



BNCCORP

Quarterly Report

For the quarter ended March 31, 2009

BNCCORP, INC.

(Pink Sheets:BNCC)

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BNCCORP, INC.
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March 31, 2009

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FINANCIAL INFORMATION

Item 1. Financial Statements

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

ASSETS	March 31, 2009	December 31, 2008
	(unaudited)	
CASH AND CASH EQUIVALENTS	\$ 10,040	\$ 10,569
INVESTMENT SECURITIES AVAILABLE FOR SALE	227,810	209,857
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	7,146	5,989
LOANS HELD FOR SALE	29,275	13,403
PARTICIPATING INTERESTS IN MORTGAGE LOANS	28,843	28,584
LOANS AND LEASES HELD FOR INVESTMENT	545,438	542,753
ALLOWANCE FOR CREDIT LOSSES	(9,674)	(8,751)
Net loans and leases held for investment	564,607	562,586
OTHER REAL ESTATE	15,143	10,189
PREMISES AND EQUIPMENT, net	20,658	20,810
INTEREST RECEIVABLE	3,227	3,263
OTHER ASSETS	25,129	24,832
Total assets	<u>\$ 903,035</u>	<u>\$ 861,498</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	\$ 67,924	\$ 68,996
Interest-bearing –		
Savings, interest checking and money market	273,401	266,851
Time deposits \$100,000 and over	46,098	42,342
Other time deposits	300,459	297,132
Total deposits	687,882	675,321
SHORT-TERM BORROWINGS	16,927	16,844
FEDERAL HOME LOAN BANK ADVANCES	91,700	84,500
LONG-TERM BORROWINGS	-	-
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	22,700	23,025
ACCRUED INTEREST PAYABLE	1,940	1,679
ACCRUED EXPENSES	3,172	3,325
OTHER LIABILITIES	3,915	2,857
Total liabilities	828,236	807,551
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value – 2,000,000 shares authorized-		
Preferred Stock-5% Series A 20,093 shares outstanding	19,019	-
Preferred Stock-9% Series B 1,005 shares outstanding	1,115	-
Common stock, \$.01 par value – 10,000,000 shares authorized; 3,299,163 shares issued and outstanding	33	33
Capital surplus – common stock	26,715	26,628
Retained earnings	36,454	36,104
Treasury stock (357,738 shares)	(5,020)	(5,020)
Accumulated other comprehensive (loss), net	(3,517)	(3,798)
Total stockholders' equity	74,799	53,947
Total liabilities and stockholders' equity	<u>\$ 903,035</u>	<u>\$ 861,498</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Income
For the Three Months Ended March 31,
(In thousands, except per share data, unaudited)

	<u>2009</u>	<u>2008</u>
INTEREST INCOME:		
Interest and fees on loans	\$ 7,466	\$ 9,513
Interest and dividends on investments		
Taxable	3,018	1,568
Tax-exempt	177	233
Dividends	18	71
Total interest income	<u>10,679</u>	<u>11,385</u>
INTEREST EXPENSE:		
Deposits	3,024	3,988
Short-term borrowings	42	41
Federal Home Loan Bank advances	399	619
Long-term borrowings	-	8
Subordinated debentures	332	457
Total interest expense	<u>3,797</u>	<u>5,113</u>
Net interest income	6,882	6,272
PROVISION FOR CREDIT LOSSES	1,700	800
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>5,182</u>	<u>5,472</u>
NON-INTEREST INCOME:		
Bank charges and service fees	579	491
Wealth management revenues	584	756
Mortgage banking revenues	1,426	26
Gains on sales of commercial real estate loans	-	734
Gains on sales of securities	903	-
Other	204	293
Total non-interest income	<u>3,696</u>	<u>2,300</u>
NON-INTEREST EXPENSE:		
Salaries and employee benefits	3,739	3,423
Provision for ORE losses	750	-
Occupancy	639	442
Data processing fees	539	506
Professional services	497	189
Depreciation and amortization	371	342
Marketing and promotion	185	195
Office supplies and postage	141	111
FDIC and other assessments	179	54
ORE expenses	157	-
Other	863	477
Total non-interest expense	<u>8,060</u>	<u>5,739</u>
Income before income taxes	818	2,033
Income tax expense	202	671
NET INCOME	616	1,362
Preferred stock costs	(266)	-
Net Income available to common shareholders	<u>\$ 350</u>	<u>\$ 1,362</u>
Basic earnings per common share	<u>\$ 0.11</u>	<u>\$ 0.40</u>
Diluted earnings per common share	<u>\$ 0.11</u>	<u>\$ 0.39</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31,
(In thousands, except share data, unaudited)

