BND
Bank of North Dakota

EVOLVING

2021 Annual Report

From the President

When I think of this past year, "Evolving" is the overriding theme that comes to mind. Internally, we experienced retirements of key leaders and new people stepping up to fill those roles, along with executing a hybrid workforce. Externally, the COVID-19 relief programs concluded, and several state government efficiencies were implemented.

With Bank President Eric Hardmeyer's retirement in early July, followed by Tim Porter who was serving as the Chief Financial Officer in October, there was a change in the Executive Committee members. Three new Executive Committee members were approved: Craig Hanson as the Chief Lending Officer, Kelvin Hullet as the Chief Business Development Officer and Rob Pfennig as the Chief Financial Officer. They joined Lori Leingang, Chief Administrative Officer; Kirby Evanger, Chief Credit Officer; Christy Steffenhagen, Chief Risk Officer; and Jeff Weiler, Chief Innovation Officer.

Eric's and Tim's legacy was leaving the Bank in a strong position financially and culturally. Thoughtful succession planning allowed our existing employees to be prepared to step into their new leadership roles.

The pandemic served as a real-life learning lab for our employees. It was all hands on deck. Many people excelled as we dealt with challenges daily, and the next generation of leaders now have a complete understanding of how BND responds in times of disaster.

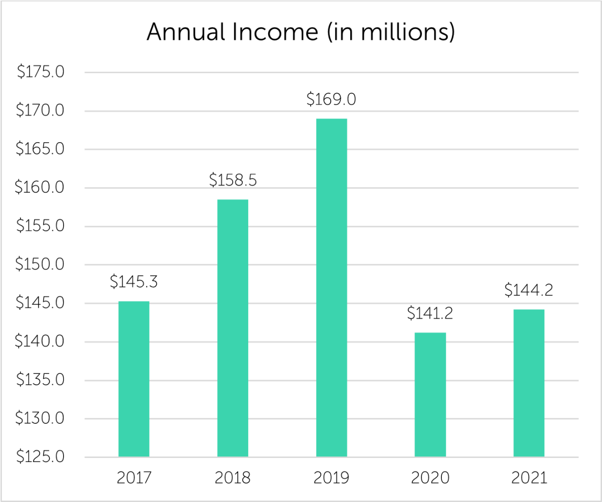
Our workforce location evolved as vaccines were distributed and COVID-19 numbers rose and fell. We ended the year with a combination of on-site, off-site and hybrid employees. The Department of Financial Institutions moved into some of the Bank's vacant areas, and plans are being made for the remainder of the vacant space.

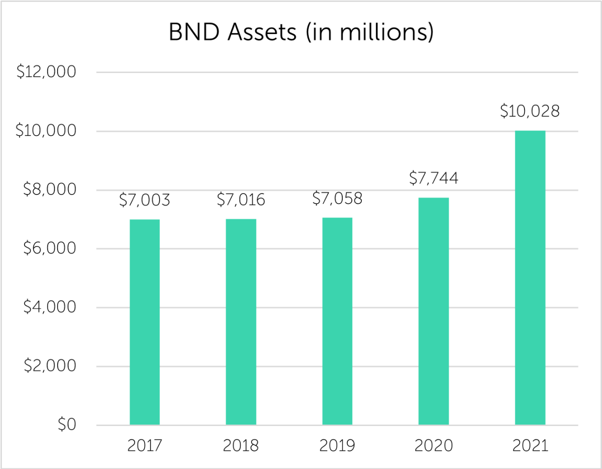
We created a new three-year strategic plan to cover 2022-2024. Take a look at page 15 to see our initiatives that will increase efficiencies even more, ensure the Bank remains well-capitalized and support the diversification of North Dakota's emerging industries. Building community to assist with employee recruitment and retention is another focus.

