



# BNCCORP

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## NEWS RELEASE

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FOR FURTHER INFORMATION:

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### **BNCCORP, INC. REPORTS RESULTS FOR FOURTH QUARTER AND FULL YEAR 2008**

**2008 NET INCOME IS \$2.218 MILLION, UP FROM \$1.970 MILLION IN 2007**

**2008 FOURTH QUARTER LOSS IS \$(349) THOUSAND, VS. \$733 THOUSAND NET INCOME IN 2007  
PERIOD**

**STRONG REGULATORY CAPITAL AT YEAR END IS FURTHER INCREASED BY \$20.1 MILLION  
PROCEEDS FROM U.S. TREASURY CAPITAL PURCHASE PROGRAM IN JANUARY**

BISMARCK, ND, February 2, 2009 – BNCCORP, Inc. (BNC) (Pink Sheets: BNCC), which operates community banking and wealth management businesses in Arizona, Minnesota and North Dakota, and has mortgage banking offices in Iowa, Kansas, Missouri and Arizona, today reported financial results for the fourth quarter and full year ended December 31, 2008.

Net loss from continuing operations was \$(349) thousand, or \$(0.11) per diluted share, for the fourth quarter of 2008. This compared to net income from continuing operations of \$710 thousand, or \$0.20 per diluted share, in the fourth quarter of 2007. The comparison between the 2008 and 2007 periods

largely reflected a \$3.150 million provision for credit losses in the fourth quarter of 2008 due to current economic conditions, which more than offset the benefits of higher net interest income, non-interest income and a reduction in non-interest expense versus a year ago.

Net income from continuing operations for the full year 2008 was \$2.218 million, or \$0.67 per diluted share, compared to a net loss of \$(3.069) million, or \$(0.89) per diluted share, for the full year 2007. Losses from continuing operations in 2007 include various charges from actions taken to fortify BNC's core businesses following the sale of its former insurance segment.

Net income (loss), which combines results of both continuing and discontinued operations, was \$2.218 million in 2008, or \$0.67 per diluted share, compared to \$1.980 million, or \$0.57 per diluted share, for the full year of 2007. Discontinued operations in the 2007 periods include results from operations in BNC's former insurance segment and a gain recognized on the sale thereof.

Gregory K. Cleveland, BNCCORP President and Chief Executive Officer, stated, "In 2008, BNC weathered the early stages of this economic storm fairly well. We recorded earnings for the full year, in contrast to many in our industry. Our strong capital position at the end of 2008, along with our receipt of the Treasury's capital investment in early 2009, will further buttress BNC from the adverse economic forces. While we are confident that BNC is well-positioned to withstand the very challenging economy that will confront all of us in 2009, our expectations for financial performance in this environment are appropriately modest."

#### **Fourth Quarter Continuing Operations**

Net interest income for the fourth quarter of 2008 was \$6.964 million, an increase of \$817 thousand, or 13%, from \$6.147 million in the same period of 2007. The net interest margin for the current period declined to 3.52% from 4.15% in the same period of 2007. Growth in the balance sheet was responsible for the increase in net interest income, while increases in non-accrual assets and the decline in interest rates compressed net interest margin.

The provision for credit losses in the fourth quarter of 2008 was \$3.150 million. There was no provision for credit losses in the fourth quarter of 2007. The provision for credit losses in 2008 reflects the deteriorating economic environment, the amount and trend of nonperforming loans, and

other factors based on management's regular ongoing evaluation of the loan portfolio.

Non-interest income for the fourth quarter of 2008 was \$2.328 million, an increase of \$198 thousand, up 9% from \$2.130 million in the same period of 2007. This increase reflects higher revenues from core banking services and the Company's expanded mortgage banking operations, which benefitted from decreases in interest rates. Gains on sales of commercial real estate loans were virtually non-existent in the 2008 fourth quarter as the secondary market for this asset class functioned at minimal levels and is not anticipated to improve in the near term.

In the fourth quarter of 2008, non-interest expense decreased by \$754 thousand to \$6.809 million, from \$7.563 million in the same period of 2007. Excluding non-recurring compensation charges in 2007, non-interest expenses in 2008 were \$406 thousand higher than in the prior year period. This increase can be attributed to our expanded mortgage banking operations.

A tax benefit of \$(318) thousand was recorded in continuing operations during the fourth quarter of 2008 due to the pre-tax loss recorded in that period. The tax expense in the fourth quarter of 2007 was \$4 thousand which resulted in an effective tax rate of 0.6%.

