BNCCORP, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

KPMG LLP
Suite 300
1212 N. 96th Street
Omaha, NE 68114-2274

Suite 1120
1248 O Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Directors
BNCCORP, INC.

We have audited the accompanying consolidated financial statements of BNCCORP, INC., and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BNCCORP, INC., and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Omaha, Nebraska
March 25, 2016

FINANCIAL INFORMATION
Financial Statements
BNCCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
As of December 31
(In thousands, except share data)

	2015	2014
ASSETS		
CASH AND CASH EQUIVALENTS	$ 15,189	$ 41,124
INVESTMENT SECURITIES AVAILABLE FOR SALE	419,346	449,333
FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK	3,219	2,817
LOANS HELD FOR SALE-MORTGAGE BANKING	50,445	47,109
LOANS AND LEASES HELD FOR INVESTMENT	379,903	360,789
ALLOWANCE FOR CREDIT LOSSES	(8,611)	(8,601)
Net loans and leases held for investment	371,292	352,188
OTHER REAL ESTATE, net	242	256
PREMISES AND EQUIPMENT, net	17,574	16,228
ACCRUED INTEREST RECEIVABLE	4,027	3,931
OTHER	22,912	21,433
Total assets	$ 904,246	$ 934,419
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS:		
Non-interest-bearing	$ 168,259	$ 187,400
Interest-bearing –		
Savings, interest checking and money market	460,385	455,282
Time deposits under $100,000	86,817	107,668
Time deposits $100,000 and over	64,988	60,881
Total deposits	780,449	811,231
SHORT-TERM BORROWINGS	13,851	16,002
FEDERAL HOME LOAN BANK ADVANCES	7,300	-
LONG-TERM BORROWINGS	10,000	-
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES	15,015	15,018
ACCRUED INTEREST PAYABLE	487	338
ACCRUED EXPENSES	7,398	7,279
OTHER	758	1,063
Total liabilities	835,258	850,931
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value – Authorized 2,000,000 shares:		
Preferred stock - 9% Series A 20,093 shares;	-	20,093
Preferred stock - 9% Series B 1,005 shares;	-	1,005
Common stock, $.01 par value – Authorized 35,000,000 shares; 3,428,416 and 3,413,854 shares issued and outstanding	34	34
Capital surplus – common stock	25,979	25,831
Retained earnings	42,172	34,622
Treasury stock (240,237 and 254,799 shares, respectively)	(3,278)	(3,421)
Accumulated other comprehensive income, net	4,081	5,324
Total stockholders' equity	68,988	83,488
Total liabilities and stockholders' equity	$ 904,246	$ 934,419

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31
(In thousands, except per share data)

	2015	2014
INTEREST INCOME:		
Interest and fees on loans	$ 18,610	$ 17,614
Interest and dividends on investments		
Taxable	6,480	9,295
Tax-exempt	2,706	2,241
Dividends	119	114
Total interest income	27,915	29,264
INTEREST EXPENSE:		
Deposits	2,148	2,413
Short-term borrowings	26	36
Federal Home Loan Bank advances	10	1
Long-term borrowings	128	36
Subordinated debentures	258	822
Total interest expense	2,570	3,308
Net interest income	25,345	25,956
PROVISION (REDUCTION) FOR CREDIT LOSSES	(400)	(800)
NET INTEREST INCOME AFTER PROVISION (REDUCTION) FOR CREDIT LOSSES	25,745	26,756
NON-INTEREST INCOME:		
Bank charges and service fees	2,901	2,962
Wealth management revenues	1,476	1,384
Mortgage banking revenues, net	16,214	11,818
Gains on sales of loans, net	1,138	1,915
Gains on sales of securities, net	1,655	53
Other	1,566	2,322
Total non-interest income	24,950	20,454
NON-INTEREST EXPENSE:		
Salaries and employee benefits	19,692	17,783
Professional services	3,923	3,032
Data processing fees	3,059	2,932
Marketing and promotion	3,523	2,974
Occupancy	1,981	2,064
Regulatory costs	696	640
Depreciation and amortization	1,415	1,268
Office supplies and postage	648	687
Other real estate costs	18	72
Other	2,589	3,231
Total non-interest expense	37,544	34,683
Income before income taxes	13,151	12,527
Income tax expense	3,945	4,071
Net income	9,206	8,456
Preferred stock costs	1,656	1,796
Net income available to common shareholders	$ 7,550	$ 6,660
Basic earnings per common share	$ 2.23	$ 1.98
Diluted earnings per common share	$ 2.16	$ 1.91

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31

(In thousands)

	2015		2014	
NET INCOME		$ 9,206		$ 8,456
Unrealized (loss) gain on securities available for sale	$ (350)		$ 10,910	
Reclassification adjustment for gains included in net income	(1,655)		(53)	
Other comprehensive (loss) income before tax	(2,005)		10,857	
Income tax benefit (expense) related to items of other comprehensive (loss) income	762		(4,065)	
Other comprehensive (loss) income	(1,243)	(1,243)	6,792	6,792
TOTAL COMPREHENSIVE INCOME		$ 7,963		$ 15,248

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31

(In thousands, except share data)

	Preferred Stock		Common Stock		Capital Surplus Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount					
BALANCE, December 31, 2013	21,098	$ 21,098	3,374,601	$ 34	$ 26,133	$ 27,962	$ (3,894)	$ (1,468)	$ 69,865
Net income	-	-	-	-	-	8,456	-	-	8,456
Other comprehensive income	-	-	-	-	-	-	-	6,792	6,792
Dividend on preferred stock	-	-	-	-	-	(1,796)	-	-	(1,796)
Impact of share-based compensation	-	-	39,253	-	(302)	-	473	-	171
BALANCE, December 31, 2014	21,098	$ 21,098	3,413,854	$ 34	$ 25,831	$ 34,622	$ (3,421)	$ 5,324	$ 83,488
Net income	-	-	-	-	-	9,206	-	-	9,206
Other comprehensive loss	-	-	-	-	-	-	-	(1,243)	(1,243)
Redemption of preferred stock	(21,098)	(21,098)	-	-	-	-	-	-	(21,098)
Dividend on preferred stock	-	-	-	-	-	(1,656)	-	-	(1,656)
Impact of share-based compensation	-	-	14,562	-	148	-	143	-	291
BALANCE, December 31, 2015	-	$ -	3,428,416	$ 34	$ 25,979	$ 42,172	$ (3,278)	$ 4,081	$ 68,988

See accompanying notes to consolidated financial statements

BNCCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31
(In thousands)

	2015	2014
OPERATING ACTIVITIES:		
Net income	$ 9,206	$ 8,456
Adjustments to reconcile net income to net cash provided by operating activities -		
Reduction for credit losses	(400)	(800)
Provision for other real estate losses	14	-
Depreciation and amortization	1,415	1,268
Net amortization of premiums and (discounts) on investment securities and subordinated debentures	8,152	6,023
Share-based compensation	291	171
Change in accrued interest receivable and other assets, net	(2,347)	5,094
Gain on sale of other real estate	(7)	(90)
(Gain) loss on sale of bank premises and equipment	(56)	4
Net realized gains on sales of investment securities	(1,655)	(53)
(Increase) decrease in deferred taxes	(148)	1,605
Change in other liabilities, net	1,219	(2,598)
Funding of loans held for sale, mortgage banking	(942,729)	(651,310)
Proceeds from sales of loans held for sale, mortgage banking	939,345	637,669
Fair value adjustment for loans held for sale, mortgage banking	151	(598)
Fair value adjustment on mortgage banking derivatives	(189)	(882)
Proceeds from sales of loans	11,881	17,321
Gains on sales of loans, net	(1,138)	(1,915)
Net cash provided by operating activities	23,005	19,365
INVESTING ACTIVITIES:		
Purchases of investment securities	(176,781)	(164,844)
Proceeds from sales of investment securities	152,736	100,066
Proceeds from maturities of investment securities	46,291	53,367
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(7,892)	(1,284)
Sales of Federal Reserve and Federal Home Loan Bank Stock	7,490	1,196
Net increase in loans held for investment	(29,448)	(59,410)
Proceeds from sales of other real estate	7	1,587
Proceeds from sales of bank premises and equipment	163	788
Additions to bank premises and equipment	(2,867)	(3,418)
Net cash used in investing activities	(10,301)	(71,952)

See accompanying notes to consolidated financial statements.

BNCCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

For the Years Ended December 31

(In thousands)

	2015	2014
FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	$ (30,782)	$ 88,003
Net decrease in short-term borrowings	(2,151)	(3,965)
Decrease in subordinate debentures	-	(7,500)
Increase in long-term borrowings	10,000	2,700
Decrease in long-term borrowings	-	(2,700)
Repayments of Federal Home Loan Bank advances	(178,150)	(29,900)
Proceeds from Federal Home Loan Bank advances	185,450	29,900
Redemption of preferred stock	(21,098)	-
Dividends paid on preferred stock	(1,908)	(1,698)
Net cash (used in) provided by financing activities	(38,639)	74,840
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,935)	22,253
CASH AND CASH EQUIVALENTS, beginning of period	41,124	18,871
CASH AND CASH EQUIVALENTS, end of period	$ 15,189	$ 41,124
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 2,421	$ 3,742
Income taxes paid	$ 3,804	$ 2,523
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to other real estate in the settlement of loans	$ -	$ 697

See accompanying notes to consolidated financial statements.

NOTE 1. Description of Business and Significant Accounting Policies

Description of Business
BNCCORP, INC. (BNCCORP or BNC) is a registered bank holding company incorporated under the laws of Delaware. It is the parent company of BNC National Bank (the Bank or BNC Bank). BNC operates community banking and wealth management businesses in North Dakota, Arizona and Minnesota from 15 locations. The Bank also conducts mortgage banking from 14 locations in Arizona, Minnesota, North Dakota, Illinois, Kansas, Arkansas and Missouri.

