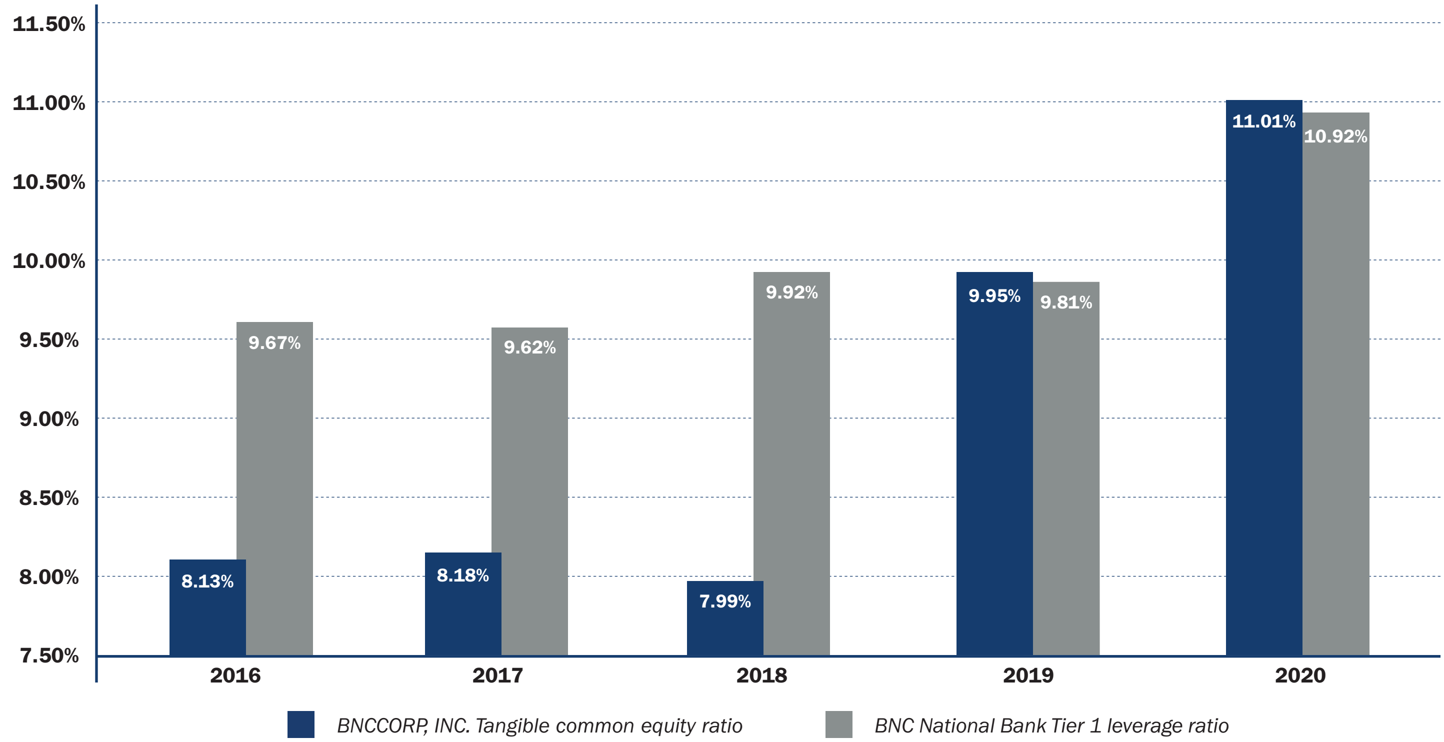
RETURN ON AVERAGE COMMON STOCKHOLDER'S EQUITY



Asset quality and capital levels remained strong. Nonperforming assets were $2.6 million, or 0.24% of total assets, at December 31, 2020, modestly higher than $2.0 million, or 0.21% of total assets, at December 31, 2019.

Our tangible common equity, as seen in the following chart, increased to 11.01% of total assets at year-end 2020, up from 9.95% a year ago, while the Tier 1 leverage ratio of BNC National Bank was 10.92% and significantly above the "Well Capitalized" ratio threshold. At December 31, 2020, the Company's capital ratios exceeded all regulatory capital thresholds, including the capital conservation buffer.

BNCCORP, INC. AND BNC NATIONAL BANK CAPITAL RATIOS



As noted above, BNC's tangible book value per common share rose sharply in 2020 to $33.39, compared to $27.39 at December 31, 2019, an increase of $6.00, or 22%. The Company also recorded a dividend payable of $28.7 million or $8.00 per common share for a previously announced special cash dividend declared in December 2020 and payable on February 1, 2021.

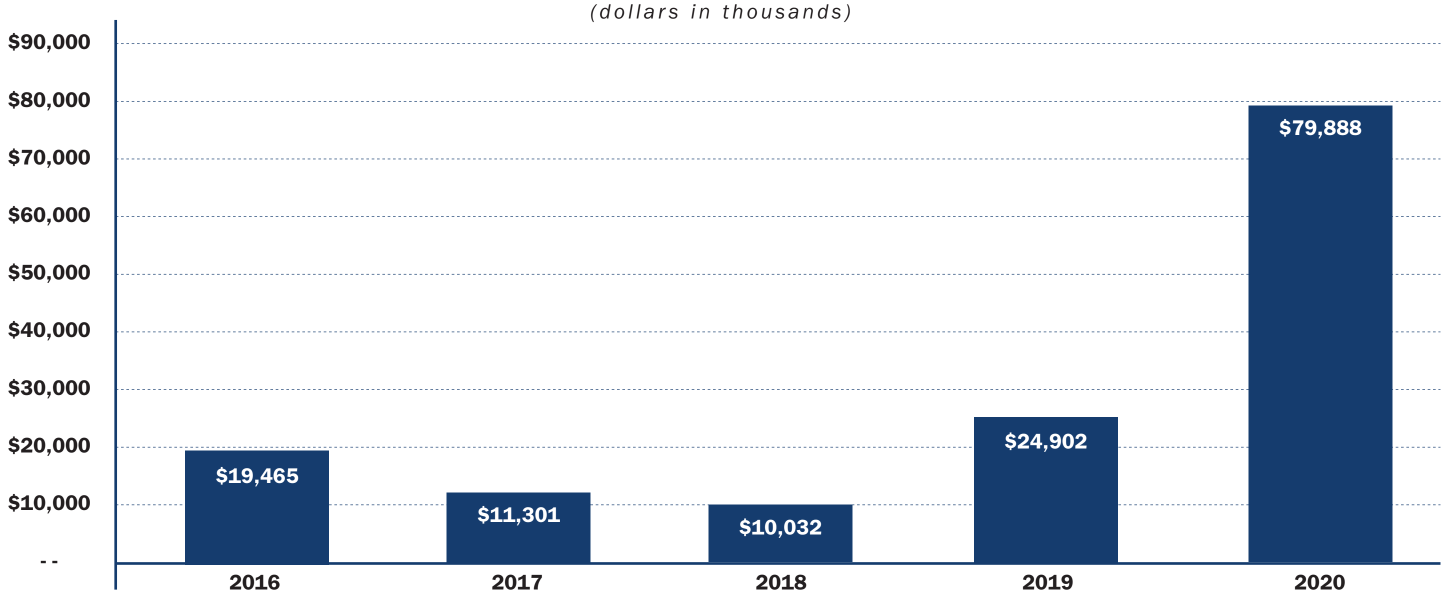
2020 MILESTONES

BNC achieved several important milestones in 2020, key among them: record mortgage performance, a sharper focus on core markets and the launch of key initiatives to further improve community banking performance.

Record Mortgage Performance – 2020 represented a historic mortgage opportunity, with the low- interest-rate environment that began late in 2019 continuing throughout the year, generating a significant increase in BNC's mortgage loan activity. Mortgage rates reached new lows and we were able to assist consumers through both our retail and highly scalable nationwide consumer-direct mortgage channels. Mortgage banking revenues were $79.9 million for the year, an increase of $55.0 million, compared to $24.9 million in 2019. In 2020, BNC funded 8,172 mortgage loans with combined balances of $2.9 billion, compared to 3,916 mortgage loans with combined balances of $1.3 billion in 2019. Over the past three years, our mortgage revenue increased significantly

MORTGAGE REVENUE

(dollars in thousands)



As an institution, we embrace transformation and continuous improvement, and we are committed to the values that make ***community banks unique.***

Core-market Focus – At BNC, we meet the needs of small- to middle-market businesses with a range of commercial banking services, as well as consumers on the retail front. Our commercial and retail banking networks and relationships are concentrated in North Dakota, where we've been rewarded with customer loyalty and retention. In recent years, we have significantly deepened our presence in Phoenix, Arizona. We also exited the Minnesota market with the divesture of our Golden Valley, Minnesota, branch. By concentrating on the North Dakota and Arizona markets, we create further opportunities for growth and diversify our credit exposure, allowing us to provide the best service, products and solutions to customers and communities.

Planning for the Future: Initiatives to Drive Community Banking Performance – As an institution, we embrace transformation and continuous improvement, and we are committed to the values that make community banks unique. Every initiative that we undertake is done with the purpose of staying relevant to the needs of our customers and improving shareholder value. To drive performance in 2021, we plan to:

- Pursue commercial banking growth opportunities in our core markets and assist our small business customers with Small Business Administration solutions as an SBA preferred lender;
- Heighten our focus on operational expenses, including ensuring alignment of our incentive programs with our strategic priorities, while building on the progress from a streamlined management team;
- Continue efforts to advance automation and system efficiencies, and digitize our operations; and,
- Focus on capital return and optimization strategies.

POSITIONED FOR SUCCESS

BNC today is ***strong, stable and future-focused.*** We enter 2021 well positioned for success and with a keen eye on what is ahead. The global pandemic and its impact on our markets will certainly evolve – as it will for the entire banking industry. We are focused on improving the performance metrics of our community banking segment while assisting our customers through the undoubtable transitions ahead. Our efforts are supported by a strong balance sheet and liquidity, and we are dedicated to continuing growth in our core markets of North Dakota and Arizona, exercising fiscal prudence while maximizing opportunity. We would like to thank all our stakeholders for their support.

Sincerely,

Michael M. Vekich
Chairman, Board of Directors

Daniel J. Collins
Interim President & 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, 2020

BNCCORP, INC.

(OTCQX: BNCC)

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BNCCORP, INC.
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December 31, 2020
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Selected Financial Data

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

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
Income Statement Data:					
Total interest income	$ 36,546	$ 37,817	$ 34,478	$ 31,443	$ 29,346
Total interest expense	4,238	9,101	6,108	3,578	3,343
Net interest income	32,308	28,716	28,370	27,865	26,003
Provision for credit losses	2,670	700	-	350	800
Non-interest income	85,954	29,131	19,017	19,499	25,777
Non-interest expense	57,107	43,991	39,013	39,116	41,193
Income tax expense (1)	13,871	2,921	1,538	3,020	2,631
Net income (1)	$ 44,614	$ 10,235	$ 6,836	$ 4,878	$ 7,156
Balance Sheet Data: (at end of period)					
Total assets	$ 1,074,131	$ 966,750	$ 971,027	$ 946,150	$ 910,400
Investments securities available for sale	183,717	265,278	411,509	411,917	400,136
Loans held for sale-mortgage banking	250,083	137,114	22,788	36,601	39,641
Loans held for investment, net of unearned income	570,890	508,569	468,468	428,325	414,673
Allowance for credit losses	(10,324)	(8,141)	(7,692)	(7,861)	(8,285)
Total deposits	853,158	820,547	848,605	817,806	752,627
Short-term borrowings	6,385	4,565	11,494	18,043	12,510
Federal Home Loan Bank advances	30,900	17,000	-	-	38,000
Long-term borrowings	-	-	10,000	10,000	10,000
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,004	15,006	15,009	15,011	15,013
Dividends payable on common stock	28,680	-	-	-	-
Common stockholders' equity	118,229	96,278	77,753	77,626	74,195
Book value per common share outstanding	$ 33.39	$ 27.39	$ 22.26	$ 22.40	$ 21.47
Tangible common equity ratio	11.01%	9.95%	7.99%	8.18%	8.13%
Earnings Performance / Share Data:					
Return on average total assets (1)	4.21%	1.01%	0.70%	0.50%	0.78%
Return on average common stockholders' equity, excluding accumulated other comprehensive income (1)	38.84%	11.41%	8.33%	6.45%	10.35%
Efficiency ratio	48.29%	76.05%	82.33%	82.59%	79.55%
Net interest margin	3.27%	3.00%	3.08%	3.05%	3.03%
Net interest spread	3.14%	2.79%	2.90%	2.92%	2.93%
Basic earnings per common share (1)	$ 12.52	$ 2.90	$ 1.96	$ 1.40	$ 2.08
Diluted earnings per common share (1)	$ 12.52	$ 2.88	$ 1.93	$ 1.38	$ 2.03
Average common shares outstanding	3,563,203	3,526,096	3,487,846	3,474,988	3,447,635
Average common and common equivalent shares	3,564,783	3,557,585	3,539,755	3,540,698	3,520,818
Shares outstanding at year end	3,540,522	3,514,770	3,493,298	3,465,992	3,456,008
Other Key Ratios					
Nonperforming assets to total assets	0.24%	0.21%	0.17%	0.21%	0.29%
Nonperforming loans to total assets	0.24%	0.21%	0.17%	0.21%	0.27%
Nonperforming loans to loans held for investment	0.46%	0.40%	0.36%	0.46%	0.59%
Allowance for credit losses to loans held for investment	1.81%	1.60%	1.64%	1.84%	2.00%

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

Quarterly Financial Data

	2020				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Interest income	$ 9,002	$ 9,571	$ 8,735	$ 9,238	$ 36,546
Interest expense	1,578	1,117	827	716	4,238
Net interest income	7,424	8,454	7,908	8,522	32,308
Provision for credit losses	550	1,500	350	270	2,670
Net interest income after provision for credit losses	6,874	6,954	7,558	8,252	29,638
Non-interest income	10,794	26,333	25,191	23,636	85,954
Non-interest expense	12,007	14,491	14,603	16,006	57,107
Income before income taxes	5,661	18,796	18,146	15,882	58,485
Income tax expense	1,359	4,633	4,446	3,433	13,871
Net income	$ 4,302	$ 14,163	$ 13,700	$ 12,449	$ 44,614
Basic earnings per common share	$ 1.21	$ 3.97	$ 3.84	$ 3.49	$ 12.52
Diluted earnings per common share	$ 1.21	$ 3.97	$ 3.84	$ 3.49	$ 12.52
Average common shares:					
Basic	3,558,702	3,567,980	3,567,980	3,568,067	3,563,203
Diluted	3,566,523	3,570,656	3,568,419	3,568,331	3,564,783

	2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Interest income	$ 9,128	$ 9,399	$ 9,698	$ 9,592	$ 37,817
Interest expense	2,173	2,376	2,389	2,163	9,101
Net interest income	6,955	7,023	7,309	7,429	28,716
Provision for credit losses	-	200	300	200	700
Net interest income after provision for credit losses	6,955	6,823	7,009	7,229	28,016
Non-interest income	4,502	7,057	11,938	5,634	29,131
Non-interest expense	9,682	10,409	12,871	11,029	43,991
Income before income taxes	1,775	3,471	6,076	1,834	13,156
Income tax expense	337	817	1,450	317	2,921
Net income	$ 1,438	$ 2,654	$ 4,626	$ 1,517	$ 10,235
Basic earnings per common share	$ 0.41	$ 0.75	$ 1.31	$ 0.43	$ 2.90
Diluted earnings per common share	$ 0.40	$ 0.75	$ 1.30	$ 0.43	$ 2.88
Average common shares:					
Basic	3,518,390	3,519,478	3,529,999	3,536,277	3,526,096
Diluted	3,555,845	3,556,842	3,558,354	3,558,994	3,557,585

Operating Strategy

BNC National Bank 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.

