



BNCCORP

Quarterly Report

For the quarter ended June 30, 2009

BNCCORP, INC.

(Pink Sheets:BNCC)

322 East Main
Bismarck, North Dakota 58501
(701) 250-3040

BNCCORP, INC.
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June 30, 2009

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FINANCIAL INFORMATION

Item 1. Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

ASSETS	June 30, 2009 <small>(unaudited)</small>	December 31, 2008
CASH AND CASH EQUIVALENTS	\$ 8,733	\$ 10,569
INVESTMENT SECURITIES AVAILABLE FOR SALE	236,904	209,857
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	7,146	5,989
LOANS HELD FOR SALE	28,696	13,403
PARTICIPATING INTERESTS IN MORTGAGE LOANS	30,801	28,584
LOANS AND LEASES HELD FOR INVESTMENT	548,971	542,753
ALLOWANCE FOR CREDIT LOSSES	(10,339)	(8,751)
Net loans and leases	569,433	562,586
OTHER REAL ESTATE, net	12,984	10,189
PREMISES AND EQUIPMENT, net	20,624	20,810
INTEREST RECEIVABLE	3,223	3,263
OTHER ASSETS	26,374	24,832
Total assets	<u>\$ 914,117</u>	<u>\$ 861,498</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	\$ 75,513	\$ 68,996
Interest-bearing –		
Savings, interest checking and money market	270,325	266,851
Time deposits \$100,000 and over	46,335	42,342
Other time deposits	342,191	297,132
Total deposits	734,364	675,321
SHORT-TERM BORROWINGS	12,652	16,844
FEDERAL HOME LOAN BANK ADVANCES	59,600	84,500
LONG-TERM BORROWINGS	-	-
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	22,921	23,025
ACCRUED INTEREST PAYABLE	2,198	1,679
ACCRUED EXPENSES	3,431	3,325
OTHER LIABILITIES	3,270	2,857
Total liabilities	838,436	807,551
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value – 2,000,000 shares authorized		
Preferred stock - 5% Series A 20,093 shares outstanding	19,075	-
Preferred stock - 9% Series B 1,005 shares outstanding	1,110	-
Common stock, \$.01 par value – 10,000,000 shares authorized; 3,299,163 shares issued and outstanding	33	33
Capital surplus – common stock	26,805	26,628
Retained earnings	36,650	36,104
Treasury stock (357,738 shares)	(5,020)	(5,020)
Accumulated other comprehensive (loss), net	(2,972)	(3,798)
Total stockholders' equity	75,681	53,947
Total liabilities and stockholders' equity	<u>\$ 914,117</u>	<u>\$ 861,498</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share data, unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
INTEREST INCOME:				
Interest and fees on loans	\$ 7,488	\$ 8,861	\$ 14,954	\$ 18,374
Interest and dividends on investments				
Taxable	3,796	2,331	6,814	3,899
Tax-exempt	112	233	289	466
Dividends	17	71	35	142
Total interest income	<u>11,413</u>	<u>11,496</u>	<u>22,092</u>	<u>22,881</u>
INTEREST EXPENSE:				
Deposits	3,097	3,758	6,121	7,746
Short-term borrowings	44	28	86	69
Federal Home Loan Bank advances	329	549	728	1,168
Long-term borrowings	2	15	2	23
Subordinated debentures	325	381	657	838
Total interest expense	<u>3,797</u>	<u>4,731</u>	<u>7,594</u>	<u>9,844</u>
Net interest income	7,616	6,765	14,498	13,037
PROVISION FOR CREDIT LOSSES	<u>2,000</u>	<u>2,000</u>	<u>3,700</u>	<u>2,800</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>5,616</u>	<u>4,765</u>	<u>10,798</u>	<u>10,237</u>
NON-INTEREST INCOME:				
Bank charges and service fees	521	518	1,100	1,009
Wealth management revenues	495	768	1,079	1,524
Mortgage banking revenues	2,066	776	3,492	750
Gains on sales of commercial real estate loans	86	253	86	1,039
Net gain on sales of assets	-	794	-	794
Net gains on sales of securities	968	-	1,871	-
Other	209	249	413	542
Total non-interest income	<u>4,345</u>	<u>3,358</u>	<u>8,041</u>	<u>5,658</u>
NON-INTEREST EXPENSE:				
Salaries and employee benefits	3,696	3,938	7,435	7,361
Other real estate costs	1,673	402	2,580	402
Professional services	772	293	1,269	482
Occupancy	630	547	1,269	989
FDIC and other assessments	599	56	778	110
Data processing fees	535	554	1,074	1,060
Depreciation and amortization	359	327	730	669
Marketing and promotion	321	267	506	462
Office supplies and postage	157	136	298	247
Other	648	558	1,511	1,035
Total non-interest expense	<u>9,390</u>	<u>7,078</u>	<u>17,450</u>	<u>12,817</u>
Income before income taxes	571	1,045	1,389	3,078
Income tax expense	48	345	250	1,016
NET INCOME	<u>523</u>	<u>700</u>	<u>1,139</u>	<u>2,062</u>
Preferred stock costs	(327)	-	(593)	-
Net income available to common shareholders	<u>\$ 196</u>	<u>\$ 700</u>	<u>\$ 546</u>	<u>\$ 2,062</u>
Basic earnings per common share	<u>\$ 0.06</u>	<u>\$ 0.22</u>	<u>\$ 0.17</u>	<u>\$ 0.62</u>
Diluted earnings per common share	<u>\$ 0.06</u>	<u>\$ 0.21</u>	<u>\$ 0.17</u>	<u>\$ 0.61</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(In thousands, except share data, unaudited)

	Preferred Stock		Common Stock		Capital Surplus			Accumulated Other Comprehensive		Total
	Shares	Amount	Shares	Amount	Common Stock	Retained Earnings	Treasury Stock	Income (Loss)		
	BALANCE, December 31, 2007	-	\$ -	3,491,337	\$ 35	\$ 26,355	\$ 34,105	\$ (2,424)	\$ 1,659	
Net income	-	-	-	-	-	2,062	-	-	2,062	
Other comprehensive loss	-	-	-	-	-	-	-	(2,218)	(2,218)	
Cumulative effect of change in accounting principle related to split dollar life insurance policies	-	-	-	-	-	(217)	-	-	(217)	
Impact of share-based compensation	-	-	10,200	-	165	-	-	-	165	
Purchase of common shares	-	-	(200,326)	-	-	-	(2,581)	-	(2,581)	
BALANCE, June 30, 2008	-	-	3,301,211	\$ 35	\$ 26,520	\$ 35,950	\$ (5,005)	\$ (559)	\$ 56,941	
BALANCE, December 31, 2008	-	\$ -	3,299,163	\$ 33	\$ 26,628	\$ 36,104	\$ (5,020)	\$ (3,798)	\$ 53,947	
Net income	-	-	-	-	-	1,139	-	-	1,139	
Other comprehensive gain	-	-	-	-	-	-	-	826	826	
Preferred stock issued	-	21,098	-	-	-	-	-	-	21,098	
Discount on preferred stock, net	-	(1,005)	-	-	-	-	-	-	(1,005)	
Preferred stock amortization, net	-	92	-	-	-	(92)	-	-	-	
Cash dividend on preferred stock	-	-	-	-	-	(501)	-	-	(501)	
Impact of share-based compensation	-	-	-	-	177	-	-	-	177	
BALANCE, June 30, 2009	-	\$ 20,185	3,299,163	\$ 33	\$ 26,805	\$ 36,650	\$ (5,020)	\$ (2,972)	\$ 75,681	

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In thousands, unaudited)

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2009		2008		2009		2008	
NET INCOME	\$ 523		\$ 700		\$ 1,139		\$ 2,062	
Unrealized gain (loss) on cash flow hedge, net	\$ -		\$ (650)		\$ (375)		\$ 374	
Amortization of deferred gain in other comprehensive income	(385)		-		(385)		-	
Unrealized gain (loss) on securities available for sale	2,192		(2,530)		3,886		(4,006)	
Reclassification adjustment for (gain) included in net income	(968)		-		(1,871)		-	
Other comprehensive income (loss), before tax	839		(3,180)		1,255		(3,632)	
Income tax (expense) benefit related to items of other comprehensive income (loss)	(294)		1,273		(429)		1,414	
Other comprehensive income (loss)	<u>545</u>	<u>545</u>	<u>(1,907)</u>	<u>(1,907)</u>	<u>826</u>	<u>826</u>	<u>(2,218)</u>	<u>(2,218)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 1,068</u>		<u>\$ (1,207)</u>		<u>\$ 1,965</u>		<u>\$ (156)</u>	

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Six Months Ended June 30,

(In thousands, unaudited)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES:		
Net income	\$ 1,139	\$ 2,062
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	3,700	2,800
Provision for other real estate losses	2,664	-
Depreciation and amortization	730	670
Share-based compensation	177	165
Net amortization of premiums and discounts	(1,291)	(611)
Change in interest receivable and other assets, net	(1,337)	(3,742)
(Gain) on disposals of premises and equipment, net	-	(794)
Realized (gain) on sales of investment securities	(1,871)	-
Provision for deferred income taxes	(1,682)	(153)
Change in other liabilities, net	1,261	1,301
Originations of loans to be participated	(27,643)	(123,457)
Proceeds from participations of loans	27,643	123,457
Funding of originations of loans held for sale	(257,107)	(37,068)
Proceeds from sale of loans held for sale	241,691	31,438
Fair value adjustment for loans held for sale	124	(127)
Net cash (used in) operating activities	<u>(11,802)</u>	<u>(4,059)</u>
INVESTING ACTIVITIES:		
Purchases of investment securities	(102,837)	(95,732)
Proceeds from sales of investment securities	40,449	-
Proceeds from maturities of investment securities	40,519	14,924
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(1,157)	(6,146)
Sales of Federal Reserve and Federal Home Loan Bank Stock	-	3,987
Net (increase) in participating interests in mortgage loans	(2,217)	(976)
Net (increase) in loans held for investment	(14,051)	(35,751)
Proceeds from sales of other real estate	261	-
Additions to premises and equipment	(544)	(2,129)
Sales of premises and equipment	-	4,600
Net cash (used in) investing activities	<u>(39,577)</u>	<u>(117,223)</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
For the Six Months Ended June 30,
(In thousands, unaudited)

	<u>2009</u>	<u>2008</u>
FINANCING ACTIVITIES:		
Net increase in deposits	59,043	83,465
Net (decrease) increase in short-term borrowings	(4,192)	841
Proceeds from FHLB advances	912,800	1,918,515
Repayments of FHLB advances	(937,700)	(1,877,915)
Proceeds from issuance of preferred stock	20,093	-
Dividends paid on preferred stock dividends	(501)	-
Purchase of treasury stock	-	(2,581)
Net cash provided by financing activities	49,543	122,325
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,836)	1,043
CASH AND CASH EQUIVALENTS, beginning of period	10,569	14,856
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 8,733</u>	<u>\$ 15,899</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 7,075</u>	<u>\$ 9,695</u>
Income taxes paid	<u>\$ 2,199</u>	<u>\$ 1,812</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in settlement of loans	<u>\$ 5,720</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2009

NOTE 1 – Organization of Operations, BNCCORP, Inc.