The consolidated financial statements included herein are for BNCCORP and its subsidiaries. The accounting and reporting policies of BNCCORP and its subsidiaries (collectively, the Company) conform to U.S. generally accepted accounting principles and general practices within the financial services industry. The more significant accounting policies are summarized below.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of BNCCORP and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for credit losses, valuation of other real estate, reserve for potential mortgage banking obligations, fair values of financial instruments (including derivatives), fair value of investments, impairments and income taxes. Ultimate results could differ from those estimates.

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are significantly dependent on subjective assessments or estimates that may be susceptible to significant change. The following items have been identified as “accounting policies”.

Cash and Cash Equivalents
For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, cash due from banks and federal funds sold.

Investment Securities
Investment securities that the Bank intends to hold indefinitely as part of its asset/liability strategy, or that may be sold in response to changes in interest rates or prepayment risk are classified as available for sale. Available for sale securities are carried at fair value. Net unrealized gains and losses, net of deferred income taxes, on securities available for sale are reported as a separate component of stockholders’ equity until realized (see Comprehensive Income). All securities were classified as available for sale as of December 31, 2015 and 2014, except for Federal Reserve Bank (FRB) and the Federal Home Loan Bank (FHLB) stock, which have an indeterminable maturity.

Investment securities that the Bank intends to hold until maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts using a level yield method over the period to maturity. There were no such securities as of December 31, 2015 or 2014.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income is recognized when earned. Realized gains and losses on the sale of investment securities are determined using the specific-identification method and recognized in non-interest income on the trade date.

Other-Than-Temporary Impairment
Declines in the fair value of individual available-for-sale or held-to-maturity securities below amortized cost, which are deemed other-than-temporary, could result in a charge to earnings and establishment of a new cost basis. The Company assesses available information about our securities to determine whether impairment is other-than-temporary. The information we consider includes, but is not limited to, the following:

- Recent and expected performance of the securities;
- Financial condition of issuers or guarantors;
- Recent cash flows;
- Seniority of invested tranches and subordinated credit support;
- Vintage of origination;
- Location of collateral;
- Ratings of securities (ratings are not relied upon);
- Value of underlying collateral;
- Delinquency and foreclosure data;
- Historical losses and estimated severity of future losses;
- Credit surveillance data which summarize retrospective performance; and
- Anticipated future cash flows and prospective performance assessments.

Determining whether other-than-temporary impairment has occurred requires judgment of factors that may indicate an impairment loss has incurred. The Company follows the guidance on other-than-temporary impairments Accounting Standards Codification (ASC) 320, *Investments-Debt and Equity Securities*. Any credit-related impairments are realized through a charge to earnings. The amount of non-credit related impairments is recognized through comprehensive income, net of income taxes.

Note 2 to these consolidated financial statements includes a summary of investment securities in a loss position at December 31, 2015 and 2014.

Federal Reserve Bank and Federal Home Loan Bank of Des Moines Stock
Investments in FRB and FHLB stock are carried at cost, which approximates fair value.

Loans Held For Sale-Mortgage Banking
Loans held for sale-mortgage banking are accounted for at fair value pursuant to the fair value option permitted by FASB ASC 825, *Financial Instruments.* Gains and losses from the changes in fair value are included in mortgage banking revenue.

Loans and Leases
Loans and leases held for investment are stated at their outstanding principal amount net of unearned income, net of unamortized deferred fees and costs and an allowance for credit losses. Interest income is recognized on the accrual basis using the interest method prescribed in the loan agreement except when collectability is in doubt.

Loans and leases are reviewed regularly by management and are placed on non-accrual status when the collection of interest or principal is 90 days or more past due, unless the loan or lease is adequately secured and in the process of collection. When a loan or lease is placed on non-accrual status, uncollected interest accrued in prior years is charged off against the allowance for credit losses, unless collection of the principal and interest is assured. Interest accrued in the current year is reversed against interest income in the current period. Interest payments received on non-accrual loans and leases are generally applied to principal unless the remaining principal balance has been determined to be fully collectible. Accrual of interest may be resumed when it is determined that all amounts due are expected to be collected and the loan has exhibited a sustained level of performance, generally at least six months.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are reviewed for impairment on an individual basis. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's initial effective interest rate. The fair value of collateral of an impaired collateral-dependent loan or an observable market price is also used as an alternative to discounting cash flows. If the measure of the impaired loan is less than the recorded investment in the loan, impairment will be recognized as a charge-off through the allowance for credit losses.

Restructured loans are loans for which concessions, including a reduced interest rate or a deferral of interest or principal, have been granted due to the borrower's weakened financial condition. Once a loan is restructured, interest is accrued at the restructured rates when no loss of principal is anticipated. A loan that has performed in accordance with restructured terms for one year is no longer reported as a restructured loan, but will continue to be reported as impaired.

Cash receipts on impaired loans are generally applied to principal except when the loan is well collateralized or there are other circumstances that support recognition of interest. When an impaired loan is in non-accrual status, cash receipts are applied to principal.

Loan Origination Fees and Costs; Other Lending Fees

For Loans and Leases Held for Investment, origination fees and costs incurred to extend credit are deferred and amortized over the term of the loan as an adjustment to yield using the interest method, except where the net amount is deemed to be immaterial.

The Company occasionally originates lines of credit where the customer is charged a non-usage fee if the line of credit is not used. In such instances, we periodically review use of lines on a retrospective basis and recognize non-usage fees in non-interest income.

Loan Servicing and Transfers of Financial Assets

The Bank sells commercial business loans to third parties. The loans are generally sold on a non-recourse basis. Sold loans are not included in the accompanying consolidated balance sheets.

The sales of loans are accounted for pursuant to FASB ASC 860, *Transfers and Servicing*.

Allowance for Credit Losses

The Bank maintains its allowance for credit losses at a level considered adequate to provide for probable losses related to the loan and lease portfolio as of the balance sheet dates. The loan and lease portfolio and other credit exposures are reviewed regularly to evaluate the adequacy of the allowance for credit losses.

The methodology used to establish the allowance for credit losses incorporates quantitative and qualitative risk considerations. Quantitative factors include our historical loss experience, delinquency information, charge-off trends, collateral values, changes in nonperforming loans and other factors. Quantitative factors also incorporate known information about individual borrowers, including sensitivity to interest rate movements or other quantifiable external factors.

Qualitative factors include the general economic environment, the state of certain industries and factors unique to our market areas. Size, complexity of individual credits, loan structure, variances from loan policies and pace of portfolio growth are other qualitative factors that are considered when we estimate the allowance for credit losses.

Our methodology has been consistently applied. However, we enhance our methodology as circumstances dictate to keep pace with the complexity of the portfolio.

The allowance for credit losses has three components as follows:

> **Specific Reserves**. The amount of specific reserves is determined through a loan-by-loan analysis of problematic loans over a minimum size. Included in problem loans are non-accrual or restructured loans that meet the impairment criteria in FASB ASC 310. A loan is impaired when, based on current information, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Any allowance on impaired loans is generally based on one of three methods: the present value of expected cash flows at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral of the loan. Specific reserves may also be established for credits that have been internally

classified as credits requiring management's attention due to underlying problems in the borrower's business or collateral concerns.

Reserves for Homogeneous Loan Pools. The Bank makes a significant number of loans and leases that, due to their underlying similar characteristics, are assessed for loss as "homogeneous" pools. Included in the homogeneous pools are loans which have been excluded from the specific reserve allocation.

Qualitative Reserve. Management also allocates reserves for other circumstances pertaining to the measurement period. The factors considered include, but are not limited to, prevailing trends, economic conditions, geographic influence, industry segments within the portfolio, management's assessment of credit risk inherent in the loan portfolio, delinquency data, historical loss experience and peer-group information.

Monitoring loans and analysis of loss components are the principal means by which management determines estimated credit losses are reflected in the Bank's allowance for credit losses on a timely basis. Management also considers regulatory guidance in addition to the Bank's own experience. Various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require additions to the allowance based on their judgment about information available to them at the time of their examination.

Loans, leases and other extensions of credit deemed uncollectible are charged off against the allowance for losses. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is highly dependent upon variables affecting valuation, including appraisals of collateral, evaluations of performance as well as the amounts and timing of future cash flows expected to be received on impaired loans. These variables are reviewed periodically. Actual losses may vary from the current estimated allowance for credit losses. For nonperforming or impaired loans, appraisals are generally performed annually or whenever circumstances warrant a new appraisal. Management regularly evaluates the appraised value and costs to liquidate in order to estimate fair value. A provision for credit losses is made to adjust the allowance to the amount determined appropriate through application of the above processes.

Other Real Estate Owned and Repossessed Property

Real estate properties and other assets acquired through loan foreclosures are recorded at fair value less estimated costs to sell. If the carrying amount of an asset acquired through foreclosure is in excess of the fair value less estimated costs to sell, the excess amount is charged to the allowance for credit losses. Fair value is primarily determined based upon appraisals of the assets involved and management periodically assesses appraised values to ascertain continued relevancy of the valuation. Subsequent declines in the estimated fair value, net operating results and gains and losses on disposition of the asset are included in other non-interest expense. Operating expenses of properties are charged to other real estate costs.

Premises and Equipment

Land is carried at cost. Premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization for financial reporting purposes is charged to operating expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are up to 40 years for buildings and three to 10 years for furniture and equipment. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvement. The costs of improvements are capitalized. Maintenance and repairs, as well as gains and losses on dispositions of premises and equipment, are included in non-interest income or expense as incurred.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. If impairment is identified, the assets are written down to their fair value through a charge to non-interest expense.

Securities Sold Under Agreements to Repurchase

From time to time, the Bank enters into sales of securities under agreements to repurchase, generally for periods of less than 90 days. These agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets as short-term borrowings. The costs of securities underlying the agreements remain in the asset accounts.

