BNCCORP

Quarterly Report

For the quarter ended September 30, 2008

BNCCORP, INC.

(Pink Sheets:BNCC)

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BNCCORP, INC.
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September 30, 2008

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FINANCIAL INFORMATION

Item 1. Financial Statements

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data)

ASSETS	September 30, 2008	December 31, 2007
	(unaudited)	
CASH AND CASH EQUIVALENTS	$ 8,527	$ 14,856
INVESTMENT SECURITIES AVAILABLE FOR SALE	211,763	122,899
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	7,222	4,918
LOANS HELD FOR SALE	6,390	-
PARTICIPATING INTERESTS IN MORTGAGE LOANS	28,246	24,357
LOANS AND LEASES HELD FOR INVESTMENT	533,148	497,556
ALLOWANCE FOR CREDIT LOSSES	(8,395)	(6,599)
Net loans and leases	552,999	515,314
OTHER REAL ESTATE	5,098	-
PREMISES AND EQUIPMENT, net	20,886	19,448
INTEREST RECEIVABLE	3,310	3,290
OTHER ASSETS	22,124	15,294
PREMISES AND EQUIPMENT HELD FOR SALE, net	-	3,572
	$ 838,319	$ 699,591
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 72,850	$ 72,234
Interest-bearing –		
Savings, interest checking and money market	253,455	245,722
Time deposits $100,000 and over	51,690	44,038
Other time deposits	265,753	179,880
Total deposits	643,748	541,874
SHORT-TERM BORROWINGS	12,501	5,365
FEDERAL HOME LOAN BANK ADVANCES	95,400	61,400
LONG-TERM BORROWINGS	-	-
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	22,755	23,075
ACCRUED INTEREST PAYABLE	1,885	2,843
ACCRUED EXPENSES	3,406	3,387
OTHER LIABILITIES	2,734	1,917
Total Liabilities	782,429	639,861
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value – 2,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $.01 par value – 10,000,000 shares authorized; 3,311,741 and 3,491,337 shares issued and outstanding	33	35
Capital surplus – common stock	26,562	26,355
Retained earnings	36,453	34,105
Treasury stock (352,660 and 150,116 shares)	(5,008)	(2,424)
Accumulated other comprehensive income (loss), net	(2,150)	1,659
Total stockholders' equity	55,890	59,730
	$ 838,319	$ 699,591

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 September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
INTEREST INCOME:				
Interest and fees on loans	$ 8,618	$ 9,387	$ 26,992	$ 26,792
Interest and dividends on investments –				
Taxable	2,804	1,340	6,703	5,340
Tax-exempt	197	232	663	694
Dividends	75	29	217	170
Total interest income	11,694	10,988	34,575	32,996
INTEREST EXPENSE:				
Deposits	3,765	4,439	11,511	13,298
Short-term borrowings	31	88	100	307
Federal Home Loan Bank advances	700	-	1,868	1,627
Long-term borrowings	1	-	24	10
Subordinated debentures	387	520	1,225	1,654
Total interest expense	4,884	5,047	14,728	16,896
Net interest income	6,810	5,941	19,847	16,100
PROVISION FOR CREDIT LOSSES	1,800	2,800	4,600	3,750
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	5,010	3,141	15,247	12,350
NON-INTEREST INCOME:				
Bank charges and service fees	511	432	1,520	1,531
Wealth management revenues	691	536	2,215	1,339
Mortgage banking revenues	722	34	1,472	146
Gains on sales of commercial real estate loans	36	280	1,075	1,219
Net gain (loss) on sales of premises and equipment	(18)	-	776	-
Net gain (loss) on sales of securities	247	(1,251)	247	(3,277)
Other	220	279	762	765
Total non-interest income	2,409	310	8,067	1,723
NON-INTEREST EXPENSE:				
Salaries and employee benefits	3,725	3,140	11,086	10,254
Occupancy	605	498	1,594	1,572
Data processing fees	560	673	1,620	1,838
Professional services	411	160	893	540
Depreciation and amortization	346	413	1,015	1,303
Marketing and promotion	311	151	773	500
Office supplies and postage	134	118	381	372
FDIC and other assessments	117	58	227	174
ORE expenses	29	-	431	-
Debt extinguishment costs	-	1,189	-	2,724
Other	637	459	1,672	1,307
Total non-interest expense	6,875	6,859	19,692	20,584
Income (loss) from continuing operations before income taxes	544	(3,408)	3,622	(6,511)
Income tax provision (benefit)	39	(1,345)	1,055	(2,732)
Income (loss) from continuing operations	505	(2,063)	2,567	(3,779)

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Income, continued
(In thousands, except per share data, unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Discontinued Operations:				
Income (loss) from discontinued insurance segment	$ -	$ (12)	$ -	$ 8,142
Income tax provision	-	62	-	3,116
Income (loss) from discontinued operations	-	(74)	-	5,026
NET INCOME (LOSS)	$ 505	$ (2,137)	$ 2,567	$ 1,247
BASIC EARNINGS (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations	$ 0.16	$ (0.60)	$ 0.78	$ (1.09)
Income (loss) from discontinued insurance segment, net of income taxes	-	(0.02)	-	1.45
Basic earnings (loss) per common share	$ 0.16	$ (0.62)	$ 0.78	$ 0.36
DILUTED EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations	$ 0.15	$ (0.60)	$ 0.77	$ (1.09)
Income (loss) from discontinued insurance segment, net of income taxes	-	(0.02)	-	1.45
Diluted earnings (loss) per common share	$ 0.15	$ (0.62)	$ 0.77	$ 0.36

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

(In thousands, except share data, unaudited)

	Common Stock		Capital Surplus			Accumulated Other	
	Shares	Amount	Common Stock	Retained Earnings	Treasury Stock	Comprehensive Income	Total
BALANCE, December 31, 2006	3,600,467	$ 36	$ 25,950	$ 32,125	$ (598)	$ (1,911)	$ 55,602
Net income	-	-	-	1,247	-	-	1,247
Other comprehensive gain	-	-	-	-	-	2,503	2,503
Impact of share-based compensation	(12,530)	-	300	-	(76)	-	224
Purchase of common shares	(94,782)	(1)	-	-	(1,719)	-	(1,720)
BALANCE, September 30, 2007	3,493,155	$ 35	$ 26,250	$ 33,372	$ (2,393)	$ 592	$ 57,856
BALANCE, December 31, 2007	3,491,337	$ 35	$ 26,355	$ 34,105	$ (2,424)	$ 1,659	$ 59,730
Net income	-	-	-	2,567	-	-	2,567
Other comprehensive (loss)	-	-	-	-	-	(3,809)	(3,809)
Cumulative effect of change in accounting principle related to split dollar life insurance policies	-	-	-	(219)	-	-	(219)
Impact of share-based compensation	20,730	-	207	-	-	-	207
Issuance of common shares		(2)					(2)
Purchase of common shares	(200,326)	-		-	(2,584)	-	(2,584)
BALANCE, September 30, 2008	3,311,741	$ 33	$ 26,562	$ 36,453	$ (5,008)	$ (2,150)	$ 55,890

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2008		2007		2008		2007	
NET INCOME (LOSS)		$ 505		$ (2,137)		$ 2,567		$ 1,247
Unrealized gain on cash flow hedge, net	$ 214		$ 315		$ 588		$ 251	
Unrealized gain (loss) on securities available for sale	(2,566)		836		(6,572)		460	
Reclassification adjustment for gain (loss) included in net income	(247)		1,251		(247)		3,277	
Other comprehensive income (loss), before tax	(2,599)		2,402		(6,231)		3,988	
Income tax (expense) benefit related to items of other comprehensive income (loss)	1,007		(901)		2,422		(1,485)	
Other comprehensive income (loss)	(1,592)	(1,592)	1,501	1,501	(3,809)	(3,809)	2,503	2,503
TOTAL COMPREHENSIVE INCOME (LOSS)		$ (1,087)		$ (636)		$ (1,242)		$ 3,750

See accompanying notes to consolidated financial statements.