- *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 quality loan and deposit growth.* Providing loans and gathering deposits is a key strategy as our products are good for customers, communities, and shareholders. 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):

	2020	2019
Selected Income Statement Data		
Interest income	$ 36,546	$ 37,817
Interest expense	4,238	9,101
Net interest income	32,308	28,716
Provision for credit losses	2,670	700
Non-interest income	85,954	29,131
Non-interest expense	57,107	43,991
Income before income taxes	58,485	13,156
Income tax expense	13,871	2,921
Net income	$ 44,614	$ 10,235
Earnings Per Share Data		
Basic earnings per common share	$ 12.52	$ 2.90
Diluted earnings per common share	$ 12.52	$ 2.88

The following is a brief comparison of 2020 to 2019 net income:

- In 2020, net interest income increased 12.5% from 2019. The increase primarily reflected the positive impact of decreased cost of deposits and borrowings, the redemption of $10.0 million of subordinated debt in the fourth quarter of 2019, and increases in loans held for sale and loans held for investment, including PPP loans. These increases were partially offset by lower yields on loans and the reduction of debt securities. Net interest margin increased to 3.27% in 2020, compared to 3.00% in 2019.
- The provision for credit losses increased $2.0 million in 2020 resulting in a 1.81% ratio of allowance for credit losses to loans held for investment. Excluding $50.6 million of Small Business Administration Paycheck Protection Program (PPP) loans, the allowance for credit losses was 1.98% of loans held for investment at December 31, 2020, compared to 1.60% at December 31, 2019. At December 31, 2020, non-performing assets were 0.24% of total assets, compared to 0.21% at December 31, 2019.
- Non-interest income increased $56.8 million, or 195.1%, when comparing 2020 to 2019. The increase primarily relates to a $55.0 million increase in mortgage banking revenue, net. Gains on sales of debt securities were $1.1 million for the 2020 period, compared to losses of $1.3 million in 2019.
- Non-interest expense increased by $13.1 million, or 29.8%, in 2020. Salaries and employee benefits increased $6.7 million, or 30.0%, primarily driven by higher mortgage banking activity and executive related severance expense. Professional services expense increased $2.7 million, or 54.4%, largely due to mortgage banking operating costs. Marketing and promotion expenses increased $904 thousand, or 19.9%, largely attributed to increased purchase of mortgage leads. Other non-interest expense increased by $2.5 million which was impacted by mortgage banking operating costs and an impairment charge related to the Company’s Golden Valley, Minnesota location.
- In 2020, the effective tax rate increased to 23.7% from 22.2% in 2019. The increase in the effective tax rate is due to lower non-taxable interest income from municipal securities.

General

Net income in 2020 was $44.6 million compared to net income of $10.2 million in 2019. Earnings per diluted share was $12.52 in 2020 and $2.88 in 2019.

Net Interest Income

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

	For the Year ended December 31, 2020			For the Year ended December 31, 2019			For the Year ended December 31, 2018		
	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									
Interest-bearing due from banks	$ 49,000	$ 89	0.18%	$ 15,980	$ 401	2.51%	$ 14,992	$ 260	1.74%
FHLB Stock	1,306	43	3.29%	1,761	72	4.09%	1,310	46	3.51%
Federal Reserve Stock	1,807	108	5.98%	1,807	109	6.00%	1,807	108	5.98%
Debt securities-taxable	201,343	4,714	2.34%	358,525	9,166	2.56%	368,060	9,079	2.47%
Debt securities-tax exempt	6,626	234	3.53%	32,382	868	2.67%	63,049	1,699	2.69%
Loans held for sale-mortgage banking	163,692	4,592	2.81%	74,900	2,624	3.50%	25,772	1,069	4.15%
Loans held for investment	573,040	26,766	4.67%	480,389	24,577	5.12%	454,215	22,217	4.89%
Allowance for credit losses	(9,031)	-	0.00%	(7,794)	-	0.00%	(7,792)	-	0.00%
Total interest-earning assets	987,783	36,546	3.70%	957,950	37,817	3.95%	921,413	34,478	3.72%
Non-interest-earning assets:									
Cash and due from banks	8,256			8,903			8,961		
Other	63,075			50,626			48,972		
Total assets	$ 1,059,114			$ 1,017,479			$ 979,346		
Liabilities and Stockholders' Equity									
Deposits:									
Interest checking and money market accounts	$ 545,455	$ 1,624	0.30%	$ 542,700	$ 4,412	0.81%	$ 486,754	$ 2,439	0.50%
Savings	38,886	20	0.05%	34,177	24	0.07%	35,276	19	0.05%
Certificates of deposit	141,770	2,202	1.55%	164,898	3,104	1.88%	171,531	2,303	1.34%
Total interest-bearing deposits	726,111	3,846	0.53%	741,775	7,540	1.02%	693,561	4,761	0.69%
Borrowings:									
Short-term borrowings	6,482	12	0.18%	5,284	23	0.44%	17,944	74	0.41%
FHLB advances	3,649	22	0.60%	15,110	334	2.21%	4,662	95	2.04%
Long-term borrowings	-	-	0.00%	9,753	621	6.36%	10,000	635	6.35%
Subordinated debentures	15,005	358	2.39%	15,007	583	3.83%	15,010	543	3.62%
Total interest-bearing liabilities	751,247	4,238	0.56%	786,929	9,101	1.16%	741,177	6,108	0.82%
Non-interest-bearing demand accounts	165,827			130,430			154,984		
Total deposits and interest-bearing liabilities	917,074			917,359			896,161		
Other non-interest-bearing liabilities	21,743			12,161			7,253		
Total liabilities	938,817			929,520			903,414		
Stockholders' equity	120,297			87,959			75,932		
Total liabilities and stockholders' equity	$ 1,059,114			$ 1,017,479			$ 979,346		
Net interest income		$ 32,308			$ 28,716			$ 28,370	
Net interest spread			3.14%			2.79%			2.90%
Net interest margin			3.27%			3.00%			3.08%
Ratio of average interest-earning assets to average interest-bearing liabilities	131.49%			121.73%			124.32%		

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

	For the Years Ended December 31, 2020 Compared to 2019			For the Years Ended December 31, 2019 Compared to 2018		
	Change Due to			Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earned on Interest-Earning Assets						
Interest-bearing due from banks	$ 298	$ (610)	$ (312)	$ 18	$ 123	$ 141
FHLB Stock	(17)	(12)	(29)	18	8	26
Federal reserve stock	-	(1)	(1)	-	1	1
Debt securities-taxable	(3,734)	(718)	(4,452)	(239)	326	87
Debt securities-tax exempt	(847)	213	(634)	(822)	(9)	(831)
Loans held for sale- mortgage banking	2,580	(612)	1,968	1,745	(190)	1,555
Loans held for investment	4,725	(2,536)	2,189	1,464	896	2,360
Total increase (decrease) in interest income	3,005	(4,276)	(1,271)	2,184	1,155	3,339
Interest Expense on Interest-Bearing Liabilities						
Interest checking and money market accounts	(8)	(2,780)	(2,788)	938	1,035	1,973
Savings	3	(7)	(4)	(1)	6	5
Certificates of deposit	(405)	(497)	(902)	218	583	801
Short-term borrowings	4	(15)	(11)	(55)	4	(51)
FHLB advances	(139)	(173)	(312)	230	9	239
Long-term borrowings	(310)	(311)	(621)	(16)	2	(14)
Subordinated debentures	-	(225)	(225)	-	40	40
Total increase (decrease) in interest expense	(855)	(4,008)	(4,863)	1,314	1,679	2,993
Increase (decrease) in net interest income	$ 3,860	$ (268)	$ 3,592	$ 870	$ (524)	$ 346

Net interest income was $32.3 million in 2020 compared to $28.7 million in 2019, an increase of $3.6 million, or 12.5%. The net interest margin increased to 3.27% for the year ended December 31, 2020, from 3.00% in 2019. Overall, yields on earning assets were 3.70% in 2020 and 3.95% in 2019. Average loans held for investment increased $92.7 million in 2020, or 19.3%, compared to 2019. PPP loans, largely funded in the second quarter of 2020 drove $58.7 million of the $92.7 million increase in average loans held for investment. Loans held for sale significantly influenced income growth achieving an average balance increase of $88.8 million during 2020. The increase in interest income due to higher average loan balances was partially offset by lower loan yields due to the growth of lower yielding PPP loans and loans held for sale. Average debt securities decreased $182.9 million from 2019, providing liquidity to fund loan growth.

The cost of interest bearing deposits was 0.53% in 2020 and 1.02% in 2019 reflecting the positive impact of decreased cost of deposits and a reduction in the volume of certificates of deposit. The cost of interest-bearing liabilities decreased to 0.56% in 2020 from 1.16% in 2019 due to the decrease in cost of deposits as well as a reduction in the cost of subordinated debentures, the cost and use of FHLB advances, and the redemption of $10 million of subordinated debt in the fourth quarter of 2019.

Net interest income was $28.7 million in 2019 compared to $28.4 million in 2018, an increase of $346 thousand, or 1.2%. The net interest margin decreased to 3.00% for the year ended December 31, 2019 from 3.08% in 2018. Overall, yields on earning assets were 3.95% in 2019 and 3.72% in 2018. Average loans held for investment increased $26.2 million in 2019, or 5.8%, compared to 2018, while loans held for sale significantly influenced income growth achieving an average balance increase of $49.1 million during 2019. Average debt securities decreased $40.2 million in 2019, providing liquidity to fund loan growth. The cost of interest-bearing deposits was 1.02% in 2019 and 0.69% in 2018. After successfully managing rising interest rates in earlier periods, the Company increased deposit rates in the fourth quarter of 2018 in response to market pressures. The cost of interest bearing liabilities increased to 1.16% in 2019 from 0.82% in 2018. Certain deposit rates were adjusted down in 2019 following Federal Reserve actions to lower rates. Increased use of FHLB advances as a source of liquidity in 2019 also increased interest expense.

Non-interest Income

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

	For the Years Ended December 31,		Increase (Decrease)		
	2020	2019	$	%	
Bank charges and service fees	$ 2,342	$ 2,614	$ (272)	(10) %	(a)
Wealth management revenues	1,794	1,735	59	3 %	
Mortgage banking revenues, net	79,888	24,902	54,986	221 %	(b)
Gains on sales of loans, net	99	155	(56)	(36) %	(c)
Gains (losses) on sales of securities, net	1,128	(1,296)	2,424	(187) %	(d)
Other	703	1,021	(318)	(31) %	(e)
Total non-interest income	$ 85,954	$ 29,131	$ 56,823	195 %	

(a) Bank charges and service fees decreased due to decreases in loan servicing income and non-use fees on lines of credit. Overdraft charges and interchange income from debit cards also decreased.
(b) Mortgage banking revenues increased as lower interest rates facilitated higher origination activity in addition to increased margins. In 2020, the Company's mortgage banking division funded 8,172 mortgage loans with combined balances of $2.9 billion, compared to 3,916 mortgage loans with combined balances of $1.3 billion in 2019.
(c) Gains on sale of loans can vary significantly from period to period.
(d) Gains and losses on sales of debt securities may vary significantly from period to period as the Company manages liquidity needs and the risk and return profile of its debt securities portfolio.
(e) Other income decreased due to a distribution from a SBIC received in 2019 that did not recur in 2020.

Non-interest Expense

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

	For the Years Ended December 31,		Increase (Decrease)		
	2020	2019	$	%	
Salaries and employee benefits	$ 29,204	$ 22,459	$ 6,745	30 %	(a)
Professional services	7,680	4,973	2,707	54 %	(b)
Data processing fees	4,829	4,321	508	12 %	(c)
Marketing and promotion	5,442	4,538	904	20 %	(d)
Occupancy	2,152	2,218	(66)	(3) %	
Regulatory costs	298	435	(137)	(31) %	(e)
Depreciation and amortization	1,404	1,452	(48)	(3) %	
Office supplies and postage	492	531	(39)	(7) %	(f)
Other	5,606	3,064	2,542	83 %	(g)
Total non-interest expense	$ 57,107	$ 43,991	$ 13,116	30 %	
Efficiency ratio	48.29%	76.05%	(27.76)%		

(a) Salaries and employee benefits increased due to increased mortgage production and executive related severance expense in 2020.
(b) Professional services expense increased primarily due to increased mortgage banking production costs partially offset by reductions in audit, and legal expenses.
(c) Data processing fees increased due to increased software maintenance, licensing fees and IT security costs.

(d) Marketing and promotion expense increased due to increased mortgage banking lead costs partially offset by reduced expenses in the banking markets.
(e) Regulatory costs decreased from a reduction in the FDIC and OCC assessments.
(f) Office supplies and postage decreased due to a reduction in paper, office and data supplies, and customer checks.
(g) Other expenses increased due to recruitment cost for mortgage banking operations support staff, provisions to the reserve for mortgage banking obligations, and an impairment charge related to the Company's Golden Valley, Minnesota location.

Mortgage Banking Division Selected Data

The following table sets forth information related to mortgage banking products funded and sold with servicing released by the bank. The following selected data is not intended to be interpreted as a statement of profit and loss as it excludes interest income, interest expense, shared service expenses, and tax expense.

(dollars in thousands)		2020		2019
Number of funded mortgage loans held for sale		8,172		3,916
Mortgage loans held for sale funded	$	2,937,081	$	1,328,706
Year-to-date average loans held for sale-mortgage banking	$	163,692	$	74,900
Year-end loans held for sale-mortgage banking	$	250,083	$	137,114
Non-interest income:				
Gains on sale of loans held for sale, net of commission expense	$	65,122	$	19,959
Unrealized gain on mortgage financial instruments (1)	$	14,751	$	4,934

(1) Includes changes in fair value of mortgage commitments, hedge instruments, and loans held for sale

The Company's mortgage banking division originates and sells a variety of conventional and government sponsored mortgage loan products with servicing released through two primary channels. The retail channel is predominantly relationship driven with originators capitalizing on local relationships to originate loans through four retail bank branches and seven mid-west retail mortgage locations. The consumer direct channel is a nationwide mortgage platform operating from locations in Overland Park, Kansas and Farmington Hills, Michigan that uses a call-center with internet sales focused on both purchase and refinance transactions.

The low interest rate environment that began late in 2019 and continued throughout 2020 generated a significant increase in mortgage loan activity. Non-interest income includes gains on the sale of loans, changes in the fair value of loans held for sale and loans in the various stages of processing prior to funding (net of commission expense), and hedge instruments.

See Note 26 of the Consolidated Financial Statements for more information about the mortgage banking segment.

Income Tax Expense

During 2020, the Company recorded tax expense of $13.9 million, which resulted in an effective tax rate of 23.7%. The increase in the effective tax rate is due to lower non-taxable interest income from municipal securities.

During 2019, the Company recorded tax expense of $2.9 million, which resulted in an effective tax rate of 22.2%. The increase in the effective tax rate is due to lower non-taxable interest income from municipal securities.

Subject to certain statutory limitations, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2020. The state net operating losses expire between 2024 and 2031.