Fair Value

Several accounting standards require recording assets and liabilities based on their fair values. Determining the fair value of assets and liabilities can be highly subjective. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value and establishes a framework for measuring fair value of assets and liabilities using a hierarchy system consisting of three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

> Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.
>
> Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which significant assumptions are observable in the market.
>
> Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability.

Management assigns a level to assets and liabilities accounted for at fair value and uses the methodologies prescribed by ASC 820 to determine fair value.

Fair Values of Financial Instruments

The Company is required to disclose the estimated fair value of financial instruments. Fair value estimates are subjective in nature, involving uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following methods and assumptions are used by the Company in estimating fair value disclosures for its financial instruments.

Cash and Cash Equivalents, Non-interest-Bearing Deposits and Demand Deposits. The carrying amounts approximate fair value due to the short maturity of the instruments. The fair value of deposits with no stated maturity, such as interest checking, savings and money market accounts, is equal to the amount payable on demand at the reporting date. The intangible value of long-term customer relationships with depositors is not taken into account in the fair values disclosed.

Investment Securities Available for Sale. The fair value of the Company's securities are 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.

Federal Reserve Bank and Federal Home Loan Bank Stock. The carrying amount of FRB and FHLB stock is their cost, which approximates fair value.

Loans Held for Sale-Mortgage Banking. Loans held for sale-mortgage banking are accounted for at fair value pursuant to the fair value option permitted by FASB ASC 825, *Financial Instruments*.

Accrued Interest Receivable. The fair value of accrued interest receivable equals the amount receivable due to the current nature of the amounts receivable.

Derivative Financial Instruments. The fair value of the Company's derivatives are 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.

Interest-Bearing Deposits. Fair values of interest-bearing deposit liabilities are estimated by discounting future cash flow payment streams using rates at which comparable current deposits with comparable maturities are being issued.

Borrowings and Advances. The carrying amount of short-term borrowings approximates fair value due to the short maturity and the instruments' floating interest rates, which are tied to market conditions. The fair values of long-term borrowings are estimated by discounting future cash flow payment streams using rates at which comparable borrowings are currently being offered.

Accrued Interest Payable. The fair value of accrued interest payable equals the amount payable due to the current nature of the amounts payable.

Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures. The fair values of the Company's subordinated debentures are estimated by discounting future cash flow payment streams using discount rates estimated to reflect those at which comparable instruments could currently be offered.

Financial Instruments with Off-Balance-Sheet Risk. The fair values of the Company's commitments to extend credit and commercial and standby letters of credit are estimated using fees currently charged to enter into similar agreements.

Derivative Financial Instruments

FASB ASC 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Accordingly, the Company records all derivatives at fair value.

The Company enters into interest rate lock commitments on certain mortgage loans related to our mortgage banking operations on a best efforts basis, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding. The Company also has corresponding forward sales contracts related to these interest rate lock commitments. Both the mortgage loan commitments and the related forward sales contracts are accounted for as derivatives and carried at fair value with changes in fair value recorded in income.

The Company also commits to originate and sell certain loans related to our mortgage banking operations on a mandatory delivery basis. To hedge interest rate risk the Company sells short positions in mortgage backed securities related to the loans sold on a mandatory delivery basis. The commitments to originate and short positions are accounted for as derivatives and carried at fair value with changes in fair value recorded in income.

Share-Based Compensation

FASB ASC 718 requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date.

At December 31, 2015, the Company had four stock-based employee compensation plans, which are described more fully in Note 23 and Note 25 to these consolidated financial statements.

Income Taxes

The Company files consolidated federal and unitary state income tax returns where allowed.

The determination of current and deferred income taxes is based on analyses of many factors including interpretation of federal and state income tax laws, differences between tax and financial reporting basis of assets and liabilities, expected reversals of temporary differences, estimates of amounts due or owed and current financial accounting standards. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income taxes.

Deferred income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Management assesses net deferred tax assets to determine whether they are realizable based upon accounting standards and specific facts and circumstances. A valuation allowance is established to reduce net deferred tax assets to amounts that are more likely than not expected to be realized.

Earnings Per Share

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Such potential dilutive instruments include stock options and contingently issuable stock. Note 22 to these consolidated financial statements includes disclosure of the Company’s EPS calculations.

Comprehensive Income (Loss)

Comprehensive income (loss) is the total of net income and accumulated other comprehensive income (loss), which for the Company, is generally comprised of unrealized gains and losses on securities available for sale and unrealized gains and losses on hedging instruments qualifying for cash flow hedge accounting treatment pursuant to FASB ASC 815.

RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS

ASU 2014-14, *Receivables - Troubled Debt Restructuring by Creditors (Subtopic 310-40) – Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*, will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. ASU 2014-14 is effective for entities other than public business entities, for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. An entity can elect a prospective or a modified retrospective transition method, but must use the same transition method that it elected under FASB ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. Early adoption, including adoption in an interim period, is permitted if the entity already adopted ASU 2014-04. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

ASU No. 2014-04, *Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*, was issued to clarify that when an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for annual reporting periods beginning after December 15, 2014. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In December 2012, the FASB issued for public comment a draft proposal designed to improve financial reporting about expected credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The proposed ASU, *Financial Instruments - Credit Losses*, proposes a new accounting model which would change the definition from inherent credit losses to expected credit losses, which could result in more timely recognition of credit losses, and also would provide additional transparency about credit risk. The FASB has not yet established a proposed effective date, but a final standard is expected to be issued in 2016.

ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* was issued to clarify that debt issuance costs are to be presented in the balance sheet as a direct reduction from the carrying value of the related debt liability. ASU 2015-03 is effective for entities, other than public entities, for annual reporting periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption of the amendment is permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This ASU requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months on its balance sheet. This ASU is effective in annual and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. We are currently in the process of evaluating the impact that this new guidance will have on our Financial Statements.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements for the prior year have been reclassified to conform to the current year's presentation. These reclassifications had no effect on net income or stockholders' equity.

NOTE 2. 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 December 31, 2015 or 2014. The carrying amount of available-for-sale securities and their approximate fair values were as follows as of December 31 (in thousands):

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 32,925	$ 9	$ (285)	$ 32,649
U.S. government agency mortgage-backed securities guaranteed by GNMA	105,407	46	(1,022)	104,431
U.S. government agency small business administration pools guaranteed by SBA	105,150	737	(209)	105,678
Collateralized mortgage obligations guaranteed by GNMA/VA	61,418	678	(203)	61,893
Collateralized mortgage obligations issued by FNMA or FHLMC	21,607	206	(151)	21,662
State and municipal bonds	87,779	5,413	(159)	93,033
	$ 414,286	$ 7,089	$ (2,029)	$ 419,346

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 19,861	$ 70	$ (10)	$ 19,921
U.S. government agency mortgage-backed securities guaranteed by GNMA	101,833	667	(863)	101,637
U.S. government agency small business administration pools guaranteed by SBA	83,990	687	(298)	84,379
Collateralized mortgage obligations guaranteed by GNMA/VA	96,988	1,500	(300)	98,188
Collateralized mortgage obligations issued by FNMA or FHLMC	62,638	923	(227)	63,334
State and municipal bonds	76,958	4,990	(74)	81,874
	$ 442,268	$ 8,837	$ (1,772)	$ 449,333

The amortized cost and estimated fair market value of available-for-sale securities classified according to their contractual maturities at December 31, 2015, were as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	17,918	17,820
Due after five years through ten years	17,433	17,317
Due after ten years	378,935	384,209
Total	$ 414,286	$ 419,346

For many types of investments, the actual payments will vary significantly from contractual maturities.

Securities carried at approximately $77.1 million and $76.6 million at December 31, 2015 and 2014, respectively, were pledged as collateral for public and trust deposits and borrowings, including borrowings from the FHLB and repurchase agreements with customers.

Sales proceeds and gross realized gains and losses on available-for-sale securities were as follows for the years ended December 31 (in thousands):

	2015	2014
Sales proceeds	$ 152,736	$ 100,066
Gross realized gains	2,565	911
Gross realized losses	(910)	(858)
Net realized gains	$ 1,655	$ 53

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 December 31 (in thousands):

	2015								
	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. Treasury securities	2	$ 24,673	$ (285)	-	$ -	$ -	2	$ 24,673	$ (285)
U.S. government agency mortgage-backed securities guaranteed by GNMA	15	99,357	(1,022)	-	-	-	15	99,357	(1,022)
U.S. government agency small business administration pools guaranteed by SBA	9	32,910	(138)	3	4,691	(71)	12	37,601	(209)
Collateralized mortgage obligations guaranteed by GNMA/VA	7	21,299	(203)	-	-	-	7	21,299	(203)
Collateralized mortgage obligations issued by FNMA or FHLMC	1	4,854	(74)	2	3,577	(77)	3	8,431	(151)
State and municipal bonds	2	8,147	(159)	-	-	-	2	8,147	(159)
Total temporarily impaired securities	36	$ 191,240	$ (1,881)	5	$ 8,268	$ (148)	41	$ 199,508	$ (2,029)

	2014								
	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. Treasury securities	1	$ 7,949	$ (10)	-	$ -	$ -	1	$ 7,949	$ (10)
U.S. government agency mortgage-backed securities guaranteed by GNMA	7	47,031	(275)	2	16,853	(588)	9	63,884	(863)
U.S. government agency small business administration pools guaranteed by SBA	8	32,354	(241)	3	6,246	(57)	11	38,600	(298)
Collateralized mortgage obligations guaranteed by GNMA/VA	5	12,874	(99)	3	13,239	(201)	8	26,113	(300)
Collateralized mortgage obligations issued by FNMA or FHLMC	3	14,453	(149)	1	3,799	(78)	4	18,252	(227)
State and municipal bonds	4	10,430	(74)	-	-	-	4	10,430	(74)
Total temporarily impaired securities	28	$ 125,091	$ (848)	9	$ 40,137	$ (924)	37	$ 165,228	$ (1,772)

Management regularly evaluates each security with unrealized losses to determine whether losses are other-than-temporary. When determining whether a security is other-than-temporarily impaired, management assesses whether it has the intent to sell the security or whether it is more likely than not that it will be required to sell the security prior to its anticipated recovery. When evaluating a security, management considers several factors including, but not limited to, the amount of the unrealized loss, the length of time the security has been in a loss position, guarantees provided by third parties, ratings on the security, cash flow from the security, the level of credit support provided by subordinate tranches, and the collateral underlying the security.