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

	2008	2007
OPERATING ACTIVITIES:		
Net income	$ 2,567	$ 1,247
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	4,600	3,750
Depreciation and amortization	1,015	1,348
Share-based compensation	207	224
Net amortization of premiums and (discounts)	(905)	627
Charge-off of loans net of recoveries	(2,804)	5
Change in interest receivable and other assets, net	(5,669)	(2,410)
(Gain) loss on disposals of premises and equipment, net	(776)	117
Net realized (gain) loss on sales of investment securities	(247)	3,277
Provision for deferred income taxes	(582)	(914)
Change in other liabilities, net	1,747	(812)
Originations of loans to be participated	(163,782)	(152,595)
Proceeds from participations of loans	163,782	152,595
Funding of originations of loans held for sale	(64,500)	(10,593)
Proceeds from sale of loans held for sale	58,224	12,262
Fair value adjustment for loans held for sale	(114)	-
Change in operating accounts of discontinued operations	-	(2,751)
Gain on sale of discontinued operations	-	(6,083)
Net cash (used) in operating activities	(7,237)	(706)
INVESTING ACTIVITIES:		
Change in Federal funds sold, net	-	24,000
Purchases of investment securities	(132,849)	(49,358)
Proceeds from sales of investment securities	14,209	106,450
Proceeds from maturities of investment securities	24,109	21,380
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(8,604)	-
Redemptions of Federal Reserve and Federal Home Loan Bank Stock	6,300	2,768
Net (increase) decrease in participating interests in mortgage loans	(3,889)	34,308
Net increase in loans held for investment	(40,689)	(112,375)
Additions to premises and equipment	(2,515)	(868)
Sales of premises and equipment	4,410	28
Proceeds from sale of discontinued operations, net	-	35,204
Net cash provided by (used) in investing activities	(139,518)	61,537

See accompanying notes to consolidated financial statements.

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

	2008	2007
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	101,874	(8,315)
Net increase in short-term borrowings	7,136	5,252
Proceeds from long-term borrowings and subordinated debentures	-	15,000
Repayments of long-term borrowings and subordinated debentures	-	(16,167)
Proceeds from FHLB advances	2,852,055	-
Repayments of FHLB advances	(2,818,055)	(62,200)
Purchase of treasury stock	(2,584)	(1,720)
Net cash provided by (used) in financing activities	140,426	(68,150)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,329)	(7,319)
CASH AND CASH EQUIVALENTS, beginning of period	14,856	18,216
CASH AND CASH EQUIVALENTS, end of period	$ 8,527	$ 10,897
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 15,686	$ 17,266
Income taxes paid	$ 1,851	$ 3,314
Supplemental disclosure of noncash investing and financing activities:		
Additions to other real estate in settlement of loans	$ 5,098	$ -

See accompanying notes to consolidated financial statements.

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 four locations in 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 September 30, 2008 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, 2007. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the December 31, 2007 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, 2007 and the notes thereto.

The Company's critical accounting policies are unchanged since December 31, 2007.

NOTE 3 – Reclassifications

Certain of the 2007 amounts have been reclassified to conform to the 2008 presentations. These reclassifications had no effect on net income or stockholders' equity.

NOTE 4 – Recently Issued or Adopted Accounting Standards

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 by $217,000.

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. The impact of 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 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. The impact of 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. The impact of adopting SFAS No. 160 on January 1, 2009 is not anticipated to 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. The impact of adopting this Statement on January 1, 2009 is not anticipated to have a material impact on the Company's results of operations or financial position.

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. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We have not completed our analysis of the Statement but we believe the impact of adopting SFAS No. 161 on January 1, 2009 will not have a material impact on the Company's results of operations or financial position.

NOTE 5 – Divestiture and Discontinued Operations

The Company reached an agreement to sell substantially all of the assets of the BNC Insurance Services Inc.(BNC Insurance) in March 2007. Stockholders approved the transaction in May 2007 and on June 1, 2007, the Company completed the sale. The proceeds from the sale were $37.25 million and a pre-tax gain on sale of $6.083 million was recognized in the second quarter of 2007.

BNC Insurance was previously reported as the insurance segment of the Company.

NOTE 6 – Earnings Per Share

Net income (loss) per share was calculated as follows:

	Three months ended September 30, 2008		Nine months ended September 30, 2008	
Denominator for basic earnings per share:				
Average common shares outstanding		3,243,388		3,308,747
Dilutive common stock options		18,557		29,373
Denominator for diluted earnings per share		3,261,945		3,338,120
Numerator: Net income attributable to continuing operations	$	505	$	2,567
Numerator: Net (loss) attributable to discontinued operations		-		-
Numerator: Net income	$	505	$	2,567
Basic earnings per share from continuing operations	$	0.16	$	0.78
Basic earnings per share from discontinued operations		-		-
Basic earnings per common share	$	0.16	$	0.78
Diluted earnings per share from continuing operations	$	0.15	$	0.77
Diluted earnings per share from discontinued operations		-		-
Diluted earnings per common share	$	0.15	$	0.77

	Three months ended September 30, 2007		Nine months ended September 30, 2007	
Denominator for basic earnings per share:				
Average common shares outstanding		3,414,670		3,472,126
Dilutive common stock options*		62,469		63,093
Denominator for diluted earnings per share*		3,477,139		3,535,219
Numerator: Net (loss) attributable to continuing operations	$	(2,063)	$	(3,779)
Numerator: Net income (loss) attributable to discontinued operations		(74)		5,026
Numerator: Net income (loss)	$	(2,137)	$	1,247
Basic (loss) per share from continuing operations	$	(0.60)	$	(1.09)
Basic earnings (loss) per share from discontinued operations		(0.02)		1.45
Basic earnings (loss) per common share	$	(0.62)	$	0.36
Diluted (loss) per share from continuing operations*	$	(0.60)	$	(1.09)
Diluted earnings (loss) per share from discontinued operations*		(0.02)		1.45
Diluted earnings (loss) per common share*	$	(0.62)	$	0.36

*Pursuant to SFAS No. 128, no contingent shares are included in the computation of any of the diluted per share amounts because a loss exists in continuing operations for periods in 2007.

For the three months and nine months ended September 30, 2008 and 2007, there were no 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 7 – Segment Disclosures

The Company significantly expanded its mortgage banking capacity by acquiring certain assets and assuming certain liabilities in the second quarter of 2008 and concurrently changed it reportable segments. Segment disclosures have been restated for all periods. Continuing operations has three segments based on the nature of the products and services for each segment: banking operations, mortgage banking and wealth management services. Prior to the second quarter of 2007, the Company also had three segments. Beginning in the second quarter of 2007, the insurance operations were no longer reported as a segment as they are included in discontinued operations.