### **Continuing Operations for the Year ended December 31, 2008**

Net interest income was \$26.811 million, an increase of \$4.564 million, or 21%, from \$22.247 million in the same period of 2007. The increase was due to a higher balance of loans and investment securities and lower rates on interest bearing liabilities. The year to date net interest margin was 3.64% in 2008 and 3.81% in 2007. Growth in the balance sheet fueled an increase in net interest income while increases in non-accrual assets and the decline in interest rates compressed net interest margin.

The provision for credit losses was \$7.750 million in 2008 compared to \$3.750 million in 2007, primarily due to the continued deterioration in economic conditions.

Non-interest income in 2008 was \$10.395 million compared to \$3.853 million in 2007. Excluding the impact of gain and losses on sales of securities, non-interest income in 2008 was \$3.018 million higher than 2007. The increase can be attributed to growth in mortgage banking revenues of \$1.943

million. The 2008 revenues also included a gain of \$832 thousand on sale of property which will not recur.

In 2008, non-interest expense decreased by \$1.646 million to \$26.501 million, from \$28.147 million in 2007. The 2007 period includes non-recurring compensation and costs to refinance, or terminate, certain liabilities, which were incurred to improve earnings in future periods. The 2008 period includes higher costs associated with expanded mortgage banking operations and real estate owned.

The tax expense in 2008 was \$737 thousand which resulted in an effective tax rate of 24.9%, while there was a tax benefit of \$(2.728) million in 2007 related to pre-tax losses resulting from losses on sales of securities and costs incurred to prepay, or terminate, certain liabilities.

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

### **Discontinued Operations**

In the second quarter of 2007, BNC sold substantially all of the assets of its insurance agency and accounted for this business as a discontinued operation. For the year 2007, net income from discontinued operations was \$5.049 million, or \$1.46 per diluted share, primarily reflecting the gain on sale of the insurance segment. This gain offsets losses on other transactions designed to fortify BNC's continuing operations.

### **Assets, Liabilities, Equity and Regulatory Capital**

Total assets were \$861.5 million at December 31, 2008, an increase of \$161.9 million, or 23.1%, compared to \$699.6 million at December 31, 2007. Loans held for investment increased by \$45.2 million and investment securities were \$86.9 million higher than at the beginning of the year. Organic growth fueled the increase in loans, while investments increased as a result of leverage strategies intended to increase net interest income.

Total liabilities at December 31, 2008 increased by \$167.6 million to \$807.5 million compared to \$639.9 million at December 31, 2007. Total deposits, which aggregated \$675.3 million at year end,

increased by \$133.5 million in 2008.

Core deposits aggregated \$575.6 million at December 31, 2008 and \$511.9 million at December 31, 2007, an increase of \$63.7 million or 12.4%. Wholesale deposits aggregated \$99.7 million at the end of 2008, an increase of \$69.7 million. The wholesale deposits were utilized to fund BNC's leverage strategies.

Other borrowings increased by \$34.6 million in 2008. The Company has used short term, variable rate borrowings to fund assets that are expected to repay or re-price in the near term.

Total common stockholders' equity was \$53.9 million at December 31, 2008, compared to \$59.7 million at December 31, 2007. This decline is primarily attributed to unrealized losses on the investment portfolio aggregating (\$7.805) million as of December 31, 2008 compared to unrealized gains of \$2.278 million as of December 31, 2007. Even though interest rates have declined, our investment portfolio has incurred unrealized losses because credit spreads have increased.

The book value per common share was \$16.35 as of December 31, 2008, compared to \$17.11 as of December 31, 2007. Excluding the impact of the unrealized gains and losses on investments, the book value per common share was \$17.82 as of December 31, 2008, compared to \$16.71 as of December 31, 2007.

The Company's capital levels exceeded the regulatory requirements for "well-capitalized" institutions at December 31, 2008. At that date, the tier 1 leverage ratio was 9.01%, the tier 1 risk-based capital ratio was 11.15%, and the total risk-based capital ratio was 12.95%.

At December 31, 2008, the Company's subsidiary, BNC National Bank, had total risk-based capital of \$87.9 million, which was \$19.2 million greater than the \$68.7 million required to meet the "well-capitalized" threshold. BNC National Bank's tangible capital was 8.77% of total assets at December 31, 2008.

On January 16, 2009, BNC announced that it has received net proceeds of approximately \$20.1 million through the sale of shares of non-voting senior preferred stock to the U.S. Department of the Treasury under the Capital Purchase Program. The Treasury Department also received a warrant

exercisable for shares of an additional class of BNCCORP, Inc. preferred stock which has an aggregate liquidation preference of approximately \$1.0 million. The Treasury Department exercised this warrant at the closing of the transaction. The proceeds of the sale will further increase the Company's capital ratios and strengthen its capital position. If the Capital Purchase Program transaction had been consummated as of December 31, 2008, the pro forma total risk-based capital of the Company would have been 15.88%.