There were no securities that were other-than-temporarily impaired during 2015 or 2014.

NOTE 3. Federal Reserve Bank and Federal Home Loan Bank Stock

The carrying amounts of FRB and FHLB stock, which approximate their fair values, consisted of the following as of December 31 (in thousands):

	2015	2014
Federal Reserve Bank Stock, at cost	$ 1,807	$ 1,807
Federal Home Loan Bank of Des Moines Stock, at cost	1,412	1,010
Total	$ 3,219	$ 2,817

There is no contractual maturity on these investments; the investments are required by counterparties.

NOTE 4. Loans and Leases

The composition of loans and leases is as follows at December 31 (in thousands):

	2015	2014
Loans held for sale-mortgage banking	$ 50,445	$ 47,109
Commercial and industrial	$ 125,009	$ 132,229
Commercial real estate	149,099	108,122
SBA	25,860	26,972
Consumer	47,073	40,470
Land and land development	17,627	28,220
Construction	15,187	24,916
Gross loans and leases held for investment	379,855	360,929
Unearned income and net unamortized deferred fees and costs	48	(140)
Loans, net of unearned income and unamortized fees and costs	379,903	360,789
Allowance for credit losses	(8,611)	(8,601)
Net loans and leases held for investment	$ 371,292	$ 352,188

Loans to Related Parties

Note 20 to these consolidated financial statements includes information relating to loans to executive officers, directors, principal shareholders and associates of such persons.

Loans Pledged as Collateral

The table below presents loans pledged as collateral to the Federal Home Loan Bank, Federal Reserve Bank, and the Bank of North Dakota as of December 31(in thousands):

	2015	2014
Commercial and industrial	$ 37,130	$ 27,004
Commercial real estate	88,948	64,938
Consumer	22,487	20,185
Construction	644	1,099
	$ 149,209	$ 113,226

NOTE 5. Allowance for Credit Losses

Transactions in the allowance for credit losses were as follows for the years ended December 31 (in thousands):

	2015						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,686	$ 2,496	$ 1,190	$ 516	$ 1,436	$ 277	$ 8,601
Provision (reduction)	559	(1,048)	465	148	(395)	(129)	(400)
Loans charged off	(47)	-	(145)	(43)	-	-	(235)
Loan recoveries	7	551	68	19	-	-	645
Balance, end of period	$ 3,205	$ 1,999	$ 1,578	$ 640	$ 1,041	$ 148	$ 8,611

	2014						
	Commercial and industrial	Commercial real estate	SBA	Consumer	Land and land development	Construction	Total
Balance, beginning of period	$ 2,215	$ 4,041	$ 579	$ 478	$ 2,371	$ 163	$ 9,847
Provision (reduction)	471	(1,114)	715	59	(1,045)	114	(800)
Loans charged off	-	(439)	(109)	(42)	(190)	-	(780)
Loan recoveries	-	8	5	21	300	-	334
Balance, end of period	$ 2,686	$ 2,496	$ 1,190	$ 516	$ 1,436	$ 277	$ 8,601

The following table shows the balance in the allowance for credit losses at December 31, 2015, and December 31, 2014, and the related loan balances, segregated on the basis of impairment methodology (in thousands). Impaired loans are loans on nonaccrual status and troubled debt restructurings, which are individually evaluated for impairment, and other loans deemed to have similar risk characteristics. All other loans are collectively evaluated for impairment.

	Allowance For Credit Losses			Gross Loans and Leases Held for Investment		
	Impaired	Other	Total	Impaired	Other	Total
December 31, 2015						
Commercial and industrial	$ -	$ 3,205	$ 3,205	$ -	$ 125,009	$ 125,009
Commercial real estate	-	1,999	1,999	1,578	147,521	149,099
SBA	313	1,265	1,578	313	25,547	25,860
Consumer	33	607	640	383	46,690	47,073
Land and land development	-	1,041	1,041	-	17,627	17,627
Construction	-	148	148	-	15,187	15,187
Total	$ 346	$ 8,265	$ 8,611	$ 2,274	$ 377,581	$ 379,855
December 31, 2014						
Commercial and industrial	$ 18	$ 2,668	$ 2,686	$ 90	$ 132,139	$ 132,229
Commercial real estate	574	1,922	2,496	4,741	103,381	108,122
SBA	-	1,190	1,190	-	26,972	26,972
Consumer	-	516	516	330	40,140	40,470
Land and land development	-	1,436	1,436	-	28,220	28,220
Construction	-	277	277	-	24,916	24,916
Total	$ 592	$ 8,009	$ 8,601	$ 5,161	$ 355,768	$ 360,929

Performing and non-accrual loans

The Bank's key credit quality indicator is the loan's performance status, defined as accrual or non-accrual. Performing loans are considered to have a lower risk of loss and are on accrual status. Non-accrual loans include loans on which the accrual of interest has been discontinued. Accrual of interest is discontinued when we believe that the borrower's financial condition is such that the collection of principal and 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. 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. Delinquent balances are determined based on the contractual terms of the loan adjusted for charge-offs and payments applied to principal.

The following table sets forth information regarding the Bank's performing and non-accrual loans at December 31 (in thousands):

	2015					
	Current	**31-89 Days Past Due**	**90 Days or More Past Due And Accruing**	**Total Performing**	**Non-accrual**	**Total**
Commercial and industrial:						
Business loans	$ 62,563	$ 377	$ -	$ 62,940	$ -	$ 62,940
Agriculture	18,003	-	-	18,003	-	18,003
Owner-occupied commercial real estate	44,066	-	-	44,066	-	44,066
Commercial real estate	149,099	-	-	149,099	-	149,099
SBA	24,632	915	-	25,547	313	25,860
Consumer:						
Automobile	6,057	69	-	6,126	51	6,177
Home equity	8,134	-	-	8,134	-	8,134
1st mortgage	12,161	-	-	12,161	-	12,161
Other	20,564	11	-	20,575	26	20,601
Land and land development	17,452	-	175	17,627	-	17,627
Construction	15,187	-	-	15,187	-	15,187
Total loans held for investment	377,918	1,372	175	379,465	390	379,855
Loans held for sale	50,444	1	-	50,445	-	50,445
Total gross loans	$ 428,362	$ 1,373	$ 175	$ 429,910	$ 390	$ 430,300

	2014					
	Current	**31-89 Days Past Due**	**90 Days or More Past Due And Accruing**	**Total Performing**	**Non-accrual**	**Total**
Commercial and industrial:						
Business loans	$ 67,335	$ 161	$ -	$ 67,496	$ 37	$ 67,533
Agriculture	17,478	-	-	17,478	-	17,478
Owner-occupied commercial real estate	47,218	-	-	47,218	-	47,218
Commercial real estate	108,122	-	-	108,122	-	108,122
SBA	26,972	-	-	26,972	-	26,972
Consumer:						
Automobile	6,343	25	-	6,368	19	6,387
Home equity	9,798	-	-	9,798	-	9,798
1st mortgage	9,790	-	-	9,790	-	9,790
Other	14,470	20	5	14,495	-	14,495
Land and land development	28,220	-	-	28,220	-	28,220
Construction	24,916	-	-	24,916	-	24,916
Total loans held for investment	360,662	206	5	360,873	56	360,929
Loans held for sale	47,109	-	-	47,109	-	47,109
Total gross loans	$ 407,771	$ 206	$ 5	$ 407,982	$ 56	$ 408,038

The following table indicates the effect on income if interest on non-accrual loans outstanding at year end had been recognized at original contractual rates during the year ended December 31 (in thousands):

	2015	**2014**
Interest income that would have been recorded	$ 14	$ 20
Interest income recorded	-	-
Effect on interest income	$ 14	$ 20

Credit Risk by Internally Assigned Grade

The Company maintains an internal risk rating process in order to increase the precision and effectiveness of credit risk management. Internal grade is generally categorized into the following four categories: pass, watch List, substandard, and doubtful.

At December 31, 2015 the Company had $362.1 million of loans categorized as pass rated loans. This compares to $349.7 million at December 31, 2014.

Loans designated as watch list are loans that possess some credit deficiency that deserves close attention due to emerging problems. Such loans pose unwarranted financial risk that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. At December 31, 2015 the Company had $7.9 million of loans categorized as watch list loans compared to $2.1 million at December 31, 2014.

Loans graded as Substandard or Doubtful are considered "Classified" loans for regulatory purposes. Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. At December 31, 2015 the Company had $9.4 million of substandard loans and $379 thousand of doubtful loans. This compares to $9.1 million of substandard loans and no doubtful loans as of December 31, 2014.

Impaired loans

Impaired loans include loans the Bank will not be able to collect all amounts due in accordance with the terms of the loan agreement. Impaired loans include non-accruing and loans that have been modified in a troubled debt restructuring. All loans are individually reviewed for impairment.