Banking operations provide traditional banking services to small and mid-sized businesses and individuals, such as accepting deposits and making loans. The commercial banking activities also include the origination of loans which may be sold and serviced for other institutions.

Mortgage banking operations originate loans and sell loans, servicing released, to investors. The majority of loans originated by this segment are guaranteed by the FHA.

Wealth management operations provide a variety of financial services including trust, asset management, financial planning, estate planning, estate administration, tax planning, payroll services, employee benefit plan design and administration. We also offer retirement accounts and prepare tax returns.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies included in Note 1 to the consolidated financial statements for the year ended December 31, 2007.

The Company's financial information for each segment is derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The operating segments have been determined by how executive management has organized the Company's business for making operating decisions and assessing performance.

The following tables present segment information as of, and for the three months and the nine months ended September 30, 2008, unaudited (in thousands):

	Three months ended September 30, 2008						
	Banking	Mortgage Banking	Wealth Mgmt	Bank Holding Co.	Totals	Intersegment Elimination	Consolidated Total
Net interest income (loss)	$ 6,908	$ 284	$ 1	$ (396)	$ 6,797	$ 13	$ 6,810
Other revenue (loss)-external customers	994	730	741	12	2,477	(68)	2,409
Net income (loss) from continuing operations	719	98	(75)	(237)	505	-	505
Segment assets from continuing operations	747,783	37,633	52,439	83,045	920,900	(82,581)	838,319

	Nine months ended September 30, 2008						
	Banking	Mortgage Banking	Wealth Mgmt	Bank Holding Co.	Totals	Intersegment Elimination	Consolidated Total
Net interest income (loss)	$ 20,301	$ 812	$ (33)	$ (1,272)	$ 19,808	$ 39	$ 19,847
Other revenue (loss)- external customers	4,343	1,492	2,339	63	8,237	(170)	8,067
Net income (loss) from continuing operations	3,370	324	(190)	(937)	2,567	-	2,567
Segment assets from continuing operations	747,783	37,633	52,439	83,045	920,900	(82,581)	838,319

The following tables present segment information as of, and for the three months and the nine months ended September 30, 2007, unaudited (in thousands):

	Three months ended September 30, 2007						
	Banking	Mortgage Banking	Wealth Mgmt	Bank Holding Co.	Totals	Intersegment Elimination	Consolidated Total
Net interest income (loss)	$ 6,262	$ 136	$ 42	$ (514)	$ 5,926	$ 15	$ 5,941
Other revenue (loss)- external customers	(260)	40	597	15	392	(82)	310
Net (loss) from continuing operations	(429)	(146)	(149)	(1,127)	(1,851)	(212)	(2,063)
Segment assets from continuing operations	564,059	30,449	28,876	82,809	706,193	(84,550)	621,643

	Nine months ended September 30, 2007						
	Banking	Mortgage Banking	Wealth Mgmt	Bank Holding Co.	Totals	Intersegment Elimination	Consolidated Total
Net interest income (loss)	$ 16,761	$ 831	$ 139	$ (1,681)	$ 16,050	$ 50	$ 16,100
Other revenue (loss)- external customers	189	212	1,478	50	1,929	(206)	1,723
Net income (loss) from continuing operations	(1,161)	228	(478)	(2,098)	(3,509)	(270)	(3,779)
Segment assets from continuing operations	564,059	30,449	28,876	82,809	706,193	(84,550)	621,643

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 September 30, 2008, there were 45,251 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 September 30, 2008, 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 September 30, 2008, 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 2008 or 2007. The cost of options previously granted were fully amortized prior to 2007.

A restricted stock grant of 10,000 shares under the 1995 Stock Incentive Plan was made in the second quarter of 2008. Restricted stock grants of 9,500 shares under the 1995 Stock Incentive Plan was made in the third quarter of 2008.

The Company recognized share-based compensation expense of $91,000 related to restricted stock for the three month period ended September 30, 2008 and $256,000 for the nine month period ended September 30,2008. The Company recognized share-based compensation expense of $121,000 related to restricted stock for the three months ended September 30, 2007 and $205,000 for the nine month period ended September 30, 2007.

At September 30, 2008, the Company had $509,000 of unamortized restricted stock compensation expense. The majority of the unamortized restricted stock compensation expense as of September 30, 2008 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 Activities

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities (SFAS 133)*, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

The Company’s objective in using derivatives is to add stability to interest income and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company entered into an interest rate floor agreement to hedge the variable cash flows associated with $50.0 million of the Company’s variable-rate loans. The floor was initiated January 9, 2006 and has a maturity date of January 9, 2010. The floor is designated as a cash flow hedge. The terms of the floor result in the Company receiving payments when the prime interest rate is below 7.00%. At September 30, 2008, the prime rate was 5.00% and the Company is entitled to receive monthly payments under the terms of the agreement. The Company received payments totaling $256,000 for the three months ended September 30, 2008 and $539,000 for the nine months ended September 30, 2008. The Company received no payments during the three and nine months ended September 30, 2007.

At September 30, 2008, the fair value of the floor was $1.3 million, which was included in other assets. The change in net unrealized gains of $216,000 during the three months ended September 30, 2008 and the change in net unrealized gains of $589,000 for the nine months ended September 30, 2008 for derivatives designated as cash flow hedges is separately disclosed in the statement of comprehensive income. No hedge ineffectiveness on cash flow hedges was recognized during the quarter.

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 September 30, 2008 or December 31, 2007. The carrying amount of available-for-sale securities and their approximate fair values were as follows (in thousands):

As of September 30, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 1,612	$ 2	$ (5)	$ 1,609
U.S. government agency mortgage-backed securities issued by FNMA	2,953	30	(25)	2,958
Collateralized mortgage obligations guaranteed by GNMA	18,485	16	(154)	18,347
Collateralized mortgage obligations issued by FNMA or FHLMC	40,915	530	(1)	41,444
Other collateralized mortgage obligations	138,883	75	(5,466)	133,492
State and municipal bonds	13,456	488	(31)	13,913
	$ 216,304	$ 1,141	$ (5,682)	$ 211,763

As of December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mortgage-backed securities guaranteed by GNMA	$ 1,799	$ 1	$ (16)	$ 1,784
U.S. government agency mortgage-backed securities issued by FNMA	3,329	33	(29)	3,333
Collateralized mortgage obligations guaranteed by GNMA	2,394	19	-	2,413
Collateralized mortgage obligations issued by FNMA or FHLMC	62,384	933	(11)	63,306
Other collateralized mortgage obligations	32,830	312	(63)	33,079
State and municipal bonds	17,885	1,099	-	18,984
	$ 120,621	$ 2,397	$ (119)	$ 122,899

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 September 30, 2008 and December 31, 2007 (dollars are in thousands):

As of September 30, 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	2	$	1,161	$	(4)	1	$	82	$	(1)	3	$	1,243	$	(5)
U.S. government agency mortgage-backed securities issued by FNMA	-		-		-	3		1,545		(25)	3		1,545		(25)
Collateralized mortgage obligations guaranteed by GNMA	3		16,427		(154)	-		-		-	3		16,427		(154)
Collateralized mortgage obligations issued by FNMA or FHLMC	3		858		(1)	-		-		-	3		858		(1)
Other collateralized mortgage obligations	27		126,863		(5,466)	-		-		-	27		126,863		(5,466)
State and municipal bonds	3		1,147		(31)	-		-		-	3		1,147		(31)
Total temporarily impaired securities	38	$	146,456	$	(5,656)	4	$	1,627	$	(26)	42	$	148,083	$	(5,682)