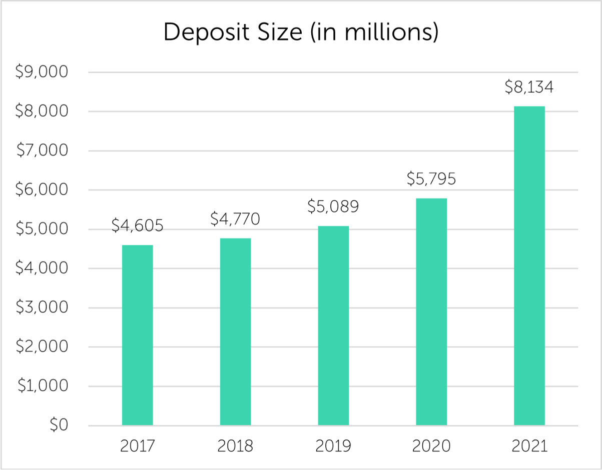
The Bank had a net income of $144.2 million in 2021, up $3 million from 2020. Our asset size set a record, reaching over $10 billion due to Legacy Fund earnings, additional tax revenue, higher correspondent bank deposits and Federal American Rescue Plan dollars. At the end of the year, the Bank was at $10.03 billion in assets. The return on investment was a healthy 15%.

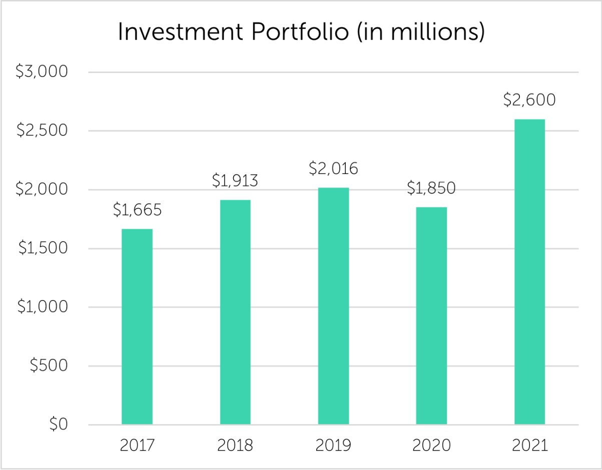
Our vision to be an agile partner that creates financial solutions for current and emerging economic needs resonates deeply within each of us. It inspires me that our team at BND continues to evolve, seeking new opportunities to collaborate, create efficiencies and serve our stakeholders better.

Todd Steinwand
President/CEO


Annual Income (in millions)
$175.0
$170.0
$165.0
$160.0
$155.0
$150.0
$145.0
$140.0
$135.0
$130.0
$125.0
$145.3
$158.5
$169.0
$141.2
$144.2
2017
2018
2019
2020
2021


BND Assets (in millions)
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$7,003
$7,016
$7,058
$7,744
$10,028
2017
2018
2019
2020
2021

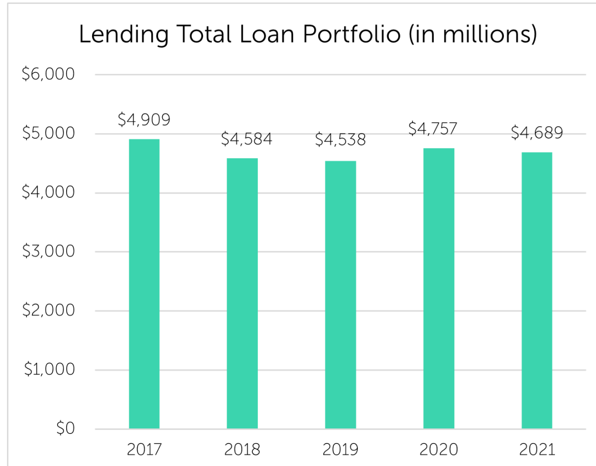

Deposit Size (in millions)
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$4,605
$4,770
$5,089
$5,795
$8,134
2017
2018
2019
2020
2021


Investment Portfolio (in millions)
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
$1,665
$1,913
$2,016
$1,850
$2,600
2017
2018
2019
2020
2021