BNCCORP, Inc. (“BNCCORP”) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (together with its wholly owned subsidiaries, BNC Insurance Services, Inc., and BNC Asset Management, Inc., collectively the “Bank”). The Company operates community banking and wealth management businesses in Arizona, Minnesota and North Dakota from 20 locations. BNC also conducts mortgage banking from six locations in Arizona, Iowa, Kansas and Missouri.

The accounting and reporting policies of BNCCORP and its subsidiaries (collectively, the “Company”) conform to accounting principles generally accepted in the United States of America and general practices within the financial services industry. The consolidated financial statements included herein are for BNCCORP and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

NOTE 2 – Basis of Presentation and Accounting Policies

The accompanying interim consolidated financial statements have been prepared by the Company, in accordance with accounting principles generally accepted in the United States of America for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading.

The unaudited consolidated financial statements as of June 30, 2009 include, in the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the financial results for the respective interim periods and are not necessarily indicative of results of operations to be expected for the entire fiscal year.

The accompanying interim consolidated financial statements have been prepared under the presumption that users of the interim consolidated financial information have either read or have access to the audited consolidated financial statements for the year ended December 31, 2008. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2008 audited consolidated financial statements have been omitted from these interim consolidated financial statements. It is suggested that these interim consolidated financial statements be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008 and the notes thereto.

The Company’s critical accounting policies are unchanged since December 31, 2008.

NOTE 3 – Reclassifications

Certain of the 2008 amounts have been reclassified to conform to the 2009 presentations. These reclassifications had no effect on net income or stockholders’ equity.

NOTE 4 – Recently Issued or Adopted Accounting Standards

In April 2009, the FASB issued Staff Position 157-4 (“FSP 157-4”), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. The proposed FASB Staff Position (“FSP”), while emphasizing that the objective of fair value measurement described in SFAS No. 157, *Fair Value Measurements*, remains unchanged, provides additional guidance for determining whether market activity for a financial asset or liability has significantly decreased, as well as for identifying circumstances that indicate that transactions are not orderly. This FSP reiterates that if a market is determined to be inactive and the related market price is deemed to be reflective of a “distressed sale”

price, then management judgment may be required to estimate fair value. This FSP identifies factors to be considered when determining whether or not a market is inactive. This FSP is effective as of June 30, 2009, with early adoption permitted as of March 31, 2009. The effect of adopting this FSP was not material.

In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP changes existing guidance for determining whether impairment of debt securities is other-than-temporary. This FSP requires other-than-temporary impairment to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses), which is recognized in earnings, and the amount related to other factors, which is recognized in other comprehensive income. The non-credit loss component of the impairment can only be classified in other comprehensive income if the holder of the security concludes (a) that it does not intend to sell the security and (b) that it is more likely than not that it will not be required to sell the security before the security recovers its value. If these two conditions are not met, the non-credit loss component of the impairment must also be recognized in earnings. Upon adoption of this FSP, the entity is required to record a cumulative-effect adjustment, as of the beginning of the period of adoption, to reclassify the non-credit loss component of previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income. This FSP is effective as of June 30, 2009, with early adoption permitted as of March 31, 2009. The effect of adopting this FSP was not material.

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This proposed FSP would amend SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require disclosures about fair value of financial instruments in all interim financial statements. Once adopted, the disclosures required by this FSP are to be provided prospectively. The Company adopted SFAS No. 107-2 on June 30, 2009. (See note 12 in the notes to the consolidated financial statements.)

Emerging Issues Task Force (“EITF”) 06-04, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements” (EITF 06-04) requires recognition of a liability for future benefits in accordance with SFAS No. 106, “Employers Accounting for Post Retirement Benefits Other Than Pension” (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board (“APB”) Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The EITF is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company adopted EITF 06-04 on January 1, 2008 and recognized a cumulative-effect adjustment to decrease retained earnings.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about the use of fair value to measure assets and liabilities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Adopting SFAS No. 157 on January 1, 2008 did not have a material impact on the Company’s results of operations or financial position.

In accordance with the provisions of FASB Staff Position, or FSP, No. FAS 157-2 *Effective Date of FASB Statement No. 157*, we elected to defer implementation of SFAS No. 157, as it relates to our nonfinancial assets and nonfinancial liabilities that are recognized and disclosed at fair value in our consolidated financial statements on a non-recurring basis, until January 1, 2009. Adopting SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities did not have a material impact.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115*. This Statement permits entities to measure many financial instruments and other items at fair value and most of the provisions of the Statement apply only to entities that elect the fair value option. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Adopting SFAS No. 159 on January 1, 2008 did not have a material impact on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. This Statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement applies to all for-profit entities that prepare consolidated financial statements, but affects only those entities that have an outstanding noncontrolling interest in subsidiaries or that deconsolidate a subsidiary. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years. Adopting SFAS No. 160 on January 1, 2009 did not have a material impact on the Company’s results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. This Statement replaces SFAS No. 141, *Business Combinations* and retains the fundamental requirements of SFAS No. 141 that the purchase method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. This Statement established principles and requirements for how the acquirer recognizes and measures the assets acquired (including goodwill), the liabilities assumed, and any controlling interest in the acquiree. It also determines what information is to be disclosed to enable users of the financial statements to evaluate the nature and financial effect of the business combination. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. This Statement applies to all entities and requires enhanced disclosures about an entity’s derivative hedging activities including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of derivatives and gains and losses on thereon, as well as disclosures about credit risk related to derivative instruments. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. The objective of this Statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This Statement is effective for financial statements issued for interim and annual periods ending after June 15, 2009 and did not have any impact on the Company’s consolidated financial statements. We have reviewed subsequent events occurring through August 13, 2009.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (“SFAS No. 166”). SFAS No. 166 makes several significant amendments to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, including the removal of the concept of a qualifying special-purpose entity from SFAS No. 140. SFAS No. 166 also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. The provisions of SFAS No. 166 are effective for financial asset transfers occurring after December 31, 2009. We do not anticipate that the adoption of SFAS No. 166 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (“SFAS No. 167”). SFAS No. 167 requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a variable interest entity (“VIE”) for consolidation purposes. The primary beneficiary of a VIE is the enterprise that has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and

also has the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. The provisions of SFAS No. 167 are effective January 1, 2010. We do not anticipate that the adoption of SFAS No. 167 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (“SFAS No. 168”). SFAS No. 168 establishes the FASB Accounting Standards Codification (“Codification”) to become the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the U.S. Securities and Exchange Commission (“SEC”) and its staff. All guidance contained in Codification carries an equal level of authority. The provisions of SFAS No. 168 are effective for interim and annual periods ending after September 15, 2009. As the Codification is not intended to change GAAP, the adoption of the provisions of SFAS No. 168 is not expected to have any impact on our consolidated financial statements.

NOTE 5 – Other Real Estate

Other real estate (ORE) includes property acquired through foreclosure, property in judgment and in-substance foreclosures. ORE is carried at fair value less estimated selling costs. The property is evaluated regularly and any decreases in the carrying amount are included in non-interest expense. ORE consisted of the following at the dates shown below (in thousands):

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Other Real Estate		
Other real estate owned	\$ 15,648	\$ 10,189
Real estate in judgment	-	-
In-substance foreclosure	-	-
Total other real estate owned	\$ 15,648	\$ 10,189
Allowance for other real estate losses	(2,664)	-
Total other real estate owned, net	\$ 12,984	\$ 10,189

NOTE 6 – Preferred Stock

On January 16, 2009 we received net proceeds of approximately \$20.1 million through the sale of preferred stock to the U.S. Department of Treasury under its Capital Purchase Program (CPP). The Treasury Department also received a warrant for shares of an additional class of preferred stock which has a liquidation preference of approximately \$1.0 million. The Treasury exercised this warrant on January 16, 2009.

As a result of our participation in the CPP, we have two series of preferred stock outstanding. One of the outstanding series is perpetual, non-voting and pays dividends at 5% of its liquidation preference per annum until the fifth anniversary of the Treasury’s investment and thereafter pays dividends at 9%. We had 20,093 shares of this series outstanding at June 30, 2009. Each share has a liquidation preference of \$1,000 per share. At inception, this series of preferred stock was not redeemable for three years, except the shares could be redeemed from the proceeds of an equity offering that qualifies as Tier 1 capital. Subsequently, our ability to redeem the preferred stock has been modified to permit early redemption with regulatory approval.

The second outstanding series has the same voting rights, preferences and privileges as the other series, except that it pays dividends at 9% of its liquidation preference per annum and may not be redeemed until the other series has been redeemed. We have 1,005 shares of this series outstanding at June 30, 2009.

NOTE 7 – Earnings Per Share

Net income per share was calculated as follows (in thousands, except share data):

	Three months ended June 30, 2009	Six months ended June 30, 2009
Denominator for basic earnings per share:		
Average common shares outstanding	3,261,831	3,261,831
Dilutive common stock options	28,569	20,021
Denominator for diluted earnings per share	3,290,400	3,281,852
Numerator:		
Net income	\$ 523	\$ 1,139
Preferred stock costs	(327)	(593)
Net income available to common shareholders	\$ 196	\$ 546
Basic earnings per common share	\$ 0.06	\$ 0.17
Diluted earnings per common share	\$ 0.06	\$ 0.17
	Three months ended June 30, 2008	Six months ended June 30, 2008
Denominator for basic earnings per share:		
Average common shares outstanding	3,248,101	3,327,961
Dilutive common stock options	46,458	44,059
Denominator for diluted earnings per share	3,294,559	3,372,020
Numerator:		
Net income	\$ 700	\$ 2,062
Preferred stock costs	-	-
Net income available to common shareholders	\$ 700	\$ 2,062
Basic earnings per common share	\$ 0.22	\$ 0.62
Diluted earnings per common share	\$ 0.21	\$ 0.61

For the three months ended June 30, 2009 and 2008, there were no options and 2,600 options outstanding excluded from the computation of diluted EPS because their exercise prices were higher than the average price of BNCCORP's common stock for the period and are considered anti-dilutive. For the six months ended June 30, 2009 and 2008, there were no options and 2,600 options outstanding excluded from the computation of diluted EPS because their exercise prices were higher than the average price of BNCCORP's common stock for the period.

