BND
Bank of North Dakota

GAME CHANGER

ANNUAL REPORT 2022

THE COVER

The 2022 Annual Report cover features the first six BND Be Confident Ambassadors. These students from across the state are Game Changers in their own right, pursuing their passions in the arts and sports, along with serving their schools and communities.

North Dakota is a state filled with Game Changers, and Bank of North Dakota is honored to play a role as well, whether it is partnering with financial institutions with loan programs, working with state agencies or helping someone achieve their postsecondary education goals.

Students featured on the cover are:

Front

- **Kari Hepper** | Keene, ND
  Rodeo Athlete
- **Darion Bitz** | Bismarck, ND
  Multisport Athlete
- **Ava Grams** | Fargo, ND
  Theater Actress

Back

- **Madden Skunberg** | Jamestown, ND
  Baseball Player
- **Alliyah "LeeLee" Carson-Bell** | Minot, ND
  Basketball Player
- **Trace Tysver** | Bismarck, ND
  Pianist and Singer

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LETTER FROM THE PRESIDENT

Game Changer. It's a bold title for an annual report. But I want to be honest – that's exactly how I feel about the work Bank of North Dakota (BND) and our partners have accomplished this past year.

In 2022, BND's total loan portfolio surpassed $5 billion, which reflects our commitment to farmers, ranchers, students and businesses in North Dakota.

Whether it's an entrepreneur starting a small business, a farmer buying equipment to begin their career, an established business expanding, or a coal plant repurposing its use, you'll often find BND and our financial institution partners at the table.

While it's the big deals that dominate headlines, it is our vision of being "an agile partner that creates financial solutions for current and emerging economic needs" that delivers the greatest contribution we make to North Dakota. It is our responsibility to provide an economic advantage to North Dakota's businesses, farms and ranches, regardless of their size.

The Bank set a record net income of $191.2 million in 2022, up $47 million from 2021. Our asset size set a record as well - $10.2 billion. The return on investment was a healthy 19%. Standard & Poor's (S&P) affirmed BND's credit rating as A+/Stable in its annual review released Oct. 27, 2022.

We are exploring several large projects that would add value to our agriculture and energy industries. BND plays a key role in these projects by bringing potential financiers to the table and helping financial institutions build the best deals for their customers.

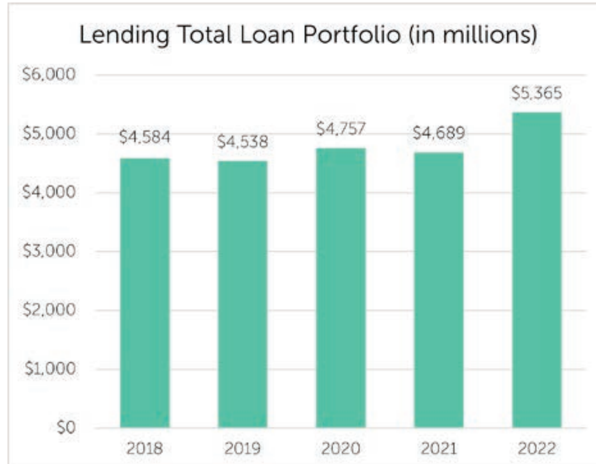
I am confident that our "Game Changer" mentality that positively impacts the economic well-being of North Dakota will drive us in 2023 and beyond.

Todd Steinwand
President/CEO

LENDING PORTFOLIO

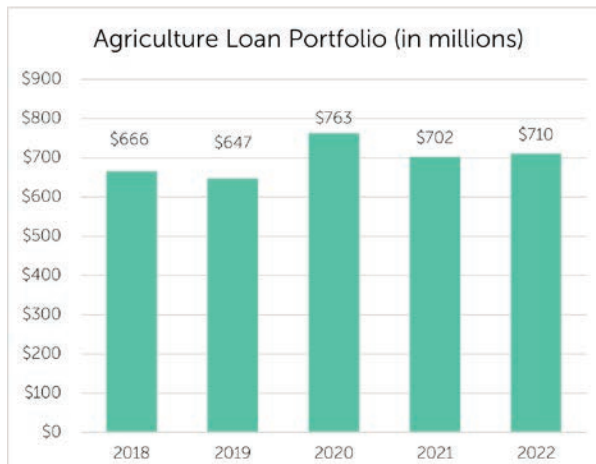
TOTAL LOAN PORTFOLIO

The total loan portfolio grew by $676 million to $5.4 billion. Increased demand for business loans and lending to state institutions contributed to the portfolio's growth.



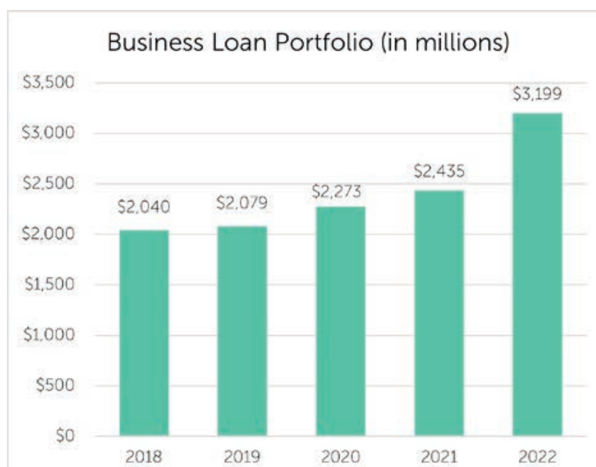
AGRICULTURE LOAN PORTFOLIO

The agriculture loan portfolio increased by $8 million with BND funding and renewing $228 million of loans. Farm and Ranch Participation loans led the way with $143 million, followed by the Beginning Farmer loan program which funded $50 million in loans.



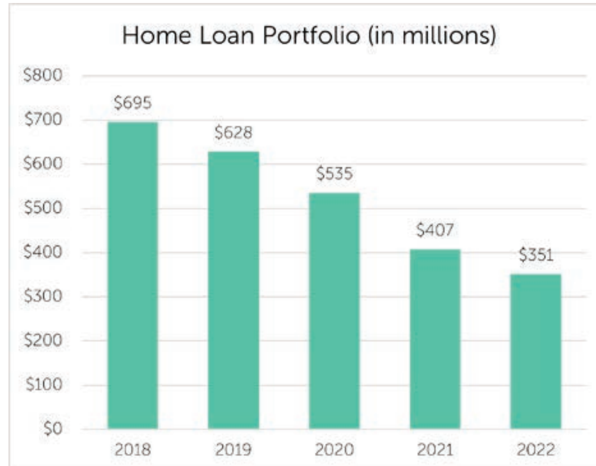
BUSINESS LOAN PORTFOLIO

The business loan portfolio increased by $764 million with BND funding and renewing $2.5 billion. The 31% growth was fueled primarily by increases in commercial participation, state institutions and Match Program loans.



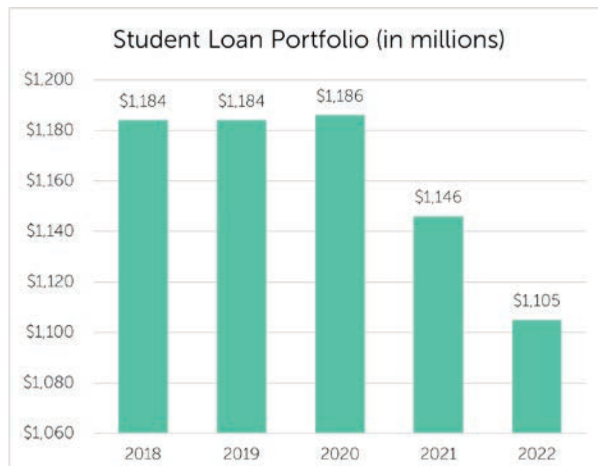
HOME LOAN PORTFOLIO

As planned with the transfer of residential loan servicing to the North Dakota Housing Finance Agency on Oct. 1, 2021, the home loan portfolio decreased by $56 million and will continue to decline with paydowns.



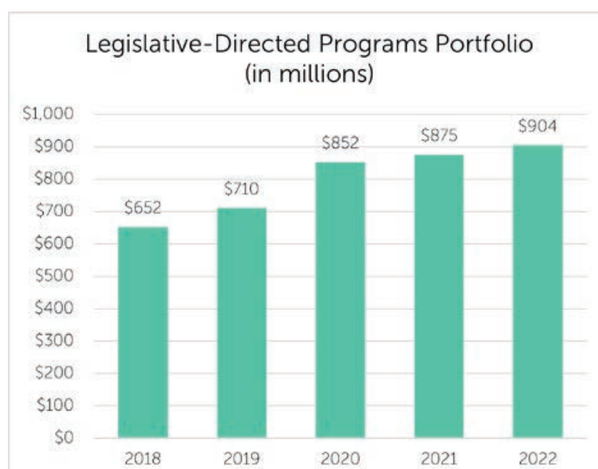
STUDENT LOAN PORTFOLIO

The student loan portfolio decreased by $41 million, primarily due to more favorable federal student loan interest rates. The Bank disbursed $83 million in loans in 2022, which was a decline of 17% from 2021.



LEGISLATIVE-DIRECTED PROGRAMS PORTFOLIO

BND administers $904 million in assets for Legislative-Directed Programs. These are off-balance sheet programs that are set by the state Legislature. The Bank currently administers 23 programs.



FIVE FACTORS TO BE A SUCCESSFUL GAME CHANGER

In 2019, Bank of North Dakota celebrated our 100th anniversary. This array of photos displays every Bank president since that first day. Each of these leaders has played a Game Changer role for our state.

We identified five key areas which are practiced throughout the Bank, so BND can continue to be a Game Changer today, and in the years to come.

1 | BND IS MISSION- AND VISION-FOCUSED

BND's mission statement was set in 1919 when the Bank opened its doors and has not changed since. It's been reviewed many times, but regardless of who is a part of the discussion, the guiding purpose it establishes for staff is considered relevant.

Staying true to a mission statement requires discipline because it would be easy to stray into other avenues. No new Bank programs are undertaken without first asking, "Is this within the scope of our mission?"

The Bank's vision statement was set nearly 10 years ago. As the only bank owned by state government in the country, we pride ourselves on getting the job done, just as though we were a financial institution in the private sector. When a local lender calls with a financing need, we collaborate and create an environment to develop the best deal, call on partners and bring interested parties to the table to finance economic development.

It is our responsibility to provide an economic advantage to North Dakota's businesses, farms and ranches, regardless of their size.

-Todd Steinwand
BND President/CEO

MISSION STATEMENT

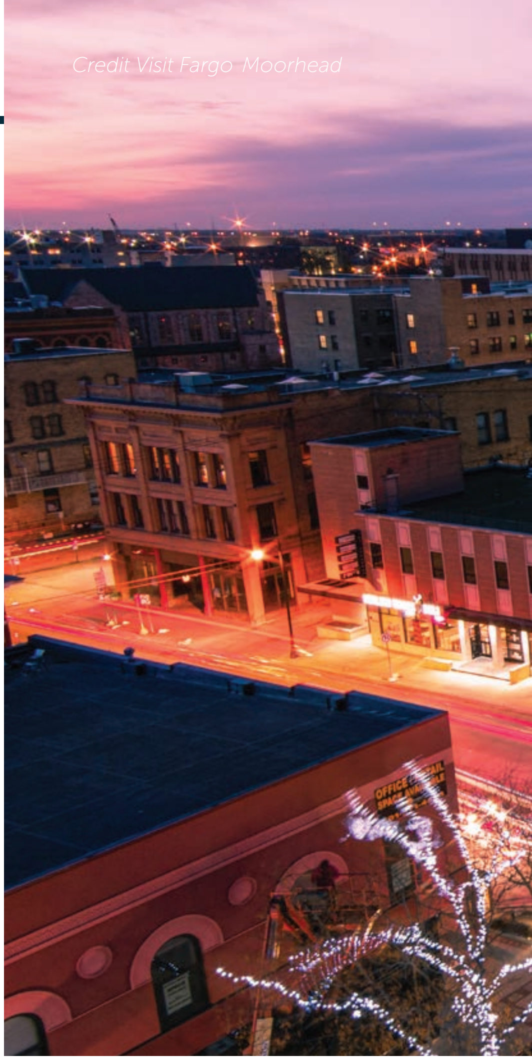
To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.