	Preferred Stock		Common Stock		Capital Surplus			Treasury	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Common Stock	Retained Earnings	Stock	Income (Loss)		
BALANCE, December 31, 2007	-	\$ -	3,491,337	\$ 35	\$ 26,355	\$ 34,105	\$ (2,424)	\$ 1,659	\$ 59,730	
Net income	-	-	-	-	-	1,362	-	-	1,362	
Other comprehensive gain	-	-	-	-	-	-	-	(311)	(311)	
Cumulative effect of change in accounting principle related to split dollar life insurance policies	-	-	-	-	-	(209)	-	-	(209)	
Impact of share-based compensation	-	-	200	-	81	-	-	-	81	
Purchase of common shares	-	-	(185,795)	(2)	-	-	(2,410)	-	(2,412)	
BALANCE, March 31, 2008	-	-	3,305,742	\$ 33	\$ 26,436	\$ 35,258	\$ (4,834)	\$ 1,348	\$ 58,241	
BALANCE, December 31, 2008	-	\$ -	3,299,163	\$ 33	\$ 26,628	\$ 36,104	\$ (5,020)	\$ (3,798)	\$ 53,947	
Net income	-	-	-	-	-	616	-	-	616	
Other comprehensive gain	-	-	-	-	-	-	-	281	281	
Preferred stock issued	-	21,098	-	-	-	-	-	-	21,098	
Discount on preferred stock, net	-	(1,005)	-	-	-	-	-	-	(1,005)	
Preferred stock amortization, net	-	41	-	-	-	(41)	-	-	-	
Cash dividend on preferred stock	-	-	-	-	-	(225)	-	-	(225)	
Impact of share-based compensation	-	-	-	-	87	-	-	-	87	
BALANCE, March 31, 2009	-	\$ 20,134	3,299,163	\$ 33	\$ 26,715	\$ 36,454	\$ (5,020)	\$ (3,517)	\$ 74,799	

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31,
(In thousands, unaudited)

	2009	2008
NET INCOME	\$ 616	\$ 1,362
Unrealized (loss) gain on cash flow hedge, net	\$ (388)	\$ 1,024
Unrealized gain (loss) on securities available for sale	1,694	(1,476)
Reclassification adjustment for (gain) included in net income	(903)	-
Other comprehensive income (loss), before tax	403	(452)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(122)	141
Other comprehensive income (loss)	<u>281</u>	<u>(311)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 897</u>	<u>\$ 1,051</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(In thousands, unaudited)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES:		
Net income	\$ 616	\$ 1,362
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	1,700	800
Provision for other real estate losses	750	-
Depreciation and amortization	371	342
Share-based compensation	87	81
Net amortization of premiums and (discounts)	(443)	(237)
Charge-off of loans net of recoveries	(777)	(221)
Change in interest receivable and other assets, net	(936)	(1,872)
Realized (gain) on sales of investment securities	(903)	-
Change in other liabilities, net	1,005	(16)
Originations of loans to be participated	(19,211)	(64,788)
Proceeds from participations of loans	19,211	64,788
Funding of originations of loans held for sale	(115,601)	(5,352)
Proceeds from sale of loans held for sale	100,121	287
Fair value adjustment for loans held for sale	(393)	-
Change in operating accounts of discontinued operations	-	(34)
Net cash (used) in operating activities	<u>(14,403)</u>	<u>(4,860)</u>
INVESTING ACTIVITIES:		
Purchases of investment securities	(46,877)	(45,054)
Proceeds from sales of investment securities	16,546	-
Proceeds from maturities of investment securities	14,515	6,261
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(1,157)	(3,318)
Redemptions of Federal Reserve and Federal Home Loan Bank Stock	-	985
Net (increase) in participating interests in mortgage loans	(259)	(1,803)
Net (increase) in loans held for investment	(8,405)	(18,896)
Proceeds from sales of other real estate	17	-
Additions to premises and equipment	(219)	(739)
Net cash (used) in investing activities	<u>(25,839)</u>	<u>(62,564)</u>

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
For the Three Months Ended March 31,
(In thousands, unaudited)

	2009	2008
FINANCING ACTIVITIES:		
Net increase in deposits	12,561	26,341
Net increase (decrease) in short-term borrowings	84	(688)
Proceeds from long-term borrowings and subordinated debentures	-	2,310
Proceeds from FHLB advances	629,900	968,195
Repayments of FHLB advances	(622,700)	(928,795)
Proceeds from issuance of preferred stock	20,093	-
Preferred stock dividends	(225)	-
Purchase of treasury stock	-	(2,412)
Net cash provided by financing activities	39,713	64,951
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(529)	(2,473)
CASH AND CASH EQUIVALENTS, beginning of period	10,569	14,856
CASH AND CASH EQUIVALENTS, end of period	\$ 10,040	\$ 12,383
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 3,536	\$ 4,885
Income taxes paid	\$ 162	\$ 263
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in settlement of loans	\$ 5,720	\$ -

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 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, mortgage banking and wealth management businesses in Arizona, Minnesota and North Dakota from 20 locations. BNC also conducts mortgage banking from 5 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 the United States 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 March 31, 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. We did not elect to early-adopt this FSP, and are currently evaluating the impact of adoption on our consolidated financial statements, but we do not anticipate that adoption will have a material impact.

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. We did not elect to early-adopt this FSP, and are currently evaluating the impact of adoption on our consolidated financial statements, but we do not anticipate that adoption will have a material impact.

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. This FSP’s requirements would be effective as of June 30, 2009, with early adoption permitted as of March 31, 2009. We did not elect to early-adopt this FSP, and expect to provide the required disclosures as of June 30, 2009.

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 on our financial position, results of operations or liquidity.

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.

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 noninterest expense. ORE consisted of the following at the dates shown below (in thousands):

	March 31, 2009	December 31, 2008
Other Real Estate		
Other real estate owned	\$ 15,893	\$ 10,189
Real estate in judgment	-	-
In-substance foreclosure	-	-
Total other real estate owned	\$ 15,893	\$ 10,189
Allowance for other real estate losses	(750)	-
Total other real estate owned, net	\$ 15,143	\$ 10,189

	For the Quarter Ended March 31,	
	2009	2008
Changes in Allowance for Other Real Estate		
Balance, beginning of period	\$ -	\$ -
Provision	750	-
Charged offs	-	-
Recoveries	-	-
Balance, end of period	\$ 750	\$ -

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 the 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 March 31, 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 March 31, 2009.