Financial Condition

Total assets were $1.1 billion at December 31, 2020, an increase of $107.4 million, compared to $966.8 million at December 31, 2019. This increase is primarily due to increased mortgage loans held for sale and loans held for investment balances as a result of PPP loan originations, offset by decreased balances of debt securities. PPP loan balances of $50.6 million largely drove a $60.1 million, or 12.3%, increase in loans held for investment compared to December 31, 2019.

Total loans held for investment aggregated $560.6 million at December 31, 2020. Loans held for sale as of December 31, 2020, were $250.1 million, an increase of $113.0 million when compared to December 31, 2019, due to higher mortgage origination activity in 2020. Debt securities decreased $81.6 million from year-end 2019. Cash and cash equivalent balances were $12.4 million as of December 31, 2020.

Assets

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

	As of December 31,		Increase (Decrease)		
	2020	2019	$	%	
Cash and cash equivalents	$ 12,443	$ 10,523	$ 1,920	18 %	(a)
Debt securities available for sale	183,717	265,278	(81,561)	(31) %	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	4,201	3,651	550	15 %	(c)
Loans held for sale-mortgage banking	250,083	137,114	112,969	82 %	(d)
Loans held for investment, net	560,566	500,428	60,138	12 %	(e)
Premises and equipment, net	14,398	16,401	(2,003)	(12) %	(f)
Operating lease right of use asset	2,451	2,638	(187)	(7) %	
Accrued interest receivable	4,721	3,681	1,040	28 %	(g)
Other assets	41,551	27,036	14,515	54 %	(h)
Total assets	$ 1,074,131	$ 966,750	$ 107,381	11 %	

(a) Cash balances can fluctuate significantly from period to period based on liquidity sources and uses of the business.
(b) Debt securities balances have decreased as loan growth has utilized bank liquidity.
(c) Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock will vary based on the Company's utilization of Federal Home Loan Bank advances.
(d) Loans held for sale increased as balances will fluctuate with the timing of loan funding and sales. During 2020, mortgage banking loan funding increased due to interest rates favorable to mortgage refinancing activity.
(e) PPP loans totaling $50.6 million drove an increase in loans held for investment.
(f) Premises and equipment decreased due to an impairment charge of the Company's Golden Valley, Minnesota location.
(g) Accrued interest receivable increased due to the impact of payment deferrals on loans modified to provide assistance to borrowers under Section 4013 of the CARES Act.
(h) Other assets increased primarily due to the increase in fair value of mortgage banking commitments to originate.

Debt Securities Available for Sale

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

	December 31,			
	2020		2019	
	Amortized Cost	Estimated Fair Market Value	Amortized Cost	Estimated Fair Market Value
U.S. treasury securities	$ 4,996	$ 5,063	$ 4,992	$ 4,994
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC	14,727	14,646	5,634	5,643
U.S. government agency small business administration pools guaranteed by SBA	29,478	28,323	53,873	51,637
Collateralized mortgage obligations guaranteed by GNMA	17,422	18,710	21,120	21,790
Collateralized mortgage obligations issued by FNMA/FHLMC	66,258	69,876	68,353	68,615
Commercial mortgage-backed securities issued by FHLMC	13,165	15,177	21,625	22,556
Other commercial mortgage-backed securities	12,878	13,371	56,530	56,779
Asset-backed securities	3,062	3,079	12,810	12,893
State and municipal bonds	13,687	15,472	19,873	20,371
Total investments	$ 175,673	$ 183,717	$ 264,810	$ 265,278

There were no securities that management concluded were other-than-temporarily impaired during 2020 or 2019. See Note 2 of the Consolidated Financial Statements.

The following table presents contractual maturities for securities available for sale and yields thereon at December 31, 2020 (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)	$ 4,996	1.59%	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ 4,996	1.59%
U.S. government agency mortgage-backed securities issued by FNMA/FHLMC(1) (2)	-	0.00%	-	0.00%	-	0.00%	14,727	1.83%	14,727	1.83%
U.S. government agency small business administration pools guaranteed by SBA(1) (2)	-	0.00%	-	0.00%	11,912	1.37%	17,566	0.74%	29,478	1.00%
Collateralized mortgage obligations guaranteed by GNMA(1) (2)	-	0.00%	-	0.00%	-	0.00%	17,422	3.37%	17,422	3.37%
Collateralized mortgage obligations issued by FNMA/FHLMC(1) (2)	-	0.00%	-	0.00%	895	4.00%	65,363	2.67%	66,258	2.69%
Commercial mortgage-backed securities issued by FHLMC(1) (2)	-	0.00%	-	0.00%	13,165	3.18%	-	0.00%	13,165	3.18%
Other commercial mortgage-backed securities(1) (2)	-	0.00%	-	0.00%	6,618	3.29%	6,260	3.00%	12,878	3.15%
Asset-backed securities(1) (2)	-	0.00%	-	0.00%	3,062	3.25%	-	0.00%	3,062	3.25%
State and municipal bonds(2) (3)	-	0.00%	-	0.00%	-	0.00%	13,687	3.95%	13,687	3.95%
Total book value of debt securities	$ 4,996	1.59%	$ -	0.00%	$ 35,652	2.62%	$ 135,025	2.57%	175,673	2.55%
Net unrealized gain on debt securities available for sale									8,044	
Total investment in debt securities available for sale									$ 183,717	2.44%

(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, 2020, the Company had $183.7 million of available-for-sale securities in the investment portfolio compared to $265.3 million at December 31, 2019.

In 2020, available-for-sale debt securities decreased as compared to 2019. Debt securities were sold to generate liquidity to support increases in loans held for investment and loans held for sale.

At December 31, 2020, all classifications of debt securities available for sale with the exception of U.S. Treasury securities and asset-backed securities exceeded 10% of stockholders' equity. A portion of the Company's debt securities portfolio was pledged as collateral.

See Note 2 of the Consolidated Financial Statements for more information about debt securities available for sale.

Federal Reserve Bank and Federal Home Loan Bank

The Company's equity securities consisted of $1.8 million of Federal Reserve Bank ("FRB") stock and $2.4 million of Federal Home Loan Bank ("FHLB") stock as of December 31, 2020 and $1.8 million of FRB stock and $1.9 million of FHLB stock as of and December 31, 2019.

Loans

The following table presents the Company's loan portfolio as of December 31 (dollars are in thousands):

	2020		2019		2018		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans held for sale-mortgage banking	$ 250,083	100.0	$ 137,114	100.0	$ 22,788	100.0	$ 36,601	100.0	$ 39,641	100.0
Loans held for investment:										
Commercial and industrial	$ 165,994	29.1	$ 162,592	32.0	$ 149,886	32.0	$ 126,169	29.4	$ 123,604	29.8
Commercial real estate	190,939	33.4	193,203	38.0	174,868	37.3	177,429	41.4	171,972	41.5
SBA	102,064	17.9	46,799	9.2	32,505	6.9	25,064	5.9	31,518	7.6
Consumer	81,783	14.3	82,498	16.2	78,055	16.7	71,876	16.8	59,183	14.3
Land and land development	8,603	1.5	10,449	2.0	11,398	2.4	14,168	3.3	15,982	3.9
Construction	21,748	3.8	12,656	2.5	21,257	4.5	13,167	3.1	12,215	2.9
	571,131	100.0	508,197	99.9	467,969	99.9	427,873	99.9	414,474	100.0
Unearned income and net unamortized deferred fees and costs	(241)	-	372	0.1	499	0.1	452	0.1	199	-
Loans, net of unearned income and unamortized fees and costs	$ 570,890	100.0	$ 508,569	100.0	$ 468,468	100.0	$ 428,325	100.0	$ 414,673	100.0

The following table presents the change in the Company's loan portfolio (dollars are in thousands):

	December 31,		Increase (Decrease)		
	2020	2019	$	%	
Loans held for sale-mortgage banking	$ 250,083	$ 137,114	$ 112,969	82.4 %	(a)
Loans held for investment:					
Commercial and industrial	$ 165,994	$ 162,592	$ 3,402	2.1 %	
Commercial real estate	190,939	193,203	(2,264)	(1.2) %	
SBA	102,064	46,799	55,265	118.1 %	(b)
Consumer	81,783	82,498	(715)	(0.9) %	
Land and land development	8,603	10,449	(1,846)	(17.7) %	
Construction	21,748	12,656	9,092	71.8 %	
	571,131	508,197	62,934	12.4 %	
Unearned income and net unamortized deferred fees and costs	(241)	372	(613)	(164.8) %	(c)
Loans, net of unearned income and unamortized fees and costs	$ 570,890	$ 508,569	$ 62,321	12.3 %	(d)

(a) Loans held for sale increased as balances will fluctuate with the timing of loan funding and sales. In 2020, mortgage banking loan funding increased due to lower interest rates that were favorable to mortgage refinancing activity.

(b) PPP loans totaling $50.6 million drove an increase in SBA loans. In addition, in recent periods, the Company began retaining rather than selling the guaranteed portion of SBA loans as the premiums investors are willing to pay had compressed. As of December 31, 2020, $27.9 million of the remaining PPP loans has been submitted to the SBA for forgiveness consideration.

(c) The year-over-year change is due to unamortized fees from PPP loan originations during 2020.

(d) Loans held for investment increased due $50.6 million of PPP loans and continued loan production in the Company's core markets.

Loan Participations
Pursuant to the Company's 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):

2020	$	130,356
2019		152,163
2018		166,291
2017		176,733
2016		182,224

Concentrations of Credit
The following table summarizes the location of the Company's borrowers as of December 31 (dollars are in thousands):

	2020		2019	
North Dakota	$ 378,793	66 %	$ 347,179	68 %
Arizona	121,797	21 %	101,244	20 %
Minnesota	30,599	6 %	33,594	7 %
Other	39,942	7 %	26,180	5 %
Total gross loans held for investment	$ 571,131	100 %	$ 508,197	100 %

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

	2020		2019	
North Dakota	$ 331,824	58 %	$ 306,609	60 %
Arizona	153,264	27 %	122,192	24 %
Minnesota	25,348	5 %	27,777	5 %
California	18,369	3 %	18,541	4 %
Colorado	13,858	3 %	15,297	3 %
Ohio	7,357	1 %	7,477	2 %
South Dakota	7,552	1 %	4,168	1 %
Other	13,559	2 %	6,136	1 %
Total gross loans held for investment	$ 571,131	100 %	$ 508,197	100 %

The following table approximates the Company's significant concentrations by industry, excluding PPP loans of $50.6 million, (dollars are in thousands):

	December 31, 2020	
Non-owner occupied commercial real estate (not otherwise categorized)	$ 143,361	28 %
Consumer, not otherwise categorized	76,363	15
Hotels	76,335	15
Healthcare and social assistance	37,632	7
Agriculture, forestry, fishing and hunting	27,321	5
Retail trade	26,129	5
Transportation and warehousing	24,897	5
Non-hotel accommodation and food service	23,530	5
Mining, oil and gas extraction	20,223	4
Construction contractors	12,235	2
Manufacturing	11,139	2
Other service	8,394	2
Real estate and rental and leasing support	7,735	1
Art, entertainment and recreation	7,279	1
All other	17,974	3
Gross loans held for investment (excluding PPP loans)	$ 520,547	100 %

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

	2020 Total Loans Held for Investment	2019 Total Loans Held for Investment
North Dakota		
Commercial and industrial	$ 48,745	$ 51,483
Construction	4,355	897
Agricultural	26,899	29,909
Land and land development	5,676	6,373
Owner-occupied commercial real estate	37,185	38,127
Commercial real estate	100,456	106,835
Small business administration	36,111	4,737
Consumer	72,397	68,248
Subtotal	$ 331,824	$ 306,609
Consolidated		
Commercial and industrial	$ 71,503	$ 77,706
Construction	21,748	12,656
Agricultural	27,092	29,914
Land and land development	8,603	10,449
Owner-occupied commercial real estate	67,399	54,972
Commercial real estate	190,939	193,203
Small business administration	102,064	46,799
Consumer	81,783	82,498
Subtotal	$ 571,131	$ 508,197

Loan Maturities [(1)]

The following table sets forth the remaining maturities of loans in the Company's portfolio as of December 31, 2020 (in thousands):

		Over 1 Year Through 5 Years		Over 5 Years		
	One Year or Less	**Fixed Rate**	**Indexed Rate**	**Fixed Rate**	**Indexed Rate**	**Total Loans Held for Investment**
Commercial and industrial	$ 22,343	$ 14,079	$ 4,968	$ 48,391	$ 76,213	$ 165,994
Commercial real estate	1,258	7,789	8,961	37,153	135,778	190,939
SBA	1,394	49,605	2,427	6,593	42,045	102,064
Consumer	1,585	3,803	5,560	59,162	11,673	81,783
Land and land development	608	3,161	1,615	2,551	668	8,603
Construction	4,047	500	14,149	831	2,221	21,748
Total principal amount of loans	$ 31,235	$ 78,937	$ 37,680	$ 154,681	$ 268,598	$ 571,131

(1) Maturities are based on contractual maturities. Indexed 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

The Company provides for credit losses to maintain its allowance for credit losses at a level adequate to cover estimated probable losses inherent in the portfolio as of each balance sheet date. In 2020, a $2.7 million provision for credit losses was recorded, compared to $700 thousand in 2019.

Allowance for Credit Losses

See Notes 1 and 5 of the 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,				
	2020	2019	2018	2017	2016
Balance of allowance for credit losses, beginning of period	$ 8,141	$ 7,692	$ 7,861	$ 8,285	$ 8,611
Charge-offs:					
Commercial and industrial	(88)	(125)	(71)	(84)	(1,004)
Commercial real estate	(453)	-	(1)	-	-
SBA	-	(82)	(59)	(566)	(71)
Consumer	(38)	(97)	(129)	(123)	(99)
Land and land development	-	-	-	(103)	-
Construction	-	-	-	-	-
Total charge-offs	(579)	(304)	(260)	(876)	(1,174)
Recoveries:					
Commercial and industrial	17	-	40	-	-
Commercial real estate	45	13	16	12	13
SBA	9	11	4	48	15
Consumer	12	29	31	40	20
Land and land development	9	-	-	2	-
Construction	-	-	-	-	-
Total recoveries	92	53	91	102	48
Net charge-offs	(487)	(251)	(169)	(774)	(1,126)
Provision for credit losses charged to operations	2,670	700	-	350	800
Balance of allowance for credit losses, end of period	$ 10,324	$ 8,141	$ 7,692	$ 7,861	$ 8,285
Ratio of net charge-offs to average loans held for investment	(0.085)%	(0.052)%	(0.037)%	(0.184)%	(0.282)%
Average gross loans held for investment	$ 573,040	$ 480,389	$ 454,215	$ 420,906	$ 399,669
Ratio of allowance for credit losses to loans held for investment	1.81%	1.60%	1.64%	1.84%	2.00%
Ratio of nonperforming loans to total assets	0.24%	0.21%	0.17%	0.21%	0.27%

Allocation of the Allowance for Credit Losses

The table below presents an allocation of the allowance for credit losses among the various loan categories and sets forth the percentage of loans in each category to gross loans as of December 31 (dollars are in thousands).