NOTE 8 – Share-Based Compensation

The Company has three share-based plans for certain key employees and directors whereby shares of common stock have been reserved for awards in the form of stock options or restricted stock awards. Under the 1995 Stock Incentive Plan, the aggregate number of options and shares granted can not exceed 250,000 shares. As of June 30, 2009, there were 61,251 shares available to grant under the 1995 Stock Incentive Plan. Under the 2002 Stock Incentive Plan, the aggregate number of shares granted can not exceed 125,000 shares. As of June 30, 2009, there were 107,250 shares available to grant under the 2002 Stock Incentive Plan. Under the 2006 Stock Incentive Plan, the aggregate number of shares granted can not exceed 200,000 shares. As of June 30, 2009, there were 136,600 shares available to grant under the 2006 Stock Incentive Plan. The Company may grant share-based compensation at prices equal to the fair value of the stock at the grant date.

There were no grants of stock options in the second quarter of 2009. There was no cost associated with options previously granted as they were fully amortized.

There were no grants of restricted stock in the second quarter of 2009.

The Company recognized share-based compensation expense of \$90,000 related to restricted stock for the three month period ended June 30, 2009 and \$177,000 for the six month period ended June 30, 2009. The Company recognized share-based compensation expense of \$84,000 related to restricted stock for the three months ended June 30, 2008 and \$165,000 for the six month period ended June 30, 2008.

At June 30, 2009, the Company had \$176,000 of unamortized restricted stock compensation expense. The majority of the unamortized restricted stock compensation expense as of June 30, 2009 will be amortized by December 31, 2009 and all of this expense will be amortized by December 31, 2012. The cost of restricted stock granted is recognized over the vesting period; which is generally three or more years.

NOTE 9 – Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

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

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet as of June 30, 2009 and December 31, 2008.

Tabular Disclosure of Fair Values of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	As of June 30, 2009		As of December 31, 2008		As of June 30, 2009		As of December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133								
Interest Rate Floor	Other Assets	\$ -	Other Assets	\$1,896,456	Other Liabilities	\$ -	Other Liabilities	\$ -
Total derivatives designated as hedging instruments under SFAS 133		<u>\$ -</u>		<u>\$1,896,456</u>		<u>\$ -</u>		<u>\$ -</u>
Derivatives not designated as hedging instruments under SFAS 133								
Interest Rate Floor	Other Assets	\$1,009,002	Other Assets	\$ -	Other Liabilities	\$ -	Other Liabilities	\$ -
Total derivatives not designated as hedging instruments under SFAS 133		<u>\$1,009,002</u>		<u>\$ -</u>		<u>\$ -</u>		<u>\$ -</u>

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses an interest rate floor as part of its interest rate risk management strategy. The interest rate floor involves the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up front premium. As of June 30, 2009, the Company had no interest rate floors that were designated as cash flow hedge of interest rate risk.

During the three months ended June 30, 2009 the Company's \$50 million interest rate floor which failed to qualify for hedge accounting due to a mismatch between the floor notional and the aggregate principal amount of the designated loan pools and accordingly the changes in the fair value of the floor during the three months ended June 30, 2009 of \$449,287 have been recognized directly in earnings as a loss. The fair value of this floor at June 30, 2009 and its change in fair value during the three months ended June 30, 2009 are disclosed under the sections entitled "Derivatives Not Designated as Hedging Instruments under SFAS 133" throughout this footnote.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income or expense as interest payments are received/made on the Company's variable-rate assets. During the next twelve months, the Company estimates that \$791,552 will be reclassified as an increase to interest income.

Effect of Derivative Instruments on the Income Statement

The tables below present the effect of the Company's derivative financial instruments on the income statement for the three and six months ended June 30, 2009 and 2008.

Derivatives in SFAS 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended June 30,			Three Months Ended June 30,			Three Months Ended June 30,	
	2009	2008		2009	2008		2009	2008
Interest Rate Floor	\$ -	\$(455,690)	Interest income	\$384,557	\$195,050	Other income	(\$12,440)	\$ -
					-			
Total	\$ -	\$(455,690)		\$384,557	\$195,050		(\$12,440)	\$ -

Derivatives in SFAS 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Six Months Ended June 30,			Six Months Ended June 30,			Six Months Ended June 30,	
	2009	2008		2009	2008		2009	2008
Interest Rate Floor	\$43,024	\$629,307	Interest income	\$803,146	\$252,471	Other income	(\$12,440)	\$ -
Total	\$43,024	\$629,307		\$803,146	\$252,471		(\$12,440)	\$ -

Non-designated Hedges

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of SFAS 133. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. The Company had one outstanding derivative, a floor with a notional amount of \$50 million, as of June 30, 2009.

Derivatives Not Designated as Hedging Instruments Under SFAS 133	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2009	2008	2009	2008
Interest Rate Floor	Other income	\$ (449,287)	\$ -	\$ (449,287)	\$ -
Total		\$ (449,287)	\$ -	\$ (449,287)	\$ -

The Company's interest rate floor was "in the money" during the quarter ended June 30, 2009, when the floor was not accounted for as a hedge. During this period we received payments aggregating \$479,167 which were recorded as an increase to other non-interest income.

The economic impact of our interest rate floor was an increase to revenue of \$414,437.

NOTE 10 – Investment Securities Available for Sale

Investment securities have been classified in the consolidated balance sheets according to management's intent. The Company had no securities designated as trading or held-to-maturity in its portfolio at June 30, 2009 or December 31, 2008. The carrying amount of available-for-sale securities and their approximate fair values were as follows (in thousands):

As of June 30, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	\$ 1,336	\$ 38	\$ (1)	\$ 1,373
U.S. government agency mortgage-backed securities issued by FNMA	2,633	72	(3)	2,702
Collateralized mortgage obligations guaranteed by GNMA	77,220	364	(330)	77,254
Collateralized mortgage obligations issued by FNMA or FHLMC	3,580	99	(1)	3,678
Other collateralized mortgage obligations	151,962	414	(6,647)	145,729
State and municipal bonds	5,963	205	-	6,168
	<u>\$ 242,694</u>	<u>\$ 1,192</u>	<u>\$ (6,982)</u>	<u>\$ 236,904</u>
As of December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	\$ 1,505	\$ 39	\$ (1)	\$ 1,543
U.S. government agency mortgage-backed securities issued by FNMA	2,891	33	(7)	2,917
Collateralized mortgage obligations guaranteed by GNMA	23,037	177	(44)	23,170
Collateralized mortgage obligations issued by FNMA or FHLMC	37,896	1,128	-	39,024
Other collateralized mortgage obligations	138,851	233	(9,899)	129,185
State and municipal bonds	13,482	541	(5)	14,018
	<u>\$ 217,662</u>	<u>\$ 2,151</u>	<u>\$ (9,956)</u>	<u>\$ 209,857</u>

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at June 30, 2009 were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 2,309	\$ 2,352
Due after one year through five years	2,252	2,324
Due after five years through ten years	33,882	33,307
Due after ten years	204,251	198,921
Total	<u>\$ 242,694</u>	<u>\$ 236,904</u>

Actual maturities may differ from the contractual maturities shown above as a result of prepayments.

The following table shows the Company's investments' gross unrealized losses and fair value; aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009 and December 31, 2008 (dollars are in thousands):

As of June 30, 2009 Description of Securities	Less than 12 months			12 months or more			Total		
	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. government agency mortgage-backed securities guaranteed by GNMA	-	\$ -	\$ -	1	\$ 78	\$ (1)	1	\$ 78	\$ (1)
U.S. government agency mortgage-backed securities issued by FNMA	-	-	-	1	56	(3)	1	56	(3)
Collateralized mortgage obligations guaranteed by GNMA	8	44,273	(330)	-	-	-	8	44,273	(330)
Collateralized mortgage obligations issued by FNMA or FHLMC	1	831	(1)	-	-	-	1	831	(1)
Other collateralized mortgage obligations	17	61,946	(1,687)	16	57,391	(4,960)	33	119,337	(6,647)
State and municipal bonds	-	-	-	-	-	-	-	-	-
Total temporarily impaired securities	26	\$ 107,050	\$ (2,018)	18	\$ 57,525	\$ (4,964)	44	\$ 164,575	\$ (6,982)

As of December 31, 2008 Description of Securities	Less than 12 months			12 months or more			Total		
	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
U.S. government agency mortgage-backed securities guaranteed by GNMA	-	\$ -	\$ -	1	\$ 81	\$ (1)	1	\$ 81	\$ (1)
U.S. government agency mortgage-backed securities issued by FNMA	-	-	-	3	1,555	(7)	3	1,555	(7)
Collateralized mortgage obligations guaranteed by GNMA	2	10,402	(44)	-	-	-	2	10,402	(44)
Collateralized mortgage obligations issued by FNMA or FHLMC	-	-	-	-	-	-	-	-	-
Other collateralized mortgage obligations	26	109,322	(9,767)	1	2,490	(132)	27	111,812	(9,899)
State and municipal bonds	2	892	(5)	-	-	-	2	892	(5)
Total temporarily impaired securities	30	\$ 120,616	\$ (9,816)	5	\$ 4,126	\$ (140)	35	\$ 124,742	\$ (9,956)

In reaching the conclusion that the impairments disclosed in the tables above are temporary, and not other-than-temporary in nature, the Company considered a variety of factors including, but not limited to, the following:

- Recent and expected performance of the securities;
- Financial condition of the issuers;
- Ability of issuers to perform on their obligations;
- Recent and expected cash flows;
- Relative seniority of the tranches and subordinated credit support;
- Vintage of origination;
- Location of collateral;
- Ratings of the securities;
- Value of the underlying collateral;
- Delinquency and foreclosure data;
- Historical losses and estimated severity of collateral losses; and
- Prospective performance assessment.

As of June 30, 2009, we own 11 U.S. government agency mortgage-backed securities issued and guaranteed by either GNMA, FNMA or FHLMC.

All of the non-agency securities are rated investment grade by Moody's, Standard & Poor's, and/or Fitch. Twenty-seven of the 33 securities carry "AAA" ratings. For 5 of the 33 securities, the agency's ratings are split with at least one "AAA" rating.

There are 33 non-agency collateralized mortgage obligations that were in an unrealized loss position. The weighted average amortized loan-to-value (LTV) of the collateral underlying 18 of these securities in an unrealized loss position is less than 60%. The largest weighted average amortized LTV of any of the securities in an unrealized loss position is 73.7%. For securities purchased prior to 2009, the securities are generally seasoned pools consisting of loans originated in 2001, 2002, 2003 and 2004. For securities purchased in 2009 the credit support tranches supporting our investment ranges from 36% to 54%.

The Company obtained a "credit surveillance report" for all securities in a loss position for more than a year and in a current loss position of greater than 10%. These reports permit users to monitor securities retrospectively and prospectively. The prospective information describes the state of the tranche and collateral. The prospective information also presents home prices using several sets of assumptions to offer projected information under a variety of scenarios. Based upon the surveillance reports, credit losses are not projected on these securities.