As of December 31, 2007	**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	-	$	-	$	-	3	$	1,399	$	(16)	3	$	1,399	$	(16)
U.S. government agency mortgage-backed securities issued by FNMA	-		-		-	5		2,194		(29)	5		2,194		(29)
Collateralized mortgage obligations guaranteed by GNMA	-		-		-	-		-		-	-		-		-
Collateralized mortgage obligations issued by FNMA or FHLMC	2		514		(2)	2		2,499		(9)	4		3,013		(11)
Other collateralized mortgage obligations	3		11,704		(63)	-		-		-	3		11,704		(63)
State and municipal bonds	-		-		-	-		-		-	-		-		-
Total temporarily impaired securities	5	$	12,218	$	(65)	10	$	6,092	$	(54)	15	$	18,310	$	(119)

In reaching the conclusion that the impairments disclosed in the tables above are temporary, and not other-than-temporary in nature, the Company considered the nature of the securities, the associated guarantees and collateralization, the securities ratings and the level of impairment of the securities. None of the impairments were due to deterioration in credit quality that might result in the non-collection of contractual principal and interest. Further, we have both the intent and ability to hold these impaired securities for a sufficient period of time, until maturity if necessary, to allow for their recovery in market value.

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 financial assets and liabilities of the Company for which fair values are determined on a recurring basis as of September 30, 2008 (in thousands):

	Carrying Value at September 30, 2008				
	Total	**Level 1**	**Level 2**	**Level 3**	**Amortized Cost**
ASSETS					
Securities available for sale	$ 211,763	$ -	$ 211,763	$ -	$ 216,304
Loans held for sale	6,390	-	6,390	-	6,276
Commitments to originate mortgage loans	147	-	147	-	-
Interest rate floor	1,207	-	1,207	-	264
Total assets at fair value	$ 219,507	$ -	$ 219,507	$ -	$ 222,844
LIABILITIES					
Commitments to sell mortgage loans	$ 261	$ -	$ 261	$ -	$ -
Total liabilities at fair value	$ 261	$ -	$ 261	$ -	$ -

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 and nine month periods ending September 30, 2008.

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 assets measured at fair value on a nonrecurring basis in the nine months of 2008 that were still held at September 30, 2008, 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 September 30, 2008 (in thousands):

	Carrying Value at September 30, 2008			
	Total	Level 1	Level 2	Level 3
Impaired Loans[1]	$ 35,576	$ -	$ 35,576	$ -
Total	$ 35,576	$ -	$ 35,576	$ -

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

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. We are evaluating the impact, if any, the adoption of SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities will have on our financial position, results of operations or liquidity.

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

For purposes of Items 2, 3 and 4 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; "BNC Insurance" when referring only to BNC Insurance Services, Inc**.**

Comparison of Results for the Three and Nine Months Ended September 30, 2008 and 2007

Summary for the Three Months Ended September 30, 2008 and 2007

General

Net income from continuing operations was $505 thousand, or $0.15 per share on diluted basis, for the quarter ended September 30, 2008. This compared to a net loss from continuing operations of $(2.063) million, or $(0.60) per diluted share, in the third quarter of 2007.

Continuing Operations

Net interest income for the third quarter of 2008 was $6.810 million, an increase of $869 thousand, or 15%, from $5.941 million in the same period of 2007. The net interest margin for the current period declined to 3.55% from 4.24%.

In the third quarter of 2008, the Company's provision for credit losses was $1.800 million compared to $2.800 million in the same period of 2007.

Non-interest income for the third quarter of 2008 was $2.409 million. This compares to non-interest income of $310 thousand for the same period in 2007.

Non-interest expense for the third quarter of 2008 was $6.875 million compared to $6.859 million in the same period of 2007, an increase of $16 thousand compared to the same period in 2007.

The effective tax rate for the third quarter was 7.2% in 2008 compared to 39.5% in 2007.

Discontinued Operations

Net loss from discontinued operations was $(74) thousand, or $(0.02) per diluted share in the third quarter of 2007.

Net Income

Net income, which combines results of continuing operations and discontinued operations, was $505 thousand, or $0.15 per share on a diluted basis compared to a net loss of $(2.137) million, or $(0.62) per share on a diluted basis, in 2007.

Summary for the Nine Months Ended September 30, 2008 and 2007

General

Net income from continuing operations was $2.567 million, or $0.77 per share on diluted basis, for the nine months ended September 30, 2008. This compared to a net loss from continuing operations of $(3.779) million, or $(1.09) per diluted share, in the third quarter of 2007.

Continuing Operations

Net interest income for the nine months ended September 30, 2008 was $19.847 million, an increase of $3.747 million, or 23%, from $16.100 million in the same period of 2007. The year to date net interest margin was 3.69% in both 2008 and 2007.

In the first nine months of 2008, the Company also increased the provision for credits losses by $4.600 million compared to $3.750 million in the same period of 2007.

Non-interest income for the nine months ended September 30, 2008 was $8.067 million. This compares to non-interest income of $1.723 million for the same period in 2007.

Non-interest expense for the nine months ended September 30, 2008 was $19.692 million compared to $20.584 million in the same period of 2007, a decrease of $892 thousand, or 4%, compared to the same period in 2007.

The effective tax rate was 29.1% for the nine months ended September 30, 2008 while a benefit of $2.732 million was recorded in 2007.

Discontinued Operations

Net income from discontinued operations was $5.026 million, or $1.45 per diluted share in 2007 when the Company's former insurance segment was sold and generated a gain of $6.083 million.

Net Income

Net income, which combines results of continuing operations and discontinued operations, was $2.567 million, or $0.77 per share on a diluted basis compared to net income of $1.247 million, or $0.36 per share on a diluted basis, in 2007.

Net Interest Income from Continuing Operations

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 September 30, 2008 and 2007 and the nine-month periods ended September 30, 2008, and 2007, as well as the changes between the periods presented, (dollars are in thousands):