	2020		2019		2018		2017		2016	
	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	$ 3,275	29%	$ 2,366	32%	$ 1,937	32%	$ 2,158	30%	$ 2,323	30%
Commercial real estate	3,923	33%	3,502	38%	3,558	37%	3,471	41%	3,231	41%
SBA	1,779	18%	1,131	9%	845	7%	834	6%	1,433	8%
Consumer	948	14%	853	16%	928	17%	914	17%	772	14%
Land and land development	170	2%	187	2%	225	2%	358	3%	413	4%
Construction	229	4%	102	3%	199	5%	126	3%	113	3%
Total	$ 10,324	100%	$ 8,141	100%	$ 7,692	100%	$ 7,861	100%	$ 8,285	100%

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

Allowance for Credit Losses; Impact on Earnings

The Company has established the allowance for credit losses to cover probable losses inherent within the loan portfolio at the balance sheet dates. The allowance for credit losses is an estimate based upon several judgmental factors. The Company is not aware of known trends, commitments or other events that could reasonably occur that would materially affect its 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 the Company considers in arriving at its estimates may change. To the extent that these matters have negative developments, 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,				
	2020	2019	2018	2017	2016
Nonperforming loans:					
Loans 90 days or more delinquent and still accruing interest	$ 1	$ -	$ -	$ 26	$ 20
Non-accrual loans	2,611	2,033	1,686	1,952	2,425
Total nonperforming loans	2,612	2,033	1,686	1,978	2,445
Other real estate and repossessed assets, net	-	-	-	-	218
Total nonperforming assets	$ 2,612	$ 2,033	$ 1,686	$ 1,978	$ 2,663
Allowance for credit losses	$ 10,324	$ 8,141	$ 7,692	$ 7,861	$ 8,285
Ratio of total nonperforming loans to total loans	0.32%	0.31%	0.34%	0.43%	0.54%
Ratio of total nonperforming loans to loans held for investment	0.46%	0.40%	0.36%	0.46%	0.59%
Ratio of total nonperforming assets to total assets	0.24%	0.21%	0.17%	0.21%	0.29%
Ratio of total nonperforming loans to total assets	0.24%	0.21%	0.17%	0.21%	0.27%
Ratio of allowance for credit losses to total nonperforming loans	395%	400%	456%	397%	339%

Nonperforming Loans

The following table sets forth information concerning the Company's nonperforming loans as of December 31 (in thousands):

	2020	2019
Balance, beginning of period	$ 2,033	$ 1,686
Additions to nonperforming	2,535	1,179
Charge-offs	(235)	(148)
Reclassified back to performing	(349)	(242)
Principal payments received	(1,367)	(186)
Transferred to repossessed assets	(5)	(46)
Transferred to other real estate owned	-	(210)
Balance, end of period	$ 2,612	$ 2,033

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):

	2020	2019
Interest income that would have been recorded	$ 311	$ 327
Interest income recorded	-	75
Effect on interest income	$ 311	$ 252

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

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

	Total	Accrual	Non-accrual
2020	$ 1,966	$ -	$ 1,966
2019	3,245	1,448	1,797
2018	3,348	1,779	1,569
2017	1,908	1,801	107
2016	2,153	1,845	308

See Note 5 of the 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, the Company 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 the Consolidated Financial Statements for information on other real estate owned.

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

Potential Problem Loans

The Company attempts 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
2020	$ -	$ 9,121	$ 9,121	$ 480	$ 4,721	$ 5,201
2019	1,448	7,713	9,161	514	7,247	7,761
2018	-	5,206	5,206	106	9,069	9,175
2017	-	1,730	1,730	52	9,062	9,114
2016	-	8,125	8,125	6	10,511	10,517

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 the Company's position as creditor is protected to the fullest extent possible.

In the first quarter of 2020, the United States Congress enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to economic conditions related to the COVID-19 pandemic. As a part of the CARES Act, Congress provided temporary relief from trouble debt restructurings under Section 4013. Specifically, financial institutions may elect to suspend U.S. GAAP for loan modifications related to COVID-19 and suspend any loan modified as a result of the effects of COVID-19 as being a troubled debt restructuring, including impairment so long as the subject loan was not more than 30 days past due as of December 31, 2019.

Subsequently, guidance was issued jointly by regulatory authorities related to troubled debt restructuring loan treatment that is consistent with the CARES Act. The guidance allows banks to prudently modify loans such as the temporary deferral of principal and interest. Financial institutions have been encouraged to provide modifications in situations where it will provide time to allow otherwise performing borrowers the opportunity to financially recover from potentially short-term COVID-19 related economic conditions.

The Company continues to monitor the effects of COVID-19 on its customers and end markets. The Company also continues to assist borrowers through the COVID-19 pandemic. To this end, the Company modified loans consistent with Section 4013 of the CARES Act. These loans were current as of December 31, 2019, and as a result, are not currently subject to troubled debt restructuring accounting standards. The COVID-19 "Phase IV" Stimulus signed into law on December 27, 2020 extends the relief provided by Section 4013 of the CARES Act through January 1, 2022.

At December 31, 2020, loans modified consistent with Section 4013 of the CARES Act totaled $42 million compared to $205 million earlier in 2020. The majority of these modified loans (55%) are in the hotel industry. Other services to the hospitality industry and the accommodation and food service industry comprise another 10% and 8% of CARES Act modified loans, respectively. Approximately 25% of these modified loans will reach the end of their payment modification period by March 31, 2021, with the remaining 75% of payment modifications expiring by June 30, 2021. Economic conditions, including pandemic-related challenges, may result in the Company agreeing to additional loan modifications to assist borrowers consistent with CARES Act legislation extended through January 1, 2022.

The following table provides a summary of loan modifications by industry made pursuant to Section 4013 of the CARES Act as of December 31, 2020 (in thousands):

	Principal Payment Deferral	Full Payment Deferral	Total
Hotels	$ 11,370	$ 11,667	$ 23,037
Other services	4,078	-	4,078
Non-owner occupied commercial real estate	3,593	-	3,593
Non-hotel accommodation and food service	3,155	-	3,155
Healthcare and social assistance	1,567	421	1,988
Mining, oil and gas extraction	86	1,630	1,716
Transportation and warehousing	-	1,580	1,580
Educational services	-	1,535	1,535
Manufacturing	-	563	563
Art, entertainment and recreation	-	529	529
Consumer, not otherwise categorized	-	180	180
Total	$ 23,849	$ 18,105	$ 41,954

Liabilities and Stockholders' Equity

The following table presents the Company's liabilities and stockholders' equity (dollars are in thousands):

	As of December 31,		Increase (Decrease)		
	2020	2019	$	%	
Deposits:					
Non-interest-bearing	$ 167,667	$ 136,313	$ 31,354	23 %	(a)
Interest-bearing					
Savings, interest checking and money market	570,656	514,869	55,787	11 %	(a)
Time deposits	114,835	169,365	(54,530)	(32) %	(b)
Short-term borrowings	6,385	4,565	1,820	40 %	(c)
Federal Home Loan Bank advances	30,900	17,000	13,900	82 %	(d)
Guaranteed preferred beneficial interests in Company's subordinated debentures	15,004	15,006	(2)	- %	
Accrued interest payable	560	1,685	(1,125)	(67) %	(e)
Accrued expenses	13,338	7,580	5,758	76 %	(f)
Operating lease liabilities	2,620	2,822	(202)	(7) %	
Other liabilities	33,937	1,267	32,670	2,579 %	(g)
Total liabilities	955,902	870,472	85,430	10 %	
Stockholders' equity	118,229	96,278	21,951	23 %	(h)
Total liabilities and stockholders' equity	$ 1,074,131	$ 966,750	$ 107,381	11 %	

(a) The Bank exercised its ability to assume deposits previously moved off-balance sheet. Deposit growth was further supported by PPP lending activity and the maintenance of liquidity by customers.
(b) Time deposits have decreased as the Bank has lowered rates on new certificates of deposit.
(c) Short-term borrowings will vary depending on customers need to use repurchase agreements.
(d) The Company has borrowed on a short-term basis from the FHLB as an efficient source of liquidity.
(e) Accrued interest payable decreased primarily due to decreased time deposit balances and decreased cost of deposits.
(f) The increase is primarily due to increased accrued mortgage commissions and mortgage incentive compensation.
(g) The increase primarily relates to recording a dividend payable of $28.7 million related to a special, one-time cash dividend of $8.00 per share of BNCCORP, INC. common stock declared by the Company's Board of Directors in December 2020 and payable on February 1, 2021. Additionally, the fair value of mortgage banking commitments increased $3.3 million.
(h) Stockholders' equity increased due to net income of $44.6 million less the above mentioned $28.7 million dividend payable.

Included in accrued expenses is an estimate of mortgage banking reimbursement obligations which aggregated $1.0 million and $906 thousand at December 31, 2020, and 2019, respectively. 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 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, the Company tracks historical reimbursements and calculate the ratio of reimbursement to loan production volumes. Using reimbursement ratios and recent production levels, the Company estimate the future reimbursement amounts and record the estimated obligation. See Note 19 of the 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 the Company's 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,								
	2020			2019			2018		
	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	$ 545,455	61.2%	0.30%	$ 542,700	62.2%	0.81%	$ 486,754	57.4%	0.50%
Savings deposits	38,886	4.4%	0.05%	34,177	3.9%	0.07%	35,276	4.2%	0.05%
Time deposits	141,770	15.9%	1.55%	164,898	18.9%	1.88%	171,531	20.2%	1.34%
Total interest-bearing deposits	726,111	81.5%	0.53%	741,775	85.0%	1.02%	693,561	81.8%	0.69%
Non-interest-bearing demand deposits	165,827	18.5%	0.00%	130,430	15.0%	0.00%	154,984	18.2%	0.00%
Total deposits (1)	$ 891,938	100.0%	0.43%	$ 872,205	100.0%	0.86%	$ 848,545	100.0%	0.56%

(1) Included in average total deposits are $18.2 million of average brokered deposits for year-end 2018.

Time deposits, in denominations of $250,000 and over, totaled $24.6 million at December 31, 2020, as compared to $45.7 million at December 31, 2019. The following table sets forth the amount and maturities of time deposits of $250,000 and over as of December 31, 2020 (in thousands):

Maturing in:	
3 months or less	$ 6,316
Over 3 months through 6 months	6,915
Over 6 months through 12 months	7,683
Over 12 months	3,712
	$ 24,626

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

	2020	2019	2018
Short-term borrowings outstanding at period end	$ 6,385	$ 4,565	$ 11,494
Weighted average interest rate at period end	0.16%	0.21%	0.84%
Maximum month end balance during the period	$ 8,951	$ 10,681	$ 19,955
Average borrowings outstanding for the period	$ 6,482	$ 5,283	$ 17,944
Weighted average interest rate for the period	0.18%	0.44%	0.41%

Note 10 of the Consolidated Financial Statements summarizes the general terms of the Company's short-term borrowings outstanding at December 31, 2020 and 2019.

FHLB advances totaled $30.9 million at December 31, 2020 and $17.0 million at December 31, 2019.

Notes 11 and 12 of the Consolidated Financial Statements summarize the general terms of the Company's FHLB advances and other borrowings at December 31, 2020 and 2019.

Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures
See Note 13 of the Consolidated Financial Statements for a description of the subordinated debentures.

Capital Resources

	2020	2019	2018	2017	2016
Tier 1 leverage (Consolidated)	11.74%	10.65%	9.97%	9.53%	9.47%
Total risk-based capital (Consolidated)	17.88%	17.13%	20.26%	19.98%	19.96%
Common equity tier 1 risk-based capital (Consolidated)	14.65%	13.76%	14.67%	14.15%	13.90%
Tier 1 risk-based capital (Consolidated)	16.63%	15.95%	17.28%	16.90%	16.78%
Tangible common equity (Consolidated)	11.01%	9.95%	7.99%	8.18%	8.13%
Tier 1 leverage (Bank)	10.92%	9.81%	9.92%	9.62%	9.67%
Total risk-based capital (Bank)	16.72%	15.88%	18.44%	18.31%	18.41%
Common equity tier 1 risk-based capital (Bank)	15.47%	14.69%	17.19%	17.06%	17.16%
Tier 1 risk-based capital (Bank)	15.47%	14.69%	17.19%	17.06%	17.16%

See Note 14 and Note 15 of the 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 the Company's 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, the Company is managing its Tier 1 leverage ratio to levels 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, the Company has included the ratio in the regulatory capital table above.

The Company routinely evaluates the sufficiency of its capital in order to insure compliance with regulatory capital standards and be a source of strength for the Bank. The Company's capital management philosophy includes the return of capital to shareholders in excess of what is invested to maintain its businesses, deployed for profitable investments, or retained as a capital reserve and liquidity buffer for the Company and the Bank. During the fourth quarter of 2020, the Company declared an $8.00 per share special cash dividend payable on February 1, 2021 and a 175,000 share repurchase authorization. Management will continue to evaluate capital requirements and prudent capital management opportunities.

Off-Balance-Sheet Arrangements
In the normal course of business, the Company is a party to various financial instruments with off-balance-sheet risk. These instruments include commitments to extend credit, standby and commercial letters of credit, and performance and financial standby letters of credit. Such instruments help the Company meet the needs of its customers, manage its interest rate risk and effectuate various transactions. These instruments and commitments, which the Company enters into for purposes other than trading, carry varying degrees of credit, interest rate or liquidity risk. See Note 19 of the Consolidated Financial Statements for a detailed description of each of these instruments.

Contractual Obligations, Contingent Liabilities and Commitments
The Company is a party to financial instruments with risks that can be subdivided into three 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 the Consolidated Financial Statements.

Investment-related financial instruments, characterized as an off-balance-sheet item, include potential funding for investments in Small Business Investment Companies (SBIC). See Note 20 of the Consolidated Financial Statements.

At December 31, 2020, 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	$ 37,285	$ -	$ -	$ 15,004	$ 52,289
Commitments to sell loans	241,247	-	-	-	241,247
Lease liabilities under non-cancelable operating leases	699	1,244	527	150	2,620
Total	$ 279,231	$ 1,244	$ 527	$ 15,154	$ 296,156

	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	$ 659,569	$ 18,196	$ 8,475	$ 4,768	$ 691,008
Commitments to sell loans	839,701	-	-	-	839,701
Standby and commercial letters of credit	562	508	-	-	1,070
Commitments to fund SBIC	-	-	200	1,007	1,207
Total	$ 1,499,832	$ 18,704	$ 8,675	$ 5,775	$ 1,532,986

Liquidity Risk Management
Liquidity risk is the possibility of being unable to meet present and future financial obligations in a timely manner. Liquidity risk management encompasses the Company's ability to meet all present and future financial obligations in a timely manner. The objectives of the Company's 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 debt securities, the Company may utilize brokered deposits, sell debt securities under agreements to repurchase and borrow overnight Federal funds. The Bank is a member of the FHLB of Des Moines. Advances from the FHLB are collateralized by the Bank's mortgage loans and various debt securities. The Bank has the ability to borrow from the Federal Reserve Bank, through the Discount Window, by pledging mortgage loans and/or the Paycheck Protection Program Liquidity Facility (PPPLF) by pledging PPP loans. As of December 31, 2020, the Company has not utilized the PPPLF. Funding through the issuance of subordinated notes, subordinated debentures, and long-term borrowings also has been utilized.

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

The Company's liquidity position is measured on an as needed basis, but no less frequently than monthly using each of the following items:

1. Estimated liquid assets and certain off-balance sheet considerations less estimated volatile liabilities using the aforementioned methodology ($73.7 million as of December 31, 2020);
2. Borrowing capacity from the FHLB ($84.8 million as of December 31, 2020); and
3. Capacity to issue brokered deposits with maturities of less than 12 months ($147.6 million as of December 31, 2020).