The following table summarizes impaired loans and related allowances as of and for the years ended December 31, 2015 and 2014 (in thousands):

	2015				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance**	**Interest Income Recognized (12 months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	325	313	313	324	-
Consumer:					
Automobile	39	39	20	40	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	26	26	13	26	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 390	$ 378	$ 346	$ 390	$ -
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	1,876	1,578	-	1,579	80
SBA	-	-	-	-	-
Consumer:					
Automobile	29	12	-	15	-
Home equity	-	-	-	-	-
1st mortgage	1,878	306	-	308	13
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 3,783	$ 1,896	$ -	$ 1,902	$ 93
TOTAL IMPAIRED LOANS	$ 4,173	$ 2,274	$ 346	$ 2,292	$ 93

	2014				
	Unpaid Principal	**Recorded Investment**	**Related Allowance**	**Average Recorded Balance**	**Interest Income Recognized (12 months)**
Impaired loans with an allowance recorded:					
Commercial and industrial:					
Business loans	$ 90	$ 90	$ 18	$ 93	$ 4
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	8,642	4,741	574	5,077	136
SBA	-	-	-	-	-
Consumer:					
Automobile	-	-	-	-	-
Home equity	-	-	-	-	-
1st mortgage	-	-	-	-	-
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans with an allowance recorded	$ 8,732	$ 4,831	$ 592	$ 5,170	$ 140
Impaired loans without an allowance recorded:					
Commercial and industrial:					
Business loans	$ -	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-	-
Commercial real estate	-	-	-	-	-
SBA	-	-	-	-	-
Consumer:					
Automobile	35	19	-	23	-
Home equity	-	-	-	-	-
1st mortgage	1,878	311	-	395	16
Other	-	-	-	-	-
Land and land development	-	-	-	-	-
Construction	-	-	-	-	-
Loans held for sale	-	-	-	-	-
Total impaired loans without an allowance recorded	$ 1,913	$ 330	$ -	$ 418	$ 16
TOTAL IMPAIRED LOANS	$ 10,645	$ 5,161	$ 592	$ 5,588	$ 156

Troubled Debt Restructuring (TDR)
Included in loans receivable, net, are certain loans that have been modified in order to maximize collection of loan balances. If the Company, for legal or economic reasons related to the borrower's financial difficulties, grants a concession compared to the original terms and conditions of the loan, the modified loan is considered a troubled debt restructuring.

The Company follows FASB ASU No. 2011-02, *Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring,* which modified guidance for identifying restructurings of receivables that constitute a TDR.

The table below summarizes the amounts of restructured loans as of December 31 (in thousands):

	2015			
	Accrual	**Non-accrual**	**Total**	**Allowance**
Commercial and industrial:				
Business loans	$ -	$ -	$ -	$ -
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	1,578	-	1,578	-
SBA	-	313	313	313
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	306	-	306	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 1,884	$ 313	$ 2,197	$ 313

	2014			
	Accrual	**Non-accrual**	**Total**	**Allowance**
Commercial and industrial:				
Business loans	$ 53	$ -	$ 53	$ 10
Agriculture	-	-	-	-
Owner-occupied commercial real estate	-	-	-	-
Commercial real estate	4,741	-	4,741	574
SBA	-	-	-	-
Consumer:				
Automobile	-	-	-	-
Home equity	-	-	-	-
1st mortgage	311	-	311	-
Other	-	-	-	-
Land and land development	-	-	-	-
Construction	-	-	-	-
Loans held for sale	-	-	-	-
	$ 5,105	$ -	$ 5,105	$ 584

TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of real estate or other assets in full or partial satisfaction of the debt. Loan modifications are not reported as TDR's after 12 months if the loan was modified at a market rate of interest for comparable risk loans, and the loan is performing in accordance with the terms of the restructured agreement for at least six months.

When a loan is modified as a TDR, there may be a direct, material impact on the loans within the Balance Sheet, as principal balances may be partially forgiven. For the year ending December 31, 2015 there were three new TDRs with a pre-modification balance of $329 thousand and a post-modification balance of $313 thousand. There were no new TDRs for the year ending December 31, 2014.

Loans that were non-accrual prior to modification remain on non-accrual for at least six months following modification. Non-accrual TDR loans that have performed according to the modified terms for six months may be returned to accruing status. Loans that were accruing prior to modification remain on accrual status after the modification as long as the loan continues to perform under the new terms.

The following table indicates the effect on income if interest on restructured loans outstanding at year end had been recognized at original contractual rates during the year ended December 31 (in thousands):

	2015	**2014**
Interest income that would have been recorded	$ 222	$ 463
Interest income recorded	93	145
Effect on interest income	$ 129	$ 318

There were no additional funds committed to borrowers who are in TDR status at December 31, 2015 and December 31, 2014.

TDRs are evaluated separately in the Bank's allowance methodology based on the expected cash flows or collateral values for loans in this status.

As of December 31, 2015 and December 31, 2014, the Bank had no restructured loans that were modified in a troubled-debt restructuring within the previous 12 months for which there was a payment default (i.e. 90 days delinquent).

NOTE 6. Other Real Estate, net

Other real estate (ORE), net includes property acquired through foreclosure, property in judgment and in-substance foreclosures, and property transferred from premises and equipment. ORE is carried at fair value less estimated selling costs. Each property is evaluated regularly and the amounts provided to decrease the carrying amount are included in non-interest expense. A summary of the activity related to ORE is presented below for the years ended December 31 (in thousands):

	2015	2014
Balance, beginning of period	$ 256	$ 1,056
Transfers from nonperforming loans	-	697
Real estate sold	(7)	(1,587)
Net gains on sale of assets	7	90
Provision	(14)	-
Balance, end of period	$ 242	$ 256

The following is a summary of ORE as of December 31 (in thousands):

	2015	2014
Other real estate	$ 954	$ 954
Valuation allowance	(712)	(698)
Other real estate, net	$ 242	$ 256

NOTE 7. Premises and Equipment, net

Premises and equipment, net consisted of the following at December 31 (in thousands):

	2015	2014
Land and improvements	$ 4,326	$ 4,417
Buildings and improvements	14,499	12,459
Leasehold improvements	545	510
Furniture, fixtures and equipment	10,103	10,076
Total cost	29,473	27,462
Less accumulated depreciation and amortization	(11,899)	(11,234)
Net premises and equipment	$ 17,574	$ 16,228

Depreciation and amortization expense totaled approximately $1.4 million and $1.3 million for the years ended December 31, 2015 and 2014, respectively.

NOTE 8. Deposits

The scheduled maturities of time deposits as of December 31, 2015 are as follows (in thousands):

2016	$	77,175
2017		23,607
2018		9,143
2019		8,274
2020		4,516
Thereafter		29,090
	$	151,805

At December 31, 2015 and 2014, the Bank had $33.4 million and $54.0 million, respectively, of time deposits that had been acquired through a broker.

At December 31, 2015 and 2014, the Bank had $11.6 million and $17.2 million, respectively, in time deposits greater than $250 thousand.

The following table shows a summary of interest expense by product type as of December 31 (in thousands):

	2015		2014	
Savings	$	9	$	9
Interest checking		64		75
Money market		466		467
Time deposits		1,609		1,862
	$	2,148	$	2,413

Deposits Received from Related Parties

Note 20 to these consolidated financial statements includes information relating to deposits received from executive officers, directors, principal shareholders and associates of such persons.

NOTE 9. Short-Term Borrowings

The following table sets forth selected information for short-term borrowings (borrowings with an original maturity of less than one year) as of December 31 (in thousands):

	2015		2014	
Federal reserve borrowings - U. S. Treasury tax and loan retainer	$	-	$	-
Repurchase agreements with customers, renewable daily, interest payable monthly, rates ranging from 0.05% to 0.40% in 2015, and from 0.05% to 0.40% in 2014, secured by government agency collateralized mortgage obligations and general obligations of municipalities		13,851		16,002
	$	13,851	$	16,002

The weighted average interest rate on short-term borrowings outstanding as of December 31, 2015 and 2014 was 0.14% and 0.15%, respectively.

Customer repurchase agreements are used by the Bank to acquire funds from customers where the customers are required, or desire, to have their funds supported by collateral consisting of government, government agency or other types of securities. The repurchase agreement is a promise to sell these securities to a customer at a certain price and repurchase them at a future date at that same price plus interest accrued at an agreed upon rate. The Bank uses customer repurchase agreements in its liquidity plan as well as an accommodation to customers. At December 31, 2015, $13.9 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.14%, were collateralized by government agency collateralized mortgage obligations and general obligations of municipalities having a market value of $34.5 million and unamortized principal balances of $32.0 million. At December 31, 2014, $16.0 million of securities sold under repurchase agreements, with a weighted average interest rate of 0.15%, were collateralized by government agency collateralized mortgage obligations and general obligations of municipalities having a market value of $30.3 million and unamortized principal balances of $31.3 million.

NOTE 10. Federal Home Loan Bank Advances

As of December 31, 2015, the Bank had $7.3 million of FHLB advances outstanding. At December 31, 2015, the Bank has mortgage loans pledged as collateral to the FHLB with unamortized principal balances of approximately $127.4 million. The Bank has the ability to draw advances up to approximately $77.6 million based upon the mortgage loans that are currently pledged, subject to a requirement to purchase additional FHLB stock.

As of December 31, 2014, the Bank had $0 of FHLB advances outstanding. At December 31, 2014, the Bank has mortgage loans pledged as collateral to the FHLB with unamortized principal balances of approximately $109.6 million.

NOTE 11. Long-Term Borrowings

The following table sets forth selected information for long-term borrowings (borrowings with an original maturity of greater than one year) as of December 31 (in thousands):

	2015	2014
Note payable, interest due each quarter, beginning on April 1, 2016 ending October 19, 2025, interest payable at a fixed rate of 6.35%	$ 10,000	$ -

On October 19, 2015, the Company entered into a $10.0 million term loan agreement with another bank. The long term borrowing is subordinated debt that qualifies as Tier 2 capital for the Company. The loan includes various covenants that are primarily operational rather than financial in nature. As of December 31, 2015, the Company was in compliance with these covenants. The note may be repaid by the Company at par in whole or in part beginning October 19, 2020.