VISION STATEMENT

Bank of North Dakota is an agile partner that creates financial solutions for current and emerging economic needs.

Credit North Dakota Tourism

Photo: North Dakota families benefit from BND's mission and vision focused approach.



2 | BND PARTNERS WITH FINANCIAL INSTITUTIONS

One of the Bank's founding principles stated that the Bank existed "... to be helpful to and assist in the development of ... financial institutions and public corporations within the state, and not, in any manner, to destroy or to be harmful to existing financial institutions."

This set the stage for a mutually beneficial partnership. BND relies on local financial institutions to deliver our economic development loan programs to benefit their customers. The only way North Dakotans can access BND loans is through their local lenders. There are three exceptions to that which are student loans, the Established Farmer Real Estate Loan program and the Beginning Farmer Real Estate Loan program which are administered by BND.

This unique relationship with local lenders allows the banking industry to be strong in communities across the state, giving even the smallest lenders the capacity of a large financial institution. The local lender benefits by using BND loan programs to structure the best deals for their customers.

Our partnerships with financial institutions allow BND to provide loans and services where it makes a difference – on the main streets and gravel roads of every community.

3 | BND PRIORITIZES COLLABORATIVE STAKEHOLDER RELATIONSHIPS

BND focuses on building relationships with legislators, economic developers, state agencies, educators, professional associations and nonprofit agencies that share valuable insights of their constituents' needs. These stakeholders serve as our eyes and ears in communities across the state, allowing us to modify or create programs that are relevant.

Before becoming involved in something new or expanding a program, BND circles up with those who would be impacted by a decision to hear their perspective. In addition to establishing the need, other potential sources of financial support are considered in these meetings. If it is determined that BND is the best financial solution partner, then Bank staff rolls up their sleeves to make it happen.

This approach has become a well-honed process in recent years. BND has provided 12 relief programs in 12 years addressing weather- and pandemic-related disasters. It responds in a timely manner, seeking to fill gaps not addressed by other entities, such as the federal government, and to ensure the funds distributed through its loan programs have the desired impact.

The Bank also administers $904 million in programs and loans as directed by the North Dakota Legislature. These loan programs provide low-interest, long-term loans to local and state government agencies to finance projects resulting in significant cost savings to the taxpayers of North Dakota.

Photo: Aerial view of downtown Fargo, North Dakota.

4 | BND IS MANAGED BY EXPERIENCED BANKERS

BND is a bank owned by the state of North Dakota. It differs from most state agencies because it is expected to generate a profit that is retained as capital. It receives no general fund appropriations for expenses and covers all expenses through its revenue.

As a bank, there are many similarities to financial institution partners across the state. BND employs experts in lending, credit review and analysis, risk management, accounting, operations, treasury, trust, human resources and communications. The Bank staff monitors key metrics to ensure financial fitness.

Standard & Poor's (S&P) reviews its credit quality annually. S&P is a U.S.-based financial services company that publishes financial research. The 2022 report highlighted the Bank's prudent management of funding and liquidity as one of its strengths. This approach allows the Bank to grow the local economies through its loan programs.

Key Metrics

Return on Average Assets:
Assesses how well an organization uses its assets to generate profits.

Return on Average Equity:
Measures the profitability of an organization in relation to the equity retained in it.

Tier 1 Leverage Ratio:
Used by regulators to measure a bank's near-term financial health. Tier 1 capital are those assets that can be easily liquidated if a bank needs capital for a significant event or crisis.

5 | BND EMPLOYEES ARE DRIVEN TO SERVE

There is a deep sense of pride for the employees of BND. As the only bank owned by a state in the country, we realize our unique structure allows us to create economic advantages other states don't have. Embracing new ways to serve is a standard, not an occasional occurrence.

BND serves on many statewide task forces and committees. Our financial expertise is offered to develop the best financing strategies.

The employees understand their role in financing economic development. Technology is deployed to improve efficiency. Inquisitive conversations create opportunities to assess current procedures and empower employees to address issues promptly.

Employees embody core values of curiosity, collaboration, ethics and people-centered coaching to forward the Bank's mission. Strong leadership with an emphasis on developing employees helps ensure the torch will be passed to the next generation.

BND Involvement

BND is involved statewide with membership on key committees.

- Early Childhood Transition Committee
- Clean Sustainable Energy Authority
- Legacy and Budget Stabilization Advisory Board
- ND Small Business Development Corporation State Advisory Board
- Facility Management Program Study Steering Committee
- Procurement Automation Executive Steering Committee
- ND HR 2.0 Advisory Team
- Natural Gas Pipeline Review Committee
- Rural Housing Task Force

Photo: State government and stakeholders met at BND.

Photo: Agriculture land and chattel evaluations, along with commercial and agriculture appraisal reviews started in January 2022.

GAME CHANGING
COLLATERAL VALUATION SERVICES

The statewide banking associations identified the need for timely, reasonably priced collateral valuation services and approached BND to determine if the Bank could play a role.

The 2021 Legislature approved the staffing level required to start the service, and the Bank piloted agriculture land and chattel evaluations and commercial and agriculture appraisal reviews in the fall of 2021. The pilot was completed, and collateral valuation services were offered to all financial institutions starting January 2022.

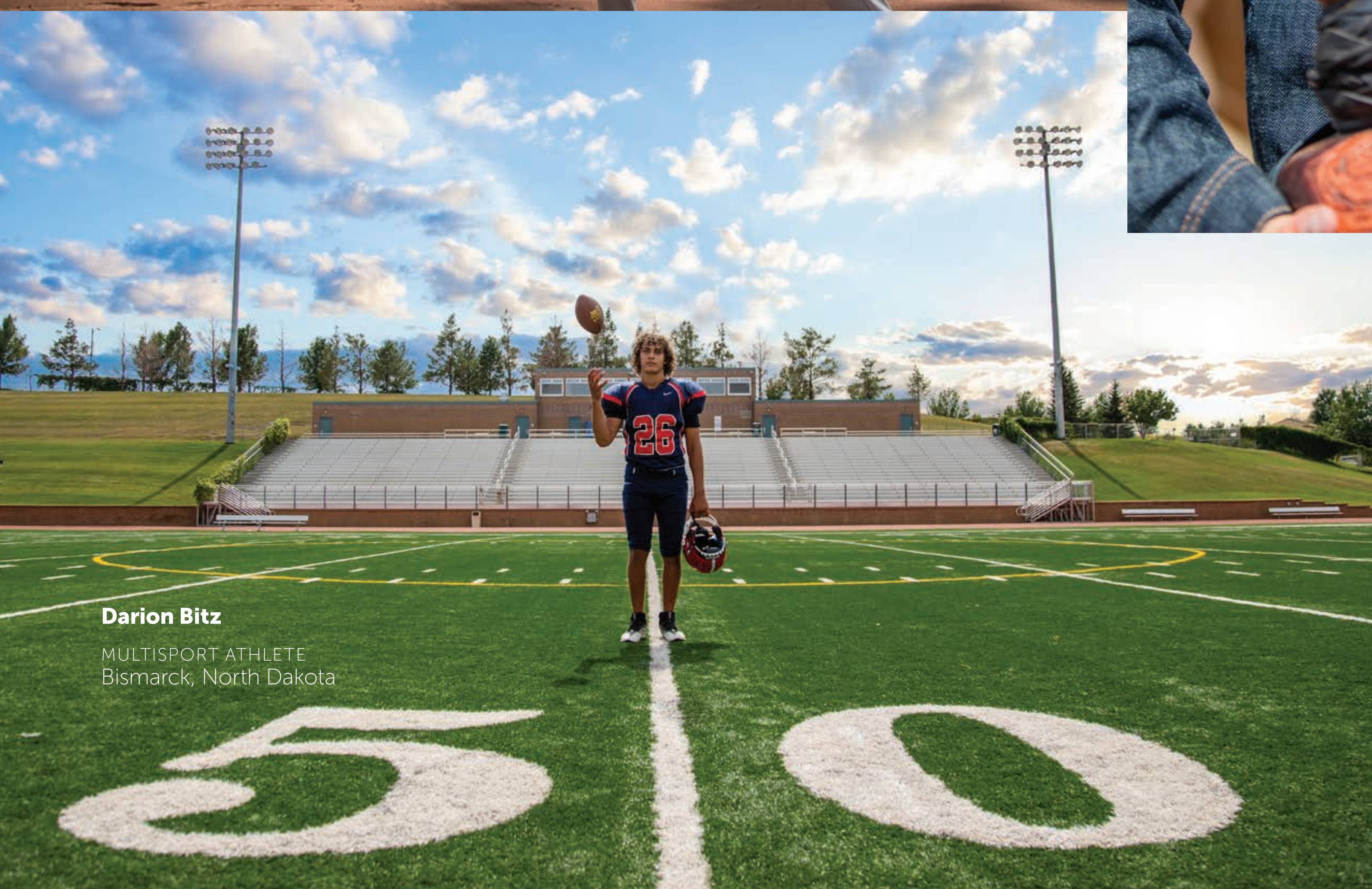
The request for an evaluation or appraisal review comes from the local financial institution. BND's team serves as an independent collateral valuation resource with expertise in markets across the state. This statewide presence is an advantage for financial institutions. The first year of reviews have been positive regarding response time and report value.

Photo: BND's first Collateral Valuation Services Team (L to R): Staci Holzheimer, Kim Vietmeier, Mitch Geiger, Audrey Hermanson, Adam Matter, Sarah Crutchfield and Dustin Bakken

The Bank will expand its services in 2023 to include commercial evaluations.

Madden Skunberg

BASEBALL PLAYER
Jamestown, North Dakota



Darion Bitz

MULTISPORT ATHLETE
Bismarck, North Dakota

Kari Hepper
RODEO ATHLETE
Keene, North Dakota

STUDENT LOAN CAMPAIGN

How much is too much student loan debt? Few people have the means to completely fund education beyond high school. If you require funding to complete postsecondary education goals, where do you find the tools to make good financial decisions?

BND has served as a trusted resource in many areas. With its "Be Confident with Your Student Loan Decisions" campaign, we want to help North Dakotans understand their options and recommended maximum student loan debt levels at **bnd.nd.gov/confident**.

The website features a calculator for a potential borrower to input the starting salary of the career they wish to work in upon graduation. Based on current interest rates and repayment terms, it then provides an approximate amount of student loan debt most people should be comfortable committing to if other expenses are kept within line. This amount is based on the recommendation that the total monthly student loan payment should be no more than 8% of the starting salary.

Each of the ambassadors shares their perspective on how being confident impacts their ability to perform their designated craft. It is that same confident feeling BND wants for every customer when they commit to a student loan.

Alternatives to taking a student loan are also covered including scholarships, grants, savings, the College SAVE program, internships and degree stacking.

Six North Dakota high school students were selected as **Be Confident Ambassadors**.

2022 STUDENT LOAN AND OUTREACH STATS

78,429 borrowers served

203,935 website visitors

14,112 education brochures distributed

26,147 phone calls;
12,808 emails;
500 online chats with students and borrowers

67 financial literacy events with **2,213** students attending

151 College Application Month events at high schools

"Being an ambassador was something I will never forget. Thank you for such an awesome experience."

- Kari Hepper

Ava Grams

THEATER ACTRESS
Fargo, North Dakota

Trace Tysver

PIANIST AND SINGER
Bismarck, North Dakota

Alliyah "LeeLee" Carlson Bell

BASKETBALL PLAYER
Minot, North Dakota

Photo: Aerial view of North Dakota's State Capitol building and campus.