	Three Months Ended September 30,								
	2008			2007			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	$ 1	$ -	0.00%	$ 17,907	$ 232	5.14%	$ (17,906)	$ (232)	-5.14% (a)
Investments - taxable	198,570	2,879	5.77%	91,096	1,137	4.95%	107,474	1,742	0.82% (b)
Investments - tax exempt	15,763	197	4.97%	18,670	232	4.93%	(2,907)	(35)	0.04%
Loans held for sale	4,080	67	6.53%	485	-	0.00%	3,595	67	6.53% (c)
Participating interests in mortgage loans	24,798	354	5.68%	18,163	288	6.29%	6,635	66	-0.61% (d)
Loans and leases held for investment	526,548	8,197	6.19%	414,588	9,099	8.71%	111,960	(902)	-2.52% (e)
Allowance for loan losses	(6,894)	-		(4,380)	-		(2,514)	-	
Total interest-earning assets	$ 762,866	11,694	6.10%	$ 556,529	10,988	7.83%	$ 206,337	706	-1.73%
Interest-bearing liabilities									
Interest checking and money market accounts	$ 243,553	948	1.55%	$ 247,329	2,066	3.31%	$ (3,776)	(1,118)	-1.76%
Savings	10,303	8	0.31%	8,181	16	0.78%	2,122	(8)	-0.47%
Certificates of deposit under $100,000	257,016	2,252	3.49%	144,802	1,754	4.81%	112,214	498	-1.32% (f)
Certificates of deposit $100,000 and over	50,210	557	4.41%	46,187	603	5.18%	4,023	(46)	-0.77%
Total interest-bearing deposits	561,082	3,765	2.67%	446,499	4,439	3.94%	114,583	(674)	-1.27%
Short-term borrowings	5,855	31	2.11%	7,643	88	4.57%	(1,788)	(57)	-2.46%
Federal Home Loan Bank advances	102,394	700	2.72%	-	-	0.00%	102,394	700	2.72% (g)
Long-term borrowings	102	1	3.90%	8	-	0.00%	94	1	3.90%
Subordinated debentures	22,647	387	6.80%	22,778	520	9.06%	(131)	(133)	-2.26%
Total borrowings	130,998	1,119	3.40%	30,429	608	7.93%	100,569	511	-4.53%
Total interest-bearing liabilities	$ 692,080	4,884	2.81%	$ 476,928	5,047	4.20%	$ 215,152	(163)	-1.39%
Net interest income/spread		$ 6,810	3.29%		$ 5,941	3.63%		$ 869	-0.34%
Net interest margin			3.55%			4.24%			-0.69%
Notation:									
Non-interest-bearing deposits	$ 67,712	-		$ 67,574	-		$ 138	-	
Total deposits	$ 628,794	$ 3,765	2.38%	$ 514,073	$ 4,439	3.43%	$ 114,721	$ (674)	-1.05%
Taxable equivalents:									
Total interest-earning assets	$ 762,866	$ 11,111	5.79%	$ 556,529	$ 11,113	7.92%	$ 206,337	$ (2)	-2.13%
Net interest income/spread	-	$ 6,227	2.98%	-	$ 6,066	3.72%	-	$ 161	-0.74%
Net interest margin	-		3.25%	-		4.34%	-	-	-1.09%

(a) The average balance of Federal funds sold is lower in 2008 as these funds have been used to fund increases in other interest-earning assets.

(b) The increase in average investments was primarily the result of a strategy to increase net interest income.

(c) The average balance of loans held for sale increased because we added mortgage banking operations in three states during the second quarter of 2008.

(d) 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 mortgage banking industry is currently operating in a challenging environment.

(e) The average balance of loans has increased due to organic growth and repurchases of participations previously sold.

(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 asset growth.

(g) The average balance of FHLB advances has increased in 2008 because short-term advances have been available at attractive rates.

	Nine Months Ended September 30,								
	2008			2007			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	$ 8	$ -	0.00%	$ 19,485	$ 754	5.17%	$ (19,477)	$ (754)	-5.17% (a)
Investments - taxable	162,179	6,920	5.70%	133,402	4,756	4.77%	28,777	2,164	0.93% (b)
Investments - tax exempt	18,037	663	4.91%	18,791	694	4.94%	(754)	(31)	-0.03%
Loans held for sale	3,195	147	6.15%	524	-	0.00%	2,671	147	6.15% (c)
Participating interests in mortgage loans	24,209	1,099	6.06%	29,611	1,696	7.66%	(5,402)	(597)	-1.60% (d)
Loans and leases held for investment	518,037	25,746	6.64%	384,686	25,096	8.72%	133,351	650	-2.08% (e)
Allowance for loan losses	(6,743)	-		(3,793)	-		(2,950)	-	
Total interest-earning assets	$ 718,922	34,575	6.42%	$ 582,706	32,996	7.57%	$ 136,216	1,579	-1.15%
Interest-bearing liabilities									
Interest checking and money market accounts	$ 243,628	3,291	1.80%	$ 251,117	6,246	3.33%	$ (7,489)	(2,955)	-1.53%
Savings	9,503	27	0.38%	8,392	49	0.78%	1,111	(22)	-0.40%
Certificates of deposit under $100,000	209,835	6,545	4.17%	146,771	5,283	4.81%	63,064	1,262	-0.64% (f)
Certificates of deposit $100,000 and over	63,436	1,648	3.47%	44,503	1,720	5.17%	18,933	(72)	-1.70% (f)
Total interest-bearing deposits	526,402	11,511	2.92%	450,783	13,298	3.94%	75,619	(1,787)	-1.02%
Short-term borrowings	5,550	100	2.41%	8,823	307	4.65%	(3,273)	(207)	-2.24%
Federal Home Loan Bank advances	87,474	1,868	2.85%	35,790	1,627	6.08%	51,684	241	-3.23% (g)
Long-term borrowings	662	24	4.84%	128	10	10.45%	534	14	-5.61%
Subordinated debentures	22,707	1,225	7.21%	22,576	1,654	9.80%	131	(429)	-2.59%
Total borrowings	116,393	3,217	3.69%	67,317	3,598	7.15%	49,076	(381)	-3.46%
Total interest-bearing liabilities	$ 642,795	14,728	3.06%	$ 518,100	16,896	4.36%	$ 124,695	(2,168)	-1.30%
Net interest income/spread		$ 19,847	3.36%		$ 16,100	3.21%		$ 3,747	0.15%
Net interest margin			3.69%			3.69%			0.00%
Notation:									
Non-interest-bearing deposits	$ 66,427			$ 68,793			$ (2,366)	-	
Total deposits	$ 592,829	$ 11,511	2.59%	$ 519,576	$ 13,298	3.42%	$ 73,253	$ (1,787)	-0.83%
Taxable equivalents:									
Total interest-earning assets	$ 718,922	$ 33,359	6.20%	$ 582,706	$ 33,359	7.65%	$ 136,216	$ -	-1.45%
Net interest income/spread		$ 18,631	3.14%		$ 16,463	3.29%		$ 2,168	-0.15%
Net interest margin			3.46%			3.78%		-	-0.32%

(a) The average balance of Federal funds sold is lower in 2008, as these funds have been used to fund increases in other interest-earning assets.

(b) The increase in average investments was primarily the result of a strategy to increase increase net interest income.

(c) The average balance of loans held for sale increased because we added mortgage banking operations in three states during the second quarter of 2008.

(d) 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 mortgage banking industry is currently operating in a challenging environment.

(e) The average balance of loans has increased due to organic growth and repurchases of participations previously sold.

(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 asset growth.

(g) The average balance of FHLB advances has increased in 2008 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 September 30, 2008 and 2007 and the nine-month periods ended September 30, 2008 and 2007, as well as the amount and percent of change between the periods (dollars are in thousands):

Non-interest Income	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Increase (Decrease) $	Increase (Decrease) %	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Increase (Decrease) $	Increase (Decrease) %	
Bank charges and service fees	$ 511	$ 432	$ 79	18 %	$ 1,520	$ 1,531	$ (11)	(1) %	
Wealth management revenues	691	536	155	29 %	2,215	1,339	876	65 %	(a)
Mortgage banking revenues	722	34	688	2,024 %	1,472	146	1,326	908 %	(b)
Gains on sales of commercial real estate loans	36	280	(244)	(87) %	1,075	1,219	(144)	(12) %	(c)
Gain (loss) on sales of premises and equipment	(18)	-	(18)	100 %	776	-	776	100 %	(d)
Net gains (losses) on sales of securities	247	(1,251)	1,498	(120) %	247	(3,277)	3,524	(108) %	(e)
Other	220	279	(59)	(21) %	762	765	(3)	- %	
Total non-interest income	$ 2,409	$ 310	$ 2,099	677 %	$ 8,067	$ 1,723	$ 6,344	368 %	

(a) Wealth management income increased due to new products where BNC is compensated to assemble documents and act as a custodial trustee.
(b) Mortgage banking revenues increased beginning in the second quarter of 2008 after we acquired the fixed assets of a mortgage banking entity and hired several of its employees.
(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 moderate or decline in the foreseeable future 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 2007 we sold securities at a loss in order to improve net interest income in future periods.