NOTE 12. Other Borrowings

The following table presents selected information regarding other borrowings at December 31 (in thousands):

2015

Unsecured Borrowing Lines:		**Line**	**Outstanding**	**Available**
BNC Bank Lines (1)		$ 34,500	$ -	$ 34,500

Secured Borrowing Lines:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC Bank Line	$ 650	$ 387	$ -	$ 387
BNC Line	87,862	10,000	-	10,000
Total	$ 88,512	$ 10,387	$ -	$ 10,387

(1) The unsecured BNC Bank Lines consists of three separate lines with three institutions in individual amounts of $12.5 million, $10 million, and $12 million.

At December 31, 2015, the pledged collateral for the BNC Bank line was comprised of collateralized mortgage obligations and the pledged collateral for the BNC line is the common stock of BNC Bank.

2014

Unsecured Borrowing Line:		**Line**	**Outstanding**	**Available**
BNC Bank Lines (1)		$ 32,000	$ -	$ 32,000

Secured Borrowing Line:	**Collateral Pledged**	**Line**	**Outstanding**	**Available**
BNC Bank Lines (2)	$ 2,424	$ 1,490	$ -	$ 1,490
BNC Line	91,882	10,000	-	10,000
Total	$ 94,306	$ 11,490	$ -	$ 11,490

(1) The unsecured BNC Bank Lines consists of three separate lines with three institutions in individual amounts of $10 million, $10 million, and $12 million.

(2) The secured BNC Bank Lines consisted of two separate lines with two institutions in individual amounts of $1,241 thousand and $249 thousand.

At December 31, 2014, the pledged collateral for the BNC Bank Lines was comprised of collateralized mortgage obligations. The pledged collateral for the BNC Line is the common stock of BNC Bank.

NOTE 13. Guaranteed Preferred Beneficial Interest's in Company's Subordinated Debentures

In July 2000, BNC issued $7.5 million of subordinated debentures at a fixed rate of 12.05%. In the third quarter of 2014, these subordinated debentures were redeemed and the corresponding debentures were prepaid. Redemption costs totaling $356 thousand were recorded in the second quarter of 2014.

In July 2007, BNC issued $15.0 million of floating rate subordinated debentures. The interest rate paid on the securities is equal to the three month LIBOR plus 1.40%. The interest rate at December 31, 2015 and December 31, 2014 was 1.73% and 1.64%, respectively. The subordinated debentures mature on October 1, 2037. The subordinated debentures may be redeemed at par and the corresponding debentures may be prepaid at the option of BNC, subject to approval by the FRB.

NOTE 14. Stockholders' Equity

On January 16, 2009, BNCCORP received net proceeds of approximately $20.1 million through the sale of its Series A shares of non-voting senior perpetual preferred stock to the U.S. Department of the Treasury under the Capital Purchase Program (CPP). The Treasury Department also received a warrant exercisable for shares of an additional class of BNCCORP, INC. Series B perpetual non-voting preferred stock, which had an aggregate liquidation preference of approximately $1.0 million. The Treasury Department exercised this warrant on January 16, 2009.

During 2015, the Company, after receiving approval from its regulator, redeemed the Series A and Series B preferred stock. The redemption price for these shares of preferred stock was the stated liquidation preference amount of $1,000 per share or an aggregate $21,098,000.

Prior to the redemption, the Series A preferred stock (20,093 shares) accrued and paid dividends at 5% per annum until February 2014 and 9% per annum thereafter. Series B preferred stock (1,005 shares) accrued and paid dividends at 9% per annum.

Regulatory restrictions exist regarding the ability of the Bank to transfer funds to BNCCORP in the form of cash dividends. Approval of the Office of the Comptroller of the Currency (OCC), the Bank's principal regulator, is required for the Bank to pay dividends to BNCCORP in excess of the Bank's net profits from the current year plus retained net profits for the preceding two years.

On May 30, 2001, BNCCORP's Board of Directors adopted a rights plan intended to protect stockholder interests in the event BNCCORP becomes the subject of a takeover initiative that BNCCORP's Board believes could deny BNCCORP's stockholders the full value of their investment. This plan does not prohibit the Board from considering any offer that it deems advantageous to its stockholders.

The rights were issued to each common stockholder of record on May 30, 2001, and they will be exercisable only if a person acquires, or announces a tender offer, that would result in ownership of, 15% or more of BNCCORP's outstanding common stock. The rights plan was amended in 2011 such that it now expires on May 30, 2021.

NOTE 15. Regulatory Capital and Current Operating Environment

BNCCORP and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet capital requirements mandated by regulators can trigger certain mandatory and discretionary actions by regulators. Such actions, if undertaken, could have a direct material adverse effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, BNCCORP and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. With increasing frequency, regulators are imposing capital requirements that are specific to individual institutions. The requirements are generally above the statutory ratios.

In the first quarter of 2015, regulatory capital requirements for community banks changed to incorporate certain capital requirements addressed in the Basel III framework. These standards introduced a new requirement, Common Equity Tier 1 ("CET 1"), and increased certain previously existing capital requirements.

The capital amounts and ratios presented below for December 31, 2015 conform to the current BASEL III risk based capital standards. The capital amounts and ratios presented for December 31, 2014 conform to the former general risk based capital standards (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized		Amount in Excess of Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2015								
Total Risk Based Capital:								
Consolidated	$ 95,770	20.07 %	$ 38,172	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	89,178	18.71	38,130	≥8.0	47,662	10.0	41,516	8.71
Tier 1 Risk Based Capital:								
Consolidated	79,773	16.72	28,629	≥6.0	N/A	N/A	N/A	N/A
BNC National Bank	83,187	17.45	28,597	≥6.0	38,130	8.0	45,057	9.45
Common Equity Tier 1 Risk Based Capital								
Consolidated	64,758	13.57	21,472	≥4.5	N/A	N/A	N/A	N/A
BNC National Bank	83,187	17.45	21,448	≥4.5	30,980	6.5	52,207	10.95
Tier 1 Leverage Capital:								
Consolidated	79,773	9.00	35,471	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	83,187	9.45	35,212	≥4.0	44,015	5.0	39,172	4.45
Tangible Equity (to total assets):								
Consolidated	68,860	7.62	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	87,733	9.71	N/A	N/A	N/A	N/A	N/A	N/A
Tangible Common Equity (to total assets):								
Consolidated	68,860	7.62	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	87,733	9.71	N/A	N/A	N/A	N/A	N/A	N/A
2014								
Total Risk Based Capital:								
Consolidated	$ 99,085	21.10 %	$ 37,562	≥8.0 %	$ N/A	N/A %	$ N/A	N/A%
BNC National Bank	91,967	19.73	37,285	≥8.0	46,606	10.0	45,361	9.73
Tier 1 Risk Based Capital :								
Consolidated	93,182	19.85	18,781	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	86,107	18.48	18,642	≥4.0	27,964	6.0	58,143	12.48
Tier 1 Leverage Capital:								
Consolidated	93,182	9.94	37,485	≥4.0	N/A	N/A	N/A	N/A
BNC National Bank	86,107	9.13	37,725	≥4.0	47,157	5.0	38,950	4.13
Tangible Equity (to total assets):								
Consolidated	83,412	8.93	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	91,806	9.83	N/A	N/A	N/A	N/A	N/A	N/A
Tangible Common Equity (to total assets):								
Consolidated	62,314	6.67	N/A	N/A	N/A	N/A	N/A	N/A
BNC National Bank	91,806	9.83	N/A	N/A	N/A	N/A	N/A	N/A

The most recent notifications from the Office of the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Management believes the Bank remains well capitalized through the date for which subsequent events have been evaluated.

NOTE 16. Fair Value Measurements

The following table summarizes the financial assets and liabilities of the Company for which fair values are determined on a recurring basis as of December 31 (in thousands):

	Carrying Value at December 31, 2015				Twelve Months Ended December 31, 2015
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 419,346	$ 32,649	$ 386,697	$ -	$ 1,655
Loans held for sale	50,445	-	50,445	-	(151)
Commitments to originate mortgage loans	1,859	-	1,859	-	(185)
Total assets at fair value	$ 471,650	$ 32,649	$ 439,001	$ -	$ 1,319
LIABILITIES					
Commitments to sell mortgage loans	$ 83	$ -	$ 83	$ -	$ 162
Mortgage banking short positions	23	-	23	-	212
Total liabilities at fair value	$ 106	$ -	$ 106	$ -	$ 374

	Carrying Value at December 31, 2014				Twelve Months Ended December 31, 2014
	Total	Level 1	Level 2	Level 3	Total gains/(losses)
ASSETS					
Securities available for sale	$ 449,333	$ 19,921	$ 429,412	$ -	$ 53
Loans held for sale	47,109	-	47,109	-	622
Commitments to originate mortgage loans	2,015	-	2,015	-	1,122
Total assets at fair value	$ 498,457	$ 19,921	$ 478,536	$ -	$ 1,797
LIABILITIES					
Commitments to sell mortgage loans	$ 295	$ -	$ 295	$ -	$ (403)
Mortgage banking short positions	185	-	185	-	(459)
Total liabilities at fair value	$ 480	$ -	$ 480	$ -	$ (862)

The Company sells short positions in mortgage-backed securities to hedge interest rate risk on the loans committed for mandatory delivery. The commitments to originate and sell mortgage banking loans and our short positions are derivatives and are recorded at fair value.

The Company may also be required from time to time to measure certain other assets at fair value on a nonrecurring basis in accordance with U.S. 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 the following table provides the level of valuation assumptions used to determine the carrying value at December 31 (in thousands):

	2015				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
Impaired loans[1]	$ 1,928	$ -	$ 1,928	$ -	$ 192
Other real estate[2]	242	-	242	-	(7)
Total	$ 2,170	$ -	$ 2,170	$ -	$ 185

	2014				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total gains/(losses)**
Impaired loans[1]	$ 4,569	$ -	$ 4,569	$ -	$ (75)
Other real estate[2]	256	-	256	-	90
Total	$ 4,825	$ -	$ 4,825	$ -	$ 15

(1) Represents the carrying value and related write-downs of loans based on the appraised value of the collateral.
(2) Represents the fair value of the collateral less estimated selling costs and are based upon appraised values.