BND LEADERSHIP TEAM

BND is overseen by the North Dakota Industrial Commission. The governor appoints an advisory board of directors which consists of banking and business leaders who advise the Industrial Commission and BND on state trends. The Industrial Commission appoints the Bank president who hires the Executive Committee members.

The BND Advisory Board consists of three subcommittees which assist the Board and Industrial Commission in fulfilling their oversight responsibilities to ensure the safety and soundness of the Bank. These committees are Finance and Credit, Audit and Risk Management, and Leadership Development and Compensation.

ND Industrial Commission

Doug Burgum
Governor

Doug Goehring
Agriculture Commissioner

Drew H. Wrigley
Attorney General

BND Advisory Board

Karl Bollingberg
Chairman of the Board

Dennis Johnson
Board Member

Jean Voorhees
Board Member

Pat Clement
Board Member

Christie Obenauer
Board Member

Bill Price
Board Member

Brenda Foster
Board Member

BND Executive Committee

Todd Steinwand
President/CEO

Kirby Evanger
Chief Credit Officer

Craig Hanson
Chief Lending Officer

Kelvin Hullet
Chief Business Development Officer

Lori Leingang
Chief Administrative Officer

Rob Pfennig
Chief Financial Officer

Christy Steffenhagen
Chief Risk Officer

Ten-Year Summary

Bank of North Dakota | December 31, 2022

	2022	2021	2020	2019
Operating results (in thousands)				
Interest income	$260,591	$204,457	$225,479	$263,738
Interest expense	40,882	28,921	41,018	58,515
Net interest income	219,709	175,536	184,461	205,223
Provision for loan losses	-	4,750	16,800	6,000
Net interest income after provision for loan losses	219,709	170,786	167,661	199,223
Non-interest income	4,751	6,381	4,603	6,916
Non-interest expense	33,310	32,996	31,063	37,090
Net income	**191,150**	**144,171**	**141,201**	**169,049**
Payments to general fund	-	35,000	70,000	35,000
Payments to other funds	30,397	39,605	67,550	45,109
Balance sheet (in thousands)				
Total assets - year end	**10,195,815**	**10,028,128**	**7,744,319**	**7,058,432**
Federal funds sold and resell agreements	44,605	4,450	10,000	10,685
Securities	4,344,352	2,600,007	1,849,609	2,016,126
Loans	**5,364,627**	**4,688,820**	**4,756,542**	**4,537,943**
Agricultural	709,866	701,768	762,809	647,108
Business	3,199,277	2,434,765	2,272,999	2,078,573
Residential	351,076	406,565	535,098	628,319
Student	1,104,408	1,145,722	1,185,636	1,183,943
Deposits	**8,311,947**	**8,133,894**	**5,795,472**	**5,089,092**
Non-interest bearing	632,498	765,200	750,741	628,256
Interest bearing	7,679,449	7,368,694	5,044,731	4,460,836
Federal funds purchased and repurchase agreements	205,845	763,250	775,005	365,335
Short and long-term debt	**675,000**	**108,000**	**186,010**	**631,030**
Equity	**997,188**	**981,569**	**912,904**	**939,028**
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	72,000	72,000
Undivided profits	1,100,653	939,900	870,333	866,682
Accumulated other comprehensive income (loss)	(177,465)	(32,331)	(31,429)	(1,654)

2018	2017	2016	2015	2014	2013
$240,002	$219,700	$210,803	$194,298	$174,584	$153,182
46,442	37,865	33,975	32,164	31,455	30,217
193,560	181,835	176,828	162,134	143,129	122,965
12,000	12,000	16,000	12,500	8,000	-
181,560	169,835	160,828	149,634	135,129	122,965
7,170	6,335	6,323	7,688	7,987	7,422
30,222	30,886	30,996	26,668	32,157	36,172
158,508	**145,284**	**136,155**	**130,654**	**110,959**	**94,215**
70,000	170,000	-	-	-	-
58,614	16,932	19,989	28,645	17,345	19,356
7,015,834	**7,003,302**	**7,295,268**	**7,407,942**	**7,215,687**	**6,873,409**
39,465	57,555	63,070	77,905	42,105	36,645
1,912,743	1,665,252	2,068,327	2,657,527	2,933,570	2,584,169
4,584,233	**4,909,278**	**4,789,553**	**4,339,618**	**3,852,155**	**3,476,946**
665,691	668,904	687,486	513,899	436,970	361,756
2,039,833	2,071,953	1,982,625	1,811,259	1,559,137	1,388,104
694,577	762,480	739,412	693,712	652,076	629,931
1,184,132	1,405,941	1,380,030	1,320,748	1,203,972	1,097,155
4,769,819	**4,604,958**	**4,887,192**	**5,802,142**	**5,730,611**	**5,601,127**
567,352	555,020	663,156	641,264	700,446	798,559
4,202,467	4,049,938	4,224,036	5,160,878	5,030,165	4,802,568
271,505	299,775	242,480	119,500	178,455	245,110
1,103,436	**1,263,569**	**1,280,538**	**727,322**	**645,126**	**465,961**
861,884	**824,802**	**875,732**	**749,493**	**652,134**	**551,797**
2,000	2,000	2,000	2,000	2,000	2,000
72,000	72,000	72,000	72,000	72,000	72,000
777,742	747,848	789,496	673,330	571,276	477,705
10,142	2,954	12,236	2,163	6,858	92

FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Governor of North Dakota and
the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Bank of North Dakota, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the financial statements.

Unmodified Opinion on Financial Accounting Standards Board (FASB) Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bank of North Dakota as of December 31, 2022 and 2021, and the results of its operations and its cash flows for years then ended, in accordance with financial reporting provisions as promulgated by FASB described in Note 1.

Adverse Opinion U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Bank of North Dakota as of December 31, 2022 and 2021, or the results of its operations or its cash flows for the years then ended.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank of North Dakota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

What inspires you, inspires us. | eidebailly.com

1730 Burnt Boat Loop, Ste. 100 | P.O. Box 1914 | Bismarck, ND 58502-1914 | T 701.255.1091 | F 701.224.1582 | EOE

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, Bank of North Dakota is a governmental entity as defined by the Governmental Accounting Standards Board (GASB). Accordingly, the standards as promulgated by GASB are the appropriate accounting standards for Bank of North Dakota to follow. However, Bank of North Dakota has prepared its financial statements in accordance with accounting standards as promulgated by FASB even though the entity meets the "governmental" criteria. The effects on the financial statements of the variances between the accounting policies described in Note 1 and generally accepted accounting principles for governmental entities, although not reasonably determinable, are presumed to be material.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank of North Dakota's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bank of North Dakota's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank of North Dakota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Bailly LLP

Bismarck, North Dakota
February 13, 2023

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
ASSETS		
Cash and due from banks	**$ 405,718**	$ 2,768,582
Federal funds sold	**44,605**	4,450
Cash and cash equivalents	**450,323**	2,773,032
Securities	**4,344,352**	2,600,007
Loans held for investment	**5,364,627**	4,688,820
Less allowance for loan losses	**(108,752)**	(108,047)
	5,255,875	4,580,773
Interest receivable	**60,392**	46,169
Bank premises, equipment, and software, net	**9,311**	9,234
Rebuilders loan program receivable	**-**	2,149
Other assets	**75,562**	16,764
Total assets	**$10,195,815**	$ 10,028,128
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	**$ 632,498**	$ 765,200
Interest bearing	**7,679,449**	7,368,694
	8,311,947	8,133,894
Federal funds purchased	**205,845**	763,250
Short and long-term debt	**675,000**	108,000
Other liabilities	**5,835**	41,415
Total liabilities	**9,198,627**	9,046,559
Equity		
Capital	**2,000**	2,000
Capital surplus	**72,000**	72,000
Undivided profits	**1,100,653**	939,900
Accumulated other comprehensive loss	**(177,465)**	(32,331)
Total equity	**997,188**	981,569
Total liabilities and equity	**$10,195,815**	$ 10,028,128

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
INTEREST INCOME		
Loans, including fees	**$ 186,158**	$ 169,842
Securities	**73,873**	34,594
Federal funds sold	**560**	21
Total interest income	**260,591**	204,457
INTEREST EXPENSE		
Deposits	**29,241**	23,470
Federal funds purchased and repurchase agreements	**5,649**	859
Short and long-term debt	**5,992**	4,592
Total interest expense	**40,882**	28,921
NET INTEREST INCOME	**219,709**	175,536
PROVISION FOR LOAN LOSSES	**-**	4,750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**219,709**	170,786
NONINTEREST INCOME		
Service fees and other	**4,751**	6,381
Total noninterest income	**4,751**	6,381
NONINTEREST EXPENSE		
Salaries and benefits	**17,547**	17,979
Data processing	**7,354**	7,140
Long-term debt prepayment fee	**1,171**	-
Occupancy and equipment	**752**	731
Other operating expenses	**6,486**	7,146
Total noninterest expenses	**33,310**	32,996
NET INCOME	**$ 191,150**	$ 144,171

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
Net income	**$ 191,150**	$ 144,171
Other comprehensive income (loss)		
Unrealized (loss) on debt securities available for sale	**(242,653)**	(33,955)
Unrealized gain on interest rate swaps	**97,519**	33,053
Other comprehensive (loss)	**(145,134)**	(902)
Comprehensive income	**$ 46,016**	$ 143,269

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2020	$ 2,000	$ 72,000	$ 870,333	$ (31,429)	$ 912,904
Net income			144,171		144,171
Unrealized loss on debt securities available for sale				(33,955)	(33,955)
Unrealized gain on interest rate swaps				33,053	33,053
Appropriations In		374,500			374,500
Appropriations (Out)		(374,500)			(374,500)
Transfers to other state funds			(74,604)		(74,604)
BALANCE, DECEMBER 31, 2021	2,000	72,000	939,900	(32,331)	981,569
Net income			191,150		191,150
Unrealized loss on debt securities available for sale				(242,653)	(242,653)
Unrealized gain on interest rate swaps				97,519	97,519
Appropriations In		305,500			305,500
Appropriations (Out)		(305,500)			(305,500)
Transfers to other state funds			(30,397)		(30,397)
BALANCE, DECEMBER 31, 2022	$ 2,000	$ 72,000	$ 1,100,653	$ (177,465)	$ 997,188

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
OPERATING ACTIVITIES		
Net income	$ 191,150	$ 144,171
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	379	380
Provision for loan losses	-	4,750
Net amortization (accretion) of securities	20,121	(6,264)
(Gain) loss on sale of foreclosed assets	1,742	(466)
Increase (decrease) in interest receivable	(14,223)	8,620
(Increase) in other assets	(1,075)	(1,265)
Increase (Decrease) in other liabilities	201	(1,791)
NET CASH FROM OPERATING ACTIVITIES	198,295	148,135
INVESTING ACTIVITIES		
Debt securities available for sale transactions		
Purchase of securities	(2,627,516)	(1,384,915)
Proceeds from sales, maturities, and principal repayments	643,784	604,530
Purchase of Federal Home Loan Bank stock	(151,707)	(863)
Sale of Federal Home Loan Bank stock	128,320	3,160
Net (increase) decrease in loans	(675,775)	61,028
Purchases of premises, equipment, and software	(456)	(55)
Payments from rebuilders loan program	2,149	2,837
Proceeds from sale of foreclosed assets	2,946	1,642
NET CASH USED FOR INVESTING ACTIVITIES	(2,678,255)	(712,636)
FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	(132,702)	14,459
Net increase in interest bearing deposits	310,755	2,323,963
Net (decrease) in federal funds purchased	(557,405)	(11,755)
Proceeds from issuance of short and long-term debt	3,775,001	2,002
Payment of short and long-term debt	(3,208,001)	(80,012)
Payment of transfers to other state funds	(30,397)	(74,604)
NET CASH FROM FINANCING ACTIVITIES	157,251	2,174,053
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,322,709)	1,609,552
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,773,032	1,163,480
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 450,323	$ 2,773,032

(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of North Dakota (BND) is owned and operated by the State of North Dakota under the supervision of the Industrial Commission as provided by Chapter 6-09 of the North Dakota Century Code. BND is a unique institution combining elements of banking, fiduciary, investment management services, and other financial services, and state government with a primary role in financing economic development. BND is a participation lender; the vast majority of its loans are purchased from financial institutions throughout the State of North Dakota. BND's primary deposit products are interest-bearing accounts for state and political subdivisions. Deposits held at the Bank are not covered by depository insurance, but rather are guaranteed by the State of North Dakota as described in NDCC Section 6-09-10.

Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. As such, BND is required to follow the pronouncements of the Government Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

However, the accompanying financial statements are prepared in accordance with Financial Accounting Standards Board Accounting Standards Codification, which are generally accepted accounting principles for financial institutions.

BND also prepares financial statements in accordance with GASB pronouncements.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determinations of the allowance for loan losses and the fair market value of interest rate swaps.

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers within the State of North Dakota. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2022 and 2021:

	2022	2021
Commercial loans, of which 2% and 2% are federally guaranteed	**60%**	52%
Student loans, of which 100% and 100% are guaranteed	**20%**	24%
Residential loans, of which 67% and 68% are federally guaranteed	**7%**	9%
Agricultural loans, of which 5% and 5% are federally guaranteed	**13%**	15%
	100%	100%

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Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all with original maturities of three months or less.

Securities

Debt securities that may be sold before maturity in response to changes in interest rates or prepayment risk, or due to liquidity needs or changes in funding sources or terms are classified as available for sale. These securities are recorded at fair value, with unrealized gains and losses reported in equity. The changes in unrealized gains and losses are excluded from earnings and reported in other comprehensive income. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, which for premiums is the earlier of maturity or call date. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4% of total FHLB advances. Since ownership of this stock is restricted, these securities are carried at cost and evaluated periodically for impairment.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate footnote. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Loans

Loans are reported at the outstanding unpaid principal balances, adjusted for charge-offs, unamortized deferred fees and costs on originated loans and premiums or discounts on purchased loans. Interest income on loans is accrued at the specific rate on the unpaid principal balance. Unearned income, deferred fees and costs, and discounts and premiums are amortized to income over the estimated life of the loan using the interest or straight line method.

Continued on next page

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Future payments are generally applied against principal until the loan balance is at zero. Any further payments are then recorded as interest income on the cash basis. Loans can be returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The Bank uses the allowance method in providing for credit losses. Accordingly, the allowance is increased by the current year's provision for credit losses charged to operations and reduced by net charge-offs. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial participations, bank stock, all other business loans, farm and ranch, farm real estate, and all other farm loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual guaranteed student and residential real estate loans for impairment disclosures, except for such loans that are placed on nonaccrual.

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Loan Charge-Offs

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- An unsecured loan that has principal or interest 120 or more days past due.
- A loan secured by a commercial real estate mortgage, farm real estate mortgage, conventional real estate mortgage, or by other than real property that has principal or interest 120 or more day past due.
- A loan classified as a "loss" by the North Dakota Department of Financial Institutions.
- A loan where there is a recognized loss in conjunction with the acquisition of real estate by the Bank.
- A loan where the Bank deems itself insecure due to the financial condition of the borrower.
- A loan or portion of a loan has been forgiven.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Premises, Equipment, and Software

Bank premises, equipment, and software are stated at cost less accumulated depreciation or amortization. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $4,249 and $8,264 as of December 31, 2022 and 2021, respectively.

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Derivatives and Hedging Activities

At the inception of a derivative contract, the Bank designates the derivative as one of three types based on the Bank's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Bank formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Bank discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income into earnings over the same periods which the hedged transactions will affect earnings.

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

Income Taxes

Bank of North Dakota is a governmental agency of the State of North Dakota and, as such, is not subject to federal or state income taxes.

Continued on next page

(In Thousands)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and unrealized gains and losses on interest rate swaps which are also recognized as separate components of equity.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income.

NOTE 2 - RESTRICTION AND CONCENTRATION ON CASH AND DUE FROM BANKS

The Federal Reserve announced the reduction of the reserve requirement ratio to zero percent across all deposit tiers, effective March 26, 2020. Depository institutions that were required to maintain deposits in a Federal Reserve Bank account to satisfy reserve requirements will no longer be required to do so.

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. Deposits at these institutions are insured up to $250,000 with the Federal Deposit Insurance Corporation except for deposits with the Federal Reserve Bank and the Federal Home Loan Bank. The amount of cash deposits not covered by FDIC insurance was $47,782 and $2,536,607 as of December 31, 2022 and 2021, respectively. Of these amounts, $44,619 and $2,503,753 were deposited at the Federal Reserve Bank.

The Bank was appropriated up to $680,000 through H.B. 1431 of the sixty-seventh legislative session in bond proceeds issued by the Public Finance Authority for allocations to infrastructure projects and programs, for the biennium beginning July 1, 2021, and ending June 30, 2023. As of December 31, 2022, the Bank has received and transferred to Public Finance Authority net proceeds of $680,000.

NOTE 3 - SECURITIES

Securities have been classified in the financial statements according to management's intent. The carrying value of securities as of December 31, 2022 and 2021 consists of the following:

	2022	2021
Debt securities available for sale, at fair value	**$ 4,307,352**	$ 2,586,394
Federal Home Loan Bank stock, at cost	**37,000**	13,613
	$ 4,344,352	$ 2,600,007

Continued on next page

(In Thousands)

The amortized cost and fair value of debt securities with gross unrealized gains and losses follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2022				
Debt securities available for sale				
Federal agency	**$ 390,865**	**$ 3,148**	**$ 21,137**	**$ 372,876**
Mortgage-backed	**2,088,387**	**123**	**110,166**	**1,978,344**
State and municipal	**1,000**	**-**	**-**	**1,000**
US Treasury	**2,067,633**	**-**	**112,501**	**1,955,132**
	$ 4,547,885	**$ 3,271**	**$ 243,804**	**$ 4,307,352**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2021				
Debt securities available for sale				
Federal agency	$ 524,045	$ 6,765	$ 2,122	$ 528,688
Mortgage-backed	1,091,562	7,807	4,052	1,095,317
State and municipal	1,000	-	-	1,000
US Treasury	967,667	24	6,303	961,389
	$ 2,584,274	$ 14,596	$ 12,477	$ 2,586,394

There were $1,183,250 and $595,625 of debt securities pledged as of December 31, 2022 and 2021 for other required pledging purposes**.** FHLB stock totaling $37,000 and $13,613 as of December 31, 2022 and 2021, respectively, was pledged on the FHLB advances (Note 8).

Continued on next page

(In Thousands)

The maturity distribution of debt securities as of December 31, 2022, is shown below. The distribution of mortgage-backed securities is based on average expected maturities. Actual maturities may differ because issuers may have the right to call or prepay obligations.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 719,805	$ 702,961
Over one year through five years	3,524,865	3,308,174
Over five years through ten years	272,487	265,381
Over ten years	30,728	30,836
	$ 4,547,885	$ 4,307,352

There were no sales of available for sale securities during the years ended December 31, 2022 and 2021.

Continued on next page

(In Thousands)

Information pertaining to debt securities with gross unrealized losses as of December 31, 2022 and 2021 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
DECEMBER 31, 2022	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Debt securities available for sale				
Federal agency	**$ 4,867**	**$ 109,316**	**$ 16,270**	**$ 163,856**
Mortgage-backed	**67,469**	**1,508,378**	**42,697**	**447,394**
US Treasury	**31,895**	**571,258**	**80,606**	**1,383,874**
	$ 104,231	**$ 2,188,952**	**$ 139,573**	**$ 1,995,124**

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2021				
Debt securities available for sale				
Federal agency	$ 1,673	$ 124,172	$ 449	$ 19,551
Mortgage-backed	$ 3,468	$ 376,114	$ 584	$ 43,676
US Treasury	6,303	936,363	-	-
	$ 11,444	$ 1,436,650	$ 1,033	$ 63,227

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2022, and 2021, no available for sale debt securities were written down as other-than-temporary impairments. The unrealized loss position is primarily driven by changes in interest rates and not due to underlying credit losses. The Bank has evaluated and concluded that it does not intend to sell any of these securities, and that it is more likely than not that it will not be required to sell prior to recovery.

Continued on next page

(In Thousands)

NOTE 4 - LOANS

The composition of the loan portfolio as of December 31, 2022 and 2021 is as follows:

	2022	2021
Commercial	**$ 3,199,277**	$ 2,434,765
Student	**1,104,408**	1,145,722
Residential	**351,076**	406,565
Agricultural	**709,866**	701,768
	5,364,627	4,688,820
Allowance for loan losses	**(108,752)**	(108,047)
	$ 5,255,875	$ 4,580,773

Unamortized deferred student loan costs totaled $20,127 and $22,558 as of December 31, 2022 and 2021, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled ($72) and ($142) as of December 31, 2022 and 2021, respectively.

In the normal course of business, overdrafts of deposit accounts are reclassified as loans. There were $1,310 overdrafts of deposit accounts as of December 31, 2022. There were no overdrafts of deposit accounts as of December 31, 2021.

Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, agricultural, residential real estate, and student loans. The Bank also sub-segments the commercial and agricultural segments into classes based on the associated risks within those segments. Commercial loans are divided into three classes: commercial participations, bank stock, and all other business loans (including PACE). Agricultural loans are also divided into three classes: farm & ranch, farm real estate, and all other farm loans. Each class of loan exercises significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

Changes in the allowance for credit loss and the related provision expense can materially affect net income.

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for credit losses of $108,752 adequate to cover loan losses inherent in the loan portfolio as of December 31, 2022. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

Continued on next page

(In Thousands)

	2022				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 92,003**	**$ 14,177**	**$ 1,867**	**$ -**	**$ 108,047**
Charge-offs	**(1,276)**	**-**	**-**	**-**	**(1,276)**
Recoveries	**1,981**	**-**	**-**	**-**	**1,981**
Provision	**2,178**	**(1,777)**	**(401)**	**-**	**-**
Ending Balance	**$ 94,886**	**$ 12,400**	**$ 1,466**	**$ -**	**$ 108,752**

	2021				
	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 85,255	$ 18,824	$ 2,224	$ -	$ 106,303
Charge-offs	(3,363)	-	-	-	(3,363)
Recoveries	357	-	-	-	357
Provision	9,754	(4,647)	(357)	-	4,750
Ending Balance	$ 92,003	$ 14,177	$ 1,867	$ -	$ 108,047

Continued on next page

(In Thousands)

The following tables disaggregate the Bank's allowance for credit losses by impairment methodology.

	2022				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$ 79,499**	**$ 11,252**	**$ 1,466**	**$ -**	**$ 92,217**
Individually evaluated	**15,387**	**1,148**	**-**	**-**	**16,535**
Total	**$ 94,886**	**$ 12,400**	**$ 1,466**	**$ -**	**$ 108,752**

	2021				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 72,696	$ 12,345	$ 1,867	$ -	$ 86,908
Individually evaluated	19,307	1,832	-	-	21,139
Total	$ 92,003	$ 14,177	$ 1,867	$ -	$ 108,047

The following tables disaggregate the Bank's loan portfolio by impairment methodology.