NOTE 7 – Earnings Per Share

Net income per share for the three months ended March 31, was calculated as follows (dollars are in thousands except share and per share data):

	<u>2009</u>	<u>2008</u>
Denominator for basic earnings per share:		
Average common shares outstanding	3,261,831	3,407,821
Dilutive common stock options	12,764	41,660
Denominator for diluted earnings per share	<u>3,274,595</u>	<u>3,449,481</u>
Numerator:		
Net income	\$ 616	\$ 1,362
Preferred stock costs	(266)	-
Net income available to common shareholders	<u>\$ 350</u>	<u>\$ 1,362</u>
Basic earnings per common share	<u>\$ 0.11</u>	<u>\$ 0.40</u>
Diluted earnings per common share	<u>\$ 0.11</u>	<u>\$ 0.39</u>

For the three months ended March 31, 2009 and 2008, there were 3,700 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.

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 March 31, 2009, there were 58,751 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 March 31, 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 March 31, 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 first 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 first quarter of 2009.

The Company recognized share-based compensation expense of \$87,000 related to restricted stock for the three month period ended March 31, 2009. The Company recognized share-based compensation expense of \$81,000 related to restricted stock for the three months ended March 31, 2008.

At March 31, 2009, the Company had \$264,000 of unamortized restricted stock compensation expense. The majority of the unamortized restricted stock compensation expense as of March 31, 2009 will be amortized by December 31, 2009 and all of the deferred expenses 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

As required by SFAS 133, the Company records all derivatives at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under SFAS 133.

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.

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 March 31, 2009 and December 31, 2008.

Tabular Disclosure of Fair Values of Derivative Instruments

	<u>Asset Derivatives</u>				<u>Liability Derivatives</u>			
	<u>As of March 31, 2009</u>		<u>As of December 31, 2008</u>		<u>As of March 31, 2009</u>		<u>As of December 31, 2008</u>	
	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 Products	Other Assets	\$1,458,289	Other Assets	\$1,896,456	Other Liabilities	\$0	Other Liabilities	\$0
Total derivatives designated as hedging instruments under SFAS 133		<u>\$1,458,289</u>		<u>\$1,896,456</u>		<u>\$0</u>		<u>\$0</u>

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 March 31, 2009, the Company had one interest rate floor with an aggregate notional of \$50 million that was designated as cash flow hedge of interest rate risk.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2009, such derivatives were used to hedge the variable cash inflows associated with existing pools of Prime-based loan assets. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2009, the Company recognized a loss of \$12,440 for hedge ineffectiveness attributable to a mismatch between the swap notional and the aggregate principal amount of the designated loan pools. No hedge ineffectiveness was recognized during the three months ended March 31, 2008.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets. During the next twelve months, the Company estimates that \$1,176,705 will be reclassified as an increase to interest income.

The table below present the effect of the Company's derivative financial instruments on the Income Statement for the three months ended March 31, 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)	
	March 31, 2009	March 31, 2008		March 31, 2009	March 31, 2008		March 31, 2009	March 31, 2008
	Interest Rate Products	\$55,464		\$1,084,997	Interest income		\$431,028	\$57,421
Total	<u>\$55,464</u>	<u>\$1,084,997</u>		<u>\$431,028</u>	<u>\$57,421</u>		<u>(\$12,440)</u>	<u>\$0</u>

We have credit risk associated with derivatives to the extent our counterparties are unable to perform on their obligations to us. Management believes the counterparty for the interest rate floor has sufficient financial strength to perform.

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 March 31, 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 March 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	\$ 1,414	\$ 49	\$ (1)	\$ 1,462
U.S. government agency mortgage-backed securities issued by FNMA	2,863	68	(5)	2,926
Collateralized mortgage obligations guaranteed by GNMA	44,565	421	(113)	44,873
Collateralized mortgage obligations issued by FNMA or FHLMC	18,948	619	-	19,567
Other collateralized mortgage obligations	153,525	384	(8,996)	144,913
State and municipal bonds	13,508	566	(5)	14,069
	<u>\$ 234,823</u>	<u>\$ 2,107</u>	<u>\$ (9,120)</u>	<u>\$ 227,810</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 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 March 31, 2009 and December 31, 2008 (dollars are in thousands):

As of March 31, 2009	Less than 12 months			12 months or more			Total			
	Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
	U.S. government agency mortgage-backed securities guaranteed by GNMA	-	\$ -	\$ -	1	\$ 80	\$ (1)	1	\$ 80	\$ (1)
	U.S. government agency mortgage-backed securities issued by FNMA	-	-	-	2	162	(5)	2	162	(5)
	Collateralized mortgage obligations guaranteed by GNMA	3	16,489	(113)	-	-	-	3	16,489	(113)
	Collateralized mortgage obligations issued by FNMA or FHLMC	-	-	-	-	-	-	-	-	-
	Other collateralized mortgage obligations	21	97,459	(3,209)	9	30,512	(5,787)	30	127,971	(8,997)
	State and municipal bonds	2	903	(5)	-	-	-	2	903	(5)
	Total temporarily impaired securities	26	\$ 114,851	\$ (3,327)	12	\$ 30,754	\$ (5,793)	38	\$ 145,605	\$ (9,121)

As of December 31, 2008	Less than 12 months			12 months or more			Total			
	Description of Securities	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss	#	Fair Value	Unrealized Loss
	U.S. government 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;
- 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.