Non-interest Expense from Continuing Operations

The following table presents the major categories of our non-interest expense for the three-month periods ended September 30, 2008 and 2007 and the nine-month periods ended September 30, 2008 and 2007, as well as the amount and percent of change between the periods (dollars are in thousands):

Non-interest Expense	Three Months Ended September 30, 2008	2007	Increase (Decrease) $	%	Nine Months Ended September 30, 2008	2007	Increase (Decrease) $	%	
Salaries and employee benefits	$ 3,725	$ 3,140	$ 585	19 %	$ 11,086	$ 10,254	$ 832	8 %	(a)
Occupancy	605	498	107	21 %	1,594	1,572	22	1 %	(b)
Data processing fees	560	673	(113)	(17) %	1,620	1,838	(218)	(12) %	(c)
Professional services	411	160	251	157 %	893	540	353	65 %	(d)
Depreciation and amortization	346	413	(67)	(16) %	1,015	1,303	(288)	(22) %	(e)
Marketing and promotion	311	151	160	106 %	773	500	273	55 %	(f)
Office supplies and postage	134	118	16	14 %	381	372	9	2 %	(g)
FDIC and other assessments	117	58	59	102 %	227	174	53	30 %	(h)
ORE expenses	29	-	29	100 %	431	-	431	100 %	(i)
Debt extinguishment costs	-	1,189	(1,189)	(100) %	-	2,724	(2,724)	(100) %	(j)
Other	637	459	178	39 %	1,672	1,307	365	28 %	
Total non-interest expense	$ 6,875	$ 6,859	$ 16	- %	$ 19,692	$ 20,584	$ (892)	(4) %	
Efficiency ratio	74.6%	109.7%			70.6%	115.5%			

(a) Compensation costs have increased due to the addition of mortgage banking personnel and merit increases.
(b) Occupancy costs increased due to additional mortgage banking locations.
(c) Data processing costs decreased as a result of re-engineering operating procedures.
(d) Professional service costs have increased because of legal fees associated with problem credits and services required by mortgage banking operations.
(e) Depreciation and amortization declined because properties have been divested after the sale of BNC Insurance.
(f) Marketing costs have increased as we have new locations, mortgage banking and depository products that are being promoted.
(g) Supplies and postage costs have increased because we are operating in additional locations.
(h) FDIC assessments increased when the benefit of reduced assessments expired in the third quarter of 2008.
(i) ORE expenses increased concurrently with foreclosure activities.
(j) We incurred prepayment penalties in 2007 when debt was refinanced in order to improve net interest income in future periods.

Income Tax Provision in Continuing Operations

The effective tax rate in continuing operations during the third quarter of 2008 was 7.2%. In the second quarter of 2007 we recorded a tax benefit associated with losses incurred. The effective tax rate is lower in 2008 because pre-tax income has decreased, and as a result, the tax benefit associated with tax exempt securities has become a more significant portion of pre-tax income.

Comparison of Financial Condition at September 30, 2008 and December 31, 2007

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

Assets	September 30, 2008	December 31, 2007	Increase (Decrease) $	Increase (Decrease) %	
Cash and cash equivalents	$ 8,527	$ 14,856	$ (6,329)	(43) %	(a)
Investment securities available for sale	211,763	122,899	88,864	72 %	(b)
Federal Reserve Bank and Federal Home Loan Bank stock	7,222	4,918	2,304	47 %	(c)
Loans held for sale	6,390	-	6,390	100 %	(d)
Participating interests in mortgage loans	28,246	24,357	3,889	16 %	(e)
Loans and leases held for investment, net	524,753	490,957	33,796	7 %	(f)
Other real estate	5,098	-	5,098	100 %	(g)
Premises and equipment, net	20,886	19,448	1,438	7 %	
Interest receivable	3,310	3,290	20	1 %	
Other assets	22,124	15,294	6,830	45 %	(h)
Premises and equipment held for sale, net	-	3,572	(3,572)	(100) %	(i)
Total assets	$ 838,319	$ 699,591	$ 138,728	20 %	

(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 stock and Federal Home Loan Bank 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.
(e) Participating interests fluctuate depending on the activities of counterparties.
(f) The balance of loans has increased due to organic growth.
(g) During the second quarter of 2008 we acquired three properties through foreclosure activities.
(h) Other assets have increased due to deferred tax assets, prepaid expenses, derivatives and the cash surrender value of bank owned life insurance contracts.
(i) In the second quarter of 2008 we sold a facility previously used by the insurance segment.

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):

	September 30, 2008		December 31, 2007		Increase (Decrease)		
	Amount	%	Amount	%	Amount	%	
Commercial and industrial	$ 130,251	23.6	$ 125,555	24.4	$ 4,696	4%	
Real estate mortgage	258,628	46.8	181,000	35.1	77,628	43%	(a)
Real estate construction	113,283	20.5	167,345	32.5	(54,062)	(32)%	(a)
Agricultural	23,362	4.2	17,074	3.3	6,288	37%	(b)
Consumer/other	7,094	1.3	5,878	1.1	1,216	21%	
Participating interests in mortgage loans	28,246	5.1	24,357	4.7	3,889	16%	
Lease financing	1,409	0.3	1,815	0.4	(406)	(22)%	
Total principal amount of loans	562,273	101.7	523,024	101.5	39,249	8%	
Unearned income and net unamortized deferred fees and costs	(879)	(0.2)	(1,111)	(0.2)	232	(21)%	
Loans, net of unearned income and unamortized fees and costs	561,394	101.5	521,913	101.3	39,481	8%	
Less allowance for credit losses	(8,395)	(1.5)	(6,599)	(1.3)	(1,796)	27%	
Net loans	$ 552,999	100.0	$ 515,314	100.0	$ 37,685	7%	

(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.

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 $324.3 million as of September 30, 2008 and $201.8 million as of December 31, 2007.