	2022				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$2,696,852**	**$ 653,365**	**$ 345,186**	**$ -**	**$3,695,403**
Individually evaluated	**81,297**	**23,100**	**5,638**	**-**	**110,035**
Loan types excluded from allowance	**421,128**	**33,401**	**252**	**1,104,408**	**1,559,189**
Total	**$3,199,277**	**$ 709,866**	**$ 351,076**	**$1,104,408**	**$5,364,627**

	2021				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 2,161,870	$ 635,696	$ 400,368	$ -	$ 3,197,934
Individually evaluated	80,381	29,693	5,874	-	115,948
Loan types excluded from allowance	192,514	36,379	323	1,145,722	1,374,938
Total	$ 2,434,765	$ 701,768	$ 406,565	$ 1,145,722	$ 4,688,820

Continued on next page

The Bank's internally assigned ratings are as follows:

	Risk Code	Description
Exceptional	1	Loan considered prime on the basis of very substantial financial capacity with minimal risk of non payment.
Excellent	2	Loan considered sound on the basis of strong financial capacity with little or no apparent weakness and very limited risk of non payment. The probability of serious financial deterioration is highly unlikely.
Good	3	Loan may reveal weaknesses in some areas, however, not of a serious nature and the debt remains collectible in its entirety. The collateral may be characterized as being less marketable than that of a higher rated borrower.
Acceptable	4	Bank feels that the credit risk is acceptable, but may require above average officer attention. Credit in this class exhibit the earliest signs of potential problems. A greater reliance will be placed on the quality and marketability of the underlying collateral as the cash flow may be unproven or somewhat erratic.
Special Mention	5	May be bankable based on certain types of loan programs which fall within the Bank's mission. This type of loan may be currently protected, but has potential unrealized weaknesses. The loan will require close monitoring as deterioration remains a strong possibility. The potential problems must remain manageable and must not pose a serious threat to repayment.
Substandard	6	Well defined weaknesses jeopardize orderly repayment. The loan is no longer protected by sound net worth or repayment capacity of the borrower. Even though elements of loss are present, the borrower can potentially repay if deficiencies are corrected. Close monitoring of this type of loan is extremely important to prevent loss to the Bank.
Doubtful	7	Loan had deteriorated to the point where collection or liquidation in full on the basis of current information, conditions and values is highly questionable and improbable. A doubtful classification is warranted during this period of quantifying/defining the amount of exposure or loss. A well defined corrective action or liquidation plan should be developed and implemented as soon as possible to limit further loss potential for the Bank.
Loss	8	Loan is considered uncollectible and of such value that it should be charged-off. This classification does not mean that the asset has no recovery or salvage value.

Continued on next page

(In Thousands)

The following table represents credit exposures by internally assigned risk ratings for the years ended December 31, 2022 and 2021. The rating analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk rating is based on experiences with similarly rated loans. Credit risk ratings are refreshed periodically as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance.

	2022				
Risk Rating	**Commercial Participations**	**Bank Stock**	**Business Loans (Including PACE)**	**Farm & Ranch**	**Farm Real Estate**
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	4,606	-	3,687	-	-
2	5,783	-	13,396	8,055	1,596
3	606,447	321,178	182,512	48,641	89,676
4	1,004,299	40,871	415,126	50,198	280,055
5	60,105	-	32,473	5,683	23,592
6	76,696	-	9,430	23,350	3,595
7	1,483	-	46	110	-
8	-	-	11	-	-
Loan types excluded from allowance	-	-	421,128	-	-
Total	$ 1,759,419	$ 362,049	$ 1,077,809	$ 136,037	$ 398,514

Risk Rating	**All Other Farm Loans**	**Residential Real Estate**	**Student Loans**	**Total**
No assigned risk rating	$ -	$ 350,824	$ -	$ 350,824
1	-	-	-	8,293
2	1,826	-	-	30,656
3	29,718	-	-	1,278,172
4	84,847	-	-	1,875,396
5	19,579	-	-	141,432
6	5,874	-	-	118,945
7	70	-	-	1,709
8	-	-	-	11
Loan types excluded from allowance	33,401	252	1,104,408	1,559,189
Total	$ 175,315	$ 351,076	$ 1,104,408	$ 5,364,627

Continued on next page

(In Thousands)

	2021				
Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	7,790	-	-
2	100	-	35,005	5,676	1,036
3	342,407	289,668	150,896	25,507	76,304
4	763,697	43,768	389,302	55,967	280,019
5	98,003	-	41,544	33,534	23,831
6	68,058	-	7,505	2,714	2,896
7	2,575	-	1,933	118	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	192,514	-	-
Total	$ 1,274,840	$ 333,436	$ 826,489	$ 123,516	$ 384,086

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 406,242	$ -	$ 406,242
1	-	-	-	7,790
2	1,529	-	-	43,346
3	21,768	-	-	906,550
4	102,363	-	-	1,635,116
5	28,907	-	-	225,819
6	3,145	-	-	84,318
7	75	-	-	4,701
8	-	-	-	-
Loan types excluded from allowance	36,379	323	1,145,722	1,374,938
Total	$ 194,166	$ 406,565	$ 1,145,722	$ 4,688,820

Continued on next page

(In Thousands)

Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2022 and 2021. Also included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (1) well-secured and in the process of collection, (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual or (3) student loans where accrued interest is guaranteed.

	2022						
Loan Class	**31-60 days past due**	**61 - 90 days past due**	**Greater than 90 days**	**Total Past Due**	**Current**	**Total Loans**	**Investment >90 days and accruing**
Commercial Participations	**$ 7,036**	**$ 7,088**	**$ 7,820**	**$ 21,944**	**$1,737,475**	**$1,759,419**	**$ -**
Bank Stock	**-**	**-**	**-**	**-**	**362,049**	**362,049**	**-**
All other Business Loans (Including PACE)	**558**	**12**	**898**	**1,468**	**1,076,341**	**1,077,809**	**465**
Farm & Ranch	**105**	**-**	**-**	**105**	**135,932**	**136,037**	**-**
Farm Real Estate	**5,189**	**272**	**1,733**	**7,194**	**391,320**	**398,514**	**1,733**
All other Farm loans	**191**	**70**	**-**	**261**	**175,054**	**175,315**	**-**
Residential Real Estate	**9,407**	**3,068**	**4,832**	**17,307**	**333,769**	**351,076**	**4,832**
Student Loans	**13,575**	**4,928**	**15,652**	**34,155**	**1,070,253**	**1,104,408**	**15,652**
Totals	**$ 36,061**	**$ 15,438**	**$ 30,935**	**$ 82,434**	**$ 5,282,193**	**$ 5,364,627**	**$ 22,682**

	2021						
Loan Class	31-60 days past due	61 - 90 days past due	Greater than 90 days	Total Past Due	Current	Total Loans	Investment >90 days and accruing
Commercial Participations	$ 3,252	$ 166	$ 7,994	$ 11,412	$ 1,263,428	$ 1,274,840	$ 15
Bank Stock	-	-	-	-	333,436	333,436	-
All other Business Loans (Including PACE)	2,020	765	2,429	5,214	821,275	826,489	467
Farm & Ranch	118	-	-	118	123,398	123,516	-
Farm Real Estate	3,841	59	1,765	5,665	378,421	384,086	1,765
All other Farm loans	1,349	1,405	482	3,236	190,930	194,166	482
Residential Real Estate	7,178	2,790	12,226	22,194	384,371	406,565	12,200
Student Loans	12,686	7,680	13,638	34,004	1,111,718	1,145,722	13,638
Totals	$ 30,444	$ 12,865	$ 38,534	$ 81,843	$ 4,606,977	$ 4,688,820	$ 28,567

Continued on next page

Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The following tables include the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

Also presented are the average recorded investments in the impaired loans during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Continued on next page

(In Thousands)

	2022				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ 29,195	$ 29,195	$ -	$ 30,356	$ 959
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	2,028	2,240	-	2,392	96
Farm & Ranch	1,670	1,670	-	1,684	25
Farm Real Estate	1,090	1,090	-	1,111	27
All other Farm loans	15,701	15,701	-	16,189	537
Residential Real Estate	5,638	5,638	-	5,701	218
With an Allowance Recorded:					
Commercial Participations	$ 43,038	$ 43,288	$ 13,616	$ 44,621	$ 1,743
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	7,036	7,036	1,771	7,172	353
Farm & Ranch	806	806	185	813	44
Farm Real Estate	-	-	-	-	-
All other Farm loans	3,833	3,833	963	3,994	125
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 72,233	$ 72,483	$ 13,616	$ 74,977	$ 2,702
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	9,064	9,276	1,771	9,564	449
Farm & Ranch	2,476	2,476	185	2,497	69
Farm Real Estate	1,090	1,090	-	1,111	27
All other Farm loans	19,534	19,534	963	20,183	662
Residential Real Estate	5,638	5,638	-	5,701	218

(1) Represents the borrower's loan obligation, gross of any previously charged-off amounts.

Continued on next page

(In Thousands)

	2021				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ 17,848	$ 19,137	$ -	$ 19,766	$ 550
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	4,126	5,995	-	6,137	98
Farm & Ranch	1,772	1,772	-	1,849	103
Farm Real Estate	1,143	1,143	-	1,164	27
All other Farm loans	17,657	17,657	-	18,064	629
Residential Real Estate	5,874	5,874	-	5,886	283
With an Allowance Recorded:					
Commercial Participations	$ 52,364	$ 52,798	$ 17,027	$ 51,432	$ 1,930
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	6,043	6,043	2,280	6,233	291
Farm & Ranch	829	829	207	838	36
Farm Real Estate	-	-	-	-	-
All other Farm loans	8,292	8,292	1,625	8,543	238
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 70,212	$ 71,935	$ 17,027	$ 71,198	$ 2,480
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	10,169	12,038	2,280	12,370	389
Farm & Ranch	2,601	2,601	207	2,687	139
Farm Real Estate	1,143	1,143	-	1,164	27
All other Farm loans	25,949	25,949	1,625	26,607	867
Residential Real Estate	5,874	5,874	-	5,886	283

(1) Represents the borrower's loan obligation, gross of any previously charged-off amounts.

A loan which meets any of the following criteria must be placed in a non-accrual status:

- The following loans on which the principal and interest is 90 or more days past due: Unsecured loans, loans secured by other than real property, loans secured by a mortgage on commercial real estate, loans secured by a farm real estate mortgage, loans secured by a conventional residential real estate mortgage.
- A loan where the borrower has filed for bankruptcy or where the lead bank or the Bank deems itself insecure due to the financial condition of the borrower.
- A loan which the North Dakota Department of Financial Institutions recommends to be placed in a non-accrual status.

Continued on next page

(In Thousands)

A loan which meets the criteria for non-accrual status may be retained in accrual status if it is (1) guaranteed or insured by the state or federal government or secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest and (2) in the process of collection supported by a document source of collection.

A loan which has been placed in a non-accrual status may be returned to an accrual status only if principal and interest are no longer due and unpaid and if current principal and interest appear to be collectable. In addition, the loan must either be secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest or the borrower must demonstrate through a documented repayment plan the ability to discharge the outstanding principal and interest.

On the following table are the financing receivables on nonaccrual status as of December 31, 2022 and 2021. The balances are presented by class of financing receivable.

	2022	2021
Commercial Participations	**$ 10,958**	$ 10,125
All Other Business Loans (Including PACE)	**529**	2,125
Farm & Ranch	**487**	544
All Other Farm Loans	**70**	75
Residential Real Estate	**-**	26
Student Loans	**-**	-
TOTAL	**$ 12,044**	$ 12,895

Accruing loans 90 days or more past due include guaranteed student loans of $15,652 and $13,638 as of December 31, 2022 and 2021, respectively. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

Residential loans of $4,832 and $12,200 as of December 31, 2022 and 2021, respectively, are also included in accruing loans 90 days or more past due.

In the event of a foreclosure a residential loan guaranteed by the Federal Housing Administration will be paid in full and the property title is transferred to them with the exception of flooded properties. The Department of Veterans Affairs has the option of paying their guaranty percentage and the Bank keeps the foreclosed property as well as any gain or loss from the sale or they can pay the loan in full and title is transferred to them.

The Bank's loan portfolio also includes certain loans that have been modified in a Trouble Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Continued on next page

(In Thousands)

When the Bank modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

The following table presents information related to loans modified in a troubled debt restructuring during the years ended December 31, 2022 and 2021. There were three of these loans subsequently defaulted after modification status during the year ended December 31, 2022 and were two of these loans subsequently defaulted after modification status during the year ended December 31, 2021.