Management believes that the declines in value are not due to deterioration in credit quality that might result in the non-collection of contractual principal and interest. The cause of the impairments is, in general, attributable to changes in interest rates or credit spreads demanded in the marketplace. Further, we have both the intent and ability to hold these impaired securities for a sufficient period of time to allow for their recovery in market value. Determining whether a security is other than temporarily impaired requires judgment of several factors. As of June 30, 2009 it is management's conclusion there are no securities that are other than temporarily impaired.

NOTE 11 – Fair Value Measurements

SFAS No. 157, *Fair Value Measurements* defines fair value and establishes a framework for measuring fair value of assets and liabilities using a hierarchy system consisting of three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

The following table summarizes the financial assets and liabilities of the Company for which fair values are determined on a recurring basis as of June 30, 2009 (in thousands):

	Carrying Value at June 30, 2009			
	Total	Level 1	Level 2	Level 3
ASSETS				
Securities available for sale	\$ 236,904	\$ -	\$ 236,904	\$ -
Loans held for sale	28,696	-	28,696	-
Commitments to originate mortgage loans	461	-	461	-
Interest rate floor	1,009	-	1,009	-
Total assets at fair value	\$ 267,070	\$ -	\$ 267,070	\$ -
LIABILITIES				
Commitments to sell mortgage loans	\$ 605	\$ -	\$ 605	\$ -
Total liabilities at fair value	\$ 605	\$ -	\$ 605	\$ -

Changes in the fair value of assets and liabilities determined on a recurring basis, excluding our interest rate floor, had no net impact on our income statement for the three month and six month periods ending June 30, 2009. The economic impact of our interest rate floor was an increase to revenue of \$414,437.

The Company may also be required from time to time to measure certain other financial assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or market accounting or write-down of individual assets. For financial assets measured at fair value on a nonrecurring basis in the six months of 2008 that were still held at June 30, 2009, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios as of June 30, 2009 (in thousands):

	Carrying Value at June 30, 2009			
	Total	Level 1	Level 2	Level 3
Impaired Loans ⁽¹⁾	\$ 27,144	\$ -	\$ 27,144	\$ -
Total	\$ 27,144	\$ -	\$ 27,144	\$ -

(1) Represents the carrying value and related write-downs of loans based on the appraised value of the collateral.

Effective April 1, 2009, the Company adopted SFAS No. 157 on certain nonfinancial assets and liabilities, which include other real estate and long-lived assets which are recorded at fair value only upon impairment. Other real estate is acquired through, or in lieu of, foreclosure is initially recorded at the date of foreclosure at fair value of collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically and are based upon appraisals, third party price opinions or internal pricing models and are classified as Level 3. During the three and six month periods ended June 30, 2009, the Company recorded impairment charges of \$750 thousand and \$2.664 million, respectively, on other real estate.

NOTE 12. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows as of June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 8,733	\$ 8,733	\$ 10,569	\$ 10,569
Investment securities available for sale	236,904	236,904	209,857	209,857
Federal Reserve Bank and Federal Home Loan Bank stock	7,146	7,146	5,989	5,989
Loans held for sale	28,696	28,696	13,403	13,403
Participating interests in mortgage loans	30,801	30,801	28,584	28,584
Loans and leases held for investment, net	538,632	534,972	534,002	533,008
Accrued interest receivable	3,223	3,223	3,263	3,263
Derivative financial instruments	1,009	1,009	1,896	1,896
	855,144	\$ 851,484	807,563	\$ 806,569
Other assets	58,973		53,935	
	<u>\$ 914,117</u>		<u>\$ 861,498</u>	
Liabilities and Stockholders' Equity:				
Deposits, noninterest-bearing	\$ 75,513	\$ 75,513	\$ 68,996	\$ 68,996
Deposits, interest-bearing	658,851	660,536	606,325	608,275
Borrowings and advances	72,252	72,522	101,344	101,833
Accrued interest payable	2,198	2,198	1,679	1,679
Guaranteed preferred beneficial interests in Company's subordinated debentures	22,921	11,252	23,025	12,382
	831,735	\$ 822,021	801,369	\$ 793,165
Other liabilities	6,701		6,182	
Stockholders' equity	75,681		53,947	
	<u>\$ 914,117</u>		<u>\$ 861,498</u>	
Financial instruments with off-balance-sheet risk:				
Commitments to extend credit		\$ 140		\$ 300
Standby and commercial letters of credit		51		65
Mortgage banking commitments to fund		29,634		26,343
Mortgage banking commitments to sell loans		29,153		13,832
		<u>\$ 58,978</u>		<u>\$ 40,540</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For purposes of Items 2 and 3 of Part I of this report, we refer to "we," "our" or the "Company" when such reference includes BNCCORP, Inc. and its consolidated subsidiaries, collectively; "BNCCORP" when referring only to BNCCORP, Inc.; the "Bank" when referring only to BNC National Bank.

Comparison of Results for the Three and Six Months Ended June 30, 2009 and 2008

Summary for the Three Months Ended June 30, 2009 and 2008

General

Net income was \$523 thousand, and net income available to common shareholders was \$196 thousand, or \$0.06 per share on a diluted basis, for the quarter ended June 30, 2009. This compared to net income of \$700 or \$0.21 per diluted share, in the second quarter of 2008.

Net interest income for the second quarter of 2009 was \$7.616 million, an increase of \$851 thousand, or 12.6%, from \$6.765 million in the same period of 2008. The net interest margin for the current period declined to 3.68% from 3.74%.

In the second quarters of 2009 and 2008, the Company's provision for credit losses was \$2.000 million.

Non-interest income for the second quarter of 2009 was \$4.345 million. This compares to non-interest income of \$3.358 million for the same period in 2008, an increase of \$987 thousand, or 29.4%.

Non-interest expense for the second quarter of 2009 was \$9.390 million compared to \$7.078 million in the same period of 2008, an increase of \$2.312 million, or 32.7%.

The effective tax rate for the second quarter was 8.4% in 2009 compared to 33.0% in 2008. The effective tax rate is lower in 2009 because more of our pre-tax earnings originated from tax exempt sources.

Summary for the Six Months Ended June 30, 2009 and 2008

General

Net income was \$1.139 million, and net income available to common shareholders was \$546 thousand, or \$0.17 per share on a diluted basis, for the six months ended June 30, 2009. This compared to net income of \$2.062 million, or \$0.61 per diluted share, in the second quarter of 2008.

Net interest income for the six months ended June 30, 2009 was \$14.498 million, an increase of \$1.461 million, or 11.2%, from \$13.037 million in the same period of 2008. The year to date net interest margin was 3.57% in 2009 and 3.76% in 2008.

In the first six months of 2009, the Company also increased the provision for credits losses by \$900 thousand to \$3.700 million compared to \$2.800 million in the same period of 2008.

Non-interest income for the six months ended June 30, 2009 was \$8.041 million. This compares to non-interest income of \$5.658 million for the same period in 2008.

Non-interest expense for the six months ended June 30, 2009 was \$17.450 million compared to \$12.817 million in the same period of 2008, an increase of \$4.633 million, or 36.1%.

The effective tax rate was 18.0% for the six months ended June 30, 2009 compared to 33.0% in the same period of 2008. The effective tax rate is lower in 2009 because more of our pre-tax earnings originated from tax exempt sources.

Net Interest Income

The following table presents average balances; interest earned or owed; associated yields on interest-earning assets and costs on interest-bearing liabilities for the three and six month periods ended June 30, 2009 and 2008 as well as the changes between the periods presented, (dollars are in thousands):

Three Months Ended June 30,

	2009			2008			Change		
	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
Interest-earning assets									
Federal funds sold/interest-bearing due from	\$ 409	\$ -	0.00%	\$ 11	\$ -	0.00%	\$ 398	\$ -	0.00%
Investments - taxable	228,492	3,813	6.69%	164,078	2,402	5.89%	64,414	1,411	0.80% (a)
Investments - tax exempt	8,785	112	5.11%	19,156	233	4.89%	(10,371)	(121)	0.22%
Loans held for sale	25,037	308	4.93%	5,131	80	6.27%	19,906	228	-1.34% (b)
Participating interests in mortgage loans	29,407	302	4.12%	25,121	356	5.70%	4,286	(54)	-1.58% (c)
Loans and leases held for investment	546,908	6,878	5.04%	520,678	8,425	6.51%	26,230	(1,547)	-1.47% (d)
Allowance for loan losses	(9,138)	-		(6,764)	-		(2,374)	-	
Total interest-earning assets	<u>\$ 829,900</u>	<u>11,413</u>	5.52%	<u>\$ 727,411</u>	<u>11,496</u>	6.36%	<u>\$ 102,489</u>	<u>(83)</u>	-0.84%
Interest-bearing liabilities									
Interest checking and money market accounts	\$ 260,261	547	0.84%	\$ 250,604	1,030	1.65%	\$ 9,657	(483)	-0.81%
Savings	12,059	4	0.13%	9,506	7	0.30%	2,553	(3)	-0.17%
Certificates of deposit under \$100,000	324,974	2,214	2.73%	186,779	1,760	3.79%	138,195	454	-1.06% (e)
Certificates of deposit \$100,000 and over	45,433	332	2.93%	88,554	961	4.36%	(43,121)	(629)	-1.43% (f)
Total interest-bearing deposits	642,727	3,097	1.93%	535,443	3,758	2.82%	107,284	(661)	-0.89%
Short-term borrowings	17,581	44	1.00%	5,563	28	2.02%	12,018	16	-1.02%
Federal Home Loan Bank advances	65,109	329	2.03%	84,534	549	2.61%	(19,425)	(220)	-0.58% (g)
Long-term borrowings	65	2	12.34%	1,380	15	4.37%	(1,315)	(13)	7.97%
Subordinated debentures	22,761	325	5.73%	22,787	381	6.72%	(26)	(56)	-0.99%
Total borrowings	105,516	700	2.66%	114,264	973	3.42%	(8,748)	(273)	-0.76%
Total interest-bearing liabilities	<u>\$ 748,243</u>	<u>3,797</u>	2.04%	<u>\$ 649,707</u>	<u>4,731</u>	2.93%	<u>\$ 98,536</u>	<u>(934)</u>	-0.89%
Net interest income/spread		<u>\$ 7,616</u>	3.48%		<u>\$ 6,765</u>	3.43%		<u>\$ 851</u>	0.05%
Net interest margin			3.68%			3.74%			-0.06%
Notation:									
Non-interest-bearing deposits	<u>\$ 71,271</u>	-		<u>\$ 66,472</u>	-		<u>\$ 4,799</u>	-	
Total deposits	<u>\$ 713,998</u>	<u>\$ 3,097</u>	1.74%	<u>\$ 601,915</u>	<u>\$ 3,758</u>	2.51%	<u>\$ 112,083</u>	<u>\$ (661)</u>	-0.77%
Taxable equivalents:									
Total interest-earning assets	\$ 829,900	\$ 11,474	5.55%	\$ 727,411	\$ 11,618	6.42%	\$ 102,489	\$ (144)	-0.87%
Net interest income/spread	-	\$ 7,677	3.51%	-	\$ 6,887	3.49%	-	\$ 790	0.02%
Net interest margin	-	-	3.71%	-	-	3.81%	-	-	-0.10%

Interest rates on assets and liabilities have declined due to the general decline of interest rates.