On an on-going basis, the Company uses a variety of factors to assess the Company's liquidity position including, but not limited to, the following:
- Stability of its deposit base;
- Amount of unpledged debt securities;
- Liquidity of its loan portfolio; and
- Potential loan demand.

The Company's liquidity assessment process segregates its balance sheet into liquid assets along with certain off-balance sheet considerations 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. The Company has a targeted range for its liquidity position over this horizon and manage operations to achieve these targets.

The Company further projects cash flows over a 12-month horizon based on its assets and liabilities and sources and uses of funds for anticipated events.

Pursuant to the Company's contingency funding plan, it estimates cash flows over a 12-month horizon under a variety of stressed scenarios to identify potential funding needs and funding sources. The Company's contingency plan identifies actions that could be taken in response to adverse liquidity events.

The Company believes this process, combined with its 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. The Company cautions readers that these forward-looking statements, including without limitation, those relating to its 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 its major market; competition for its 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 its acquisition and growth strategies; and other risks which are difficult to predict and many of which are beyond its control.

Recently Issued and Adopted Accounting Pronouncements
Note 1 of the 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 the Consolidated Financial Statements includes a summary of 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 the Company's earnings or value. The Company's 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. The Company has risk management policies to monitor and limit exposure to interest rate risk. The Company's asset/liability management process is utilized to manage its 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.

The Company's 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 it 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 the Company's 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 the Company's Consolidated Financial Statements for a summary of accounting policies pertaining to such instruments.

The Company's primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes assumptions regarding the changes in interest rates and the impact on the Company's 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, 2020 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, 2020 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.

The Company monitors 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, 2020, the downward scenarios for interest rate movements is limited to -100bp. The parallel movement of interest rates means all projected market interest rates move up or down by the same amount. A ramp in interest rates means that the projected change in market interest rates occurs over the 12-month horizon on a pro-rata basis. For example, in the +100bp scenario, the projected Prime rate is projected to increase from 3.25% to 4.25% 12 months later. The Prime rate in this example will increase 1/12th of the overall increase of 100 basis points each month.

The net interest income simulation result for the 12-month horizon that covers the calendar year of 2021 is shown below (dollars in thousands):

Net Interest Income Simulation

Movement in interest rates	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 30,930	$ 31,746	$ 31,515	$ 31,290	$ 31,070
Dollar change from unchanged scenario	$ (816)	-	$ (231)	$ (456)	$ (676)
Percentage change from unchanged scenario	(2.57)%	-	(0.73)%	(1.44)%	(2.13)%

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 assets and liabilities as of December 31, 2020 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate any actions the Company 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 the Company's rate sensitivity position as of December 31, 2020. 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, 2020				
	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	$ 12,443	$ -	$ -	$ -	$ 12,443
Debt securities (a)	32,471	20,805	52,067	59,335	164,678
FRB and FHLB stock	4,201	-	-	-	4,201
Loans held for sale-mortgage banking, fixed rate	250,083	-	-	-	250,083
Loans held for investment, fixed rate	11,332	45,496	154,392	29,385	240,605
Loans held for investment, indexed rate	119,740	27,109	172,017	11,419	330,285
Total interest-earning assets	$ 430,270	$ 93,410	$ 378,476	$ 100,139	$ 1,002,295
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 528,932	$ -	$ -	$ -	$ 528,932
Savings	41,724	-	-	-	41,724
Time deposits	24,177	63,907	26,636	115	114,835
Short-term borrowings	6,385	-	-	-	6,385
FHLB advances	30,900	-	-	-	30,900
Subordinated debentures	-	15,000	-	4	15,004
Total interest-bearing liabilities	$ 632,118	$ 78,907	$ 26,636	$ 119	$ 737,780
Interest rate gap	$ (201,848)	$ 14,503	$ 351,840	$ 100,020	$ 264,515
Cumulative interest rate gap at December 31, 2020	$ (201,848)	$ (187,345)	$ 164,495	$ 264,515	
Cumulative interest rate gap to total assets	(18.79%)	(17.44%)	15.31%	24.63%	

(a) Values for debt 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.

The table assumes that all savings and interest-bearing demand deposits reprice in the earliest period presented, however, management believes a significant portion of these accounts are generally not rate sensitive. The Company's 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 the Company's assets and liabilities as of December 31, 2020, and do not contemplate any actions the Company might undertake in response to changes in market interest rates.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2020 and 2019
(With Independent Auditors' Report Thereon)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Audit Committee and Board of Directors
BNCCORP, INC. and Subsidiaries
Bismarck, North Dakota

We have audited the accompanying consolidated financial statements of BNCCORP, INC. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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 accounting principles generally accepted in the United States of America; 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 of 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.

Audit Committee and Board of Directors
BNCCORP, INC. and Subsidiaries

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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 19, 2021

BNCCORP, INC. AND SUBSIDIARIES

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

	2020	2019
ASSETS		
Cash and cash equivalents	$ 12,443	$ 10,523
Debt securities available for sale	183,717	265,278
Federal Reserve Bank and Federal Home Loan Bank stock	4,201	3,651
Loans held for sale-mortgage banking	250,083	137,114
Loans held for investment	570,890	508,569
Allowance for credit losses	(10,324)	(8,141)
Net loans held for investment	560,566	500,428
Premises and equipment, net	14,398	16,401
Operating lease right of use asset	2,451	2,638
Accrued interest receivable	4,721	3,681
Other	41,551	27,036
Total assets	$ 1,074,131	$ 966,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 167,667	$ 136,313
Interest-bearing –		
Savings, interest checking and money market	570,656	514,869
Time deposits	114,835	169,365
Total deposits	853,158	820,547
Short-term borrowings	6,385	4,565
Federal Home Loan Bank advances	30,900	17,000
Guaranteed preferred beneficial interest in Company's subordinated debentures	15,004	15,006
Accrued interest payable	560	1,685
Accrued Expenses	13,338	7,580
Operating lease liabilities	2,620	2,822
Other	33,937	1,267
Total liabilities	955,902	870,472
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,540,522 and 3,514,770 shares issued and outstanding	35	35
Capital surplus – common stock	25,871	25,831
Retained earnings	86,991	71,057
Treasury stock (128,131 and 153,883 shares, respectively)	(1,850)	(2,115)
Accumulated other comprehensive income, net	7,182	1,470
Total stockholders' equity	118,229	96,278
Total liabilities and stockholders' equity	$ 1,074,131	$ 966,750

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)

	2020	2019
INTEREST INCOME:		
Interest and fees on loans	$ 31,358	$ 27,201
Interest and dividends on investments		
Taxable	4,803	9,567
Tax-exempt	234	868
Dividends	151	181
Total interest income	36,546	37,817
INTEREST EXPENSE:		
Deposits	3,846	7,540
Short-term borrowings	12	23
Federal Home Loan Bank advances	22	334
Long-term borrowings	-	621
Subordinated debentures	358	583
Total interest expense	4,238	9,101
Net interest income	32,308	28,716
PROVISION FOR CREDIT LOSSES	2,670	700
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	29,638	28,016
NON-INTEREST INCOME:		
Bank charges and service fees	2,342	2,614
Wealth management revenues	1,794	1,735
Mortgage banking revenues, net	79,888	24,902
Gains on sales of loans, net	99	155
Gains (losses) on sales of securities, net	1,128	(1,296)
Other	703	1,021
Total non-interest income	85,954	29,131
NON-INTEREST EXPENSE:		
Salaries and employee benefits	29,204	22,459
Professional services	7,680	4,973
Data processing fees	4,829	4,321
Marketing and promotion	5,442	4,538
Occupancy	2,152	2,218
Regulatory costs	298	435
Depreciation and amortization	1,404	1,452
Office supplies and postage	492	531
Other	5,606	3,064
Total non-interest expense	57,107	43,991
Income before income taxes	58,485	13,156
Income tax expense	13,871	2,921
Net income	$ 44,614	$ 10,235
Basic earnings per common share	$ 12.52	$ 2.90
Diluted earnings per common share	$ 12.52	$ 2.88

See accompanying notes to consolidated financial statements.

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

	2020		2019	
NET INCOME		$ 44,614		$ 10,235
Unrealized gain on debt securities available for sale	$ 8,704		$ 9,840	
Reclassification adjustment for (gains) losses on sales of securities, net, included in net income	(1,128)		1,296	
Other comprehensive income before tax	7,576		11,136	
Income tax expense related to items of other comprehensive income	(1,864)		(2,738)	
Other comprehensive income	$ 5,712	5,712	$ 8,398	8,398
TOTAL COMPREHENSIVE INCOME		$ 50,326		$ 18,633

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), net	Total
BALANCE, December 31, 2018	3,493,298	$ 35	$ 25,990	$ 61,042	$ (2,386)	$ (6,928)	$ 77,753
Net income	-	-	-	10,235	-	-	10,235
Other comprehensive income	-	-	-	-	-	8,398	8,398
Share-based compensation	21,472	-	(159)	-	271	-	112
Cumulative effect adjust for adoption of ASC 842 - *Leases*	-	-	-	(220)	-	-	(220)
BALANCE, December 31, 2019	3,514,770	$ 35	$ 25,831	$ 71,057	$ (2,115)	$ 1,470	$ 96,278
Net income	-	-	-	44,614	-	-	44,614
Other comprehensive income	-	-	-	-	-	5,712	5,712
Share-based compensation	25,752	-	40	-	265	-	305
Dividends declared on common stock ($8.00)	-	-	-	(28,680)	-	-	(28,680)
BALANCE, December 31, 2020	3,540,522	$ 35	$ 25,871	$ 86,991	$ (1,850)	$ 7,182	$ 118,229

See accompanying notes to consolidated financial statements.

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

		2020		2019
OPERATING ACTIVITIES:				
Net income	$	44,614	$	10,235
Adjustments to reconcile net income to net cash provided by operating activities -				
Provision for credit losses		2,670		700
Depreciation and amortization		1,404		1,452
Net amortization of premiums and (discounts) on debt securities and subordinated debentures		3,320		7,170
Share-based compensation		305		112
Change in accrued interest receivable and other assets, net		1,517		(1,903)
Gain on sale of other real estate		-		(35)
Loss (gain) on sale of bank premises and equipment		8		(10)
Net realized (gains) losses on sales of debt securities		(1,128)		1,296
Deferred tax benefit		(1,172)		(96)
Change in other liabilities, net		2,734		4,185
Funding of loans held for sale, mortgage banking		(2,937,081)		(1,328,706)
Proceeds from sales of loans held for sale, mortgage banking		2,829,811		1,216,900
Fair value adjustment for loans held for sale, mortgage banking		(5,698)		(2,844)
Fair value adjustment on mortgage banking derivatives		(9,053)		(2,090)
Proceeds from sales of loans		12,625		1,710
Gains on sales of loans, net		(99)		(155)
Net cash used in operating activities		(55,223)		(92,079)
INVESTING ACTIVITIES:				
Purchases of debt securities available for sale		(17,663)		(172,304)
Proceeds from sales of debt securities available for sale		71,958		263,218
Proceeds from maturities of debt securities available for sale		30,787		57,872
Purchases of Federal Reserve and Federal Home Loan Bank Stock		(12,256)		(30,430)
Sales of Federal Reserve and Federal Home Loan Bank Stock		11,706		29,720
Net increase in loans held for investment		(75,335)		(41,907)
Proceeds from sales of other real estate		-		316
Proceeds from sales of premises and equipment		1		22
Purchases of premises and equipment		(386)		(1,103)
Net cash provided by investing activities		8,812		105,404

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)

	2020	2019
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$ 32,611	$ (28,058)
Net increase (decrease) in short-term borrowings	1,820	(6,929)
Decrease in long-term borrowings	-	(10,000)
Repayments of Federal Home Loan Bank advances	(292,500)	(804,400)
Proceeds from Federal Home Loan Bank advances	306,400	821,400
Net cash provided by (used in) financing activities	48,331	(27,987)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,920	(14,662)
CASH AND CASH EQUIVALENTS, beginning of period	10,523	25,185
CASH AND CASH EQUIVALENTS, end of period	$ 12,443	$ 10,523
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 5,364	$ 8,693
Income taxes paid	$ 14,578	$ 3,527
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in the settlement of loans	$ -	$ 281

See accompanying notes to consolidated financial statements.

NOTE 1. Description of Business and Significant Accounting Policies

Description of Business
BNCCORP, INC. (BNCCORP or the Company) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank). BNC National Bank operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 13 locations. The Bank also conducts mortgage banking through a consumer-direct channel complemented by retail channels from 11 locations in Arizona, North Dakota, Illinois, Kansas, Missouri, and Michigan. 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.

With respect to group concentrations of credit risk, most of the Company's business activity is with customers in North Dakota. At December 31, 2020, the Company did not have any significant credit concentrations in any particular industry.

The consolidated financial statements included herein are for BNCCORP and subsidiaries. The accounting and reporting policies of BNCCORP and subsidiaries (collectively, the Company) conform to U.S. generally accepted accounting principles (GAAP) 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. GAAP 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, reserves for mortgage banking reimbursement obligations, fair value measurements for financial instruments (including derivatives), impairment of long-lived assets, contingencies, and income taxes. Ultimate results could materially differ from those estimates.

SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, cash due from banks and federal funds sold.

Debt Securities
Debt 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, liquidity needs, 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).

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For callable securities purchased at a premium, such premium is amortized over the period to the earliest call date. Dividend and interest income is recognized when earned. Realized gains and losses on the sale of debt 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, 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 Securities*. Any credit-related impairments are recognized through a charge to earnings. The amount of non-credit related impairments is recognized through comprehensive (loss) income, net of income taxes.

Note 2 to these consolidated financial statements includes a summary of debt securities in a loss position at December 31, 2020, and 2019.

Federal Reserve Bank and Federal Home Loan Bank
Investments in Federal Reserve Bank and Federal Home Loan Bank stock qualify as restricted stock, which is not subject to equity security accounting treatment, and is reported at cost, subject to impairment.

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 ASC 825, *Financial Instruments.* Gains and losses from the changes in fair value are included in mortgage banking revenues, net.

Loans Held For Investment
Loans held for investment are stated at their outstanding principal amount net of unearned income, 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 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 is adequately secured and in the process of collection. When a loan 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 and uncollected in the current year is reversed against interest income in the current period. Interest payments received on non-accrual loans are generally applied to principal unless the remaining principal balance has been determined to be fully collectable. 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 of the loan 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 or a valuation allowance is established for the difference.

Troubled debt 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.

Loan Origination Fees and Costs; Other Lending Fees
For Loans 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 ASC 860, *Transfers and Servicing of Financial Assets*.

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 portfolio as of the consolidated balance sheet dates. The loan 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 its 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, *Receivables*. 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 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. This analysis 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 and other extensions of credit deemed uncollectable are charged off against the allowance for credit 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. 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 for credit losses to the amount determined appropriate through application of the above processes. Actual credit losses may materially vary from the current estimated allowance for credit losses.

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 income from and gains on disposition of these assets are included in other non-interest income. Net operating expenses, losses on disposition, and subsequent declines in the estimated fair value of these assets 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 forty years for buildings and three to ten 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. The impairment review includes a comparison of future cash flows (undiscounted and without interest charges) expected to be generated by the assets to their current carrying value. 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.

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

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

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less 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 levels to assets and liabilities accounted for at 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.