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 to 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 assets and liabilities of the Company for which fair values are determined on a recurring basis as of March 31, 2009 (in thousands):

	Carrying Value at March 31, 2009			
	Total	Level 1	Level 2	Level 3
ASSETS				
Securities available for sale	\$ 227,810	\$ -	\$ 227,810	\$ -
Loans held for sale	29,275	-	29,275	-
Commitments to originate mortgage loans	869	-	869	-
Interest rate floor	1,458	-	1,458	-
Total assets at fair value	<u>\$ 259,412</u>	<u>\$ -</u>	<u>\$ 259,412</u>	<u>\$ -</u>
LIABILITIES				
Commitments to sell mortgage loans	\$ 1,530	\$ -	\$ 1,530	\$ -
Total liabilities at fair value	<u>\$ 1,530</u>	<u>\$ -</u>	<u>\$ 1,530</u>	<u>\$ -</u>

Changes in the fair value of assets and liabilities determined on a recurring basis had no net impact on our income statement for the three month period ending March 31, 2009.

The Company may also be required from time to time to measure certain other assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or market accounting or write-down of individual assets. For assets measured at fair value on a nonrecurring basis in the first three months of 2009 that were still held at March 31, 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 March 31, 2009 (in thousands):

	Carrying Value at March 31, 2009			
	Total	Level 1	Level 2	Level 3
Impaired Loans ⁽¹⁾	16,680		16,680	
Other Real Estate ⁽¹⁾	\$ 15,143	\$ -	\$ 15,143	\$ -
Total	\$ 31,823	\$ -	\$ 31,823	\$ -

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

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 Months Ended March 31, 2009 and 2008

Summary for the Three Months Ended March 31, 2009 and 2008

General

Net income was \$616 thousand and net income available to common shareholders was \$350 thousand, or \$0.11 per share on a diluted basis, for the quarter ended March 31, 2009. This compared to net income of \$1.362 million, or \$0.39 per diluted share, in the first quarter of 2008.

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-month periods ended March 31, 2009 and 2008, as well as the changes between the periods presented, (dollars are in thousands):

	Three Months Ended March 31,								
	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	\$ 670	\$ -		\$ 11	\$ -	0.00%	\$ 659	\$ -	0.00%
Investments - taxable	201,828	3,036	6.10%	123,890	1,639	5.32%	77,938	1,397	0.78% (a)
Investments - tax exempt	14,222	177	5.05%	19,191	233	4.88%	(4,969)	(56)	0.17%
Loans held for sale	23,335	292	5.07%	1,136	16	5.66%	22,199	276	-0.59% (b)
Participating interests in mortgage loans	26,126	255	3.96%	22,708	389	6.89%	3,418	(134)	-2.93% (c)
Loans and leases held for investment	549,620	6,919	5.11%	506,124	9,108	7.24%	43,496	(2,189)	-2.13% (d)
Allowance for loan losses	(8,545)	-		(6,572)	-		(1,973)	-	
Total interest-earning assets	<u>\$ 807,256</u>	<u>\$ 10,679</u>	5.36%	<u>\$ 666,488</u>	<u>\$ 11,385</u>	6.87%	<u>\$ 140,768</u>	<u>\$ (706)</u>	-1.51%
Interest-bearing liabilities									
Interest checking and money market accounts	\$ 259,244	\$ 582	0.91%	\$ 236,727	\$ 1,313	2.23%	\$ 22,517	\$ (731)	-1.32% (e)
Savings	12,340	3	0.10%	8,701	12	0.55%	3,639	(9)	-0.45% (e)
Certificates of deposit under \$100,000	280,377	2,096	3.03%	185,708	2,041	4.42%	94,669	55	-1.39% (f)
Certificates of deposit \$100,000 and over	43,316	343	3.21%	51,543	622	4.85%	(8,227)	(279)	-1.64%
Total interest-bearing deposits	595,277	3,024	2.06%	482,679	3,988	3.32%	112,598	(964)	-1.26%
Short-term borrowings	17,280	42	0.99%	5,233	41	3.15%	12,047	1	-2.16% (g)
Federal Home Loan Bank advances	93,246	399	1.74%	75,493	619	3.30%	17,753	(220)	-1.56% (h)
Long-term borrowings	77	-	5.27%	504	8	6.38%	(427)	(7)	-1.11%
Subordinated debentures	22,634	332	5.95%	22,687	457	8.10%	(53)	(125)	-2.15%
Total borrowings	<u>133,237</u>	<u>773</u>	2.36%	<u>103,917</u>	<u>1,125</u>	4.35%	<u>29,320</u>	<u>(351)</u>	-1.99%
Total interest-bearing liabilities	<u>\$ 728,514</u>	<u>\$ 3,797</u>	2.11%	<u>\$ 586,596</u>	<u>\$ 5,113</u>	3.51%	<u>\$ 141,918</u>	<u>\$ (1,315)</u>	-1.40%
Net interest income/spread		<u>\$ 6,882</u>	3.25%		<u>\$ 6,272</u>	3.36%		<u>\$ 609</u>	-0.11%
Net interest margin			3.46%			3.78%			-0.32%
Notation:									
Non-interest-bearing deposits	<u>\$ 68,176</u>			<u>\$ 65,098</u>	-		<u>\$ 3,078</u>	-	
Total deposits	<u>\$ 663,453</u>	<u>\$ 3,024</u>	1.85%	<u>\$ 547,777</u>	<u>\$ 3,988</u>	2.93%	<u>\$ 115,676</u>	<u>\$ (964)</u>	-1.08%
Taxable equivalents:									
Total interest-earning assets	\$ 807,256	\$ 10,773	5.41%	\$ 666,488	\$ 11,507	6.94%	\$ 140,768	\$ (734)	-1.53%
Net interest income/spread	-	\$ 6,975	3.30%	-	\$ 6,394	3.43%	-	\$ 581	-0.13%
Net interest margin	-		3.50%	-		3.86%	-	-	-0.36%