Concentrations of Credit

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

	September 30, 2008		December 31, 2007	
North Dakota	$ 186,969	33 %	$ 154,972	30 %
Minnesota	184,471	33	193,149	37
Arizona	142,674	25	136,371	26
Other	48,159	9	38,532	7
Totals	$ 562,273	100 %	$ 523,024	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):

	September 30, 2008		December 31, 2007	
North Dakota	$ 181,483	32 %	$ 160,506	31 %
Arizona	128,905	23	120,931	23
Minnesota	106,744	19	130,085	25
Texas	39,175	7	26,966	5
California	22,665	4	20,715	4
Kentucky	11,000	2	9,916	2
Wisconsin	10,068	2	5,573	1
Georgia	6,582	1	6,566	1
Idaho	6,020	1	5,621	1
New York	5,376	1	4,155	1
Florida	5,335	1	2,862	1
Arkansas	5,269	1	5,171	1
Other	33,651	6	23,957	4
Totals	$ 562,273	100 %	$ 523,024	100 %

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):

	September 30, 2008		December 31, 2007	
Land and land development loans	$ 67,068	12 %	$ 78,992	15 %
Construction loans	34,265	6	68,849	13
Totals	$ 101,333	18 %	$ 147,841	28 %

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 September 30, 2008 (in thousands):

		Over 1 year through 5 years		Over 5 years		
	One year or less	Fixed rate	Floating rate	Fixed rate	Floating rate	Total
Commercial and industrial	$ 80,803	$ 16,172	$ 8,998	13,997	$ 10,281	130,251
Real estate mortgage	60,004	47,163	82,120	28,493	40,848	258,628
Real estate construction	76,667	3,246	27,615	71	5,685	113,284
Agricultural	12,702	7,331	144	1,648	1,537	23,362
Consumer/other	2,761	2,887	638	140	668	7,094
Participating interests in mortgage loans	28,246	-	-	-	-	28,246
Lease financing	175	1,233	-	-	-	1,408
Total principal amount of loans	$ 261,358	$ 78,032	$ 119,515	$ 44,349	$ 59,019	$ 562,273

(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 nine month periods ending September 30, 2008 and 2007 and certain ratios related to the allowance for credit losses (dollars are in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Balance, beginning of period	$ 7,065	$ 4,308	$ 6,599	$ 3,370
Provision for credit losses	1,800	2,800	4,600	3,750
Loans charged off	(674)	(1,609)	(3,051)	(1,623)
Loans recovered	204	3	247	5
Balance, end of period	$ 8,395	$ 5,502	$ 8,395	$ 5,502
Total loans at September 30, 2008 and September 30, 2007	$ 567,784	$ 466,503		
Loans and leases held for investment at September 30, 2008 and September 30, 2007	$ 533,148	$ 444,686		
Allowance for credit losses as a percentage of total loans at September 30, 2008 and September 30, 2007	1.48%	1.18%		
Allowance for credit losses as a percentage of loans and leases held for investment at September 30, 2008 and September 30, 2007	1.57%	1.24%		

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Ratio of net charge-offs to average total loans	(0.085)%	(0.371)%	(0.514)%	(0.390)%
Ratio of net charge-offs to average loans and leases held for investment	(0.089)%	(0.387)%	(0.541)%	(0.421)%
Ratio of net charge-offs to average total loans, annualized	(0.338)%	(1.483)%	(0.685)%	(0.520)%
Ratio of net charge-offs to average loans and leases held for investment, annualized	(0.357)%	(1.549)%	(0.722)%	(0.561)%

The provision for credit losses was $1.800 million in the third quarter of 2008 compared with $2.800 million in the third quarter of 2007. In 2008, the provision for credit losses reflects the decline in asset values and the deteriorating economic environment. The provision in the third quarter of 2007 reflected a charge-off a loan relationship with a balance of $1.6 million that was subsequently recovered. This recovery increased the allowance for loan losses.

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:

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Balance of allowance for credit losses, beginning of period	$ 6,599	$ 3,370
Charge-offs:		
Commercial and industrial	738	1,504
Real estate mortgage	359	500
Real estate construction	1,930	-
Agricultural	-	-
Consumer/other	24	123
Lease financing	-	-
Total charge-offs	3,051	2,127
Recoveries:		
Commercial and industrial	34	1,500
Real estate mortgage	-	-
Real estate construction	195	-
Agricultural	-	-
Consumer/other	18	106
Lease financing	-	-
Total recoveries	247	1,606
Net charge-offs	(2,804)	(521)
Provision for credit losses charged to operations	4,600	3,750
Balance of allowance for credit losses, end of period	$ 8,395	$ 6,599
Ratio of net charge-offs to average total loans	(0.514)%	(0.121)%
Ratio of net charge-offs to average loans and leases held for investment	(0.541)%	(0.129)%
Average gross loans and leases held for investment	$ 518,037	$ 402,615
Ratio of allowance for credit losses to loans and leases held for investment	1.57%	1.33%
Ratio of allowance for credit losses to nonperforming loans	40%	122%

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

	September 30, 2008		December 31, 2007	
	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	$ 1,066	24%	$ 1,410	24%
Real estate mortgage	2,195	46%	1,956	35%
Real estate construction	4,585	20%	2,740	32%
Agricultural	172	4%	276	3%
Consumer/other	289	1%	112	1%
Participating interests in mortgage loans	76	5%	85	5%
Lease financing	12	-	20	-
Total	$ 8,395	100%	$ 6,599	100%

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.

The allowance for loan loss has increased in our real estate portfolios because these are the portions of our total portfolio where deterioration has occurred.

Nonperforming Assets

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

	September 30, 2008	December 31, 2007
Nonperforming loans:		
Loans 90 days or more delinquent and still accruing interest	$ 26	$ -
Non-accrual loans	21,120	5,399
Total nonperforming loans	21,146	5,399
Other real estate	5,098	
Total nonperforming assets	$ 26,244	$ 5,399
Allowance for credit losses	$ 8,395	$ 6,599
Ratio of total nonperforming loans to total loans	3.72%	1.03%
Ratio of total nonperforming loans to loans and leases held for investment	3.97%	1.09%
Ratio of total nonperforming assets to total assets	3.13%	0.77%
Ratio of allowance for credit losses to nonperforming loans	40%	122%

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 September 30, 2008 the Bank had $39.4 million of classified loans and $21.6 million of loans on non-accrual. This compares to $16.4 million of classified loans and $5.4 million of loans on non-accrual at December 31, 2007. 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 year end had been recognized at original contractual rates during the quarter ended September 30, 2008 (in thousands):

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Interest income that would have been recorded	$ 337	$ 1,032
Interest income recorded	30	409
Effect on interest income	$ 307	$ 623

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 September 30, 2008 and December 31, 2007, the Bank's recorded investment in impaired loans and the related valuation allowance was as follows (in thousands):

	September 30, 2008		December 31, 2007	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans -				
Valuation allowance required	$ 39,366	$ 3,790	$ 16,397	$ 1,572
No valuation allowance required	-	-	-	-
Total impaired loans	$ 39,366	$ 3,790	$ 16,397	$ 1,572

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 September 30, 2008 and December 31, 2007, and approximate interest income for the three months and nine months ended September 30, 2008 and September 30, 2007 recognized for such loans, were as follows (dollars are in thousands):

	September 30, 2008		December 31, 2007	
Average recorded investment in impaired loans	$	39,736	$	16,228
Average recorded investment in impaired loans as a percentage of average total loans		7.29%		3.26%

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007	
Interest income recognized on impaired loans	$	306	$	21
Interest income recognized on a cash basis during the time of impairment	$	-	$	-

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
Interest income recognized on impaired loans	$	538	$	52
Interest income recognized on a cash basis during the time of impairment	$	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 $2.6 million at September 30, 2008 and December 31, 2007. 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.

Not withstanding the prior paragraph, we attempt to quantify potential problem loans with more immediate exposure and at September 30, 2008 such loans totaled $12.6 million compared to $4.5 million at December 31, 2007. 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.

	September 30, 2008	December 31, 2007	Increase (Decrease) $	%
Other Real Estate				
Other real estate owned	$ 5,098	$ -	$ 5,098	100 %
Real estate in judgment	-	-	-	- %
In-substance foreclosure	-	-	-	- %
Total other real estate owned	$ 5,098	$ -	$ 5,098	100 %
Allowance for other real estate losses	-	-	-	- %
Total other real estate owned, net	$ 5,098	$ -	$ 5,098	100 %

We foreclosed on seven properties in 2008.