Lending Portfolio

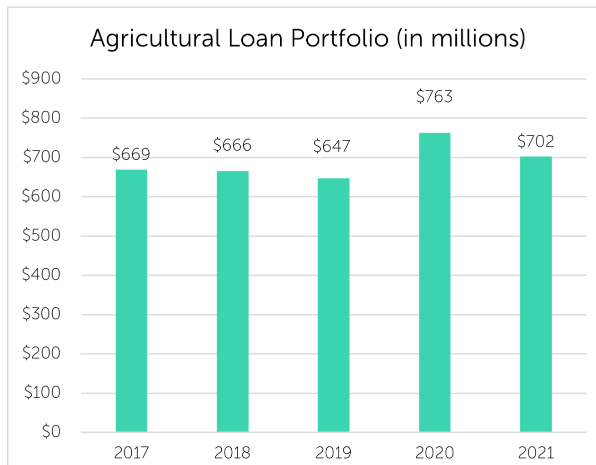
TOTAL LOAN PORTFOLIO

COVID-19 relief loan programs spurred record volumes in 2020. Loan activity decreased slightly in 2021 with 12,543 loans for $1.76 billion originated or renewed. There were 15,696 loans for $2.06 billion originated or renewed in 2020.



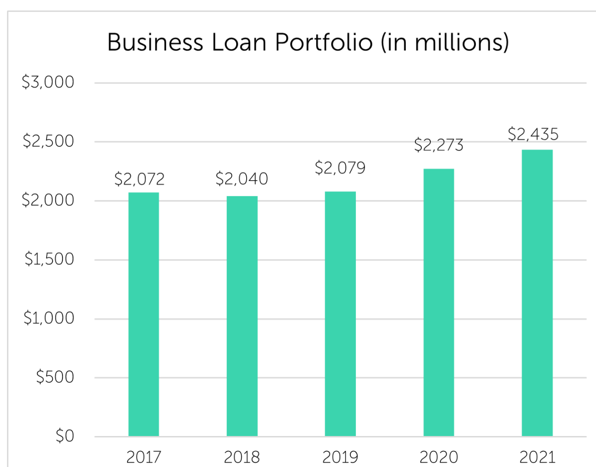
AGRICULTURAL LOAN PORTFOLIO

The ag loan portfolio decreased by $61 million in 2021 with BND funding and renewing $222 million of loans. Farm and Ranch loans led the way with $131 million, followed by the Established Farmer loans which funded $36 million in loans. The number of loans distributed in 2021 decreased to 421 loans, down from 740 loans in 2020 which was an unusually high number because of disaster relief loan numbers. There were 389 loans made in 2019 and 402 loans in 2018.



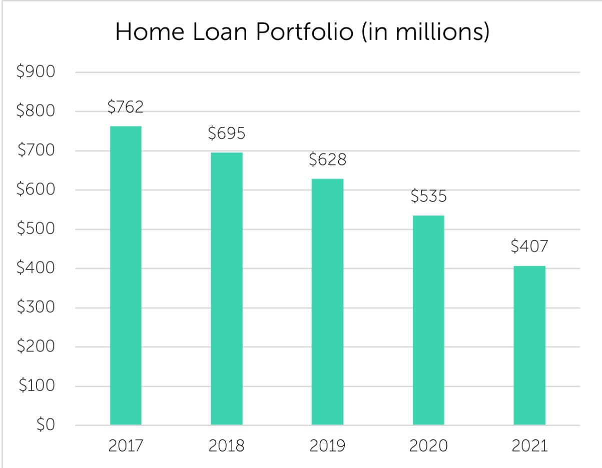
BUSINESS LOAN PORTFOLIO

The business loan portfolio increased by $162 million with BND funding and renewing $1.4 billion of loans. The largest area of activity was commercial participation loans with BND funding and renewing $1 billion in loans. The increase of just over 7% in the commercial portfolio can also be attributed to an increase in bank stock loans. The number of loans distributed in 2021 was 557 loans, comparable to 2020 numbers when excluding the 268 COVID relief loans. In 2018, 2019, and 2020 there were 491, 461, and 838 loans disbursed, respectively.