Debt Securities Available for Sale. The fair value of the Company's securities, other than U.S. Treasury securities, are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are less active, and model-based valuation techniques for which significant assumptions are observable in the market. U.S. Treasury securities are based upon quoted prices for identical instruments traded in active markets.

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 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.

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 less active, and model-based valuation techniques for which significant assumptions are observable in the market.

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
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 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 in other assets 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 in other liabilities with changes in fair value recorded in mortgage banking revenues, net.

Share-Based Compensation
ASC 718, *Compensation – Stock Compensation*, 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, 2020, the Company had two stock-based compensation plans, which are described more fully in Note 24 and Note 25 to these consolidated financial statements.

Revenue from Contracts with Customers
The majority of the Company's performance obligations for revenue from contracts with customers are satisfied at a point in time and are typically collected from customers at the time of the transaction or shortly thereafter.

The following is a description of the principal activities from which the Company generates revenue that are within the scope of ASC 606:

Service charges on deposits – Service charges on deposit accounts represent daily and monthly analysis fees recognized for the services related to customer deposit accounts, including account maintenance, overdraft fees, and depository transactions processing fees. Depository accounts charge fees in accordance with the customer's pricing schedule or may be assessed a flat service fee per month. The Company satisfies the performance obligation related to providing depository accounts daily as transactions are processed and deposit service charge revenue is recognized daily.

Bankcard fees – Bankcard fees primarily represent income earned from interchange revenue from Visa for the Company's processing of debit card transactions. The performance obligation for interchange revenue is the processing of each transaction through the Company's access to the banking system. This performance obligation is completed for each individual transaction and revenue is recognized per transaction in accordance with interchange rates established by Visa.

Wealth management revenue – Wealth management revenue consists of fees earned on personal trust accounts, retirement plan administration, and wealth management services. The performance obligations related to this revenue include items such as performing trustee service administration, investment management services, custody and record-keeping services, and retirement plan administration. These fees are part of contractual agreements and the performance obligations are satisfied upon completion of services. The fees are generally a fixed-flat annual rate or based on a percentage of the account's market value per the contract with the customer and revenue is recognized over time as earned.

Other income – The Company recognizes other miscellaneous income through a variety of other revenue streams, the most material of which includes revenue from investments in Small Business Investment

Companies (SBIC), gains on sales of financial assets, and bank-owned life insurance income. These revenue streams are outside of the scope of ASC 606 and are recognized in accordance with the applicable U.S. GAAP. The remainder of other income is primarily earned through transactions with personal banking customers, including stop payment charges and fees for cashier's checks. The performance obligations of these types of fees are satisfied as transactions are completed and revenue is recognized upon transaction execution according to established fee schedules with the customers.

Note 16 to these consolidated financial statements includes disclosure of revenue from contracts with customers.

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 evaluates 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, which for the Company, is generally comprised of unrealized losses and gains on securities available for sale, net of corresponding tax effects.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS & INTERPRETATIONS

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, replaces the current incurred loss methodology for recognizing credit losses with a current expected credit loss model, which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This amended guidance broadens the information that an entity must consider in developing its expected credit loss estimates. Additionally, this update amends the accounting for credit losses for available-for-sale debt securities and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This update requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a company's loan portfolio. This update is effective for fiscal years beginning after December 15, 2022. This update requires the use of the modified retrospective adoption approach and the Company is currently evaluating the impact that this amended guidance will have on its consolidated financial statements and disclosures.

ASC 310-40, *Receivables – Troubled Debt Restructurings by Creditors.* In the first quarter of 2020, in response to economic conditions related to the COVID-19 pandemic, federal and state prudential banking regulators issued guidance on their approach for loan modifications. The guidance indicates that short-term modifications such as payment deferrals, made on a good faith basis in response to COVID-19, to borrowers who were current on contractually required payments as of December 31, 2019, are not considered Troubled Debt Restructurings (TDRs). The Financial Accounting Standards Board was consulted on and concurs with this guidance.

NOTE 2. Debt Securities Available For Sale

Debt 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, 2020, or 2019. The amortized cost of debt securities available for sale and their estimated fair values were as follows as of December 31 (in thousands):

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 4,996	$ 67	$ -	$ 5,063
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	14,727	72	(153)	14,646
U.S. government agency small business administration pools guaranteed by SBA	29,478	-	(1,155)	28,323
Collateralized mortgage obligations guaranteed by GNMA	17,422	1,288	-	18,710
Collateralized mortgage obligations issued by FNMA/FHLMC	66,258	3,618	-	69,876
Commercial mortgage-backed securities issued by FHLMC	13,165	2,012	-	15,177
Other commercial mortgage-backed securities	12,878	493	-	13,371
Asset-backed securities	3,062	17	-	3,079
State and municipal bonds	13,687	1,785	-	15,472
	$ 175,673	$ 9,352	$ (1,308)	$ 183,717

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 4,992	$ 2	$ -	$ 4,994
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	5,634	16	(7)	5,643
U.S. government agency small business administration pools guaranteed by SBA	53,873	-	(2,236)	51,637
Collateralized mortgage obligations guaranteed by GNMA	21,120	671	(1)	21,790
Collateralized mortgage obligations issued by FNMA/FHLMC	68,353	523	(261)	68,615
Commercial mortgage-backed securities issued by FHLMC	21,625	931	-	22,556
Other commercial mortgage-backed securities	56,530	921	(672)	56,779
Asset-backed securities	12,810	83	-	12,893
State and municipal bonds	19,873	948	(450)	20,371
	$ 264,810	$ 4,095	$ (3,627)	$ 265,278

The amortized cost and estimated fair value of debt securities available for sale classified according to their contractual maturities at December 31, 2020, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,996	$ 5,063
Due after one year through five years	-	-
Due after five years through ten years	35,652	37,874
Due after ten years	135,025	140,780
Total	$ 175,673	$ 183,717

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.

Debt securities available for sale with estimated fair values of $53.8 million and $80.6 million at December 31, 2020, and 2019, 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):

	2020	2019
Sales proceeds	$ 71,958	$ 263,218
Gross realized gains	2,207	3,389
Gross realized losses	(1,079)	(4,685)
Net realized gains (losses)	$ 1,128	$ (1,296)

The following table shows the Company's gross unrealized losses and fair value of debt securities available for sale aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31 (in thousands):

	2020								
	Less Than 12 Months			12 Months or More			Total		
Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	4	$ 10,507	$ (153)	-	$ -	-	4	$ 10,507	$ (153)
U.S. government agency small business administration pools guaranteed by SBA	-	-	-	4	28,323	(1,155)	4	28,323	(1,155)
Total temporarily impaired securities	4	$ 10,507	$ (153)	4	$ 28,323	$ (1,155)	8	$ 38,830	$ (1,308)

Description of Securities	2019 Less Than 12 Months #	Fair Value	Unrealized Loss	12 Months or More #	Fair Value	Unrealized Loss	Total #	Fair Value	Unrealized Loss
U.S. government sponsored entity mortgage-backed securities issued by FNMA/FHLMC	1	$ 4,779	$ (7)	-	$ -	$ -	1	$ 4,779	$ (7)
U.S. government agency small business administration pools guaranteed by SBA	2	14,140	(142)	5	37,493	(2,094)	7	51,633	(2,236)
Collateralized mortgage obligations guaranteed by GNMA	1	507	(1)	-	-	-	1	507	(1)
Collateralized mortgage obligations issued by FNMA/FHLMC	5	35,047	(261)	-	-	-	5	35,047	(261)
Other commercial mortgage-backed securities	3	25,756	(672)	-	-	-	3	25,756	(672)
Asset-backed securities	-	-	-	-	-	-	-	-	-
State and municipal bonds	3	13,780	(450)	-	-	-	3	13,780	(450)
Total temporarily impaired securities	15	$ 94,009	$ (1,533)	5	$ 37,493	$ (2,094)	20	$ 131,502	$ (3,627)

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 before a recovery of amortized cost. 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 2020 or 2019.

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):

	2020	2019
Federal Reserve Bank stock, at cost	$ 1,807	$ 1,807
Federal Home Loan Bank, at cost	2,394	1,844
Total	$ 4,201	$ 3,651

NOTE 4. Loans

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

	2020	2019
Loans held for sale-mortgage banking	$ 250,083	$ 137,114
Commercial and industrial	$ 165,994	$ 162,592
Commercial real estate	190,939	193,203
SBA	102,064	46,799
Consumer	81,783	82,498
Land and land development	8,603	10,449
Construction	21,748	12,656
Gross loans held for investment	571,131	508,197
Unearned income and net unamortized deferred fees and costs	(241)	372
Loans, net of unearned income and unamortized fees and costs	570,890	508,569
Allowance for credit losses	(10,324)	(8,141)
Net loans held for investment	$ 560,566	$ 500,428

To accommodate customers whose financing needs exceed the Bank's lending limits, the Bank sells loan participations on a nonrecourse basis to outside financial institutions and derecognizes the portion of the loan balance sold. At December 31, 2020, and 2019, loan participations sold on a nonrecourse basis to outside financial institutions totaled $130.4 million and $152.2 million, respectively.

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 FHLB, FRB, and the Bank of North Dakota as of December 31(in thousands):

	2020	2019
Commercial and industrial	$ 54,129	$ 51,641
Commercial real estate	105,828	110,597
Consumer	30,706	31,894
Total	$ 190,663	$ 194,132

NOTE 5. Allowance for Credit Losses

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

	2020						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 2,366	$ 3,502	$ 1,131	$ 853	$ 187	$ 102	$ 8,141
Provision (reduction)	980	829	639	121	(26)	127	2,670
Loans charged off	(88)	(453)	-	(38)	-	-	(579)
Loan recoveries	17	45	9	12	9	-	92
Balance, end of period	$ 3,275	$ 3,923	$ 1,779	$ 948	$ 170	$ 229	$ 10,324

	2019						
	Commercial and Industrial	Commercial Real Estate	SBA	Consumer	Land and Land Development	Construction	Total
Balance, beginning of period	$ 1,937	$ 3,558	$ 845	$ 928	$ 225	$ 199	$ 7,692
Provision (reduction)	554	(69)	357	(7)	(38)	(97)	700
Loans charged off	(125)	-	(82)	(97)	-	-	(304)
Loan recoveries	-	13	11	29	-	-	53
Balance, end of period	$ 2,366	$ 3,502	$ 1,131	$ 853	$ 187	$ 102	$ 8,141

The following table shows the balance in the allowance for credit losses at December 31, 2020, and December 31, 2019, 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 Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
December 31, 2020						
Commercial and industrial	$ 762	$ 2,513	$ 3,275	$ 1,606	$ 164,388	$ 165,994
Commercial real estate	-	3,923	3,923	-	190,939	190,939
SBA	597	1,182	1,779	982	101,082	102,064
Consumer	-	948	948	24	81,759	81,783
Land and land development	-	170	170	-	8,603	8,603
Construction	-	229	229	-	21,748	21,748
Total	$ 1,359	$ 8,965	$ 10,324	$ 2,612	$ 568,519	$ 571,131
December 31, 2019						
Commercial and industrial	$ 497	$ 1,869	$ 2,366	$ 1,610	$ 160,982	$ 162,592
Commercial real estate	172	3,330	3,502	1,448	191,755	193,203
SBA	59	1,072	1,131	380	46,419	46,799
Consumer	-	853	853	37	82,461	82,498
Land and land development	-	187	187	5	10,444	10,449
Construction	-	102	102	-	12,656	12,656
Total	$ 728	$ 7,413	$ 8,141	$ 3,480	$ 504,717	$ 508,197

Performing and non-accrual loans

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

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

	2020					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 70,033	$ 58	$ -	$ 70,091	$ 1,412	$ 71,503
Agriculture	27,079	13	-	27,092	-	27,092
Owner-occupied commercial real estate	67,206	-	-	67,206	193	67,399
Commercial real estate	190,939	-	-	190,939	-	190,939
SBA	101,082	-	-	101,082	982	102,064
Consumer:						
Automobile	21,087	-	-	21,087	10	21,097
Home equity	12,144	-	-	12,144	-	12,144
1st mortgage	11,694	-	-	11,694	-	11,694
Other	36,829	4	1	36,834	14	36,848
Land and land development	8,603	-	-	8,603	-	8,603
Construction	21,748	-	-	21,748	-	21,748
Total loans held for investment	568,444	75	1	568,520	2,611	571,131
Loans held for sale	249,880	203	-	250,083	-	250,083
Total gross loans	$ 818,324	$ 278	$ 1	$ 818,603	$ 2,611	$ 821,214

	2019					
	Current	31-89 Days Past Due	90 Days or More Past Due And Accruing	Total Performing	Non-accrual	Total
Commercial and industrial:						
Business loans	$ 75,907	$ 189	$ -	$ 76,096	$ 1,610	$ 77,706
Agriculture	29,877	37	-	29,914	-	29,914
Owner-occupied commercial real estate	54,947	25	-	54,972	-	54,972
Commercial real estate	193,203	-	-	193,203	-	193,203
SBA	46,382	36	-	46,418	381	46,799
Consumer:						
Automobile	24,118	47	-	24,165	15	24,180
Home equity	9,650	-	-	9,650	-	9,650
1st mortgage	12,678	-	-	12,678	-	12,678
Other	35,884	84	-	35,968	22	35,990
Land and land development	10,444	-	-	10,444	5	10,449
Construction	12,656	-	-	12,656	-	12,656
Total loans held for investment	505,746	418	-	506,164	2,033	508,197
Loans held for sale	137,114	-	-	137,114	-	137,114
Total gross loans	$ 642,860	$ 418	$ -	$ 643,278	$ 2,033	$ 645,311

The following table indicates the effect on interest income on loans 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):

	2020	2019
Interest income that would have been recorded	$ 167	$ 140
Interest income recorded	-	-
Effect on interest income on loans	$ 167	$ 140

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. Loans are assigned one of the following four internally assigned grades: pass, watch list, substandard, and doubtful.

At December 31, 2020, the Company had $554.7 million of loans categorized as pass rated loans. This compares to $489.8 million at December 31, 2019.

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, 2020, the Company had $9.1 million of loans categorized as watch list loans compared to $9.2 million at December 31, 2019.

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 loan. 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, 2020, the Company had $5.2 million of substandard loans and $2.1 million of doubtful loans. This compares to $7.8 million of substandard loans and $1.5 million doubtful loans as of December 31, 2019.