Liabilities

The following table presents our liabilities by category as of September 30, 2008 and December 31, 2007 as well as the amount and percent of change between the two dates (dollars are in thousands):

Liabilities	September 30, 2008	December 31, 2007	Increase (Decrease) $	%	
Deposits:					
Non-interest-bearing	$ 72,850	$ 72,234	$ 616	1 %	(a)
Interest-bearing -					
Savings, interest checking and money market	253,455	245,722	7,733	3 %	
Time deposits $100,000 and over	51,690	44,038	7,652	17 %	(b)
Other time deposits	265,753	179,880	85,873	48 %	(b)
Short-term borrowings	12,501	5,365	7,136	133 %	(c)
Federal Home Loan Bank advances	95,400	61,400	34,000	55 %	(d)
Long-term borrowings	-	-	-	- %	
Guaranteed preferred beneficial interests in Company's subordinated debentures	22,755	23,075	(320)	(1) %	
Accrued interest payable	1,885	2,843	(958)	(34)	
Accrued expenses	3,406	3,387	19	1 %	
Other liabilities	2,734	1,917	817	43 %	(e)
Total liabilities	$ 782,429	$ 639,861	$ 142,568	22 %	

(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 partially because our customers have shifted to fixed rate products in a declining rate environment. CD’s have also increased because we used brokered CD’s to fund increases in investments.

(c) Short-term borrowings have increased because a client has increased funds on deposit with us after one of their counterparty’s suspended redemptions.

(d) FHLB advances are higher because interest rates on short-term advances are attractive.

(e) Other liabilities have increased because of certain revenues on certain products that must be deferred into future periods.

Stockholders' Equity

Our stockholders' equity decreased $3.840 million between December 31, 2007 and September 30, 2008. The decrease in stockholders' equity is a result of the repurchase of 200,326 shares of treasury stock and a decline in the value of investment securities. Such decline was partially offset by earnings.

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**
September 30, 2008						
Total Capital (to risk-weighted assets):						
Consolidated	$ 88,758	13.25%	$ 53,582	≥8.0%	$ N/A	N/A
BNC National Bank	88,192	13.17	53,559	≥8.0	66,949	≥10.0%
Tier 1 Capital (to risk-weighted assets):						
Consolidated	76,977	11.49	26,791	≥4.0	N/A	N/A
BNC National Bank	79,824	11.92	26,779	≥4.0	40,169	≥6.0
Tier 1 Capital (to average assets):						
Consolidated	76,977	9.35	32,935	≥4.0	N/A	N/A
BNC National Bank	79,824	9.70	32,927	≥4.0	41,159	≥5.0
December 31, 2007						
Total Capital (to risk-weighted assets):						
Consolidated	$ 87,338	14.26%	$ 48,991	≥8.0%	$ N/A	N/A
BNC National Bank	87,240	14.26	48,959	≥8.0	61,199	≥10.0%
Tier 1 Capital (to risk-weighted assets):						
Consolidated	77,021	12.58	24,496	≥4.0	N/A	N/A
BNC National Bank	80,641	13.18	24,479	≥4.0	36,719	≥6.0
Tier 1 Capital (to average assets):						
Consolidated	77,021	12.01	25,648	≥4.0	N/A	N/A
BNC National Bank	80,641	12.57	25,668	≥4.0	32,085	≥5.0

As of September 30, 2008, BNCCORP and the Bank exceeded capital adequacy requirements and the Bank was considered "well-capitalized" under prompt corrective action provisions.

The United States Treasury, referred to as "Treasury" recently announced an equity purchase program through which they have the authority to invest in banks. Although BNC National Bank exceeds "well-capitalized" regulatory standards, we believe it is prudent and responsible to evaluate whether the Treasury program would be of benefit to our future strategic plans. Treasury has indicated that the equity purchase program will be modified to better facilitate participation by private institutions, although the terms under which private institutions would participate have yet to be published. If these terms are attractive to us, we expect to be able to file an application to participate in the fourth quarter of 2008. There is no assurance at this time that the terms for private institutions will be attractive to us or that we will be selected to participate in the program.

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.

As of September 30, 2008, the Bank had established Federal funds purchase programs with three banks, totaling \$17.5 million. At September 30, 2008, the Bank had purchased Federal funds of \$0 under these programs leaving \$17.5 million available. The Federal funds purchase programs, if advanced upon, 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.

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 September 30, 2008 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 September 30, 2008 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. 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 decrease from 4.50% to 3.50% 12 months later. The prime rate in this example will decrease 1/12th of the overall decrease of 100 basis points each month.

Our normal net interest income simulation modeling process projects changes in market interest rates from the levels as of the end of the most recent quarter. As of September 30, 2008, the prime rate was 5.00%. However, given the 50bp inter-meeting reduction in the federal funds target rate by the Federal Open Market Committee to 1.50% on October 8, 2008, and subsequent reduction in prime to 4.50%, it was determined that 4.50% would become the starting point for this quarter's net interest income simulation. 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	-300bp	-200bp	-100bp	Unchanged	+100bp	+200bp	+300bp
Projected 12-month net interest income	$ 30,335	$ 30,323	$ 29,467	$ 28,471	$ 28,315	$ 28,179	$ 28,080
Dollar change from unchanged scenario	$ 1,864	$ 1,852	$ 996	-	$ (156)	$ (292)	$ (391)
Percentage change from unchanged scenario	6.55%	6.50%	3.50%	-	(0.55)%	(1.03)%	(1.37)%
Policy guidelines (decline limited to)	(10.00)%	(10.00)%	(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 September 30, 2008 (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 September 30, 2008. 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 September 30, 2008				
	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	11,546	31,794	106,861	61,562	211,763
FRB and FHLB stock	7,222	-	-	-	7,222
Fed Funds Sold	-	-	-	-	-
Loans held for sale, fixed rate	-	-	-	-	-
Loans held for sale, floating rate	-	34,636	-	-	34,636
Loans held for investment, fixed rate	20,072	48,624	78,212	19,712	166,620
Loans held for investment, floating rate	334,170	3,414	26,452	2,492	366,528
Total interest-earning assets	$ 373,010	$ 118,468	$ 211,525	$ 83,766	$ 786,769
Interest-bearing liabilities:					
Interest checking and money market accounts	$ 242,653	$ -	$ -	$ -	$ 242,653
Savings	10,802	-	-	-	10,802
Time deposits under $100,000	99,534	90,380	75,839	-	265,753
Time deposits $100,000 and over	13,378	36,388	1,924	-	51,690
Short-term borrowings	12,501	-	-	-	12,501
FHLB advances	73,400	-	15,000	7,000	95,400
Long-term borrowings	-	-	-	-	-
Subordinated debentures	-	-	-	22,755	22,755
Total interest-bearing liabilities	$ 452,268	$ 126,768	$ 92,763	$ 29,755	$ 701,554
Interest rate gap	$ (79,258)	$ (8,300)	$ 118,762	$ 54,011	$ 85,215
Cumulative interest rate gap at September 30, 2008	$ (79,258)	$ (87,558)	$ 31,204	$ 85,215	
Cumulative interest rate gap to total assets	(9.45)%	(10.44)%	3.72%	10.16%	

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 September 30, 2008 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.

Signatures

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

BNCCORP, Inc.

Date: November 14, 2008

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

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