- (a) Late in the first quarter of 2008 we increased investments by leveraging the balance sheet in order to increase net interest income. We continued to leverage in the first quarter of 2009.
- (b) The average balance of loans held for sale increased because we added mortgage banking operations during the second quarter of 2008.
- (c) Participating interests in mortgage loans are collateralized by mortgage loans owned by mortgage banking counterparties. We advance funds when the counterparties close loans and are repaid when these entities sell the loans. The balance outstanding 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) Growing core deposits is a strategic initiative.
- (f) The average balance of CD's has increased partially because customers are migrating to fixed rate deposit products as rates have declined. These balances have also increased as brokered CD's have been used to fund purchases of investments.
- (g) Short term borrowings have increased because interest rates are attractive.
- (h) The average balance of FHLB advances has increased in 2009 because short-term advances have been available at attractive rates.

Non-interest Income from Continuing Operations

The following table presents the major categories of our non-interest income for the three-month periods ended March 31, 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		Increase (Decrease)		
	March 31,		\$	%	
	2009	2008			
Bank charges and service fees	\$ 579	\$ 491	\$ 88	18 %	
Wealth management revenues	584	756	(172)	(23) %	(a)
Mortgage banking revenues	1,426	26	1,400	5,385 %	(b)
Gains on sales of commercial real estate loans	-	734	(734)	N/M	(c)
Net gains on sales of securities	903	-	903	N/M	(d)
Other	204	293	(89)	(30) %	
Total non-interest income	<u>\$ 3,696</u>	<u>\$ 2,300</u>	<u>\$ 1,396</u>	61 %	

- (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 expanded mortgage banking operations in the second quarter of 2008.
- (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 low because the secondary market for this product is functioning at minimal levels.
- (d) We sold securities in the first quarter at gains. Gains and losses on sales of securities will vary from period to period.

Non-interest Expense

The following table presents the major categories of our non-interest expense for the three-month periods ended March 31, 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			
	March 31,		Increase (Decrease)	
	2009	2008	\$	%
Salaries and employee benefits	\$ 3,739	\$ 3,423	\$ 316	9 % (a)
Provision for ORE losses	750	-	750	N/M (b)
Occupancy	639	442	197	45 % (c)
Data processing fees	539	506	33	7 %
Professional services	497	189	308	163 % (c)
Depreciation and amortization	371	342	29	8 %
Marketing and promotion	185	195	(10)	(5) %
Office supplies and postage	141	111	30	27 % (c)
FDIC and other assessments	179	54	125	231 % (d)
ORE expenses	157	-	157	N/M (e)
Other	863	477	386	238 % (c)
Total non-interest expense	<u>\$ 8,060</u>	<u>\$ 5,739</u>	<u>\$ 2,321</u>	40 %
Efficiency ratio	<u>76.2%</u>	<u>67.0%</u>		

- (a) Compensation costs have increased due to the addition of mortgage banking personnel. Base salaries for virtually all employees were frozen on January 1, 2009.
- (b) The value of other real estate is uncertain and we provided for losses.
- (c) Expense increased primarily due to expanded mortgage banking operations.
- (d) FDIC assessments increased when the benefit of reduced assessments expired in the third quarter of 2008. We anticipate these assessments will be elevated in future periods.
- (e) ORE expenses increased concurrently with foreclosure activities.

Income Taxes

Tax expense of \$202 thousand resulted in a 24.7% effective tax rate during the first quarter of 2009. The tax expense in the first quarter of 2008 was \$671 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 are from tax exempt sources.

Comparison of Financial Condition at March 31, 2009 and December 31, 2008

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

Assets	March 31,	December 31,	Increase (Decrease)	
	2009	2008	\$	%
Cash and cash equivalents	\$ 10,040	\$ 10,569	\$ (529)	(5) % (a)
Investment securities available for sale	227,810	209,857	17,953	9 % (b)
Federal Reserve Bank and Federal Home Loan Bank stock	7,146	5,989	1,157	19 % (c)
Loans held for sale	29,275	13,403	15,872	118 % (d)
Participating interests in mortgage loans	28,843	28,584	259	1 % (e)
Loans and leases held for investment, net	535,764	534,002	1,762	0 %
Other real estate	15,143	10,189	4,954	49 % (f)
Premises and equipment, net	20,658	20,810	(152)	(1) %
Interest receivable	3,227	3,263	(36)	(1) %
Other assets	25,129	24,832	297	1 %
Total assets	\$ 903,035	\$ 861,498	\$ 41,537	5 %

- (a) These balances can vary significantly on a daily basis.
- (b) The increase in investments was primarily the result of management's decision to leverage the balance sheet in order to increase net interest income.
- (c) Federal Reserve Bank stock and Federal Home Loan Bank of Des Moines stock balances increased as we were required to increase holdings when utilization of Federal Home Loan Bank advances increased.
- (d) Loans held for sale increased after we acquired the assets of a mortgage banking entity in the second quarter of 2008 and increased origination in first quarter of 2009.
- (e) Participating interests fluctuate depending on the activities of counterparties.
- (f) We continue to acquire properties through foreclosure.