	2022		2021	
	Number of Modifications	**Recorded Investment**	Number of Modifications	Recorded Investment
Commercial Participations	**2**	**$ 7,628**	4	$ 10,479
All Other Business Loans (Including PACE)	**2**	**440**	-	-
All Other Farm Loans	**2**	**673**	3	1,688
Residential Real Estate	**-**	**-**	11	1,767
TOTAL	**6**	**$ 8,741**	18	$ 13,934

Continued on next page

(In Thousands)

The following table presents the unpaid principal of loans modified in a troubled debt restructuring during the years ended December 31, 2022 and 2021, by type of modification.

	2022			
	To Interest Only	**Below Market Rate**	**Other (1)**	**Total**
Commercial Participations	**$ -**	**$ -**	**$ 7,628**	**$ 7,628**
All Other Business Loans (Including PACE)	**-**	**-**	**440**	**440**
Farm & Ranch	**-**	**-**	**-**	**-**
All Other Farm Loans	**194**	**-**	**479**	**673**
Residential Real Estate	**-**	**-**	**-**	**-**
TOTAL	**$ 194**	**$ -**	**$ 8,547**	**$ 8,741**

	2021			
	To Interest Only	Below Market Rate	Other (1)	Total
Commercial Participations	$ -	$ -	$ 10,479	$ 10,479
All Other Business Loans (Including PACE)	-	-	-	-
Farm & Ranch	-	-	-	-
All Other Farm Loans	-	-	1,688	1,688
Residential Real Estate	-	-	1,767	1,767
TOTAL	$ -	$ -	$ 13,934	$ 13,934

(1) Other modifications include reamortization of payments, extended maturity and reduction of interest rate.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured as of December 31, 2022 and 2021.

Continued on next page

(In Thousands)

NOTE 5 - LOAN SALES AND LOAN SERVICING

BND has contracts to provide servicing of loans for others. These loans are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others as of December 31, 2022 and 2021 were as follows:

	2022	2021
Student loans		
North Dakota Student Loan Trust	**$ 522**	$ 601
Residential loans		
Fannie Mae	**19,281**	22,702
Other state fund loans		
School Construction Assistance Revolving Loan Fund	**273,538**	272,312
Infrastructure Revolving Loan Fund	**121,440**	112,650
Medical Facility Infrastructure Loan Fund	**43,510**	45,621
Rebuilders Loan Program	**38,257**	45,059
State Water Commission	**550**	571
Water Infrastructure Revolving Loan Fund	**37,299**	34,396
Board of University and School Lands	**3,962**	4,896
Information Technology Department	**1,070**	1,829
Department of Human Services	**2,532**	3,403
Addiction Counseling Internship Loan Program	**76**	86
Workforce Safety	**51**	65
Clean Sustainable Energy	**30,000**	-
Innovation Loan Fund	**21,087**	15,588
	$ 593,175	$ 559,779

Under existing student loan servicing agreements, the Bank generally agrees to reimburse lenders for all principal, accrued interest and special allowance which the lender has been denied if the denial resulted from the actions or inactions of the Bank. Under the existing residential loan servicing agreement with Fannie Mae, the Bank will indemnify Fannie Mae and hold them harmless against all losses, damages, judgments, or legal expenses that result from the Bank's failure in any way to perform its services and duties.

Continued on next page

(In Thousands)

NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, furniture, and software as of December 31, 2022 and 2021 is as follows:

	Balance 2021	Additions	Retirements	Balance 2022
Land	**$ 2,449**	**$ -**	**$ -**	**$ 2,449**
Building	**10,317**	**10**	**-**	**10,327**
Equipment	**701**	**178**	**155**	**724**
Furniture	**817**	**-**	**-**	**817**
Hardware	**10**	**-**	**10**	**-**
Software	**5,918**	**268**	**-**	**6,186**
	20,212	**456**	**165**	**20,503**
Less accumulated depreciation	**10,978**	**379**	**165**	**11,192**
	$ 9,234	**$ 77**	**$ -**	**$ 9,311**

	Balance 2020	Additions	Retirements	Balance 2021
Land	$ 2,449	$ -	$ -	$ 2,449
Building	10,317	-	-	10,317
Equipment	763	55	117	701
Furniture	817	-	-	817
Hardware	10	-	-	10
Software	5,936	-	18	5,918
	20,292	55	135	20,212
Less accumulated depreciation	10,733	380	135	10,978
	$ 9,559	$ (325)	$ -	$ 9,234

Depreciation and amortization expense on the above assets amounted to $379 and $380 in 2022 and 2021.

NOTE 7 - DEPOSITS

As of December 31, 2022, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 4,410,804
One to three years	330,498
Over three years	419,016
	$ 5,160,318

Continued on next page

(In Thousands)

NOTE 8 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2022	2021
Federal Home Loan Bank advances - long-term	**$ -**	$ 108,000
Federal Home Loan Bank advances - short-term	**675,000**	-
	$ 675,000	$ 108,000

A summary, by years, of future minimum payments required to amortize the outstanding short and long-term debt is as follows:

	Principal	Interest	Total
2023	$ 675,000	$ 1,432	$ 676,432

The FHLB long-term advances were prepaid in 2022. The FHLB long-term advances outstanding as of December 31, 2021, matured from April 2022 through March 2024. The FHLB long-term advances had fixed rate interest, ranging from 2.22% to 3.32%. The FHLB short-term advances outstanding as of December 31, 2022 all matured in January 2023 and had fixed interest rates ranging from 4.44% to 4.60%. All FHLB advances must be secured by minimum qualifying collateral maintenance levels. Residential, agriculture, and commercial loans with carrying values of $691,798 and $1,058,932 as of December 31, 2022 and 2021, respectively, are currently being used as security to meet these minimum levels.

NOTE 9 - OTHER ASSETS

Other assets consist of:

	2022	2021
Fees receivable	**2,492**	2,521
Securities receivable	**4,737**	3,773
Interest rate swap receivable	**63,068**	1,330
Foreclosed assets	**4,249**	8,264
Prepaid expenses, deferred expenses and other receivables	**1,016**	876
	$ 75,562	$ 16,764

Continued on next page

(In Thousands)

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

	2022	2021
Interest payable	$ 2,597	$ 1,994
Salary and benefits payable	2,775	2,768
Interest rate swap payable	-	35,781
Accounts payable, accrued expenses and other liabilities	463	872
	$ 5,835	$ 41,415

NOTE 11 - PENSION PLAN

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Continued on next page

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 2022 and 2021 were approximately $1,461 and $1,476, respectively, and are charged directly to operations. There were no surcharges paid by the Bank to the Plan in 2022 and 2021.

Specific plan assets and accumulated benefit information for the Bank's portion of the fund is not available. Under the Employee Retirement Income and Security Act of 1974 ("ERISA"), a contributor to a multi-employer pension plan may be liable in the event of complete or partial withdrawal for the benefit payments guaranteed under ERISA, but there is no intention to withdraw. NDPERS operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under ERISA and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Plan. As of December 31, 2022, and 2021, there were no funding improvement plans or rehabilitation plans implemented. The Plan is a single plan under Internal Revenue Code 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. The Bank's contributions to the Plan do not represent more than 5 percent of total contributions to the Plan as indicated in the Plan's most recently available annual report as of June 30, 2022. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

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NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action – Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2021 and ending June 30, 2023. Following is a summary of legislative action and/or North Dakota Statute in effect:

S.B. 2014, Section 8 – The industrial commission shall transfer to the general fund $140,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota during the biennium beginning July 1, 2021 and ending June 30, 2023. The moneys must be transferred in the amounts and at the times requested by the Director of the Office of Management and Budget after consultation with the Bank of North Dakota president. As of December 31, 2022, the Bank has transferred $0.

S.B. 2014, Section 9 – The Bank shall transfer up to $26,000 from its current earnings and undivided profits to the Partnership in Assisting Community Expansion Fund. As of December 31, 2022, the Bank had transferred $26,000.

S.B. 2014, Section 10 – The Bank shall transfer up to $5,000 from its current earnings and undivided profits to the Agriculture Partnership in Assisting Community Expansion Fund. As of December 31, 2022, the Bank had transferred $5,000.

S.B. 2014, Section 11 – The Bank shall transfer up to $1,000 from its current earnings and undivided profits to the Biofuels Partnership in Assisting Community Expansion Fund. As of December 31, 2022, the Bank had transferred $1,000.

S.B. 2014, Section 12 – The Bank shall transfer up to $8,000 from its current earnings and undivided profits to the Beginning Farmer Revolving Loan Fund. As of December 31, 2022, the Bank had transferred $8,000.

S.B. 2272, Section 6 – The Bank shall transfer the sum of $2,250 or so much of the sum as may be necessary from its current earnings and undivided profits to the Skilled Workforce Student Loan Repayment Fund during the biennium beginning July 1, 2021 and ending June 30, 2023. As of December 31, 2022, the Bank had transferred $100.

S.B. 2272, Section 7 – The Bank shall transfer the sum of $2,250 or so much of the sum as may be necessary from its current earnings and undivided profits to the Skilled Workforce Scholarship Fund during the biennium beginning July 1, 2021 and ending June 30, 2023. As of December 31, 2022, the Bank had transferred $468.

H.B. 1009, Section 5 – The Bank shall transfer the sum of $2,700 or so much of the sum as may be necessary from its current earnings and undivided profits to the Agriculture Commissioner for deposit in the Agriculture Products Utilization Commission Fund during the biennium beginning July 1, 2021 and ending June 30, 2023. As of December 31, 2022, the Bank had transferred $2,700.

H.B. 1009, Section 6 – The Bank shall transfer the sum of $300 or so much of the sum as may be necessary from its current earnings and undivided profits to the Agriculture Commissioner's Operating Fund during the biennium beginning July 1, 2021 and ending June 30, 2023. As of December 31, 2022, the Bank had transferred $300.

H.B. 1375, Section 2 – The Bank shall transfer the sum of $1,500 or so much of the sum as may be necessary from its current earnings and undivided profits to the State Board of Higher Education during the biennium beginning July 1, 2021 and ending June 30, 2023. As of December 31, 2022, the Bank had transferred $1,200.

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H.B. 1506, Section 2 – The Bank shall transfer the sum of $750 from current earnings and accumulated undivided profits to the University of North Dakota for expenses associated with campus network upgrades, for the period beginning with the effective date of this Act, and ending June 30, 2023. As of December 31, 2022, the Bank had transferred $750.

S.B. 2012, Section 6 – The Department of Transportation may borrow from the Bank, up to $50,000, which is appropriated to the Department for matching federal funds that may become available, for the biennium beginning July 1, 2021 and ending June 30, 2023. As of December 31, 2022, there was no outstanding balance.

H.B. 1015, Section 29 – The Bank shall extend a line of credit not to exceed $250,000 to the industrial commission to support loans or loan guarantees issued from the Clean Sustainable Energy Fund. The interest rate associated with the line of credit must be the prevailing interest rate charged to North Dakota government entities. As of December 31, 2022, the Bank had extended $30,000.

H.B. 1016, Section 6 – The Office of the Adjutant General may borrow from the Bank the sum of $2,500, or so much as may be necessary, for fire emergency and wildfire response mutual aid, for the period beginning with the effective date of this Act and ending June 30, 2023. As of December 31, 2022, the Bank had transferred $0.

H.B. 1020, Section 7 – The Bank of North Dakota shall extend a line of credit not to exceed $50,000 at a rate of one and one-half percent over the three-month London interbank offered rate but may not exceed three percent to the State Water Commission. The State Water Commission shall repay the line of credit from funds available in the Resources Trust Fund, Water Development Trust Fund, or other funds, as appropriated by the legislative assembly. The State Water Commission may access the line of credit, as necessary, to provide funding as authorized by the legislative assembly for the Northwest Area Water Supply project during the biennium beginning July 1, 2021, and ending June 30, 2023. As of December 31, 2022, there was no outstanding loan balance.

H.B. 1087, Section 8 – The Bank of North Dakota shall extend a line of credit not to exceed $25,000 to the Reinsurance Association during the biennium beginning July 1, 2021 and ending June 30, 2023. As of December 31, 2022, the Bank had not extended any credit.