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-accrual loans 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, 2020 and 2019 (in thousands):

	2020				
	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	$ 2,004	$ 1,413	$ 762	$ 1,417	$ -
SBA	753	719	597	729	-
Total impaired loans with an allowance recorded	$ 2,757	$ 2,132	$ 1,359	$ 2,146	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Owner-occupied commercial real estate	$ 203	$ 193	$ -	$ 217	$ -
SBA	338	263	-	273	-
Consumer:					
Automobile	21	10	-	11	-
Other	30	14	-	17	-
Total impaired loans without an allowance recorded	$ 592	$ 480	$ -	$ 518	$ -
TOTAL IMPAIRED LOANS	$ 3,349	$ 2,612	$ 1,359	$ 2,664	$ -

	2019				
	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	$ 2,004	$ 1,417	$ 497	$ 1,429	$ -
Commercial real estate	1,762	1,448	172	1,476	75
SBA	121	101	59	103	-
Total impaired loans with an allowance recorded	$ 3,887	$ 2,966	$ 728	$ 3,008	$ 75
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ 248	$ 193	$ -	$ 221	$ -
SBA	338	279	-	280	-
Consumer:					
Automobile	18	15	-	16	-
Other	42	22	-	27	-
Land and land development	137	5	-	16	-
Total impaired loans without an allowance recorded	$ 783	$ 514	$ -	$ 560	$ -
TOTAL IMPAIRED LOANS	$ 4,670	$ 3,480	$ 728	$ 3,568	$ 75

Troubled Debt Restructuring (TDR)

Included in net loans 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):

	2020			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 1,413	$ 1,413	$ 762
Owner-occupied commercial real estate	-	193	193	-
SBA	-	360	360	56
	$ -	$ 1,966	$ 1,966	$ 818

	2019			
	Accrual	Non-accrual	Total	Allowance
Commercial and industrial:				
Business loans	$ -	$ 1,417	$ 1,417	$ 172
Commercial real estate	1,448	-	1,448	497
SBA	-	380	380	59
	$ 1,448	$ 1,797	$ 3,245	$ 728

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 a TDR 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, 2020, there was one new TDR with a pre-modification and post modification balance of $230 thousand. For the year ended December 31, 2019, there was one new TDR with a pre-modification and post modification balance of $279 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 on loans if interest on restructured loans outstanding at year end had been recognized at original contractual rates during the year ended December 31 (in thousands):

	2020	2019
Interest income that would have been recorded	$ 144	$ 187
Interest income recorded	-	75
Effect on interest income on loans	$ 144	$ 112

There were no additional funds committed to borrowers who are in TDR status at December 31, 2020, and December 31, 2019.

A TDR is 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, 2020, and December 31, 2019, 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).

At December 31, 2020, loans modified consistent with Section 4013 of the CARES Act totaled $42 million. The majority of these modified loans (55%) are in the hotel industry. Other services to the hospitality industry and the accommodation and food service industry comprise another 10% and 8% of CARES Act modified loans, respectively. Approximately 25% of these modified loans will reach the end of their payment modification period by March 31, 2021, with the remaining 75% of payment modifications expiring by June 30, 2021. Economic conditions, including pandemic-related challenges, may result in the Company agreeing to additional loan modifications to assist borrowers consistent with CARES Act legislation extended through January 1, 2022.

The modifications made by the Company are consistent with Section 4013 of the CARES Act. These loans were current as of December 31, 2019, and as a result, are not currently subject to troubled debt restructuring accounting standards.

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):

	2020	2019
Balance, beginning of period	$ -	$ -
Transfers from nonperforming loans	-	281
Real estate sold	-	(316)
Net gains on sale of assets	-	35
Provision	-	-
Balance, end of period	$ -	$ -

NOTE 7. Premises and Equipment, net

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

	2020	2019
Land and improvements	$ 2,853	$ 2,853
Buildings and improvements	16,863	17,735
Leasehold improvements	456	436
Furniture, fixtures, and equipment	9,507	9,632
Total cost	29,679	30,656
Less accumulated depreciation and amortization	(15,281)	(14,255)
Net premises and equipment	$ 14,398	$ 16,401

Depreciation and amortization expense totaled $1.4 million and $1.5 million for the years ended December 31, 2020, and 2019, respectively.

NOTE 8. Leases

The Company has operating leases, primarily for office space, that expire over the next six years. These leases generally contain renewal options for periods ranging from one to five years. The Company has evaluated each individual lease to determine if exercising the renewal option was probable and considered the renewal into determining the lease term and associated payments. The Company's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include both fixed and variable payments. The variable payments are for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

The components of lease cost for the years ended December 31 were as follows (in thousands):

	2020	2019
Operating lease cost	$ 995	$ 969
Variable lease cost	65	45
Short-term lease cost	16	17
	$ 1,076	$ 1,031

Amounts reported in the consolidated balance sheet as of December 31, 2020, and December 31, 2019, are as follows (in thousands):

	As of December 31, 2020	As of December 31, 2019
Operating lease right of use asset	$ 2,451	$ 2,638
Operating lease liabilities	2,620	2,822

Other supplementary information related to leases as of December 31, was as follows (dollars are in thousands):

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities	$ 1,007	$ 987
ROU assets obtained in exchange for lease obligations	604	175
Reductions to ROU assets resulting from reduction in lease obligations	791	1,034

	As of December 31, 2020	As of December 31, 2019
Weighted average remaining lease term	3.93 years	4.94 years
Weighted average discount rate	6.00%	6.00%

Maturities of lease liabilities under non-cancellable leases as of December 31, 2020, are as follows (in thousands):

	Operating Leases
2021	$ 699
2022	689
2023	555
2024	357
2025	170
Thereafter	150
Total lease liabilities	$ 2,620

NOTE 9. Deposits

The scheduled maturities of time deposits as of December 31, 2020, are as follows (in thousands):

2021	$ 87,524
2022	17,056
2023	6,607
2024	2,741
2025	757
Thereafter	150
	$ 114,835

At December 31, 2020, and 2019, the Bank had no time deposits that had been acquired through a traditional broker channel. The Company had no interest-bearing deposits that meet the regulatory definition of a brokered deposit as of December 31, 2020 and $108.0 million as of December 31, 2019.

At December 31, 2020, and 2019, the Bank had $24.6 million and $45.7 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):

	2020	2019
Savings	$ 20	$ 24
Interest checking	462	1,288
Money market	1,162	3,124
Time deposits	2,202	3,104
	$ 3,846	$ 7,540

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 10. 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):

	2020	2019
Federal Reserve borrowings	$ -	$ -
Repurchase agreements with customers, renewable daily, interest payable monthly, rates ranging from 0.15% to 0.40% and 0.20% to 0.40%, respectively, secured by U.S. Treasury securities and collateralized mortgage obligations issued by FNMA	6,385	4,565
	$ 6,385	$ 4,565

The weighted average interest rate on short-term borrowings outstanding as of December 31, 2020, and 2019 was 0.16% and 0.21%, 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 U.S. government, U.S. 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, 2020, the $6.4 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.16%, were collateralized by U.S. Treasury securities and collateralized mortgage obligations issued by FNMA having a fair value of $10.1 million and unamortized principal balances of $8.9 million. At December 31, 2019, the $4.6 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.21%, were collateralized by U.S. Treasury securities and collateralized mortgage obligations issued by FNMA having a fair value of $7.9 million and unamortized principal balances of $7.4 million.

NOTE 11. Federal Home Loan Bank Advances

As of December 31, 2020, the Bank had $30.9 million FHLB advances outstanding. At December 31, 2020, the Bank had loans with unamortized principal balances of approximately $172.0 million and securities with unamortized principal balances of approximately $13.0 million pledged as collateral to the FHLB.

As of December 31, 2019, the Bank had $17.0 million FHLB advances outstanding. At December 31, 2019, the Bank had loans with unamortized principal balances of approximately $171.6 million and securities with unamortized principal balances of approximately $46.8 million pledged as collateral to the FHLB.

As of December 31, 2020, the Bank has the ability to draw advances up to approximately $84.8 million based upon the aggregate collateral that is currently pledged, subject to additional FHLB stock purchase requirement.

NOTE 12. Other Borrowings

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

2020

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

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank line	$ 2,161	$ 1,102	$ -	$ 1,102
BNCCORP line	124,709	10,000	-	10,000
Total	$ 126,870	$ 11,102	$ -	$ 11,102

(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, 2020, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

2019

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

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC National Bank line	$ 2,271	$ 2,157	$ -	$ 2,157
BNCCORP line	102,955	10,000	-	10,000
Total	$ 105,226	$ 12,157	$ -	$ 12,157

(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, 2019, the pledged collateral for the secured BNC National Bank line was comprised of commercial real estate loans and the pledged collateral for the secured BNCCORP line is the common stock of BNC National Bank.

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

In July 2007, the Company 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, 2020, and December 31, 2019, was 1.63% and 3.50%, 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 BNC National 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.

Dividends or share repurchase authorizations by the Company require the Company to consult with the Federal Reserve Board. In December 2020, the Company's Board of Directors declared an $8.00 per share special cash dividend payable on February 1, 2021. In addition, the Board of Directors approved a 175,000 share repurchase authorization.

NOTE 15. Regulatory Capital and Current Operating Environment

BNCCORP and BNC National 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, BNCCORP and BNC National 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 may also impose capital requirements that are specific to individual institutions. The requirements are generally above the statutory ratios.

At December 31, 2020, 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, 2020, and December 31, 2019, 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**
2020								
Total Risk-Based Capital:								
Consolidated	$ 135,496	17.88 %	$ 60,611	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	126,515	16.72	60,534	≥8.00	75,668	10.00	50,848	6.72
Tier 1 Risk-Based Capital:								
Consolidated	126,015	16.63	45,458	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	117,046	15.47	45,401	≥6.00	60,534	8.00	56,512	7.47
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	111,011	14.65	34,094	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	117,046	15.47	34,050	≥4.50	49,184	6.50	67,862	8.97
Tier 1 Leverage Capital:								
Consolidated	126,015	11.74	42,923	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	117,046	10.92	42,872	≥4.00	53,590	5.00	63,456	5.92
Tangible Common Equity (to total assets): (a)								
Consolidated	118,213	11.01	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	124,694	11.62	N/A	N/A	N/A	N/A	N/A	N/A

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019								
Total Risk-Based Capital:								
Consolidated	$ 117,817	17.13 %	$ 55,023	≥8.00 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	109,044	15.88	54,940	≥8.00	68,675	10.00	40,369	5.88
Tier 1 Risk-Based Capital:								
Consolidated	109,675	15.95	41,268	≥6.00	N/A	N/A	N/A	N/A
BNC National Bank	100,902	14.69	41,205	≥6.00	54,940	8.00	45,962	6.69
Common Equity Tier 1 Risk-Based Capital:								
Consolidated	94,669	13.76	30,951	≥4.50	N/A	N/A	N/A	N/A
BNC National Bank	100,902	14.69	30,904	≥4.50	44,639	6.50	56,263	8.19
Tier 1 Leverage Capital:								
Consolidated	109,675	10.65	41,205	≥4.00	N/A	N/A	N/A	N/A
BNC National Bank	100,902	9.81	41,142	≥4.00	51,427	5.00	49,475	4.81
Tangible Common Equity (to total assets): (a)								
Consolidated	96,159	9.95	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	102,837	10.65	N/A	N/A	N/A	N/A	N/A	N/A

(a) Tangible common equity is calculated by dividing common equity, less intangible assets, by total period end assets.

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

NOTE 16. Revenue from Contracts with Customers

The following table disaggregates non-interest income subject to ASC 606 (in thousands):

	2020	2019
Service charges on deposits	$ 577	$ 760
Bankcard fees	941	998
Bank charges and service fees not within scope of ASC 606	824	856
Total bank charges and service fees	2,342	2,614
Wealth management revenue	1,794	1,708
Wealth management revenue not within the scope of ASC 606	-	27
Total wealth management revenues	1,794	1,735
Other	40	49
Other not within the scope of ASC 606 (a)	663	972
Total other	703	1,021
Other non-interest income not within the scope of ASC 606 (a)	81,115	23,761
Total non-interest income	$ 85,954	$ 29,131

(a) This revenue is not within the scope of ASC 606, and includes fees related to mortgage banking operations, gains on sale of loans, net gains (losses) on sale of debt securities, revenue from investments in SBIC, and various other transactions.

The Company had no material contract assets or remaining performance obligations as of December 31, 2020. Total receivables from revenue recognized under the scope of ASC 606 were $487 thousand and $460 thousand as of December 31, 2020, and December 31, 2019, respectively. These receivables are included as part of the Other assets line on the Company's Consolidated Balance Sheets.

NOTE 17. Fair Value Measurements

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

	Carrying Value at December 31, 2020				Twelve Months Ended December 31, 2020
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
ASSETS					
Debt securities available for sale	$ 183,717	$ 5,063	$ 178,654	$ -	$ 1,128
Loans held for sale	250,083	-	250,083	-	5,698
Commitments to originate mortgage loans	19,098	-	19,098	-	12,370
Total assets at fair value	$ 452,898	$ 5,063	$ 447,835	$ -	$ 19,196
LIABILITIES					
Commitments to sell mortgage loans	$ 189	$ -	$ 189	$ -	$ (3,149)
Mortgage banking short positions	3,448	-	3,448	-	(168)
Total liabilities at fair value	$ 3,637	$ -	$ 3,637	$ -	$ (3,317)

	Carrying Value at December 31, 2019				Twelve Months Ended December 31, 2019
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
ASSETS					
Debt securities available for sale	$ 265,278	$ 4,994	$ 260,284	$ -	$ (1,296)
Loans held for sale	137,114	-	137,114	-	2,844
Commitments to originate mortgage loans	4,358	-	4,358	-	2,051
Total assets at fair value	$ 406,750	$ 4,994	$ 401,756	$ -	$ 3,599
LIABILITIES					
Commitments to sell mortgage loans	$ 21	$ -	$ 21	$ -	$ 128
Mortgage banking short positions	299	-	299	-	(89)
Total liabilities at fair value	$ 320	$ -	$ 320	$ -	$ 39

The Company sells short positions in mortgage-backed securities to manage 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.

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. GAAP. 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):

	2020				
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Impaired loans(1)	$ 1,253	$ -	$ -	$ 1,253	$ (1,105)
Other real estate(2)	-	-	-	-	-
Total	$ 1,253	$ -	$ -	$ 1,253	$ (1,105)

	2019				
	Total	Level 1	Level 2	Level 3	Total Gains/(Losses)
Impaired loans(1)	$ 2,752	$ -	$ -	$ 2,752	$ (473)
Other real estate(2)	-	-	-	-	35
Total	$ 2,752	$ -	$ -	$ 2,752	$ (438)

(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.

While the overall loan portfolio is not carried at fair value, reserves are allocated, on certain loans, to reflect fair value based on the external appraised value of the underlying collateral, less anticipated costs to sell, or through present value of future cash flow models for impaired loans that are not collateral dependent. The external appraisals are generally based on a sales, income, or cost approach, which are then adjusted for the unique characteristics of the property being valued. The valuation of impaired loans are reviewed on a quarterly basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

NOTE 18. Fair Value of Financial Instruments

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

	Level in Fair Value Measurement Hierarchy	December 31, 2020		December 31, 2019	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 12,443	$ 12,443	$ 10,523	$ 10,523
Debt securities available for sale	Level 1	5,063	5,063	4,994	4,994
Debt securities available for sale	Level 2	178,654	178,654	260,284	260,284
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	4,201	4,201	3,651	3,651
Loans held for sale-mortgage banking	Level 2	250,083	250,083	137,114	137,114
Commitments to originate mortgage loans	Level 2	19,098	19,098	4,358	4,358
Gross loans held for investment	Level 2	568,519	577,323	504,717	505,156
Gross loans held for investment	Level 3	2,612	1,253	3,480	2,752
Accrued interest receivable	Level 2	4,721	4,721	3,681	3,681
		$ 1,045,394	$ 1,052,839	$ 932,802	$ 932,513
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 167,667	$ 167,677	$ 136,313	$ 136,313
Deposits, interest-bearing	Level 2	685,491	686,066	684,234	684,215
Borrowings and advances	Level 2	37,285	37,285	21,565	21,565
Accrued interest payable	Level 2	560	560	1,685	1,685
Accrued expenses	Level 2	13,338	13,338	7,580	7,580
Commitments to sell mortgage loans	Level 2	189	189	21	21
Mortgage banking short positions	Level 2	3,448	3,448	299	299
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,004	9,859	15,006	10,834
		$ 922,982	$ 918,412	$ 866,703	$ 862,512
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 181	$ -	$ 225
Standby and commercial letters of credit	Level 2	$ -	$ 11	$ -	$ 8

The Company discloses the estimated fair value of financial instruments as it is useful to the reader of financial statements. 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 19. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to various financial instruments with off-balance-sheet risk, primarily to meet the needs of 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 losses in the event of default by the borrower. At December 31, 2020, 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 mortgage banking operations, the Bank commits to extend credit for purposes of originating residential loans. The Bank underwrites these commitments to determine whether each loan meets criteria established by the secondary market for residential loans. See Notes 1 and 17 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, 2020, 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):

	2020		2019	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 18,079	$ 74,475	$ 15,872	$ 79,941
Standby and commercial letters of credit	236	834	85	653

In addition to the amounts in the table above, mortgage banking commitments to fund loans totaled $598.4 million at December 31, 2020 and $204.9 million at December 31, 2019. Mortgage banking commitments to sell loans totaled $848.5 million at December 31, 2020 and $338.9 million at December 31, 2019.