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):

	March 31, 2009		December 31, 2008		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Commercial and industrial	\$ 138,813	24.6	\$ 138,671	24.6	\$ 142	0%
Real estate mortgage	280,646	49.7	265,360	47.3	15,286	6% (a)
Real estate construction	97,117	17.2	108,713	19.3	(11,596)	(11)% (a)
Agricultural	21,084	3.7	22,023	3.9	(939)	(4)%
Consumer/other	7,291	1.3	7,506	1.3	(215)	(3)%
Participating interests in mortgage loans	28,843	5.1	28,584	5.1	259	1%
Lease financing	1,166	0.2	1,287	0.2	(121)	(9)%
Total principal amount of loans	574,960	101.8	572,144	101.7	2,816	0%
Unearned income and net unamortized deferred fees and costs	(679)	(0.1)	(807)	(0.1)	128	(16)%
Loans, net of unearned income and unamortized fees and costs	574,281	101.7	571,337	101.6	2,944	0%
Less allowance for credit losses	(9,674)	(1.7)	(8,751)	(1.6)	(923)	11%
Net loans	\$ 564,607	100.0	\$ 562,586	100.0	\$ 2,021	0%

(a) Real estate mortgage loans increased and construction loans decreased because construction projects have been completed and reclassified between categories.

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 grants 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 \$322.8 million as of March 31, 2009 and \$315.5 million as of December 31, 2008.

Concentrations of Credit

The following tables summarizes loan balances by the location our borrowers (in thousands):

	March 31, 2009			December 31, 2008		
	\$		%	\$		%
North Dakota	\$ 186,248	32	%	\$ 185,947	33	%
Minnesota	184,100	32		173,509	30	
Arizona	127,447	22		145,643	25	
Other	77,166	14		67,045	12	
Totals	\$ 574,960	100	%	\$ 572,144	100	%

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

	March 31, 2009			December 31, 2008		
North Dakota	\$ 182,173	32 %		\$ 181,073	32 %	
Arizona	129,958	23		126,327	22	
Minnesota	102,032	18		106,786	19	
Texas	36,819	6		37,032	6	
California	30,714	5		23,894	4	
Kentucky	11,000	2		11,000	2	
Wisconsin	10,185	2		10,301	2	
Idaho	9,829	2		8,146	1	
Georgia	6,530	1		6,559	1	
Colorado	6,334	1		3,830	-	
South Dakota	5,957	1		5,864	1	
Arkansas	5,250	1		5,260	1	
Florida	5,053	1		5,228	1	
Other	33,126	5		40,844	8	
	<u>\$ 574,960</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):

	March 31, 2009			December 31, 2008		
Land and land development loans	\$ 56,239	10 %		\$ 61,814	11 %	
Construction loans	43,467	8		37,746	7	
Totals	<u>\$ 99,706</u>	<u>18 %</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 either be sold or refinanced into permanent loans upon the completion of construction or a period of time thereafter.

Loan Maturities (1)

The following table sets forth the remaining maturities of loans in each major category of our portfolio as of March 31, 2009 (in thousands):

	One year or less	Over 1 year through 5 years		Over 5 years		Total
		Fixed rate	Floating rate	Fixed rate	Floating rate	
Commercial and industrial	\$ 84,670	\$ 21,084	\$ 7,535	\$ 11,035	\$ 14,489	\$ 138,813
Real estate mortgage	72,432	68,100	71,000	27,770	41,344	280,646
Real estate construction	58,564	4,895	31,344	306	2,008	97,117
Agricultural	11,094	7,331	461	646	1,552	21,084
Consumer/other	3,061	2,720	628	256	626	7,291
Participating interests in mortgage loans	28,843	-	-	-	-	28,843
Lease financing	311	855	-	-	-	1,166
Total principal amount of loans	<u>\$ 258,975</u>	<u>\$ 104,985</u>	<u>\$ 110,968</u>	<u>\$ 40,013</u>	<u>\$ 60,019</u>	<u>\$ 574,960</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 periods ending March 31, 2009 and 2008 and certain ratios related to the allowance for credit losses (dollars are in thousands):

	<u>2009</u>	<u>2008</u>
Balance, beginning of period	\$ 8,751	\$ 6,599
Provision for credit losses	1,700	800
Loans charged off	(782)	(232)
Loans recovered	5	11
Balance, end of period	<u>\$ 9,674</u>	<u>\$ 7,178</u>
Total loans at March 31, 2009 and March 31, 2008	<u>\$ 603,556</u>	<u>\$ 547,677</u>
Loans and leases held for investment at March 31, 2009 and March 31, 2008	<u>\$ 545,438</u>	<u>\$ 516,452</u>
Allowance for credit losses as a percentage of total loans at March 31, 2009 and March 31, 2008	1.60%	1.31%
Allowance for credit losses as a percentage of loans and leases held for investment at March 31, 2009 and March 31, 2008	1.77%	1.39%

	Three Months Ended March 31,	
	<u>2009</u>	<u>2008</u>
Ratio of net charge-offs to average total loans	(0.130)%	(0.042)%
Ratio of net charge-offs to average loans and leases held for investment	(0.141)%	(0.044)%
Ratio of net charge-offs to average total loans, annualized	(0.519)%	(0.167)%
Ratio of net charge-offs to average loans and leases held for investment, annualized	(0.565)%	(0.174)%

The provision for credit losses was \$1.700 million in the first quarter of 2009 compared with \$800 thousand in the first quarter of 2008. The provision for credit losses reflects the decline in asset values and the deteriorating economic environment.

