

**TO OUR STOCKHOLDERS, CUSTOMERS,  
EMPLOYEES AND FRIENDS:**

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

**Financial Performance**

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

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

2008, growing by \$133.5 million, a \$63.7 million increase in core deposits contributed significantly to deposit growth.

### **The Benefits of Strategic Transformation**

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

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

### **Capital – and Confidence**

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

In January 2009, we further strengthened our capital base by becoming one of the select institutions permitted to participate in the U.S. Treasury's Capital Purchase Program. Under the program, which is available only to strong, sound community banks, the U.S.

Treasury purchased shares of non-voting senior preferred stock in BNCCORP, Inc. and exercised warrants for an additional class of preferred shares. The proceeds from our participation in the program added approximately \$20.1 million to our capital.

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

### **Asset Quality**

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

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

### **Challenge – and Opportunity**

While it is easy to see challenges in the present economic environment, we also believe there will be opportunities for BNC. Our mortgage banking operations, for example, may benefit from lower interest rates. We are also seeing a return to more realistic pricing of

lending products, as the marketplace now has a clearer understanding of the impact of risk on asset pricing. In the deposit area, we would expect a “flight to quality” as customers shift to better-capitalized institutions. Overall, we see the potential to gain market share from competitors that may be unable or unwilling to meet customers’ needs under current business conditions.

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

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

Sincerely,

Gregory K. Cleveland  
President and Chief Executive Officer