NOTE 17. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows as of December 31 (in thousands):

	Level in Fair Value Measurement Hierarchy	December 31, 2015		December 31, 2014	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 15,189	$ 15,189	$ 41,124	$ 41,124
Investment securities available for sale	Level 1	32,649	32,649	19,921	19,921
Investment securities available for sale	Level 2	386,697	386,697	429,412	429,412
Federal Reserve Bank and Federal Home Loan Bank stock	Level 2	3,219	3,219	2,817	2,817
Loans held for sale-mortgage banking	Level 2	50,445	50,445	47,109	47,109
Commitments to originate mortgage loans	Level 2	1,859	1,859	2,015	2,015
Loans and leases held for investment, net	Level 2	371,292	370,243	352,188	352,506
Accrued interest receivable	Level 2	4,027	4,027	3,931	3,931
		$ 865,377	$ 864,328	$ 898,517	$ 898,835
Liabilities and Stockholders' Equity:					
Deposits, noninterest-bearing	Level 2	$ 168,259	$ 168,259	$ 187,400	$ 187,400
Deposits, interest-bearing	Level 2	612,190	612,449	623,831	624,044
Borrowings and advances	Level 2	31,151	31,204	16,002	16,002
Accrued interest payable	Level 2	487	487	338	338
Accrued expenses	Level 2	7,398	7,398	7,279	7,279
Commitments to sell mortgage loans	Level 2	83	83	295	295
Mortgage banking short positions	Level 2	23	23	185	185
Guaranteed preferred beneficial interests in Company's subordinated debentures	Level 2	15,015	9,426	15,018	9,125
		$ 834,606	$ 829,329	$ 850,348	$ 844,668
Financial instruments with off-balance-sheet risk:					
Commitments to extend credit	Level 2	$ -	$ 203	$ -	$ 265
Standby and commercial letters of credit	Level 2	$ -	$ 13	$ -	$ 13

The Company is required to disclose the estimated fair value of financial instruments. Fair value estimates are subjective in nature, involving uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 18. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to various financial instruments with off-balance-sheet risk, primarily to meet the needs of our customers as well as to manage our interest rate risk. These instruments, which are issued by the Company for purposes other than trading, carry varying degrees of credit, interest rate or liquidity risk in excess of the amounts reflected in the consolidated balance sheets.

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer, which are binding, provided there is no violation of any condition in the contract, and generally have fixed expiration dates or other termination clauses. The contractual amount represents the Bank’s exposure to credit loss in the event of default by the borrower. At December 31, 2015, based on current information, no losses were anticipated as a result of these commitments. The Bank manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to secure commitments based on management’s credit assessment of the borrower. The collateral may include marketable securities, receivables, inventory, equipment or real estate. Since the Bank expects many of the commitments to expire without being drawn, total commitment amounts do not necessarily represent the Bank’s future liquidity requirements related to such commitments.

In our mortgage banking operations, we commit to extend credit for purposes of originating residential loans. We underwrite these commitments to determine whether each loan meets criteria established by the secondary market for residential loans. See Note 1 and 16 to these consolidated financial statements for more information on financial instruments and derivatives related to our mortgage banking operations.

Standby and Commercial Letters of Credit

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Commercial letters of credit are issued on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer’s nonperformance, the Bank’s credit loss exposure is up to the letter’s contractual amount. At December 31, 2015, based on current information, no losses were anticipated as a result of these commitments. Management assesses the borrower’s credit to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring the Bank to fund letters of credit may not occur, the Bank expects our liquidity requirements related to such letters of credit to be less than the total outstanding commitments.

The contractual amounts of these financial instruments were as follows as of December 31 (in thousands):

	2015		2014	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	$ 14,747	$ 51,298	$ 19,515	$ 62,728
Standby and commercial letters of credit	585	709	604	731

In addition to the amounts in the table above, our mortgage banking commitments to fund loans totaled $94.3 million at December 31, 2015 and $91.1 million at December 31, 2014. Also, our mortgage banking commitments to sell loans totaled $143.6 million at December 31, 2015 and $136.8 million at December 31, 2014.

Mortgage Banking Obligations
Through its mortgage banking operations, the Company originates and sells residential mortgage loans servicing released to third parties. These loans are sold without recourse to the Company. However, standard industry practices require representations and warranties which generally require sellers to reimburse a portion of the sales proceeds if a sold loan defaults or pays off shortly after the sale of the loan (i.e. generally within four months of the sale). The following is a summary of activity related to mortgage banking reimbursement obligations at December 31 (in thousands):

	2015		2014	
Balance, beginning of period	$	1,879	$	1,679
Provision		145		552
Write offs, net		(243)		(352)
Balance, end of period	$	1,781	$	1,879

NOTE 19. Guarantees and Contingent Consideration

Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures
BNCCORP fully and unconditionally guarantees the Company's subordinated debentures.

Performance and Financial Standby Letters of Credit
As of December 31, 2015 and 2014, the Bank had outstanding $131 thousand and $190 thousand, respectively, of performance standby letters of credit and $5.5 million and $5.9 million, respectively, of financial standby letters of credit. Performance standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to make payment on account in an event of default by the account party in the performance of a nonfinancial or commercial obligation. Financial standby letters of credit are irrevocable obligations to the beneficiary on the part of the Bank to repay money for the account of the account party or to make payment on account of any indebtedness undertaken by the account party, in the event that the account party fails to fulfill its obligation to the beneficiary. Under these arrangements, the Bank could, in the event of the account party's nonperformance, be required to pay a maximum of the amount of issued letters of credit. The Bank has recourse against the account party up to and including the amount of the performance standby letter of credit. The Bank evaluates each account party's creditworthiness on a case-by-case basis and the amount of collateral obtained varies and is based on management's credit evaluation of the account party.

NOTE 20. Related-Party/Affiliate Transactions

The Bank has entered into transactions with related parties, such as opening deposit accounts for and extending credit to employees of the Company. The related party transactions have been made under terms substantially the same as those offered by the Bank to unrelated parties.

In the normal course of business, loans are granted to, and deposits are received from, executive officers, directors, principal stockholders and associates of such persons. The aggregate dollar amount of these loans was $2.3 million and $3.2 million at December 31, 2015 and 2014, respectively. Advances of loans to related parties in 2015 and 2014 totaled $486,000 and $503,000, respectively. Loan pay downs by related parties in 2015 and 2014 were $1.5 million and $353,000, respectively. Commitments to extend credit to related parties decreased to $179,000 at December 31, 2015 from $605,000 at December 31, 2014. The total amount of deposits received from these parties was $2.7 million at December 31, 2015 and $2.6 million at December 31, 2014. Loans to, and deposits received from, these parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collection.

The Federal Reserve Act limits amounts of, and requires collateral on, extensions of credit by the Bank to BNCCORP, and with certain exceptions, its non-bank affiliates. There are also restrictions on the amounts of investment by the Bank in stocks and other subsidiaries of BNCCORP and such affiliates and restrictions on the acceptance of their securities as collateral for loans by the Bank. As of December 31, 2015, BNCCORP and its affiliates were in compliance with these requirements.

NOTE 21. Income Taxes

The expense (benefit) for income taxes on operations consists of the following for the years ended December 31 (in thousands):

	2015	2014
Current:		
Federal	$ 3,528	$ 2,113
State	565	353
	4,093	2,466
Deferred:		
Federal	(182)	1,174
State	34	431
	(148)	1,605
Total	$ 3,945	$ 4,071

The expense for federal income taxes on operations expected at the statutory rate differs from the actual expense for the years ended December 31 (in thousands):

	2015	2014
Tax expense at 34% statutory rate	$ 4,471	$ 4,259
State taxes (net of Federal benefit)	395	517
Tax-exempt interest	(910)	(727)
Cash surrender values of bank-owned life insurance	(148)	(149)
Other, net	137	171
Total	$ 3,945	$ 4,071

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that result in significant portions of the Company's deferred tax assets and liabilities are as follows as of December 31 (in thousands):

	2015	2014
Deferred tax asset:		
Loans, primarily due to credit losses	$ 3,808	$ 3,968
Compensation	562	274
Acquired intangibles	199	204
Net operating loss carryforwards	21	111
Alternative minimum tax credits	-	179
Other real estate owned	65	95
Other	204	180
Deferred tax asset	4,859	5,011
Deferred tax liability:		
Unrealized gain on securities available for sale	1,929	2,691
Discount accretion on securities	13	221
Premises and equipment	727	816
Other	229	232
Deferred tax liability	2,898	3,960
	1,961	1,051
Valuation allowance	(14)	(14)
Net deferred tax asset	$ 1,947	$ 1,037

Subject to certain limiting statutes, the Company is able to carry forward state tax net operating losses aggregating $456,000 as of December 31, 2015. The state net operating losses expire between 2017 and 2031.

The Company files consolidated federal and unitary state income tax returns where allowed. Tax years ended December 31, 2012 through 2015 remain open to federal examination. Tax years ended December 31, 2011 through 2015 remain open to state examinations.