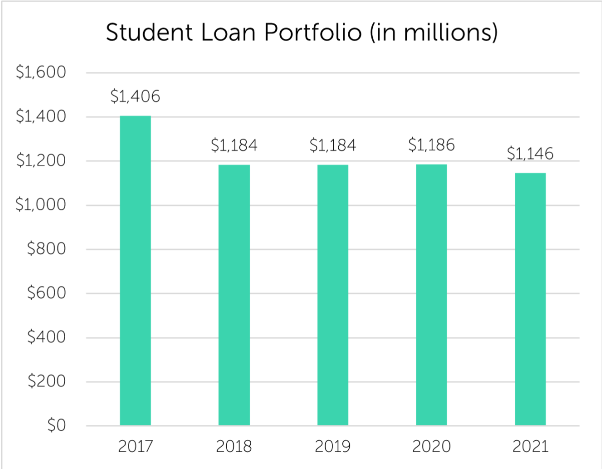
HOME LOAN PORTFOLIO

The home loan portfolio decreased by $128 million with BND funding $8 million of loans. Bank of North Dakota transitioned all originations, and nearly all residential servicing to North Dakota Housing Finance Agency as of October 1, 2021. The size of the portfolio will continue to decline with paydowns, refinancing and no additional activity.



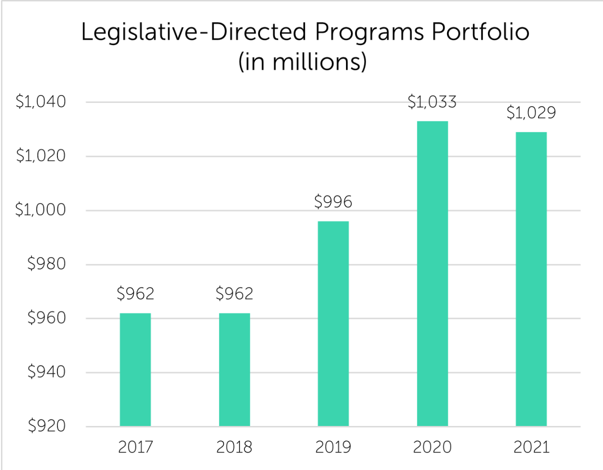
STUDENT LOAN PORTFOLIO

The student loan portfolio decreased by $40 million in 2021 with BND disbursing $100 million in loans. There were $127 million in loans disbursed in 2020. Student loan origination decreased due to more favorable federal loan rates and fewer students attending college.



LEGISLATIVE-DIRECTED PROGRAMS PORTFOLIO

Bank of North Dakota administers programs on behalf of the North Dakota legislature. These revolving loan funds, such as infrastructure and school construction and special programs such as Clean Sustainable Energy are not held on BND's balance sheet but comprise a portfolio of loans that now exceeds $1 billion.



Honoring Attorney General Wayne Stenehjem

It was a sad day for Bank of North Dakota to hear of Attorney General Wayne Stenehjem's untimely passing on January 28, 2022. A longtime adviser for the Bank, his exposure to BND started at a young age. His father, Martin, was employed by BND and actually signed the first federally insured student loan in the country.

First as a member of the North Dakota Legislature and then as a member of the Industrial Commission, Wayne always asked thoughtful, intelligent questions and led with wisdom. He will be genuinely missed by all of us.

"Far better to dare mighty things,
to win glorious triumphs, even
though checkered by failure,
than to take rank with those
poor spirits who neither enjoy
or suffer much, because they live
in the gray twilight that knows
neither victory nor defeat."

THEODORE ROOSEVELT

Celebrating Decades of Leadership: Thank you, Eric Hardmeyer!