Trust assets under supervision declined to \$320.3 million at December 31, 2008 from \$358.6 million at December 31, 2007, mostly due to the effect of market conditions on investment portfolios.

### **Asset Quality**

The Company is carefully monitoring asset quality due to present economic conditions and expects credit risk to remain elevated in 2009 and periods beyond. Accordingly, provisions for credit and other real estate (ORE) losses are anticipated to be elevated for the foreseeable future.

The allowance for credit losses was \$8.7 million and \$6.6 million at December 31, 2008 and December 31, 2007, respectively. The allowance for credit losses as a percentage of total loans at December 31, 2008 was 1.50%, compared with 1.26% at December 31, 2007. The allowance for credit losses as a percentage of loans and leases held for investment at December 31, 2008 was 1.61%, compared with 1.33% at December 31, 2007. The ratio of total nonperforming assets to total assets was 3.84% at December 31, 2008, compared with 0.77% at December 31, 2007. The ratio of the allowance for credit losses to total nonperforming loans as of December 31, 2008 was 38% compared to 122% at December 31, 2007.

At December 31, 2008, BNC had \$33.1 million of classified loans, \$22.9 million of loans on non-accrual and \$10.2 million of other real estate owned. At September 30, 2008 BNC had \$39.4 million of classified loans, \$21.1 million of loans on non-accrual and \$5.1 million of other real estate owned. At December 31, 2007, BNC had \$16.4 million of classified loans and \$5.4 million of loans on non-accrual and \$0 of other real estate owned. The balances of classified loans, non-accrual loans and other real estate owned are higher than they have been in recent years and we expect these balances to remain elevated for the foreseeable future.

BNC has concentrations of land and construction loans. At December 31, 2008, the Company had construction loans of \$37.7 million and land and land development loans aggregating \$61.8 million. At September 30, 2008, the Company had construction loans of \$34.3 million and land and land development loans aggregating \$67.1 million. At December 31, 2007, the Company had construction loans of \$68.8 million and land and land development loans aggregating \$79.0 million.

## **Outlook**

Mr. Cleveland noted, “Undoubtedly, global business conditions are continuing to decline and we expect the United States economy to remain difficult throughout 2009 and beyond. The resulting uncertainty has caused a sharp pull-back in economic activity by both businesses and consumers. At the same time, we do not expect to see any relief in the pressures on asset quality. While the environment is not conducive to financial institution earnings, BNC’s capital strength should continue to be very advantageous. We will attempt to use this strength to capitalize on opportunities and continue to serve our marketplace, while we make every effort to make responsible and prudent decisions in a time of great challenge.”

BNCCORP, Inc., headquartered in Bismarck, N.D., is a registered bank holding company dedicated to providing banking and wealth management services to businesses and consumers in its local markets. The Company operates community banking, mortgage banking and wealth management businesses in Arizona, Minnesota and North Dakota from 20 locations. BNC also conducts mortgage banking from five locations in Iowa, Kansas, Missouri and Arizona.

This news release may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, plans, objectives, future performance and business of BNC. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of our management and on information currently available to management are generally identifiable by the use of words such as “expect”, “believe”, “anticipate”, “plan”, “intend”, “estimate”, “may”, “will”, “would”, “could”, “should”, or other expressions. 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 and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-

looking statements due to several important factors. These factors include, but are not limited to: risks of loans and investments, including dependence on local and regional economic conditions; competition for our customers from other providers of financial services; possible adverse effects of changes in interest rates, including the effects of such changes on derivative contracts and associated accounting consequences; risks associated with our acquisition and growth strategies; and other risks which are difficult to predict and many of which are beyond our control. In addition, 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.

(Financial tables attached)

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**BNCCORP, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

(In thousands, except per share data)	For the Quarter Ended December 31,		For the Twelve Months Ended December 31,	
	2008	2007	2008	2007
<b>SELECTED INCOME STATEMENT DATA</b>				
Interest income	\$11,451	\$11,245	\$46,026	\$44,241
Interest expense	4,487	5,098	19,215	21,994
Net interest income	6,964	6,147	26,811	22,247
Provision for credit losses	3,150	-	7,750	3,750
Non-interest income	2,328	2,130	10,395	3,853
Non-interest expense	6,809	7,563	26,501	28,147
Income (loss) from continuing operations before income taxes	(667)	714	2,955	(5,797)
Income tax provision (benefit)	(318)	4	737	(2,728)
Income (loss) from continuing operations	(349)	710	2,218	(3,069)
Discontinued operations:				
Income (loss) from discontinued insurance segment	-	(26)	-	8,116
Income tax provision (benefit)	-	(49)	-	3,067
Income from discontinued operations	-	23	-	5,049
Net income (loss)	\$(349)	\$733	\$2,218	\$1,980