Performance and Financial Standby Letters of Credit
As of December 31, 2020, and 2019, the Bank had no outstanding performance standby letters of credit and $3.2 million and $3.4 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.

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):

	2020	2019
Balance, beginning of period	$ 906	$ 982
Provision	1,744	200
Write offs, net	(1,625)	(276)
Balance, end of period	$ 1,025	$ 906

NOTE 20. Commitments and Contingencies

Small Business Investment Companies (SBIC)
The Bank has made investments in the Small Business Administration's SBIC program to enhance small business access to venture capital. At December 31, 2020, the Bank may be required to fund $1.2 million of additional capital calls related to its SBIC investments.

Legal Proceedings
From time to time, the Company may be a party to legal proceedings arising from 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 the Company could be subject to such a claim in an amount that could be material. Based upon a review with legal counsel, the Company believes that the ultimate disposition of any such litigation will not have a material effect on the Company's financial condition, results of operations or cash flows.

NOTE 21. Income Taxes

Income tax expense (benefit) consists of the following for the years ended December 31 (in thousands):

	2020	2019
Current:		
Federal	$ 12,526	$ 2,398
State	2,517	619
	15,043	3,017
Deferred:		
Federal	(1,146)	(75)
State	(26)	(21)
	(1,172)	(96)
Total	$ 13,871	$ 2,921

The reconciliation between income tax expense computed by applying the statutory federal income tax rate of 21.0% is as follows for the years ended December 31 (in thousands):

	2020	2019
Statutory federal income tax expense	$ 12,282	$ 2,763
State income taxes, net of federal income tax benefit	1,737	460
Tax-exempt interest income	(85)	(170)
Tax-exempt life insurance	(91)	(92)
Other, net	28	(40)
Total	$ 13,871	$ 2,921

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):

	2020	2019
Deferred tax assets:		
Loans, primarily due to credit losses	$ 2,871	$ 2,137
Compensation	571	501
Acquired intangibles	122	122
Net operating loss carryforwards	17	17
Other	370	318
Deferred tax assets	3,951	3,095
Deferred tax liabilities:		
Unrealized gain on debt securities available for sale	1,985	121
Discount accretion on securities	39	68
Premises and equipment	141	460
Other	343	312
Deferred tax liabilities	2,508	961
	1,443	2,134
Valuation allowance	(14)	(14)
Net deferred tax assets	$ 1,429	$ 2,120

Subject to certain limiting statutes, the Company is able to carry forward state tax net operating losses aggregating $19 thousand as of December 31, 2020. The state net operating losses expire between 2024 and 2031.

Tax years ended December 31, 2017 through 2020 remain open to federal examination. Tax years ended December 31, 2016 through 2020 remain open to certain 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 taxing authorities, based upon the technical merits of the position. The tax benefit recognized in the consolidated financial statements from such a position would be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense would be 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 income tax expense within the consolidated statements of income. At December 31, 2020, and 2019, 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):

	2020	2019
Denominator for basic earnings per share:		
Average common shares outstanding	3,563,203	3,526,096
Dilutive effect of share-based compensation	1,580	31,489
Denominator for diluted earnings per share	3,564,783	3,557,585
Numerator (in thousands):		
Net income	$ 44,614	$ 10,235
Basic earnings per common share	$ 12.52	$ 2.90
Diluted earnings per common share	$ 12.52	$ 2.88

NOTE 23. Related-Party 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 $958 thousand and $734 thousand at December 31, 2020, and 2019, respectively. Advances and other increases of loans to related parties in 2020 and 2019 totaled $349 thousand and $610 thousand, respectively. Loan pay downs and other reductions by related-parties in 2020 and 2019 were $125 thousand and $773 thousand, respectively. Commitments to extend credit to related parties decreased to $174 thousand at December 31, 2020, from $202 thousand at December 31, 2019. The total amount of deposits received from these parties was $1.1million at December 31, 2020, and December 31, 2019. Loans to, and deposits received from, these parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collection.

The Federal Reserve Act limits amounts of, and requires collateral on, extensions of credit by the Bank to BNCCORP, and with certain exceptions, its non-bank affiliates. There are also restrictions on the amounts of investment by the Bank in stocks and other subsidiaries of BNCCORP and such affiliates and restrictions on the acceptance of their securities as collateral for loans by the Bank. As of December 31, 2020, 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 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 2020 and 2019, BNCCORP and 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 matching contribution. 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 $971,000 and $779,000 for 2020 and 2019, 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, 2020, the assets in the plan totaled $40.4 million and included $1.1 million (24,000 shares) invested in BNCCORP common stock. At December 31, 2019, the assets in the plan totaled $32.6 million and included $876,000 (25,000 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. The Company 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 cash 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 ratably over 5 years. A participant's retirement account generally vests 50% upon an initial contribution and ratably 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 BNCCORP common stock and upon retirement, the plan participant will receive the number of shares of BNCCORP common stock credited to the participant's retirement account at that time. A separate Rabbi Trust has been established by the Company to offset the change in value of this liability. Assets in the trust offsetting in-service liabilities are recorded in other assets. BNCCORP common stock held in the trust related to the Company's retirement account obligation is recorded in treasury stock and equates to 29,730 and 27,192 shares as of December 31, 2020, and 2019. As of December 31, 2020, the plan obligation totaled $1.3 million and $1.0 million as of December 31, 2019.

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 common stock at the time of separation from service with the Company. The deferred shares of BNCCORP common stock were 12,581 shares and 9,289 shares as of December 31, 2020, and 2019, respectively.

NOTE 25. Share-Based Compensation

The Company has two share-based plans for certain key employees and directors whereby shares of BNCCORP 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 BNCCORP common stock at the grant date. The Company generally issues shares held in treasury when options are exercised and restricted stock is granted.

Total shares in plan and total shares available as of December 31, 2020, are as follows:

	1995	2015	Total
Total shares in plan	250,000	50,000	300,000
Total shares available	45,951	35,133	81,084

The Company recognized share-based compensation expense of $28,000 and $20,000 for the years ended December 31, 2020, and 2019, respectively, related to restricted stock.

The tax benefits associated with share-based compensation was approximately $7,000 for the year ended December 31, 2020, and was approximately $5,000 for the year ended December 31, 2019.

At December 31, 2020, the Company had $47,000 of unamortized restricted stock compensation, which is expected to be recognized over a period of three years. Restricted shares of stock granted have vesting and amortization periods of four years.

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

	2020		2019	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of year	1,400	$ 28.78	2,100	$ 28.78
Granted	1,000	34.77	-	-
Vested	(700)	28.78	(700)	28.78
Forfeited	-	-	-	-
Non-vested, end of year	1,700	32.30	1,400	28.78

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

	2020		2019	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	21,000	$ 3.00	42,600	$ 3.00
Granted	-	-	-	-
Exercised	(21,000)	3.00	(21,600)	3.00
Forfeited	-	-	-	-
Outstanding, end of year	-	-	21,000	3.00
Exercisable, end of year	-	-	21,000	3.00

The total intrinsic value of options exercised during the years ended December 31, 2020, and 2019 was $659 thousand and $581 thousand, respectively.

NOTE 26. Segment Reporting

The Company determines reportable segments based on the way that management organizes the segments within the Company for making operating decisions, allocating resources, and assessing performance. The Company has determined that it has three reportable segments: Community Banking, Mortgage Banking, and Holding Company.

Community Banking
The Community Banking segment serves the needs of businesses and consumers through 13 locations in North Dakota, Arizona, and Minnesota. Within this segment, the following products and services are provided: business and personal loans, commercial real estate loans, SBA loans, business and personal checking, savings products, and cash management, as well as trust and wealth management services and retirement plan administration. These products and services are supported through web and mobile based applications. Revenues for community banking consist primarily of interest earned on loans and debt securities, bankcard fees, loan fees, services charges on deposits, and fees for wealth management services.

Mortgage Banking
The Mortgage Banking segment originates residential mortgage loans for the primary purpose of sale on the secondary market. The segment consists of both a consumer direct channel with locations in Kansas and Michigan utilizing internet leads and a call center to originate residential mortgage loans throughout the United States complimented by a relationship based retail channel with 11 locations in North Dakota, Arizona, Kansas, Illinois and Missouri. Revenues for mortgage banking consist primarily of interest earned on mortgage loans held for sale, gains on sales of loans, unrealized gains or losses on mortgage financial instruments, and loan origination fees.

Holding Company
The Holding Company segment represents the parent company of BNC National Bank. Revenue for the Holding Company segment primarily consists of interest earned on cash and cash equivalents and management fees charged to BNC National Bank for management services. Interest expense for the Holding Company segment consists of interest expense on the Company's subordinated debentures. Non-interest expense for the segment includes parent

company costs for certain centralized functions such as corporate administration, accounting, audit, consulting, and governance.

The Company's operating segments are presented based on its management structure and management accounting practices. The structure and practices are specific to the Company and therefore, the financial results of the Company's business segments are not necessarily comparable with similar information for other financial institutions.

	2020				
	Community Banking	**Mortgage Banking**	**Holding Company**	**Intercompany Eliminations (1)**	**BNCCORP Consolidated**
Interest income	$ 32,482	$ 4,593	$ 34	$ (563)	$ 36,546
Interest expense	3,913	530	358	(563)	4,238
Net interest income (expense)	28,569	4,063	(324)	-	32,308
Provision for credit losses	2,670	-	-	-	2,670
Net interest income after provision for credit losses	25,899	4,063	(324)	-	29,638
Non-interest Income	8,478	79,874	1,891	(4,289)	85,954
Non-interest Expense	27,621	30,317	3,458	(4,289)	57,107
Income (loss) before income taxes	6,756	53,620	(1,891)	-	58,485
Income tax expense (benefit)	931	13,405	(456)	-	13,871
Net income (loss)	$ 5,825	$ 40,215	$ (1,426)	$ -	$ 44,614
Total Assets at December 31, 2020	$ 801,519	$ 271,256	$ 38,183	$ (36,827)	$ 1,074,131

(1) Intercompany eliminations remove internal shared service costs for intercompany use of funds to originate mortgage loans held for sale and costs related to internal services rendered to segments by centralized function of the Company such as administration, audit, accounting, compliance, governance, consulting, and technology expense.

NOTE 27. 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)

	2020	2019
Assets:		
Cash and cash equivalents	$ 37,113	$ 6,736
Investment in subsidiaries	124,711	103,421
Receivable from subsidiaries	147	1,674
Other	923	1,015
Total assets	$ 162,894	$ 112,846
Liabilities and stockholders' equity:		
Subordinated debentures	$ 15,004	$ 15,006
Payable to subsidiaries	70	70
Accrued expenses and other liabilities	29,591	1,492
Total liabilities	44,665	16,568
Common stock, $.01 par value – Authorized 11,300,000 shares; 3,540,522 and 3,514,770 shares issued and outstanding	35	35
Capital surplus – common stock	25,871	25,831
Retained earnings	86,991	71,057
Treasury stock (128,131 and 153,883 shares, respectively)	(1,850)	(2,115)
Accumulated other comprehensive income, net	7,182	1,470
Total stockholders' equity	118,229	96,278
Total liabilities and stockholders' equity	$ 162,894	$ 112,846

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

	2020	2019
Income:		
Management fee income	$ 1,839	$ 2,034
Interest	34	37
Other	64	18
Total income	1,937	2,089
Expenses:		
Interest	370	1,222
Salaries and benefits	1,582	1,453
Legal and other professional	1,065	1,157
Other	811	789
Total expenses	3,828	4,621
Loss before income tax benefit and equity in earnings of subsidiaries	(1,891)	(2,532)
Income tax benefit	465	621
Loss before equity in earnings of subsidiaries	(1,426)	(1,911)
Equity in earnings of subsidiaries	46,040	12,146
Net income	$ 44,614	$ 10,235

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

	2020	2019
Operating activities:		
Net income	$ 44,614	$ 10,235
Adjustments to reconcile net income to net cash provided by operating activities -		
Equity in earnings of subsidiaries	(46,042)	(12,146)
Dividend paid by subsidiaries	30,000	10,000
Share-based compensation	305	112
Change in other assets	1,620	(1,772)
Change in other liabilities	(120)	(135)
Net cash provided by operating activities	30,377	6,294
Financing activities:		
Decrease in long-term borrowings	-	(10,000)
Net cash used in financing activities	-	(10,000)
Net increase (decrease) in cash and cash equivalents	30,377	(3,706)
Cash and cash equivalents, beginning of year	6,736	10,442
Cash and cash equivalents, end of year	$ 37,113	$ 6,736
Supplemental cash flow information:		
Interest paid	$ 443	$ 1,392
Income taxes paid	$ 11,996	$ 3,043

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CORPORATE DATA

Investor Relations

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Telephone (701) 250-3040 | Facsimile (701) 222-3653

Daniel J. Collins
Interim President & Chief Executive Officer
(612)-305-2210

Mark E. Peiler
Interim Chief Financial Officer
(612)-305-2233

Annual Meeting

The 2021 annual meeting of stockholders will be held at 8:30 a.m. (Central Daylight Time) on Thursday, June 24, 2021 by virtual meeting.

Independent Public Accountants

CliftonLarsonAllen LLP
220 South Sixth Street, Suite 300
Minneapolis, MN 55402-1436

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,

	2020[1]		2019[1]	
	High	Low	High	Low
First Quarter	$35.07	$19.00	$28.35	$20.50
Second Quarter	$23.00	$15.85	$30.25	$26.90
Third Quarter	$31.99	$22.00	$34.50	$27.80
Fourth Quarter	$45.99	$30.18	$35.20	$31.50

[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.

Michael M. Vekich,
Chairman of the Board and CEO, Vekich Chartered

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

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

John W. Palmer,
Principal & Managing Member, PL Capital Advisors, LLC

Tom Redmann,
Retired Loan Officer,
Bank of North Dakota

Tracy J. Scott,
Retired Co-Founder of BNCCORP, INC.

Directors, BNC National Bank

Nathan P. Brenna
Gaylen Ghylin
John W. Palmer
Tom Redmann
Tracy J. Scott
Michael M. Vekich
Daniel J. Collins

BNC National Bank

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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

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

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Glendale, AZ 85308

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Glendale, AZ 85383

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Wichita, KS 67205

Wichita
12031 East 13th Street
Wichita, 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

Farmington Hills
35055 West 12 Mile Road,
Suite 140
Farmington Hills, MI 48331

(2) Bank branches offering mortgage banking services.

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