As the 10th of 12 children born to Ted and Lorraine, Eric Hardmeyer learned the value of service early. His father was a Marquette graduate who served on every committee possible in Mott, North Dakota, in addition to being a business owner, entrepreneur, mayor and state legislator.

Hardmeyer graduated from the University of North Dakota in 1982 with degrees in economics and political science. He started at the Bank that year as an administrative assistant to Bank President Joe Lamb. He was named president/CEO in 2000 and continued in that position until his retirement in 2021.

HARDMEYER WAS RESPECTED FOR HIS POLITICAL ACUMEN AND EMPOWERED THE BANK TO EXCEL BY PROVIDING STRONG VISION AND LEADERSHIP.

He was the longest serving president who navigated times of great economic change with oil booms and busts, drought and natural disasters and ensured the Bank remained relevant for the residents of North Dakota. Politically, he was respected by both parties and claimed no allegiance to either.

SNAPSHOT OF BND GROWTH DURING HARDMEYER'S PRESIDENCY

	2000	2021
ASSETS	$1.8 billion	$10 billion
LOANS	$1.2 billion	$4.7 billion
CAPITAL	$153 million	$982 million
EARNINGS	$32.5 million	$144 million

Current BND President Todd Steinwand shares this story, “When Eric interviewed me for the chief business development officer position, I asked him what I would enjoy most about BND. He responded, ‘We’re it. You will have the opportunity to develop strategies and programs that improve lives of North Dakota residents.’ I followed up by asking what my greatest challenge would be and he said, ‘We’re it. We are the only Bank owned by the state in the nation and it is up to us to make sure that it is around for the next 100 years.’”

Thank you, Eric, for your leadership. We’ll do our best to make sure BND celebrates its 200th anniversary.

Creating Efficiencies in Government

Process improvement is a continual state of mind at Bank of North Dakota. Even while meeting the challenges of COVID-19 in 2021, we stayed the course and streamlined government.