(In thousands, except per share data)	For the Quarter Ended December 31,		For the Twelve Months Ended December 31,	
	2008	2007	2008	2007
<b>BASIC EARNINGS PER SHARE</b>				
Income (loss) from continuing operations	\$ (0.11)	\$ 0.21	\$ 0.67	\$ (0.89)
Income from discontinued insurance segment, net of income taxes	-	-	-	1.46
Basic earnings (loss) per common share	<u>\$ (0.11)</u>	<u>\$ 0.21</u>	<u>\$ 0.67</u>	<u>\$ 0.57</u>
<b>DILUTED EARNINGS PER SHARE</b>				
Income (loss) from continuing operations	\$ (0.11)	\$ 0.20	\$ 0.67	\$ (0.89)
Income from discontinued insurance segment, net of income taxes	-	0.01	-	1.46
Diluted earnings (loss) per common share	<u>\$ (0.11)</u>	<u>\$ 0.21</u>	<u>\$ 0.67</u>	<u>\$ 0.57</u>

**BNCCORP, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

(In thousands, except share, per share and full time equivalent data)	As of		
	December 31, 2008	December 31, 2007	December 31, 2006
<b>SELECTED BALANCE SHEET DATA*</b>			
Total assets	\$ 861,498	\$ 699,580	\$ 659,596
Participating interests in mortgage loans	28,584	24,357	56,125
Loans and leases held for investment	542,753	497,556	333,934
Total loans	584,740	521,913	391,728
Allowance for credit losses	(8,751)	(6,599)	(3,370)
Investment securities available for sale	209,857	122,899	182,974
Other real estate	10,189	-	409
Earning assets	791,844	643,131	600,334
Total deposits	675,321	541,874	529,252
Core deposits	575,637	511,874	529,252
Other borrowings	124,454	89,840	95,787
*From continuing operations			
<b>OTHER SELECTED DATA</b>			
Net unrealized gains (losses) in investment portfolio, pretax	\$ (7,805)	\$ 2,278	\$ (2,719)
Trust assets under supervision	\$ 320,340	\$ 358,611	\$ 282,788
Total common stockholders' equity	\$ 53,947	\$ 59,730	\$ 55,602
Book value per common share	\$ 16.35	\$ 17.11	\$ 15.44
Effect of net unrealized gains (losses) on securities available for sale, net of tax, on book value per common share	\$ (1.47)	\$ 0.40	\$ (0.47)
Book value per common share, excluding effect of unrealized gains (losses) on securities	\$ 17.82	\$ 16.71	\$ 15.91
Full time equivalent employees	238	169	308
Common shares outstanding	3,299,163	3,491,337	3,600,467
<b>CAPITAL RATIOS</b>			
Tier 1 leverage (Consolidated)	9.01%	12.01%	7.12%
Tier 1 risk-based capital (Consolidated)	11.15%	12.58%	9.49%
Total risk-based capital (Consolidated)	12.95%	14.26%	10.89%
Tangible capital (Consolidated)	6.21%	8.48%	7.96%
Pro forma Tier 1 leverage (Consolidated)	12.16%	-	-
Pro forma Tier 1 risk-based capital (Consolidated)	15.05%	-	-
Pro forma Total risk-based capital (Consolidated)	15.88%	-	-
Pro forma tangible capital (Consolidated)	8.55%	-	-
Tier 1 leverage (BNC National Bank)	9.34%	12.57%	7.70%
Tier 1 risk-based capital (BNC National Bank)	11.56%	13.18%	10.26%
Total risk-based capital (BNC National Bank)	12.81%	14.26%	10.94%
Tangible capital (BNC National Bank)	8.77%	11.77%	11.26%