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 March 31, 2009	Three Months Ended March 31, 2008
Balance of allowance for credit losses, beginning of period	\$ 8,751	\$ 6,599
Charge-offs:		
Commercial and industrial	64	-
Real estate mortgage	34	219
Real estate construction	669	-
Agricultural	-	-
Consumer/other	15	13
Lease financing	-	-
Total charge-offs	<u>782</u>	<u>232</u>
Recoveries:		
Commercial and industrial	-	6
Real estate mortgage	-	-
Real estate construction	-	-
Agricultural	-	-
Consumer/other	5	5
Lease financing	-	-
Total recoveries	<u>5</u>	<u>11</u>
Net charge-offs	(777)	(211)
Provision for credit losses charged to operations	1,700	800
Balance of allowance for credit losses, end of period	<u>\$ 9,674</u>	<u>\$ 7,178</u>
Ratio of net charge-offs to average total loans	<u>(0.130)%</u>	<u>(0.042)%</u>
Ratio of net charge-offs to average loans and leases held for investment	<u>(0.141)%</u>	<u>(0.044)%</u>
Average gross loans and leases held for investment	<u>\$ 549,620</u>	<u>\$ 506,886</u>
Ratio of allowance for credit losses to loans and leases held for investment	<u>1.77%</u>	<u>1.39%</u>
Ratio of allowance for credit losses to nonperforming loans	<u>41%</u>	<u>75%</u>

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

	March 31, 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	\$ 1,339	24%	\$ 1,268	24%
Real estate mortgage	3,077	47%	2,829	47%
Real estate construction	4,725	19%	4,293	19%
Agricultural	163	4%	180	4%
Consumer/other	277	1%	85	1%
Participating interests in mortgage loans	85	5%	86	5%
Lease financing	8	-	10	-
Total	<u>\$ 9,674</u>	<u>100%</u>	<u>\$ 8,751</u>	<u>100%</u>

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 and market areas.

Nonperforming Assets

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

	March 31, 2009	December 31, 2008
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	\$ 40	\$ 6
Non-accrual loans	23,687	22,909
Total nonperforming loans	<u>23,727</u>	<u>22,915</u>
Other real estate	15,143	10,189
Total nonperforming assets	<u>\$ 38,870</u>	<u>\$ 33,104</u>
Allowance for credit losses	<u>\$ 9,674</u>	<u>\$ 8,751</u>
Ratio of total nonperforming loans to total loans	3.93%	3.92%
Ratio of total nonperforming loans to loans and leases held for investment	4.35%	4.22%
Ratio of total nonperforming assets to total assets	4.30%	3.84%
Ratio of allowance for credit losses to nonperforming loans	41%	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 March 31, 2009, the Bank had \$46.0 million of classified loans and \$23.7 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 quarter ended March 31, 2009 (in thousands):

	Three Months Ended March 31, 2009	
Interest income that would have been recorded	\$	423
Interest income recorded		284
Effect on interest income	\$	139

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 loans risk-graded substandard and doubtful, as well as non-accrual and restructured loans, as impaired loans.

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

	March 31, 2009		December 31, 2008	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans -				
Valuation allowance required	\$ 18,115	1,435	\$ 17,355	\$ 1,619
No valuation allowance required	-	-	-	-
Total impaired loans	\$ 18,115	1,435	\$ 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 March 31, 2009 and December 31, 2008, and approximate interest income for the three months ended March 31, 2009 and March 31, 2008 recognized for such loans, were as follows (dollars are in thousands):

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Average recorded investment in impaired loans	\$ 18,301	\$ 17,917
Average recorded investment in impaired loans as a percentage of average total loans	<u>3.05%</u>	<u>3.41%</u>
	<u>Three Months Ended</u> <u>March 31, 2009</u>	<u>Three Months Ended</u> <u>March 31, 2008</u>
Interest income recognized on impaired loans	\$ 35	\$ 267
Interest income recognized on a cash basis during the time of impairment	<u>\$ 1</u>	<u>\$ 169</u>

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 \$2.3 million at March 31, 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.

Notwithstanding the prior paragraph, we attempt to quantify potential problem loans with more immediate exposure and at March 31, 2009 such loans totaled \$3.0 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 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 noninterest expense.