- (a) The increase in average investments was primarily the result of our strategy to leverage the balance sheet to increase net interest income. The yield on investments increased due to prepayments on securities purchased at discounts, which accelerated amortization.
- (b) The average balance of loans held for sale increased because we added mortgage banking operations in three states during the second quarter of 2008.
- (c) Participating interests in mortgage loans are collateralized by mortgage loans owned by a mortgage banking counterparty. We advance funds when the counterparty closes on loans and are repaid when the mortgage banking entity sells the loans. Our loans will vary depending on the level of originations and the timing of loan sales by the mortgage banking entity.
- (d) The average balance of loans has increased due to organic growth.
- (e) The average balance of CD's has increased partially because customers are migrating to insured products. Smaller CD's also increased as brokered CD's have been used to fund asset growth.
- (f) The balance declined because clients are migrating to insured products.
- (g) The average balance of FHLB advances decreased because we have been able to fund operations with deposits.

	Six Months Ended June 30,								
	2009			2008			Change		
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average
	balance	earned	yield or	balance	earned	yield or	balance	earned	yield or
	or owed	cost		or owed	cost		or owed	cost	
Interest-earning assets									
Federal funds sold/interest-bearing due from	\$ 539	\$ -	0.00%	\$ 11	\$ -	0.00%	\$ 528	\$ -	0.00%
Investments - taxable	215,161	6,849	6.42%	143,983	4,041	5.64%	71,178	2,808	0.78% (a)
Investments - tax exempt	11,503	289	5.07%	19,174	466	4.89%	(7,671)	(177)	0.18%
Loans held for sale	24,186	600	5.00%	2,752	80	5.85%	21,434	520	-0.85% (b)
Participating interests in mortgage loans	27,767	557	4.05%	23,914	745	6.26%	3,853	(188)	-2.21% (c)
Loans and leases held for investment	548,264	13,797	5.07%	513,783	17,549	6.87%	34,481	(3,752)	-1.80% (d)
Allowance for loan losses	(8,842)	-		(6,668)	-		(2,174)	-	
Total interest-earning assets	<u>\$ 818,578</u>	<u>22,092</u>	5.44%	<u>\$ 696,949</u>	<u>22,881</u>	6.60%	<u>\$ 121,629</u>	<u>(789)</u>	-1.16%
Interest-bearing liabilities									
Interest checking and money market accounts	\$ 259,753	1,130	0.88%	\$ 243,666	2,343	1.93%	\$ 16,087	(1,213)	-1.05%
Savings	12,199	6	0.10%	9,103	19	0.42%	3,096	(13)	-0.32%
Certificates of deposit under \$100,000	302,676	4,310	2.87%	186,244	3,801	4.10%	116,432	509	-1.23% (e)
Certificates of deposit \$100,000 and over	44,374	675	3.07%	70,048	1,583	4.54%	(25,674)	(908)	-1.47% (f)
Total interest-bearing deposits	619,002	6,121	1.99%	509,061	7,746	3.06%	109,941	(1,625)	-1.07%
Short-term borrowings	17,431	86	0.99%	5,398	69	2.57%	12,033	17	-1.58%
Federal Home Loan Bank advances	79,178	728	1.85%	80,014	1,168	2.94%	(836)	(440)	-1.09%
Long-term borrowings	71	2	5.68%	942	23	4.91%	(871)	(21)	0.77%
Subordinated debentures	22,698	657	5.84%	22,737	838	7.41%	(39)	(181)	-1.57%
Total borrowings	119,378	1,473	2.49%	109,091	2,098	3.87%	10,287	(625)	-1.38%
Total interest-bearing liabilities	<u>\$ 738,380</u>	<u>7,594</u>	2.07%	<u>\$ 618,152</u>	<u>9,844</u>	3.20%	<u>\$ 120,228</u>	<u>(2,250)</u>	-1.13%
Net interest income/spread		<u>\$ 14,498</u>	3.37%		<u>\$ 13,037</u>	3.40%		<u>\$ 1,461</u>	-0.03%
Net interest margin			3.57%			3.76%			-0.19%
Notation:									
Non-interest-bearing deposits	<u>\$ 69,723</u>	-		<u>\$ 65,785</u>	-		<u>\$ 3,938</u>	-	
Total deposits	<u>\$ 688,725</u>	<u>\$ 6,121</u>	1.79%	<u>\$ 574,846</u>	<u>\$ 7,746</u>	2.71%	<u>\$ 113,879</u>	<u>\$ (1,625)</u>	-0.92%
Taxable equivalents:									
Total interest-earning assets	\$ 818,578	\$ 22,247	5.48%	\$ 696,949	\$ 22,252	6.42%	\$ 121,629	\$ (877)	-1.19%
Net interest income/spread	-	\$ 14,653	3.41%	-	\$ 12,408	3.22%	-	\$ 1,373	-0.06%
Net interest margin	-	-	3.61%	-	-	3.58%	-	-	-0.22%

Interest rates on assets and liabilities have declined due to the general decline of interest rates.

- The increase in average investments was primarily the result of our strategy to leverage the balance sheet to increase net interest income. The yield on investments increased due to prepayments on securities purchased at discounts, which accelerated amortization.
- The average balance of loans held for sale increased because we added mortgage banking operations during the second quarter of 2008.
- Participating interests in mortgage loans are collateralized by mortgage loans owned by a mortgage banking counterparty. We advance funds when the counterparty closes on loans and are repaid when the mortgage banking entity sells the loans. Our loans will vary depending on the level of originations and the timing of loan sales by the mortgage banking entity.
- The average balance of loans has increased due to organic growth.
- The average balance of CD's has increased partially because customers are migrating to insured products. Smaller CD's also increased as brokered CD's have been used to fund asset growth.
- The balance declined because clients are migrating to insured products.

Non-interest Income

The following table presents the major categories of our non-interest income for the three and six month periods ended June 30, 2009 and 2008, as well as the amount and percent of change between the periods (dollars are in thousands):

Non-interest Income	Three Months Ended				Six Months Ended			
	June 30,		Increase (Decrease)		June 30,		Increase (Decrease)	
	2009	2008	\$	%	2009	2008	\$	%
Bank charges and service fees	\$ 521	\$ 518	\$ 3	1%	\$ 1,100	\$ 1,009	\$ 91	9%
Wealth management revenues	495	768	(273)	(36)%	1,079	1,524	(445)	(29)% (a)
Mortgage banking revenues	2,066	776	1,290	166%	3,492	750	2,742	366% (b)
Gains on sales of commercial real estate loans	86	253	(167)	(66)%	86	1,039	(953)	(92)% (c)
Net gain on sales of assets	-	794	(794)	(100)%	-	794	(794)	(100)% (d)
Net gain on sales of securities	968	-	968	N/M%	1,871	-	1,871	N/M% (e)
Other	209	249	(40)	(16)%	413	542	(129)	(24)%
Total non-interest income	<u>\$ 4,345</u>	<u>\$ 3,358</u>	<u>987</u>	29%	<u>\$ 8,041</u>	<u>\$ 5,658</u>	<u>\$ 2,383</u>	42%

- (a) Wealth management income decreased because of fewer fees for managing documents on insurance products sold by others. Because these fees have decreased, we anticipate wealth management fees will be lower in 2009 than in 2008.
- (b) Mortgage banking revenues increased because we have been expanding mortgage banking operations since the second quarter of 2008, and originations in the first half of 2009 have been robust due to the low mortgage rates.
- (c) Our commercial real estate divisions originate and sell loans. The sales generate gains which are dependent on the volume of loans sold. This source of income is subject to variability from period to period. The gains on sales of commercial real estate loans are anticipated to be lower because the secondary market for this product is functioning at minimal levels.
- (d) In the second quarter of 2008 we sold a building and generated a gain.
- (e) In 2009 we sold securities at gains. Gains and losses on sales of securities will vary significantly from period to period.

Non-interest Expense

The following table presents the major categories of our non-interest expense for the three and six month periods ended June 30, 2009 and 2008, as well as the amount and percent of change between the periods (dollars are in thousands):

Non-interest Expense	Three Months Ended				Six Months Ended			
	June 30,		Increase (Decrease)		June 30,		Increase (Decrease)	
	2009	2008	\$	%	2009	2008	\$	%
Salaries and employee benefits	\$ 3,696	\$ 3,938	\$ (242)	(6) %	\$ 7,435	\$ 7,361	\$ 74	1 % (a)
Other real estate costs	1,673	402	1,271	316 %	2,580	402	2,178	542 % (b)
Professional services	772	293	479	163 %	1,269	482	787	163 % (c)
Occupancy	630	547	83	15 %	1,269	989	280	28 % (c)
FDIC and other assessments	599	56	543	970 %	778	110	668	607 % (d)
Data processing fees	535	554	(19)	(3) %	1,074	1,060	14	1 %
Depreciation and amortization	359	327	32	10 %	730	669	61	9 %
Marketing and promotion	321	267	54	20 %	506	462	44	10 %
Office supplies and postage	157	136	21	15 %	298	247	51	21 %
Other	648	558	90	16 %	1,511	1,035	476	46 % (e)
Total non-interest expense	\$ 9,390	\$ 7,078	\$ 2,312	33 %	17,450	12,817	\$ 4,633	36 %
Efficiency ratio	<u>78.5%</u>	<u>69.9%</u>			<u>77.4%</u>	<u>68.6%</u>		

- (a) Base salaries for virtually all employees were frozen on January 1, 2009.
- (b) Other real estate costs have increased because valuation allowances have been required as the value of properties decline.
- (c) These costs increased due to expanded mortgage banking operations.
- (d) The FDIC implemented a special assessment for all banks in June of 2009. Our special assessment was \$411 thousand. Additional special assessments are likely in future periods.
- (e) Other expense increased primarily due to accrued obligations in our mortgage banking operations.

Income Taxes

Tax expense of \$48 thousand resulted in an 8.4% effective tax rate during the second quarter of 2009. The tax expense in the second quarter of 2008 was \$345 thousand, which resulted in an effective tax rate of 33.0%. The effective tax rate is lower in 2009 because more of our pre-tax earnings originated from tax exempt sources.