NOTE 22. Earnings Per Share

The following table shows the amounts used in computing per share results (in thousands, except share and per share data):

	2015	2014
Denominator for basic earnings per share:		
Average common shares outstanding	3,386,600	3,369,021
Dilutive effect of stock compensation	111,140	122,233
Denominator for diluted earnings per share	3,497,740	3,491,254
Numerator (in thousands):		
Net income	$ 9,206	$ 8,456
Preferred stock costs	1,656	1,796
Net income available to common shareholders	$ 7,550	$ 6,660
Basic earnings per common share	$ 2.23	$ 1.98
Diluted earnings per common share	$ 2.16	$ 1.91

NOTE 23. Benefit Plans

BNCCORP has a qualified 401(k) savings plan covering all employees of BNCCORP and its subsidiaries who meet specified age and service requirements. Under the plan, eligible employees may elect to defer up to 75% of compensation each year not to exceed the dollar limits set by law. At their discretion, BNCCORP and its subsidiaries may provide matching contributions to the plan. In 2015 and 2014, BNCCORP and its subsidiaries made matching contributions of up to 50% of eligible employee deferrals up to a maximum employer contribution of 5% of employee compensation. Generally, all participant contributions and earnings are fully and immediately vested. The Company makes its matching contribution during the first calendar quarter following the last day of each calendar year and an employee must be employed by the Company on the last day of the calendar year in order to receive the current year's employer match. The anticipated matching contribution is expensed monthly over the course of the calendar year based on employee contributions made throughout the year. The Company made matching contributions of $559,000 and $466,000 for 2015 and 2014, respectively. Under the investment options available under the 401(k) savings plan, prior to January 28, 2008, employees could elect to invest their salary deferrals in BNCCORP common stock. At December 31, 2015, the assets in the plan totaled $19.6 million and included $570,000 (35,000 shares) invested in BNCCORP common stock. At December 31, 2014, the assets in the plan totaled $18.3 million and included $602,000 (35,000 shares) invested in BNCCORP common stock. On January 28, 2008, the Company voluntarily delisted from the NASDAQ Global Market and deregistered its common stock under the Securities Exchange Act of 1934 (as amended). As a result, the participants are prohibited from making new investments of the Company's common stock in the plan.

During 2015, the Company adopted a non-qualified deferred compensation plan for the benefit of select employees. The plan structure permits the Company to make discretionary awards into an in-service account or a retirement account of a plan participant established under the plan. BNC recognizes the expense for discretionary awards in the period it commits to such awards. Additionally, plan participants may defer some or all of their annual incentive awards into their in-service accounts. Company discretionary awards to the participant's in-service account are generally vested 50% upon initial participation with the remainder vesting over 5 years. A participant's retirement account generally vests 50% upon an initial contribution and thereafter over 10 years. Participants may allocate their in-service account balance among a fixed number of investment options. The value of the payout from the in-service account will depend on the performance of such investment options. Company discretionary awards into a participant's retirement account are denominated in shares of BNC common stock and upon retirement, the plan participant will receive the number of shares of BNC common stock credited to the participant's retirement account at that time. A separate Rabbi Trust has been established by the Company to hedge the change in value of this liability. Assets in the trust hedging in-service liabilities are recorded in other assets. BNC stock held in the trust related to the Company's retirement account obligation is recorded in treasury stock and equates to 11,000 shares as of December 31, 2015. As of December 31, 2015, the plan obligation totaled $330 thousand.

NOTE 24. Commitments and Contingencies

Leases

The Bank has entered into operating lease agreements for certain facilities and equipment used in its operations. Rent expense for the years ended December 31, 2015 and 2014 was $975,000 and $1.1 million, respectively, for facilities, and $20,000 and $26,000, respectively, for equipment and other items. At December 31, 2015, the total minimum annual base lease payments for operating leases were as follows (in thousands):

2016	$	900
2017		712
2018		397
2019		383
2020		268
Thereafter		1,134

NOTE 25. Share-Based Compensation

The Company has four 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. Pursuant to each plan, the compensation committee may grant options at prices equal to the fair value of the stock at the grant date.

Total shares in plan and total shares available as of December 31, 2015 are as follows:

	1995	2002	2006	2010	Total
Total Shares in Plan	250,000	125,000	200,000	250,000	825,000
Total Shares Available	48,751	-	7,850	250,000	306,601

The Company recognized share-based compensation expense of $136,000 and $119,000 for the years ended December 31, 2015 and 2014, respectively, related to restricted stock.

The tax benefits associated with share-based compensation was approximately $59,000 for the year ended December 31, 2015 and was approximately $17,000 for the year ended December 31, 2014.

At December 31, 2015, the Company had $111,000 of unamortized restricted stock compensation. At December 31, 2014, the Company had $215,000 of unamortized restricted stock compensation. Restricted shares of stock granted generally have vesting and amortization periods of at least three years.

Following is a summary of restricted stock activities for the years ended December 31:

	2015		2014	
	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value	Number Restricted Stock Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of year	27,667	$ 12.29	25,000	$ 11.88
Granted	2,000	16.65	6,000	13.19
Vested	(15,333)	12.28	(3,333)	10.83
Forfeited	-	-	-	-
Nonvested, end of year	14,334	12.91	27,667	12.29

The Company granted 240,000 stock options on March 17, 2010. The stock options had a two year vesting period and a ten year contractual term. The exercise price is equal to the market price on grant date, which was $3.00. The fair value of each stock option is estimated on the date of grant using a Black-Scholes methodology with the assumptions noted below:

Expected volatility	32.56%
Dividend yield	0.00%
Risk-free interest rate – seven year treasury yield	3.201%
Expected life of stock option	7 years

The Company did not recognize share-based compensation expense for the years ended December 31, 2015 and 2014, respectively, related to stock options. At December 31, 2015, the Company had no unamortized compensation cost related to non-vested stock options.

The Company is permitted to issue shares from treasury shares already held when options are exercised.

Following is a summary of vested stock options and options expected to vest as of December 31, 2015:

	Stock Options Outstanding	Stock Options Currently Exercisable	Stock Options Vested and Expected to Vest
Number	107,200	107,200	107,200
Weighted-average exercise price	$3.00	$3.00	$3.00
Weighted-average remaining contractual term	4.21 years	4.21 years	4.21 years

Following is a summary of stock option transactions for the years ended December 31:

	2015		2014	
	Options to Purchase Shares	Weighted Average Exercise Price	Options to Purchase Shares	Weighted Average Exercise Price
Outstanding, beginning of year	125,800	$ 3.00	163,200	$ 3.00
Granted	-	-	-	-
Exercised	(18,600)	3.00	(37,400)	3.00
Forfeited	-	-	-	-
Outstanding, end of year	107,200	3.00	125,800	3.00
Exercisable, end of year	107,200	3.00	125,800	3.00
Weighted average fair value of options:				
Granted	$ -		$ -	
Exercised	$ 1.47		$ 1.47	
Forfeited	$ -		$ -	

Following is a summary of the status of options outstanding at December 31, 2015:

	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options with exercise prices of:					
$3.00	107,200	4.21 years	$ 3.00	107,200	$ 3.00

NOTE 26. Condensed Financial Information-Parent Company Only

Condensed financial information of BNCCORP, INC. on a parent company only basis is as follows:

Parent Company Only
Condensed Balance Sheets
As of December 31
(In thousands, except per share data)

	2015	2014
Assets:		
Cash and cash equivalents	$ 5,351	$ 6,194
Investment in subsidiaries	83,332	86,109
Receivable from subsidiaries	964	454
Other	482	935
Total assets	$ 90,129	$ 93,692
Liabilities and stockholders' equity:		
Subordinated debentures	$ 15,015	$ 15,018
Long-term borrowings	10,000	-
Payable to subsidiaries	54	50
Accrued expenses and other liabilities	604	911
Total liabilities	25,673	15,979
Preferred stock, $.01 par value. Authorized 2,000,000 shares:		
Preferred Stock - 9% Series A 20,093 shares issued;	-	20,093
Preferred Stock - 9% Series B 1,005 shares issued;	-	1,005
Common stock, $.01 par value – Authorized 35,000,000 shares; 3,428,416 and 3,413,854 shares issued and outstanding	34	34
Capital surplus – common stock	25,979	25,831
Retained earnings	42,172	34,622
Treasury stock (240,237 and 254,799 shares, respectively)	(3,278)	(3,421)
Accumulated other comprehensive loss, net of income taxes	(451)	(451)
Total stockholders' equity	64,456	77,713
Total liabilities and stockholders' equity	$ 90,129	$ 93,692

Parent Company Only
Condensed Statements of Operations
For the Years Ended December 31
(In thousands)

	2015	2014
Income:		
Management fee income	$ 1,820	$ 1,448
Interest	4	8
Other	9	26
Total income	1,833	1,482
Expenses:		
Interest	394	884
Salaries and benefits	1,404	1,197
Legal and other professional	603	490
Other	779	1,075
Total expenses	3,180	3,646
Loss before income tax benefit and equity in earnings of subsidiaries	(1,347)	(2,164)
Income tax benefit	330	686
Loss before equity in earnings of subsidiaries	(1,017)	(1,478)
Equity in earnings of subsidiaries	10,223	9,934
Net income	$ 9,206	$ 8,456

Parent Company Only
Condensed Statements of Cash Flows
For the Years Ended December 31
(In thousands)

	2015	2014
Operating activities:		
Net income	$ 9,206	$ 8,456
Adjustments to reconcile net income to net cash used in operating activities -		
Equity in earnings of subsidiaries	(10,223)	(9,934)
Share based compensation	291	171
Change in prepaid expenses and other receivables	(57)	732
Change in accrued expenses and other liabilities	(54)	(601)
Net cash used in operating activities	(837)	(1,176)
Investing activities:		
Dividend paid by subsidiaries	13,000	7,500
Net cash provided by investing activities	13,000	7,500
Financing activities:		
Redemption of preferred stock	(21,098)	-
Dividends paid on preferred stock	(1,908)	(1,698)
Decrease in subordinate debentures	-	(7,500)
Decrease in long-term borrowings	-	(2,700)
Increase in long-term borrowings	10,000	2,700
Net cash used in financing activities	(13,006)	(9,198)
Net decrease in cash and cash equivalents	(843)	(2,874)
Cash and cash equivalents, beginning of year	6,194	9,068
Cash and cash equivalents, end of year	$ 5,351	$ 6,194
Supplemental cash flow information:		
Interest paid	$ 527	$ 468
Income taxes paid	$ 3,463	$ 2,218

NOTE 27. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through March 25, 2016, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.