	March 31, 2009	December 31, 2008
Other Real Estate		
Other real estate owned	\$ 15,893	\$ 10,189
Real estate in judgment	-	-
In-substance foreclosure	-	-
Total other real estate owned	\$ 15,893	\$ 10,189
Allowance for other real estate losses	(750)	-
Total other real estate owned, net	\$ 15,143	\$ 10,189

	For the Quarter Ended March 31,	
	2009	2008
Changes in Allowance for Other Real Estate		
Balance, beginning of period	\$ -	\$ -
Provision	750	-
Charged offs	-	-
Recoveries	-	-
Balance, end of period	\$ 750	\$ -

Liabilities

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

Liabilities	March 31,	December 31,	Increase (Decrease)	
	2009	2008	\$	%
Deposits:				
Non-interest-bearing	\$ 67,924	\$ 68,996	\$ (1,072)	(2) % (a)
Interest-bearing -				
Savings, interest checking and money market	273,401	266,851	6,550	2 % (b)
Time deposits \$100,000 and over	46,098	42,342	3,756	9 % (b)
Other time deposits	300,459	297,132	3,327	1 % (b)
Short-term borrowings	16,927	16,844	83	0 %
Federal Home Loan Bank advances	91,700	84,500	7,200	9 % (c)
Long-term borrowings	-	-	-	- %
Guaranteed preferred beneficial interests in Company's subordinated debentures	22,700	23,025	(325)	(1) %
Accrued interest payable	1,940	1,679	261	16 %
Accrued expenses	3,172	3,325	(153)	(5) %
Other liabilities	3,915	2,857	1,055	37 % (d)
Total liabilities	<u>\$ 828,236</u>	<u>\$ 807,551</u>	<u>\$ 20,682</u>	3 %

- (a) These accounts can fluctuate daily due to the cash management activities of our customers, particularly our commercial customers.
- (b) Growing deposits is a strategic initiative.
- (c) FHLB advances are higher because interest rates on short-term advances are attractive.
- (d) Other liabilities have increased because the value of our commitments to sell has increased.

Stockholders' Equity

Our stockholders' equity increased \$20.852 million between December 31, 2008 and March 31, 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
March 31, 2009						
Total Capital (to risk-weighted assets):						
Consolidated	\$ 109,188	15.94 %	\$ 54,812	≥8.0 %	\$ N/A	N/A
BNC National Bank	103,784	15.16	54,783	≥8.0	68,478	≥10.0 %
Tier 1 Capital (to risk-weighted assets):						
Consolidated	100,609	14.68	27,406	≥4.0	N/A	N/A
BNC National Bank	80,211	11.71	27,391	≥4.0	41,087	≥6.0
Tier 1 Capital (to average assets):						
Consolidated	100,609	11.48	35,043	≥4.0	N/A	N/A
BNC National Bank	80,211	9.16	35,012	≥4.0	43,764	≥5.0
Tangible Capital (to total assets):						
Consolidated tangible equity	74,158	8.21	N/A	N/A	N/A	N/A
BNC National Bank	76,463	8.47	N/A	N/A	N/A	N/A
Tangible Common Capital (to total assets):						
Consolidated tangible common equity	54,023	5.98	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 March 31, 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 a monthly 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 March 31, 2009, the Bank had established Federal funds purchase programs with other lending institutions, totaling \$9 million. At March 31, 2009, the Bank had purchased Federal funds of \$7 million under these programs leaving \$2 million available. The Federal funds purchase programs mature daily with interest rates that float at the Federal funds rate.

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 March 31, 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 March 31, 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 March 31, 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 result for the 12-month horizon is shown below:

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	\$ 30,173	29,733	29,810	29,721	29,533
Dollar change from unchanged scenario	\$ 440	-	77	(12)	(200)
Percentage change from unchanged scenario	1.48%	-	0.26%	-0.04%	-0.67%
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 March 31, 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 March 31, 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 March 31, 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	\$ -	\$ -	\$ -	\$ -	\$ -
Investment securities	29,793	64,668	90,718	42,631	227,810
FRB and FHLB stock	7,146	-	-	-	7,146
Loans held for sale, floating rate	-	58,118	-	-	58,118
Loans held for investment, fixed rate	29,971	55,104	94,017	20,363	199,455
Loans held for investment, floating rate	314,792	2,763	26,364	2,064	345,983
Total interest-earning assets	<u>\$ 381,702</u>	<u>\$ 180,653</u>	<u>\$ 211,099</u>	<u>\$ 65,058</u>	<u>\$ 838,512</u>
Interest-bearing liabilities:					
Interest checking and money market accounts	\$ 261,400	\$ -	\$ -	\$ -	\$ 261,400
Savings	12,001	-	-	-	12,001
Time deposits under \$100,000	81,340	124,838	48,909	45,372	300,459
Time deposits \$100,000 and over	9,498	31,268	5,332	-	46,098
Short-term borrowings	16,927	-	-	-	16,927
FHLB advances	69,700	-	15,000	7,000	91,700
Long-term borrowings	-	-	-	-	-
Subordinated debentures	15,000	-	-	7,700	22,700
Total interest-bearing liabilities	<u>\$ 465,866</u>	<u>\$ 156,106</u>	<u>\$ 69,241</u>	<u>\$ 60,072</u>	<u>\$ 751,285</u>
Interest rate gap	<u>\$ (84,164)</u>	<u>\$ 24,547</u>	<u>\$ 141,858</u>	<u>\$ 4,986</u>	<u>\$ 87,227</u>
Cumulative interest rate gap at March 31, 2009	<u>\$ (84,164)</u>	<u>\$ (59,617)</u>	<u>\$ 82,241</u>	<u>\$ 87,227</u>	
Cumulative interest rate gap to total assets	(9.32)%	(6.60)%	9.11%	9.66%	

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 March 31, 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: May 18, 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