Comparison of Financial Condition at June 30, 2009 and December 31, 2008

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

Assets	June 30,	December 31,	Increase (Decrease)	
	2009	2008	\$	%
Cash and cash equivalents	\$ 8,733	\$ 10,569	\$ (1,836)	(17) % (a)
Investment securities available for sale	236,904	209,857	27,047	13 % (b)
Federal Reserve Bank and Federal Home Loan Bank of Des Moines stock	7,146	5,989	1,157	19 % (c)
Loans held for sale	28,696	13,403	15,293	114 % (d)
Participating interests in mortgage loans	30,801	28,584	2,217	8 % (e)
Loans and leases held for investment, net	538,632	534,002	4,630	1 % (f)
Other real estate, net	12,984	10,189	2,795	27 % (g)
Premises and equipment, net	20,624	20,810	(186)	(1) %
Interest receivable	3,223	3,263	(40)	(1) %
Other assets	26,374	24,832	1,542	6 % (h)
Total assets	\$ 914,117	\$ 861,498	\$ 52,619	6 %

- (a) These balances typically vary significantly on a daily basis.
- (b) The increase in investments was primary the result of management's decision to leverage the balance sheet in order to increase net interest income.
- (c) Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock balances increased because our counterparties required greater holdings due to our borrowing activities. All of our investments in FHLB stock are in the FHLB of Des Moines.
- (d) Loans held for sale increased due to expanded mortgage banking operations.
- (e) Participating interests fluctuate depending on the activities of our counterparties.
- (f) While we continue to serve our clients and communities, the relatively stable balance of loans reflects the challenge to find qualified and interested borrowers in the midst of a recession.
- (g) Other real estate increases when we foreclose on properties. We expect foreclosures to continue to increase.
- (h) Other assets have increased due to deferred tax assets, prepaid expenses, derivatives and the cash surrender value of bank owned life insurance contracts.

Loans and Leases Held For Investment Portfolio

The following table presents the composition of our loans and leases held for investment portfolio as of the dates indicated (dollars are in thousands):

	June 30, 2009		December 31, 2008		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Commercial and industrial	\$ 144,719	25.4	\$ 138,671	24.6	\$ 6,048	4%
Real estate mortgage	273,627	48.0	265,360	47.3	8,267	3% (a)
Real estate construction	98,294	17.3	108,713	19.3	(10,419)	(10)% (a)
Agricultural	24,112	4.2	22,023	3.9	2,089	9% (b)
Consumer/other	7,858	1.4	7,506	1.3	352	5%
Participating interests in mortgage loans	30,801	5.4	28,584	5.1	2,217	8% (c)
Lease financing	1,041	0.2	1,287	0.2	(246)	(19)%
Total principal amount of loans	580,452	101.9	572,144	101.7	8,308	1%
Unearned income and net unamortized deferred fees and costs	(680)	(0.1)	(807)	(0.1)	127	(16)%
Loans, net of unearned income and unamortized fees and costs	579,772	101.8	571,337	101.6	8,435	1%
Less allowance for credit losses	(10,339)	(1.8)	(8,751)	(1.6)	(1,588)	18%
Net loans	\$ 569,433	100.0	\$ 562,586	100.0	\$ 6,847	1%

- (a) Real estate mortgage loans increased and construction loans decreased because construction projects have been completed and reclassified between categories.
- (b) Agricultural loans will vary seasonally.
- (c) Participating interest in mortgage loans will vary depending on the activity of our counterparties. Our counterparties are mortgage banking entities and this industry is currently robust.

Loan Participations

Pursuant to our lending policy, loans may not exceed 85 percent of the Bank's legal lending limit (except to the extent collateralized by U.S. Treasury securities or Bank deposits) unless the Bank's Chief Credit Officer or the Executive Credit Committee grant prior approval. To accommodate customers whose financing needs exceed lending limits and internal restrictions, the Bank sells loan participations to outside participants without recourse.

The sales of participations are accounted for pursuant to SFAS No. 140.

Loan participations sold on a nonrecourse basis to outside financial institutions were \$325.1 million as of June 30, 2009 and \$315.5 million as of December 31, 2008.

Concentrations of Credit

The following tables summarize the locations and current balances of our borrowers (in thousands):

	June 30, 2009		December 31, 2008	
	Amount	%	Amount	%
North Dakota	\$ 207,106	36 %	\$ 185,947	33 %
Minnesota	179,981	31	173,509	30
Arizona	121,403	21	145,643	25
Other	71,962	12	67,045	12
Totals	\$ 580,452	100 %	\$ 572,144	100 %

Our borrowers use loan proceeds for projects in various geographic areas. The following table summarizes the locations and current balances where our borrowers are using loan proceeds (in thousands):

	June 30, 2009			December 31, 2008		
North Dakota	\$ 187,673	32 %		\$ 181,073	32 %	
Arizona	131,321	23		126,327	22	
Minnesota	97,983	17		106,786	19	
Texas	37,120	6		37,032	6	
California	33,814	6		23,894	4	
Kentucky	12,092	2		11,000	2	
Wisconsin	10,035	2		10,301	2	
Idaho	9,597	2		8,146	1	
Colorado	6,697	1		3,830	-	
Georgia	6,511	1		6,559	1	
South Dakota	5,939	1		5,864	1	
Arkansas	5,243	1		5,260	1	
Other	36,427	6		46,072	9	
Totals	<u>\$ 580,452</u>	<u>100 %</u>		<u>\$ 572,144</u>	<u>100 %</u>	

The bank has a concentration of loans exceeding 10% of the total loan portfolio in real estate loans. Significant concentrations within the real estate portfolio as defined by the loan's purpose code are as follows (in thousands):

	June 30, 2009			December 31, 2008		
Land and land development loans	\$ 55,410	10 %		\$ 61,814	11 %	
Construction loans	41,196	7		37,746	7	
Totals	<u>\$ 96,606</u>	<u>17 %</u>		<u>\$ 99,560</u>	<u>18 %</u>	

Construction loans include loans for which construction is in process or nearly complete and the projects will be refinanced into permanent loans upon the completion of construction or a period of time thereafter. If the secondary market for commercial loans reignites we may elect to sell certain commercial real estate loans.

Loan Maturities (1)

The following table sets forth the remaining maturities of loans in each major category of our portfolio as of June 30, 2009 (in thousands):

	Over 1 year						Total
	One year or less	through 5 years		Over 5 years			
		Fixed rate	Floating rate	Fixed rate	Floating rate		
Commercial and industrial	\$ 86,468	\$ 19,922	\$ 11,173	\$ 11,873	\$ 15,283	\$ 144,719	
Real estate mortgage	76,667	70,638	61,149	24,562	40,611	273,627	
Real estate construction	58,070	9,946	26,322	401	3,555	98,294	
Agricultural	13,725	6,969	438	909	2,071	24,112	
Consumer/other	3,599	2,964	480	190	625	7,858	
Participating interests in mortgage loans	30,801	-	-	-	-	30,801	
Lease financing	240	801	-	-	-	1,041	
Total principal amount of loans	<u>\$ 269,570</u>	<u>\$ 111,240</u>	<u>\$ 99,562</u>	<u>\$ 37,935</u>	<u>\$ 62,145</u>	<u>\$ 580,452</u>	

(1) Maturities are based on contractual maturities. Floating rate loans include loans that would reprice prior to maturity if base rates change.

Actual maturities may differ from the contractual maturities shown above as a result of renewals and prepayments. Loan renewals are evaluated in the same manner as new credit applications.

Allowance for Credit Losses

The following tables below set forth information regarding changes in our allowance for credit losses for the three month and six month periods ending June 30, 2009 and 2008 and certain ratios related to the allowance for credit losses (dollars are in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Balance, beginning of period	\$ 9,674	\$ 7,178	\$ 8,751	\$ 6,599
Provision for credit losses	2,000	2,000	3,700	2,800
Loans charged off	(1,488)	(2,145)	(2,270)	(2,377)
Loans recovered	153	32	158	43
Balance, end of period	<u>\$ 10,339</u>	<u>\$ 7,065</u>	<u>\$ 10,339</u>	<u>\$ 7,065</u>
Total loans	<u>\$ 608,468</u>	<u>\$ 556,966</u>		
Loans and leases held for investment at June 30, 2009 and June 30, 2008	<u>\$ 548,971</u>	<u>\$ 525,875</u>		
Allowance for credit losses as a percentage of total loans	1.70%	1.27%		
Allowance for credit losses as a percentage of loans and leases held for investment at June 30, 2009 and June 30, 2008	1.88%	1.34%		

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2009	2008	2009	2008
Ratio of net charge-offs to average total loans	(0.222)%	(0.384)%	(0.352)%	(0.432)%
Ratio of net charge-offs to average loans and leases held for investment	(0.244)%	(0.406)%	(0.385)%	(0.454)%
Ratio of net charge-offs to average total loans, annualized	(0.888)%	(1.534)%	(0.704)%	(0.864)%
Ratio of net charge-offs to average loans and leases held for investment, annualized	(0.976)%	(1.623)%	(0.770)%	(0.909)%

The provision for credit losses was \$2.000 million in the second quarters of 2009 and 2008. The provision for credit losses reflects the decline in asset values and the deteriorating economic environment. We anticipate provisions for credit losses will be elevated for several periods to come.

The following table summarizes, for the periods indicated, activity in the allowance for credit losses, including amounts of loans charged-off, amounts of recoveries, additions to the allowance charged to operating expense, the ratio of net charge-offs to average total loans, the ratio of the allowance to total loans at the end of each period and the ratio of the allowance to nonperforming loans:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Balance of allowance for credit losses, beginning of period	\$ 9,674	\$ 7,178	\$ 8,751	\$ 6,599
Charge-offs:				
Commercial and industrial	867	557	931	557
Real estate mortgage	365	139	399	359
Real estate construction	225	1,440	894	1,440
Agricultural	-	-	-	-
Consumer/other	31	9	46	21
Lease financing	-	-	-	-
Total charge-offs	1,488	2,145	2,270	2,377
Recoveries:				
Commercial and industrial	-	28	-	34
Real estate mortgage	1	-	1	-
Real estate construction	149	-	149	-
Agricultural	-	-	-	-
Consumer/other	3	4	8	9
Lease financing	-	-	-	-
Total recoveries	153	32	158	43
Net charge-offs	(1,335)	(2,113)	(2,112)	(2,334)
Provision for credit losses charged to operations	2,000	2,000	3,700	2,800
Balance of allowance for credit losses, end of period	\$ 10,339	\$ 7,065	\$ 10,339	\$ 7,065
Ratio of net charge-offs to average total loans	(0.222)%	(0.384)%	(0.352)%	(0.432)%
Ratio of net charge-offs to average loans and leases held for investment	(0.244)%	(0.406)%	(0.385)%	(0.454)%
Average gross loans and leases held for investment	\$ 546,908	\$ 520,678	\$ 548,264	\$ 513,783
Ratio of allowance for credit losses to loans and leases held for investment	1.88%	1.34%		
Ratio of allowance for credit losses to nonperforming loans	35%	90%		

The ratio of allowance for credit losses to nonperforming loans has decreased due to the significant increase in nonperforming loans. Management closely monitors nonperforming assets and believes the allowance for credit losses is adequate.