H.B. 1025, Section 3 – It is the intent of the sixty-seventh legislative assembly that the Attorney General seek reimbursement from the federal government for the costs of responding to unlawful activity associated with the construction of the Dakota Access Pipeline. It is further the intent of the sixty-seventh legislative assembly that these reimbursements be used to repay the Bank of North Dakota loans authorized by the Emergency Commission and the Legislative Assembly which were obtained to provide the funding necessary to respond to the unlawful activity associated with the construction of the Dakota Access Pipeline. It is the further intent of the sixty-seventh legislative assembly that the provisions of section 54-16-13 apply to the loans, except that Emergency Commission approval does not apply. The unpaid principal balance as of December 31, 2022 and 2021 was $13,362 and $13,362, respectively.

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S.B. 2124, Section 1 – The Bank of North Dakota shall adopt rules to administer, manage, promote, and market the North Dakota Achieving a Better Life Experience Plan. The Bank shall ensure the North Dakota Achieving a Better Life Experience Plan is maintained in compliance with internal revenue service standards for qualified state disability expense programs. The Bank, as trustee of the North Dakota Achieving a Better Life Experience Plan, may impose an annual administrative fee to recover expenses incurred in connection with operation of the plan. Administrative fees received by the Bank are appropriated to the Bank on a continuing basis to be used as provided under this section. Money and assets in North Dakota Achieving a Better Life Experience Plan accounts or in qualified Achieving a Better Life Experience plan accounts in any state may not be considered for the purpose of determining eligibility to receive, or the amount of, any assistance or benefits from local or state means-tested programs.

S.B. 2014, Section 17 – This bill is an amendment to Section 6-09-49 regarding the Infrastructure Revolving Loan Fund and provide definition for "essential infrastructure projects". No new funding was provided, and no other changes to the program were made. The Infrastructure Revolving Loan Fund is a special fund in the State Treasury from which the Bank of North Dakota shall provide loans to political subdivisions for essential infrastructure projects. The Bank shall administer the Infrastructure Revolving Loan Fund. The maximum term of a loan made under this section is thirty years. A loan made from the Fund under this section must have an interest rate that does not exceed two percent per year. For purposes of this section, "essential infrastructure projects" means capital construction projects to construct new infrastructure or replace existing infrastructure, which provide the fixed installations necessary for the function of a political subdivision. As of December 31, 2022, outstanding loans totaled $121,440.

S.B. 2272, Section 3 – In addition to any construction loans made available under section 15.1-36-02, the Bank of North Dakota may provide up to $250,000 to eligible school districts for school construction loans until June 30, 2017. After June 30, 2017, no new loans may be provided under this section. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The term of a loan under this section is twenty years, unless a shorter term is requested by the board of a school district in its application. The interest rate on a loan under this section may not exceed two percent, until July 1, 2025. Thereafter, the interest rate on the loan is subject to change. The maximum loan amount to which a school district is entitled under this section is $20,000. As of December 31, 2022, the outstanding balance was $0.

Continued on next page

S.B. 2272, Section 4 – Provides for the creation of the School Construction Assistance Revolving Loan Fund. The School Construction Assistance Revolving Loan Fund is a special revolving loan fund administered by the Bank of North Dakota. The Fund consists of all moneys appropriated or transferred to the Fund by the Legislative Assembly and all interest or other earnings of the Fund, and all repayments of loans made from the Fund. Moneys in the Fund, interest upon the moneys in the Fund, and payments to the Fund of principal and interest are appropriated to the Bank of North Dakota on a continuing basis for the purpose of providing low-interest school construction loans and for paying administrative costs, in accordance with this section. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The maximum loan amount for which a school district may qualify is $10,000. The term of the loan is twenty years, unless the board of the school district requests a shorter term in the written loan application. The interest rate of the loan may not exceed two percent per year. The Bank may adopt policies and establish guidelines to administer this loan program in accordance with this section. The Bank of North Dakota may use a portion of the interest paid on the outstanding loans as a servicing fee to pay for administration costs which may not exceed one - half of one percent of the amount of the interest payment. The Bank of North Dakota shall deposit principal and interest payments made by school districts for loans under this section in the School Construction Assistance Revolving Loan Fund. The Bank of North Dakota shall arrange for the conduct of an annual audit of the School Construction Assistance Revolving Loan Fund, the cost of which must be paid from the Fund and which must be conducted by an independent accounting firm. As of December 31, 2022, outstanding loans in the School Construction Assistance Revolving Loan Fund totaled $273,538.

S.B. 2014, Section 32 – Pursuant to the continuing appropriation authority under section 15.1-36-08, $2,500, or so much of the sum as may be necessary, is available from the School Construction Assistance Revolving Fund to the Bank to provide interest rate buydowns associated with loans issued under section 15.1-36-06. In addition, provided sufficient funding is available for loans to local school districts, the Bank may utilize funding from the School Construction Assistance Revolving Loan Fund to repay a portion of the outstanding principal balance of loans issued under section 15.1-36-06 for the purpose of transferring a portion of the loans issued under that section from the Bank to the School Construction Assistance Revolving Loan Fund. As of December 31, 2022, $112,100 in school construction assistance revolving loans have been transferred from the Bank to the School Construction Assistance Revolving Loan Fund.

H.B. 1008, Section 4 – The Bank of North Dakota shall transfer from the Beginning Farmer Revolving Loan Fund to the Public Service Commission the sum of $900, or so much of the sum as may be necessary, included in the estimated income line item in section 1 of this Act to pay for costs associated with a rail rate complaint case. Transfers must be made during the biennium beginning July 1, 2021, and ending June 30, 2023, upon order of the Commission. If any amounts are spent pursuant to this section, the Public Service Commission shall reimburse the Beginning Farmer Revolving Loan Fund using amounts available from damages or proceeds received, net of legal fees, from a successful outcome of a rail complaint case. As of December 31, 2022, the Bank had transferred $0.

H.B. 1431, Section 7 – Pursuant to the bonding authority under section 6-09.4-06, the Public Finance Authority may issue up to $680,000 of bonds for transfer to the Bank of North Dakota for allocations to infrastructure projects and programs, for the biennium beginning July 1, 2021, and ending June 30, 2023. As of December 31, 2022, the Bank has received and transferred to Public Finance Authority $680,000.

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State Water Commission

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on bonds issued are payable from transfers to be made and appropriated by the Legislative Assembly from the Water Development Trust Fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the Legislative Assembly from revenues in the Resources Trust Fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the Legislative Assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the Legislative Assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the Trustee to the Fund established for paying principal and interest on the bonds under a trust indenture. If the Bank has to provide a transfer to the State Water Commission to make principal and interest payments on these bonds, the State Water Commission would then have to request from the next Legislative Assembly funding to repay the transfer made by the bank. As of December 31, 2022, the Bank has provided no such transfers.

Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400. The Bank may have no more than $8,000 in outstanding loan guarantees under this Program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2022, and 2021, the Bank had guarantees outstanding totaling $0 and $0, respectively, and had no guarantee commitments outstanding, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2022 and 2021.

Self-Insurance Health Plan – Bank of North Dakota Line of Credit

Chapter 54-52.1 provides that the Bank shall extend to the Public Employees' Retirement Board a line of credit not to exceed $50,000. The Board shall repay the line of credit from health insurance premium revenue or repay the line of credit from other funds appropriated by the Legislative Assembly. The Board may access the line of credit to the extent necessary to provide adequate claims payment funds, to purchase stop-loss coverage, and to defray other expenditures of administration of the self-insurance health plan. As of December 31, 2022, the outstanding loan balance was $0.

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Invisible Reinsurance Pool – Bank of North Dakota Line of Credit

Chapter 26.1-36.7-.07 provides that the Bank shall extend to the Reinsurance Association of North Dakota a line of credit not to exceed $25,000. The Association shall repay the line of credit from assessments against insurers writing or otherwise issuing group health benefit plans in this state or from other funds appropriated by the Legislative Assembly. As of December 31, 2022, the outstanding loan balance was $0.

Establishment and Maintenance of Adequate Guarantee Funds – Use of Strategic Investment and Improvement Funds

Chapter 6-.09.7-05 provides that the Bank shall establish and at all times maintain an adequate guarantee reserve fund in a special account at the Bank. The Bank may request the Director of the Office of Management and Budget to transfer funds from the Strategic Investment and Improvement Fund (SIIF) created by this section 15-08.1-08 to maintain one hundred percent of the guarantee reserve fund balance. Transfers from SIIF may not exceed a total of $80,000. Moneys in the guarantee reserve fund are available to reimburse lenders for guaranteed loans in default. The securities in which the moneys in the reserve fund may be invested must meet the same requirements as those authorized for investment under the State Investment Board. The income from such investments must be made available for the costs of administering the program and must be deposited in the reserve fund. The amount of the reserves for all guaranteed loans must be determined by a formula that will assure, as determined by the Bank, an adequate amount of reserve. As of December 31, 2022, the balance in the reserve fund was $36,843.

Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The Program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85% of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed 5% of the Bank's tier one capital as defined by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan up to $500. The term of the guarantee may not exceed five years. As of December 31, 2022, and 2021, the Bank has guarantees outstanding totaling $7,561 and $7,414, respectively, and had guarantee commitments outstanding of $119 and $188, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2022 and 2021.

Rebuilders Permanent Loan Fund

H.B. 1187, Section 3 of the sixty-seventh legislative session combined the Small Employer Loan Fund with the Rebuilders Permanent Loan Fund. In response to the COVID-19 pandemic, the Bank of North Dakota created the Small Employer Loan Fund (SELF) to assist small businesses. The SELF program allowed businesses with a physical presence in North Dakota, and 10 full-time equivalents or less to borrow up to $50 at one percent interest over 120 months. The Bank received applications for assistance up to November 30, 2020. The Bank committed up to $50,000 of capital or so much as the sum as needed. As of December 31, 2022, the Bank transferred $30,000.

Continued on next page

NOTE 13 - RELATED PARTY TRANSACTIONS

The Bank, because of its unique relationship with the State of North Dakota, is a party in many business transactions with other entities of state government. All state funds and funds of all state penal, education, and industrial institutions must be deposited in the Bank under state law. These transactions are a normal part of bank business and, accordingly, are included in the Bank's financial statements.

See Note 5 for disclosure relating to loans sold to other state funds and/or loans serviced for other state funds, including the North Dakota Student Loan Trust.

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,084,281 and $1,123,163 as of December 31, 2022 and 2021, respectively.

In the ordinary course of business, the Bank holds loans and deposits of principal officers and directors and their affiliates. Outstanding principal balances of these loans held by the Bank as of December 31, 2022 and 2021 amounted to $38,556 and $26,927, respectively. Deposits and short-term borrowings held by the Bank were $25,165 and $6,655, respectively.

The Bank also made transfers to the Rebuilders Loan Program to fund loans to owners of homes damaged in the 2011 floods. These funds will be repaid to the Bank as payments are received from the borrowers. At year end December 31, 2022 the Bank had no receivable from this program. At year end December 31, 2021 the Bank had a receivable from this program for $2,149.

On December 22, 2020, the Bank signed a Servicing Agreement with the North Dakota Housing Finance Agency (NDHFA) effective April 1, 2021, to transfer the Bank's mortgage servicing to NDHFA. NDHFA paid the Bank the amount of the unamortized service release premium and services the mortgage loans and manages the premises in the event of foreclosure of any mortgage loans. As of year-end December 31, 2021, the Bank received from NDHFA $1,077 in unamortized service release premiums and fees. NDHFA will service a total of $283,744 in loans from BND. As of December 31, 2022 and 2021, the outstanding balance of loans serviced by NDHFA was $210,817 and $241,542, respectively. Mortgage servicing fees paid to NDHFA for the years ended December 31, 2022 and 2021 were $477 and $569, respectively.