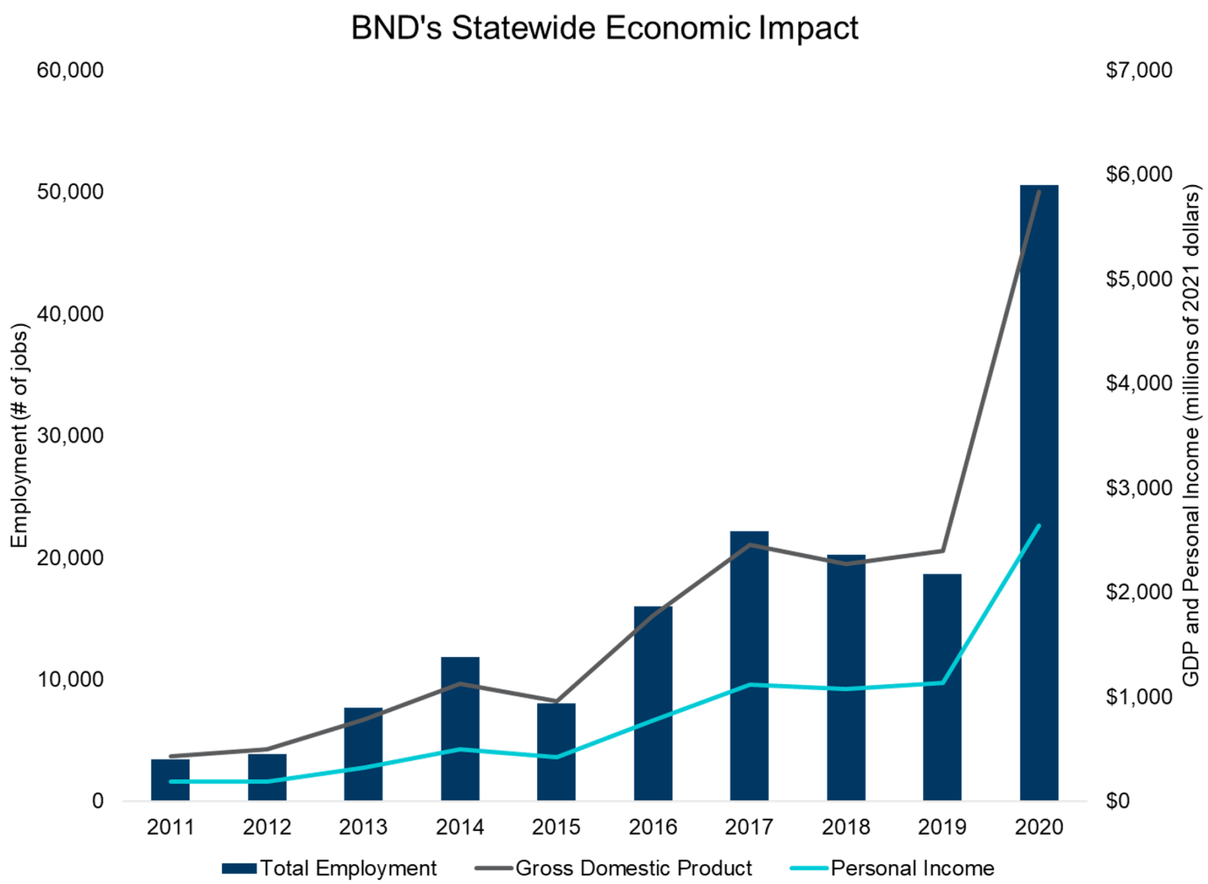
- Unification of the Bank's Information Technology team with North Dakota Information Technology
- Residential loan originations and nearly all residential servicing and collections transitioned to the North Dakota Housing Finance Agency
- Funding Infrastructure in North Dakota (FIND) allows the state's political subdivisions to apply for funding from the Department of Transportation, Department of Water Resources and Department of Environmental Quality with one application
- Implemented an Innovation Team
- Identified and trained Change Managers within each business unit to continuously identify and implement enhancements to our evolving customer experience, efficiency enhancements for team members and opportunities to increase revenue or decrease expenses resulting in an increased return to the State
- Initiated a State Agency calling program to enhance our relationships with them and assess potential process improvements, identify opportunities through new products and services to improve their customer's experience and partner with them to implement their strategic plan initiatives that utilize BND products

Measuring the Impact of BND Loans

In 2021, we utilized the Regional Economic Modeling Incorporated (REMI) model to analyze BND's economic impact from nearly 15,000 commercial and agricultural loans made between January 1, 2011, and December 31, 2020.

BND has utilized the REMI model to forecast the impact of proposed economic development projects over the last few years. However, the Bank also felt it would be interesting to gauge the economic impact of the Bank through its loan participations.