**BNCCORP, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

(In thousands)	For the Quarter Ended December 31,		For the Twelve Months Ended December 31,	
	2008	2007	2008	2007
<b>AVERAGE BALANCES*</b>				
Total assets	\$850,264	\$641,517	\$794,268	\$ 637,961
Participating interests in mortgage loans	26,127	21,042	27,469	27,469
Loans and leases held for investment	547,130	456,400	525,311	402,615
Total loans	578,016	477,541	553,585	430,501
Earning assets	787,046	587,242	735,953	583,840
Total deposits	666,599	520,294	611,271	519,755
Core deposits	570,957	641,517	537,206	637,961
Common stockholders' equity	54,806	59,181	57,608	58,407
*From continuing operations				
<b>KEY RATIOS*</b>				
Return on average common stockholders' equity	(2.53)%	4.76%	3.85%	(5.25)%
Return on average assets	(0.16)%	0.44%	0.28%	(0.47)%
Net interest margin	3.52%	4.15%	3.64%	3.81%
Efficiency ratio	73.27%	91.38%	71.22%	107.85%
*From continuing operations				
<b>KEY RATIOS **</b>				
Return on average common stockholders' equity	(2.53)%	4.92%	3.85%	3.39%
Return on average assets	(0.16)%	0.45%	0.28%	0.30%
** Based on net income				

**BNCCORP, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

(In thousands)	As of		
	December 31, 2008	September 30, 2008	December 31, 2007
<b>ASSET QUALITY*</b>			
Loans 90 days or more delinquent and still accruing interest	\$ 6	\$ 26	\$ -
Non-accrual loans	22,909	21,120	5,399
Total nonperforming loans	\$ 22,915	\$ 21,146	\$ 5,399
Other real estate	10,189	5,098	-
Total nonperforming assets	\$ 33,104	\$ 26,244	\$ 5,399
Allowance for credit losses	\$ 8,751	\$ 8,395	\$ 6,599
Ratio of total nonperforming loans to total loans	3.92%	3.72%	1.03%
Ratio of total nonperforming assets to total assets	3.84%	3.13%	0.77%
Ratio of allowance for credit losses to loans and leases held for investment	1.61%	1.57%	1.33%
Ratio of allowance for credit losses to total loans	1.50%	1.48%	1.26%
Ratio of allowance for credit losses to nonperforming loans	38%	40%	122%

\*From continuing operations

	For the Quarter Ended December 31,		For the Twelve Months Ended December 31,	
	2008	2007	2008	2007
<b>Changes in Allowance for Credit Losses:*</b>				
Balance, beginning of period	\$8,395	\$5,502	\$6,599	\$3,370
Provision charged to operations expense	3,150	-	7,750	3,750
Loans charged off	(2,895)	(504)	(5,946)	(2,127)
Loan recoveries	101	1,601	348	1,606
Balance, end of period	\$8,751	\$6,599	\$8,751	\$6,599
Ratio of net charge-offs to average total loans	(0.483)%	0.230%	(0.507)%	(0.121)%
Ratio of net charge-offs to average total loans, annualized	(1.934)%	0.919%	(0.507)%	(0.121)%

\*From continuing operations

**BNCCORP, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

(In thousands, except share data)	For the Quarter Ended December 31,		For the Twelve Months Ended December 31,	
	2008	2007	2008	2007
<b>ANALYSIS OF NON-INTEREST INCOME*</b>				
Bank charges and service fees	\$817	\$479	\$2,337	\$2,010
Wealth management revenues	611	702	2,826	2,041
Mortgage banking revenues	629	12	2,101	158
Gains on sales of commercial real estate loans	41	512	1,116	1,731
Gain (loss) on sale of premises and equipment	(1)	-	775	-
Net gain (loss) on sales of securities	-	-	247	(3,277)
Other	231	425	993	1,190
Total non-interest income	\$2,328	\$2,130	\$10,395	\$3,853

\*From continuing operations

**ANALYSIS OF NON-INTEREST EXPENSE\***

Salaries and employee benefits	\$3,587	\$4,614	\$14,673	\$14,868
Data processing fees	582	686	2,202	2,524
Occupancy	546	502	2,140	2,074
Depreciation and amortization	360	394	1,375	1,697
Marketing and promotion	354	203	1,127	703
Professional services	284	300	1,177	840
FDIC and other assessments	173	54	400	228
Office supplies, telephone and postage	152	127	533	499
ORE expenses	84	-	515	-
Debt extinguishment costs	-	-	-	2,724
Other	687	683	2,359	1,990
Total non-interest expense	\$6,809	\$7,563	\$26,501	\$ 28,147

\*From continuing operations

**WEIGHTED AVERAGE SHARES**

Common shares outstanding (a)	3,233,740	3,439,571	3,291,697	3,456,993
Incremental shares from assumed conversion of options and contingent shares	3,437	47,697	27,528	58,859
Adjusted weighted average shares (b)	3,237,177	3,487,268	3,319,225	3,515,852

(a) Denominator for Basic Earnings Per Common Share

(b) Denominator for Diluted Earnings Per Common Share