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial standby letters of credit, and guarantees related to loan programs as discussed in Note 11. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

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(In Thousands)

As of December 31, 2022, and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2022	2021
Commitments to extend credit	**$ 1,859,343**	$ 1,486,164
Financial standby letters of credit	**657,329**	517,094
Guarantees provided	**7,680**	7,601

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank has segmented this category into three components: (1) letters of credit, (2) confirming letters of credit, and (3) letters of credit pledged for public deposits to North Dakota financial institutions.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party which require this type of facility. The maturities for these letters of credit range from one month to ten years, and the likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments. The Bank also has letters of credit with the North Dakota Public Finance Authority (NDPFA) with maturities ranging from 5 years to 23 years. If the letters issued to the NDPFA were ever drawn upon, the NDPFA is legally obligated to reimburse the Bank from funds legally available, or from any appropriation made available from the Legislative Assembly after certification by the Industrial Commission. The likelihood of funding any of these letters of credit is also considered to be remote. Outstanding issued letters of credit as of December 31, 2022 and 2021 were $27,278 and $31,321, respectively.

Confirming letters of credit are issued to North Dakota financial institutions to support letters of credit they have issued but are still in need of backing from an institution with a long-term, high quality bond rating. In the event these letters were to be drawn upon, based on the terms of the agreement, the Bank would immediately withdraw funds from the institution's correspondent bank account held at the Bank to cover the amount drawn. These agreements generally have terms of 12 months or less. The likelihood of funding any of these confirming letters of credit is also considered to be remote. Outstanding issued confirming letters of credit as of December 31, 2022 and 2021 were $4,110 and $8,220, respectively.

Continued on next page

(In Thousands)

Letters of credit pledged for public deposits to North Dakota financial institutions are issued to support public borrowing arrangements. These letters are fully collateralized by a pool of loans pledged to the Bank. These agreements generally have terms of 12 months or less. Financial standby letters for public deposits by North Dakota banks totaled $369,095 and $300,785 as of December 31, 2022 and 2021, respectively. The likelihood of funding any of these letters of credit is also considered to be remote. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

The Bank has not recorded a contingent liability related to off-balance sheet activity as of December 31, 2022 and 2021.

NOTE 15 - INTEREST RATE SWAP CONTRACTS

Interest rate swap contracts are entered into primarily as an asset/liability management strategy of the Bank to help manage its interest rate risk position. The primary risk associated with all swaps is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. The Bank is exposed to losses if the counterparty fails to make its payments under a contract in which the Bank is in a receiving status. The Bank minimizes its risk by monitoring the credit standing of the counterparties. The Bank anticipates the counterparties will be able to fully satisfy their obligations under the remaining agreements. These contracts are typically designated as cash flow hedges.

The Bank has outstanding interest rate swap agreements with a notional amount totaling $545,000 as of December 31, 2022 and 2021, to convert variable rate federal funds and variable rate LIBOR-indexed deposits into fixed-rate instruments over the term of the contracts. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements. These cash flow hedges were determined to be fully effective during all periods presented. The Bank expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table summarizes the derivative financial instruments utilized as of December 31, 2022:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other assets	**$ 50,000**	**$ 4,852**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 4,440**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 4,313**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 5,284**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 11,311**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 10,228**	
Cash flow hedge	Other assets	**$ 45,000**	**$ 1,161**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 5,289**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 2,101**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 7,944**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 6,145**	

Continued on next page

(In Thousands)

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received as of December 31, 2022:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	**$ 50,000**	**6.4**	**$ 2,101**	**4.12%**	**2.86%**
Interest rate swap	**$ 50,000**	**7.3**	**$ 5,289**	**4.12%**	**1.92%**
Interest rate swap	**$ 50,000**	**8.7**	**$ 7,944**	**4.12%**	**1.48%**
Interest rate swap	**$ 50,000**	**9.3**	**$ 4,852**	**4.12%**	**2.39%**
Interest rate swap	**$ 50,000**	**9.5**	**$ 6,145**	**4.12%**	**1.99%**
Interest rate swap	**$ 50,000**	**10.3**	**$ 4,440**	**4.12%**	**2.47%**
Interest rate swap	**$ 50,000**	**10.5**	**$ 4,313**	**4.12%**	**2.52%**
Interest rate swap	**$ 50,000**	**11.3**	**$ 5,284**	**4.12%**	**2.36%**
Interest rate swap	**$ 50,000**	**11.8**	**$ 11,311**	**4.12%**	**1.15%**
Interest rate swap	**$ 50,000**	**11.8**	**$ 10,228**	**4.12%**	**1.38%**
Interest rate swap	**$ 45,000**	**0.8**	**$ 1,161**	**4.12%**	**1.33%**

Amongst all swap counterparties for the transactions noted above, the Bank holds a net $64,100 in cash pledged under collateral arrangements related to the interest rate swaps as of December 31, 2022, to satisfy the collateral requirements.

The following table summarizes the derivative financial instrument utilized as of December 31, 2021:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other liabilities	$ 50,000		$ 4,667
Cash flow hedge	Other liabilities	$ 50,000		$ 6,035
Cash flow hedge	Other liabilities	$ 50,000		$ 6,380
Cash flow hedge	Other liabilities	$ 50,000		$ 5,806
Cash flow hedge	Other assets	$ 50,000	$ 1,330	$ -
Cash flow hedge	Other liabilities	$ 50,000		$ 67
Cash flow hedge	Other liabilities	$ 45,000		$ 519
Cash flow hedge	Other liabilities	$ 50,000		$ 2,691
Cash flow hedge	Other liabilities	$ 50,000		$ 5,924
Cash flow hedge	Other liabilities	$ 50,000		$ 337
Cash flow hedge	Other liabilities	$ 50,000		$ 3,355

Continued on next page

(In Thousands)

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received as of December 31, 2021:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	$ 50,000	7.4	$ (5,924)	0.08%	2.86%
Interest rate swap	$ 50,000	8.3	$ (2,691)	0.08%	1.92%
Interest rate swap	$ 50,000	9.7	$ (337)	0.10%	1.48%
Interest rate swap	$ 50,000	10.3	$ (4,667)	0.10%	2.39%
Interest rate swap	$ 50,000	10.5	$ (3,355)	0.08%	1.99%
Interest rate swap	$ 50,000	11.3	$ (6,035)	0.08%	2.47%
Interest rate swap	$ 50,000	11.5	$ (6,380)	0.08%	2.52%
Interest rate swap	$ 50,000	12.3	$ (5,806)	0.08%	2.36%
Interest rate swap	$ 50,000	12.8	$ 1,330	0.08%	1.15%
Interest rate swap	$ 50,000	12.8	$ (67)	0.08%	1.38%
Interest rate swap	$ 45,000	1.7	$ (519)	0.08%	1.33%

Amongst all swap counterparties for the transactions noted above, the Bank has pledged $33,060 in cash under collateral arrangements related to the interest rate swaps as of December 31, 2021, to satisfy the collateral requirements. The pledged cash under collateral arrangements is included with cash and due from banks.

Interest expense recorded on these swap transactions totaled $1,528 and $10,498 as of December 31, 2022 and December 31, 2021 and is reported as a component of deposit interest expense.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale debt securities are recorded at fair value on a recurring basis.

Fair Value Hierarchy

Under ASC 820-10, assets and liabilities are grouped at fair value in 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 in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all 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. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Determination of Fair Value

Continued on next page

Under ASC 820-10, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is Bank policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy of ASC 820-10.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (ASC 825-10 disclosures).

Debt Securities Available for Sale

Debt securities available for sale consist primarily of Federal agencies and mortgage backed securities. Debt securities available for sale are recorded at fair value on a recurring basis. Fair value is based upon quoted prices, if available. If quoted market prices are not available, fair values are measured using observable market prices from independent pricing models, or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded in an active market; examples would include U.S. Treasury securities and Agency securities. Level 2 securities as defined above would include mortgage-backed securities, collateralized mortgage obligations, and state and political subdivision securities.

Interest Rate Swap Agreements

Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

Continued on next page

(In Thousands)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021.

	2022			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 66,966	$ -	$ 66,966	$ -
Collateralized mortgage obligations				
Agency	1,911,378	-	1,911,378	-
Agency bonds	372,876	372,876	-	-
U.S. treasuries	1,955,132	1,955,132	-	-
Municipal bonds	1,000	-	1,000	-
Interest rate swaps	63,068	-	63,068	-
Totals	$ 4,370,420	$2,328,008	$ 2,042,412	$ -
LIABILITIES				
Interest rate swap	$ -	$ -	$ -	$ -
Totals	$ -	$ -	$ -	$ -

Continued on next page

(In Thousands)

	2021			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 110,139	$ -	$ 110,139	$ -
Collateralized mortgage obligations				
Agency	985,178	-	985,178	-
Agency bonds	528,688	528,688	-	-
U.S. treasuries	961,389	961,389	-	-
Municipal bonds	1,000	-	1,000	-
Interest rate swaps	1,330	-	1,330	-
Totals	$ 2,587,724	$ 1,490,077	$ 1,097,647	$ -
LIABILITIES				
Interest rate swap	$ 35,781	$ -	$ 35,781	$ -
Totals	$ 35,781	$ -	$ 35,781	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances the Bank may make adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The Bank only had Level 3 financial assets measured at fair value on a nonrecurring basis, which is summarized below:

	2022	**2021**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Avg.)**
Impaired Loans	$ 93,500	$ 94,809	Collateral valuation	Discount from market value	82% - 85%
Foreclosed Assets	$ 4,249	$ 8,264	Collateral valuation	Discount from market value	92% - 93%

Continued on next page

(In Thousands)

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The Bank recognizes and includes revenues, expenses, gains and losses in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The changes in accumulated other comprehensive income by component for the years ended December 31, 2022 and 2021 follows:

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2022			
Beginning balance	**$ 2,120**	**$ (34,451)**	**$ (32,331)**
Other comprehensive income (loss) before reclassifications	**(242,653)**	**97,519**	**(145,134)**
Amount reclassified from accumulated other comprehensive income	**-**	**-**	**-**
Net current period other comprehensive income	**(242,653)**	**97,519**	**(145,134)**
Ending balance	**$ (240,533)**	**$ 63,068**	**$ (177,465)**

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2021			
Beginning balance	$ 36,075	$ (67,504)	$ (31,429)
Other comprehensive income (loss) before reclassifications	(33,955)	33,053	(902)
Amount reclassified from accumulated other comprehensive income	-	-	-
Net current period other comprehensive income	(33,955)	33,053	(902)
Ending balance	$ 2,120	$ (34,451)	$ (32,331)

Continued on next page

(In Thousands)

NOTE 18 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2022	2021
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 29,385**	$ 23,828
Interest paid on federal funds purchased and securities sold under repurchase agreements	**5,581**	858
Interest paid on short and long-term debt	**5,311**	4,592
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**30,397**	74,604
Net change in fair value on debt securities available for sale	**(242,653)**	(33,955)
Net change in fair value on interest rate swaps	**97,519**	33,053
Foreclosed assets acquired in exchange for loans	**673**	3,688

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NOTE 19 - REVENUE RECOGNITION

The majority of the Bank's revenues are not subject to ASC 606, including revenue generated from financial instruments, such as interest and dividend income, including loans and securities, as these activities are subject to other U.S. Generally Accepted Accounting Principles ("GAAP"). Revenue generating activities that are within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Bank satisfies its obligation to the customer. Descriptions of revenue generating activities that are within the scope of ASC 606, which are presented in the Statements of Income as components of non-interest income and presented in the line item Service Fees and Other are as follows:

- Gains (Losses) on Sales of Foreclosed Assets - The Bank records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of foreclosed asset to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

- Service Fees and Other Charges - The Bank provides numerous services for corresponding financial institutions and North Dakota state agencies that it earns fees and service charges from. Fees and service charges from ACH, wires, cash services, safe keeping, servicing of state funds, paying agent, trustee and escrow represent general service fees for monthly and activity-or-transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is satisfied, which is generally daily for when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are typically received at the time the performance obligations are satisfied.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2023, which is the date these financial statements were available to be issued.

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