The table below presents, for the periods indicated an allocation of the allowance for credit losses among the various loan categories and sets forth the percentage of loans in each category to gross loans. The allocation of the allowance for credit losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions.

Allocation of the Allowance for Loan Losses

	June 30, 2009		December 31, 2008	
	Amount of allowance	Loans in category as a percentage of total gross loans	Amount of allowance	Loans in category as a percentage of total gross loans
Commercial and industrial	\$ 1,654	25%	\$ 1,268	24%
Real estate mortgage	3,534	47%	2,829	47%
Real estate construction	4,702	17%	4,293	19%
Agricultural	179	4%	180	4%
Consumer/other	175	2%	85	1%
Participating interests in mortgage loans	88	5%	86	5%
Lease financing	7	-	10	-
Total	<u>\$ 10,339</u>	<u>100%</u>	<u>\$ 8,751</u>	<u>100%</u>

The allowance for credit losses is increasing due to the deteriorating economy.

We do not originate sub-prime single family loans. We do have a significant portion of our portfolio in construction and commercial real estate. While the Company believes these loans are adequately secured, there has been a significant slow down in the construction and commercial real estate market. We continue to closely monitor all loans, but particularly those in deteriorating industries.

Nonperforming Assets

The following table sets forth information concerning our nonperforming assets as of the dates indicated (dollars are in thousands):

	June 30, 2009	December 31, 2008
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	\$ 3	\$ 6
Non-accrual loans	29,159	22,909
Total nonperforming loans	<u>29,162</u>	<u>22,915</u>
Other real estate, net	12,984	10,189
Total nonperforming assets	<u>\$ 42,146</u>	<u>\$ 33,104</u>
Allowance for credit losses	<u>\$ 10,339</u>	<u>\$ 8,751</u>
Ratio of total nonperforming loans to total loans	4.79%	3.92%
Ratio of total nonperforming loans to loans and leases held for investment	5.31%	4.22%
Ratio of total nonperforming assets to total assets	4.61%	3.84%
Ratio of allowance for credit losses to nonperforming loans	35%	38%

Loans 90 days or more delinquent and still accruing interest include loans over 90 days past due which we believe, based on our specific analysis of the loans, do not present doubt about the collection of interest and principal in accordance with the loan contract. Loans in this category must be well-secured and in the process of collection.

Non-accrual loans

Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when we believe, after considering economic and business conditions and collection efforts 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 of the current period. 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. When a problem loan is finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan which may necessitate additional charges to earnings.

At June 30, 2009 the Bank had \$57.4 million of classified loans and \$29.2 million of loans on non-accrual. This compares to \$33.1 million of classified loans and \$22.9 million of loans on non-accrual at December 31, 2008. The increase in non-accrual loans is primarily attributed to development projects in Arizona and the severe decline in assets values in this region.

The following table indicates the effect on income if interest on non-accrual and restructured loans outstanding at period end had been recognized at original contractual rates during the periods ended below (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2009		June 30, 2009	
Interest income that would have been recorded	\$	570	\$	993
Interest income recorded		11		17
Effect on interest income	\$	559	\$	976

Impaired Loans

Impaired loans generally include loans on which management believes it is probable that the Bank will not be able to collect all amounts due in accordance with the terms of the loan agreement and which are analyzed for a specific reserve allowance. The Bank generally considers all loans risk-graded substandard and doubtful, as well as non-accrual and restructured loans, as impaired loans.

As of June 30, 2009 and December 31, 2008, the Bank's recorded investment in impaired loans and the related valuation allowance was as follows (in thousands):

	June 30, 2009		December 31, 2008	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans -				
Valuation allowance required	\$ 30,100	\$ 2,956	\$ 17,355	\$ 1,619
No valuation allowance required	-	-	-	-
Total impaired loans	\$ 30,100	\$ 2,956	\$ 17,355	\$ 1,619

The valuation allowance on impaired loans is included in the Bank's allowance for credit losses. The average recorded investment in impaired loans as of June 30, 2009 and December 31, 2008, and approximate interest income for the three months and six months ended June 30, 2009 and June 30, 2008 recognized for such loans, were as follows (dollars are in thousands):

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Average recorded investment in impaired loans	\$ 30,412	\$ 17,917
Average recorded investment in impaired loans as a percentage of average total loans	5.06%	3.41%
	<u>Three Months Ended June 30, 2009</u>	<u>Three Months Ended June 30, 2008</u>
Interest income recognized on impaired loans	\$ 1	\$ 108
Interest income recognized on a cash basis during the time of impairment	\$ -	\$ -
	<u>Six Months Ended June 30, 2009</u>	<u>Six Months Ended June 30, 2008</u>
Interest income recognized on impaired loans	\$ 27	\$ 231
Interest income recognized on a cash basis during the time of impairment	\$ 1	\$ 10

Cash receipts on impaired loans that are on non-accrual are applied to principal. Cash receipts on restructured loans included in impaired loans are recognized in accordance with the restructured terms. Interest income on impaired loans is recognized on an accrual basis only when the loan is considered to be well collateralized and payments are being received as we currently expect even though expectations are other than the original contractual terms.

Restructured Loans

Restructured loans are those for which concessions, including a reduction of the interest rate or the deferral of interest or principal, have been granted due to the borrower's weakened financial condition. Interest on restructured loans is accrued at the restructured rates when it is anticipated that no loss of original principal will occur. We had restructured loans aggregating \$2.4 million at June 30, 2009 and \$2.4 million at December 31, 2008. All restructured loans are included in non-accrual loans.

Potential Problem Loans

Asset values are declining through out most of the country. So long as this devaluation continues, virtually all real estate loans are potentially problematic. The recessionary economy also increases the risk that many loans will become problematic.

Notwithstanding the prior paragraph, we attempt to quantify potential problem loans with more immediate exposure and at June 30, 2009 such loans totaled \$11.6 million compared to \$13.2 million at December 31, 2008. A significant portion of these potential problem loans are not in default but may have characteristics such as recent adverse operating cash flows or general risk characteristics that the loan officer feels might jeopardize the future timely collection of principal and interest payments. The ultimate resolution of these credits is subject to changes in economic conditions and other factors. These loans are closely monitored to ensure that our position as creditor is protected to the fullest extent possible.

Other Real Estate

Other real estate (ORE) includes property acquired through foreclosure, property in judgment and in-substance foreclosures. ORE is carried at lower of cost or market. The property is evaluated regularly and any decreases in the carrying amount are included in noninterest expense.

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Other Real Estate		
Other real estate owned	\$ 15,648	\$ 10,189
Real estate in judgment	-	-
In-substance foreclosure	-	-
Total other real estate owned	\$ 15,648	\$ 10,189
Allowance for other real estate losses	(2,664)	-
Total other real estate owned, net	\$ 12,984	\$ 10,189

The gross balances of other real estate (ORE) increased due to foreclosures. The allowance for ORE losses increased when the estimated fair value of ORE declined. We obtain appraisals at least annually.

Liabilities

The following table presents our liabilities by category as of June 30, 2009 and December 31, 2008 as well as the amount and percent of change between the two dates (dollars are in thousands):

Liabilities	<u>June 30, 2009</u>	<u>December 31, 2008</u>	<u>Increase (Decrease)</u>	
			\$	%
Deposits:				
Non-interest-bearing	\$ 75,513	\$ 68,996	\$ 6,517	9 % (a)
Interest-bearing -				
Savings, interest checking and money market	270,325	266,851	3,474	1 %
Time deposits \$100,000 and over	46,335	42,342	3,993	9 % (b)
Other time deposits	342,191	297,132	45,059	15 % (b)
Short-term borrowings	12,652	16,844	(4,192)	(25) %
Federal Home Loan Bank advances	59,600	84,500	(24,900)	(29) % (c)
Long-term borrowings	-	-	-	- %
Guaranteed preferred beneficial interests in Company's subordinated debentures	22,921	23,025	(104)	- %
Accrued interest payable	2,198	1,679	519	31 %
Accrued expenses	3,431	3,325	106	3 %
Other liabilities	3,270	2,857	413	14 %
Total liabilities	\$ 838,436	\$ 807,551	\$ 30,885	4 %

- (a) These accounts generally fluctuate daily due to the cash management activities of our customers, particularly our commercial customers.
- (b) Certificates of deposits have increased because our customers are shifting to insured products which is driving growth and smaller CD's with smaller balances. CD's have also increased because we used brokered CD's to fund increases in investments.
- (c) FHLB advances are lower because we have funded operations from deposits. Available borrowings capacity from the FHLB was in excess of \$100 million as of June 30, 2009.

Stockholders' Equity

Our stockholders' equity increased \$21.734 million between December 31, 2008 and June 30, 2009. We issued preferred stock with an aggregate liquidation preference of approximately \$21 million to the U.S. Treasury in January of 2009 under the Capital Purchase Program.

Capital Adequacy

We actively monitor compliance with regulatory capital requirements, including risk-based and leverage capital measures. Under the risk-based capital method of capital measurement, the ratio computed is dependent upon the amount and composition of assets recorded on the balance sheet, the amount and composition of off-balance-sheet items, and the amount of capital. The following table includes the risk-based and leverage capital ratios of the Company and the Bank (dollars are in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2009						
Total Capital (to risk-weighted assets):						
Consolidated	\$ 109,686	16.13 %	54,399	≥8.0 %	N/A	N/A
BNC National Bank	104,307	15.32	54,476	≥8.0	68,095	≥10.0 %
Tier 1 Capital (to risk-weighted assets):						
Consolidated	101,164	14.88	27,199	≥4.0	N/A	N/A
BNC National Bank	80,772	11.86	27,238	≥4.0	40,857	≥6.0
Tier 1 Capital (to average assets):						
Consolidated	101,164	11.20	36,128	≥4.0	N/A	N/A
BNC National Bank	80,772	8.94	36,130	≥4.0	45,163	≥5.0
Tangible Capital (to total assets):						
Consolidated tangible equity	75,036	8.21	N/A	N/A	N/A	N/A
BNC National Bank	77,567	8.48	N/A	N/A	N/A	N/A
Tangible Common Capital (to total assets):						
Consolidated tangible common equity	75,036	6.00	N/A	N/A	N/A	N/A
December 31, 2008						
Total Capital (to risk-weighted assets):						
Consolidated	\$ 88,949	12.95 %	\$ 54,943	≥8.0 %	\$ N/A	N/A
BNC National Bank	87,956	12.81	54,948	≥8.0	68,685	≥10.0 %
Tier 1 Capital (to risk-weighted assets):						
Consolidated	76,585	11.15	27,472	≥4.0	N/A	N/A
BNC National Bank	79,368	11.56	27,474	≥4.0	41,211	≥6.0
Tier 1 Capital (to average assets):						
Consolidated	76,585	9.01	33,994	≥4.0	N/A	N/A
BNC National Bank	79,368	9.34	33,982	≥4.0	42,478	≥5.0
Tangible Capital (to total assets):						
Consolidated tangible equity	53,297	6.19	N/A	N/A	N/A	N/A
BNC National Bank	75,573	8.77	N/A	N/A	N/A	N/A
Tangible Common Capital (to total assets):						
Consolidated tangible common equity	53,297	6.19	N/A	N/A	N/A	N/A

As of June 30, 2009, BNCCORP and the Bank exceeded capital adequacy requirements and the Bank was considered “well-capitalized” under prompt corrective action provisions.