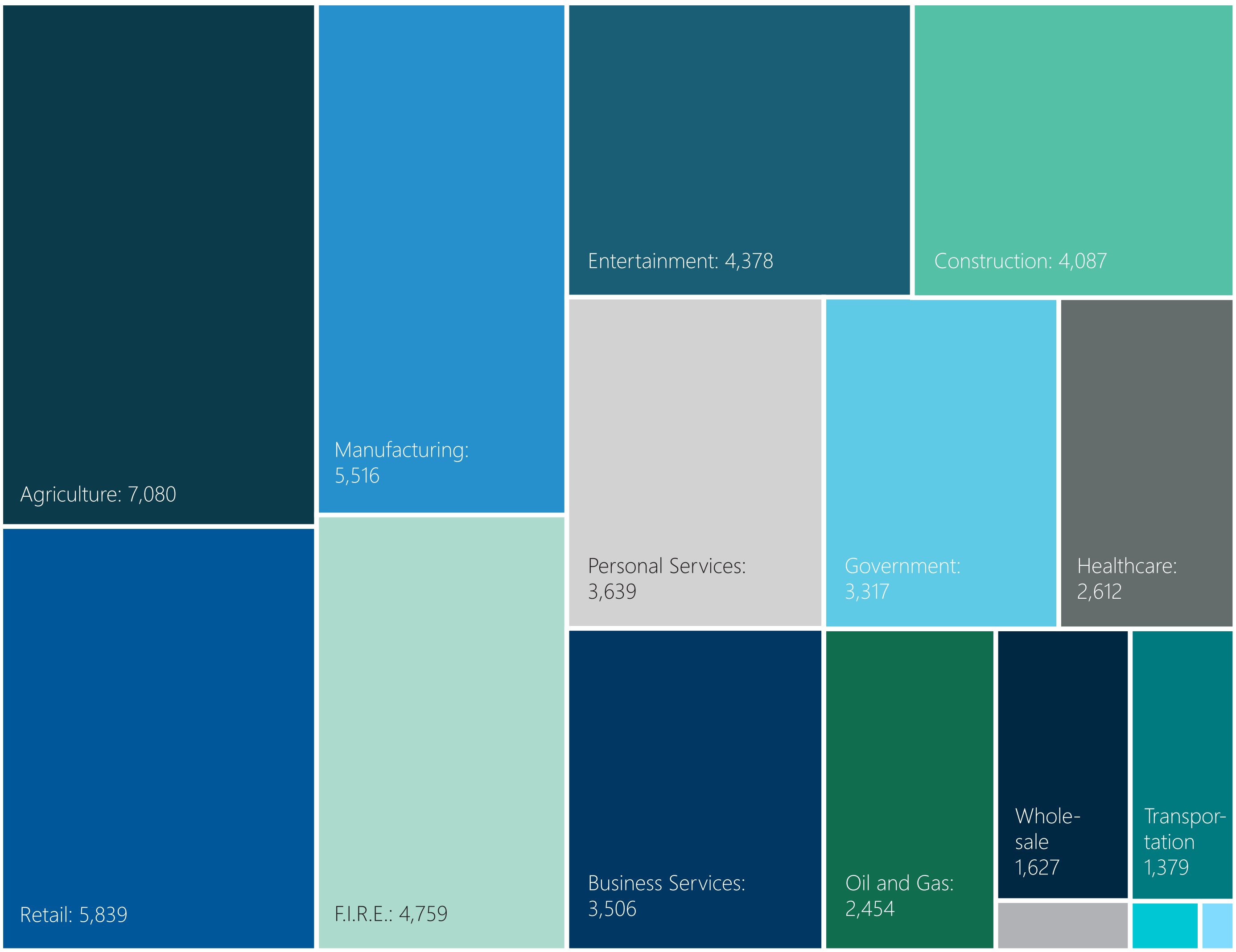
The results were revealing. In 2020, through its loan participations, BND assisted in creating or retaining over 50,000 jobs in the state with a projected impact of $6 billion to the state's Gross Domestic Product (GDP).



When analyzing for the Bank's impact on job creation, it closely follows North Dakota's leading industries: agriculture, retail, financial services, insurance and real estate (F.I.R.E.), and manufacturing.