Liquidity Risk Management

Liquidity risk is the possibility of being unable to meet all present and future financial obligations in a timely manner. Liquidity risk management encompasses our ability to meet all present and future financial obligations in a

timely manner. The objectives of liquidity management policies are to maintain adequate liquid assets, liability diversification among instruments, maturities and customers and a presence in both the wholesale purchased funds market and the retail deposit market.

The Consolidated Statements of Cash Flows in the Consolidated Financial Statements present data on cash and cash equivalents provided by and used in operating, investing and financing activities. In addition to liquidity from core deposit growth, together with repayments and maturities of loans and investments, we utilize brokered deposits, sell securities under agreements to repurchase and borrow overnight Federal funds. The Bank is a member of the FHLB, which affords it the opportunity to borrow funds in terms ranging from overnight to 10 years and beyond. Advances from the FHLB are collateralized by the Bank's mortgage loans and various investment securities. We have also obtained funding through the issuance of subordinated notes, subordinated debentures and long-term borrowings.

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

We measure our liquidity position on an ongoing basis. Key factors that determine our liquidity are the reliability or stability of our deposit base, the pledged/non-pledged status of our investments and potential loan demand. Our liquidity management system divides the balance sheet into liquid assets and short-term liabilities that are assumed to be vulnerable to non-replacement under abnormally stringent conditions. The excess of liquid assets over short-term liabilities is measured over a 30-day planning horizon. Assumptions for short-term liabilities vulnerable to non-replacement under abnormally stringent conditions are based on a historical analysis of the month-to-month percentage changes in deposits. The excess of liquid assets over short-term liabilities and other key factors such as expected loan demand as well as access to other sources of liquidity such as lines with the FHLB, Federal funds and those other supplemental sources listed above are tied together to provide a measure of our liquidity. We have a targeted range and manage our operations such that these targets can be achieved. We believe that our prudent management policies and guidelines will ensure adequate levels of liquidity to fund anticipated needs of on- and off-balance-sheet items. In addition, a contingency funding policy statement identifies actions to be taken in response to an adverse liquidity event, and identifies potential funding needs and funding sources under various "stressed scenarios."

As of June 30, 2009, the Bank had established Federal funds purchase programs with other lending institutions, totaling \$9 million. At June 30, 2009, the Bank had purchased Federal funds of \$0 million under these programs leaving \$9 million available. The Federal funds purchase programs mature daily with interest rates that float at the Federal funds rate.

Available borrowings capacity from the FHLB was in excess of \$100 million as of June 30, 2009.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

utilized to manage our interest rate risk. The measurement of interest rate risk associated with financial instruments is meaningful only when all related and offsetting on-and off-balance-sheet transactions are aggregated, and the resulting net positions are identified.

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

Our primary tool for measuring and managing interest rate risk is net interest income simulation. This exercise includes our assumptions regarding the changes in interest rates and the impact on our current balance sheet. Interest rate caps and floors are included to the extent that they are exercised in the 12-month simulation period. Additionally, changes in prepayment behavior of the residential mortgage, CMOs, and mortgage-backed securities portfolios in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. For purposes of this simulation, projected month-end balances of the various balance sheet accounts are held constant at their June 30, 2009 levels. Cash flows from a given account are reinvested back into the same account so as to keep the month-end balance constant at its June 30, 2009 level. The static balance sheet assumption is made so as to project the interest rate risk to net interest income embedded in the existing balance sheet. With knowledge of the balance sheet's existing net interest income profile, more informed strategies and tactics may be developed as it relates to the structure/mix of growth.

We monitor the results of net interest income simulation on a quarterly basis at regularly scheduled ALCO meetings. Each quarter net interest income is generally simulated for the upcoming 12-month horizon in seven interest scenarios. The scenarios generally modeled are parallel interest ramps of +/- 100bp, 200bp, and 300bp along with a rates unchanged scenario. Given the current low absolute level of interest rates as of June 30, 2009, 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 decrease of 100 basis points each month.

The net interest income simulation results for the 12-month horizon are shown below (dollars are in thousands):

Net Interest Income Simulation					
Movement in interest rates	<u>-100bp</u>	<u>Unchanged</u>	<u>+100bp</u>	<u>+200bp</u>	<u>+300bp</u>
Projected 12-month net interest income	\$ 31,969	\$ 30,985	\$ 31,351	\$ 31,401	\$ 31,565
Dollar change from unchanged scenario	\$ 984	-	\$ 366	\$ 416	\$ 580
Percentage change from unchanged scenario	3.18%	-	1.18%	1.34%	1.87%
Policy guidelines (decline limited to)	(5.00)%	-	(5.00)%	(10.00)%	(15.00)%

Because one of the objectives of asset/liability management is to manage net interest income over a one-year planning horizon, policy guidelines are stated in terms of maximum potential percentage reduction in net interest income resulting from changes in interest rates over the 12-month period. It is no less important, however, to give attention to the absolute dollar level of projected net interest income over the 12-month period.

Our general policy is to limit the percentage decrease in projected net interest income to 5, 10, and 15 percent from the rates unchanged scenario for the +/- 100bp, 200bp, and 300bp interest rate ramp scenarios, respectively. When a given scenario falls outside of these limits, the ALCO reviews the circumstances surrounding the exception and,

considering the level of net interest income generated in the scenario and other related factors, may approve the exception to the general policy or recommend actions aimed at bringing the respective scenario within the general limits noted above.

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of June 30, 2009 (without forward adjustments for planned growth and anticipated business activities) and do not contemplate any actions we might undertake in response to changes in market interest rates.

Static gap analysis is another tool that may be used for interest rate risk measurement. The net differences between the amount of assets, liabilities, equity and off-balance-sheet instruments repricing within a cumulative calendar period is typically referred to as the “rate sensitivity position” or “gap position.” The following table sets forth our rate sensitivity position as of June 30, 2009. Assets and liabilities are classified by the earliest possible repricing date or maturity, whichever occurs first.

Interest Sensitivity Gap Analysis

	Estimated maturity or repricing at June 30, 2009				
	0-3 months	4-12 months	1-5 years	Over 5 years	Total
	(dollars are in thousands)				
Interest-earning assets:					
Interest-bearing deposits with banks	\$ 396	\$ -	\$ -	\$ -	\$ 396
Investment securities	20,532	41,083	138,534	36,755	236,904
FRB and FHLB stock	7,146	-	-	-	7,146
Fed Funds Sold	-	-	-	-	-
Loans held for sale, fixed rate	-	-	-	-	-
Loans held for sale, floating rate	-	59,497	-	-	59,497
Loans held for investment, fixed rate	29,705	58,747	98,364	19,381	206,197
Loans held for investment, floating rate	314,122	3,441	23,283	1,928	342,774
Total interest-earning assets	<u>\$ 371,901</u>	<u>\$ 162,768</u>	<u>\$ 260,181</u>	<u>\$ 58,064</u>	<u>\$ 852,914</u>
Interest-bearing liabilities:					
Interest checking and money market accounts	\$ 258,381	\$ -	\$ -	\$ -	\$ 258,381
Savings	11,944	-	-	-	11,944
Time deposits under \$100,000	106,422	116,007	52,403	67,359	342,191
Time deposits \$100,000 and over	12,571	28,118	5,646	-	46,335
Short-term borrowings	12,652	-	-	-	12,652
FHLB advances	37,600	-	15,000	7,000	59,600
Long-term borrowings	-	-	-	-	-
Subordinated debentures	15,000	-	-	7,921	22,921
Total interest-bearing liabilities	<u>\$ 454,570</u>	<u>\$ 144,125</u>	<u>\$ 73,049</u>	<u>\$ 82,280</u>	<u>\$ 754,024</u>
Interest rate gap	<u>\$ (82,669)</u>	<u>\$ 18,643</u>	<u>\$ 187,132</u>	<u>\$ (24,216)</u>	<u>\$ 98,890</u>
Cumulative interest rate gap at June 30, 2009	<u>\$ (82,669)</u>	<u>\$ (64,026)</u>	<u>\$ 123,106</u>	<u>\$ 98,890</u>	
Cumulative interest rate gap to total assets	(9.04)%	(7.00)%	13.47%	10.82%	

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

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

Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, these analyses are not intended to be a forecast of the actual effect of changes in market interest rates such as those indicated above on the Company. Further, these analyses are based on our assets and liabilities as of June 30, 2009 and do not contemplate any actions we might undertake in response to changes in market interest rates.

Other Information

Item 1. Legal Proceedings

From time to time, we may be a party to legal proceedings arising out of our lending, deposit operations or other activities. We engage in foreclosure proceedings and other collection actions as part of our loan collection activities. From time to time, borrowers may also bring actions against us, in some cases claiming damages. Some financial services companies have been subjected to significant exposure in connection with litigation, including class action litigation and punitive damage claims. While we are not aware of any such actions or allegations that should reasonably give rise to any material adverse effect, it is possible that we could be subjected to such a claim in an amount that could be material. Based upon a review with our legal counsel, we believe that the ultimate disposition of such pending litigation will not have a material effect on our financial condition, results of operations or cash flows.

Item 4. Controls and Procedures

There has been no change in our internal controls during the most recent fiscal quarter that has materially affected the effectiveness of our internal controls.

Signatures

This report is submitted on behalf of the Company by the duly authorized undersigned.

BNCCORP, Inc.

Date: August 13, 2009

By: /s/ Gregory K. Cleveland
Gregory K. Cleveland
President and Chief Executive Officer

By: /s/ Timothy J Franz
Timothy J Franz
Chief Financial Officer