Employment Impact by Sector

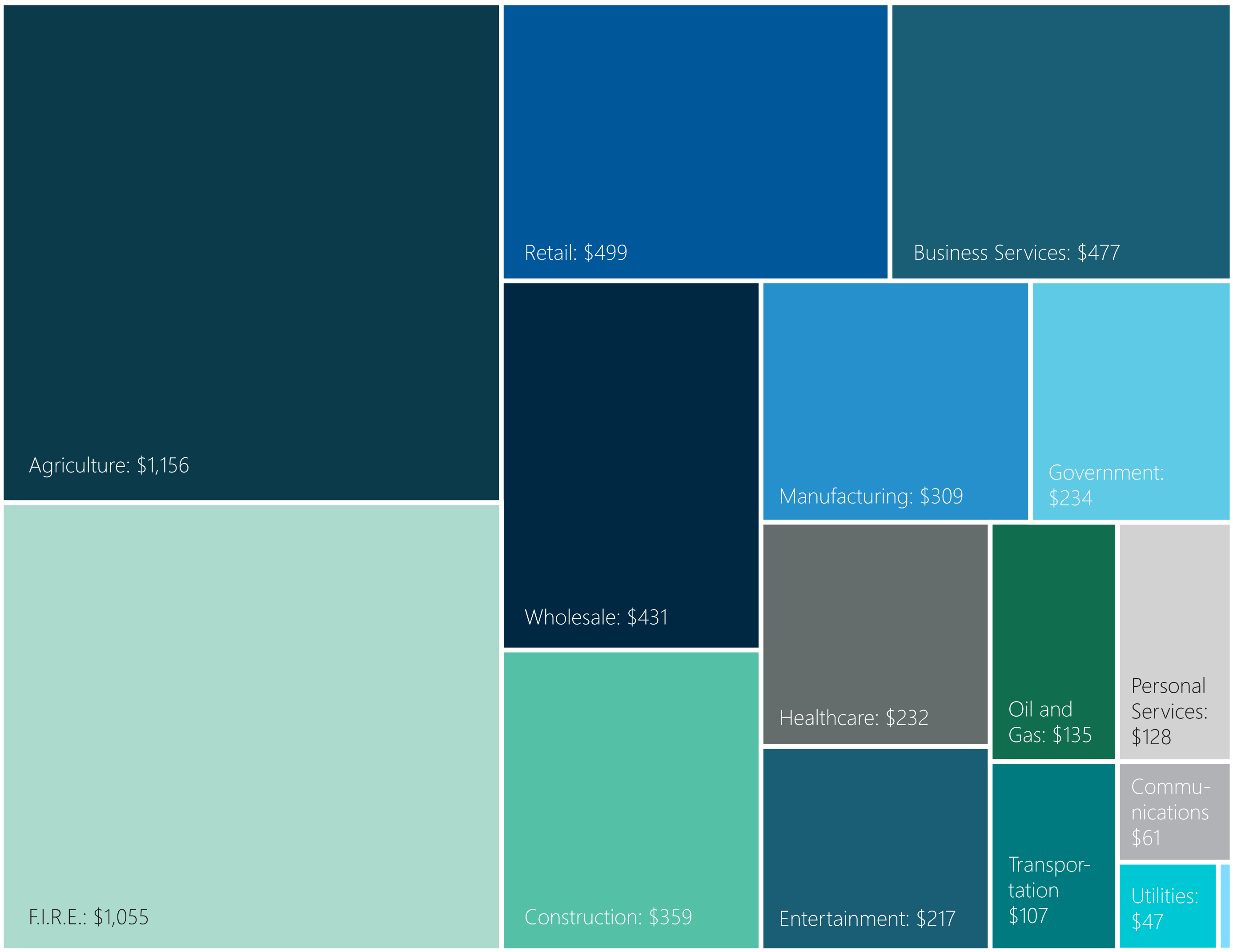
(2020 Number of jobs)



In 2020, Bank of North Dakota, through its loan participations and COVID-19 relief programs supported the retention and creation of 50,000 jobs in North Dakota. This support of jobs closely followed the primary industries of North Dakota, most notably agriculture and manufacturing were in the top five industries positively impacted by BND.

GDP Impact by Sector

(2020, millions of 2021 dollars)



As with job creation, GDP growth per industry closely follows North Dakota's leading industries: agriculture, retail, financial services, insurance and real estate (F.I.R.E.), and manufacturing.

BND's Strong Partnership with Financial Institutions

In addition to partnering with financial institutions on loan programs for the communities they serve, BND helps them conduct the back side of their business more effectively.

COLLATERAL VALUATION SERVICES

In 2020, partner banks reached out to BND to meet a need they had for collateral valuation services to assess the value of assets needed to secure a loan.

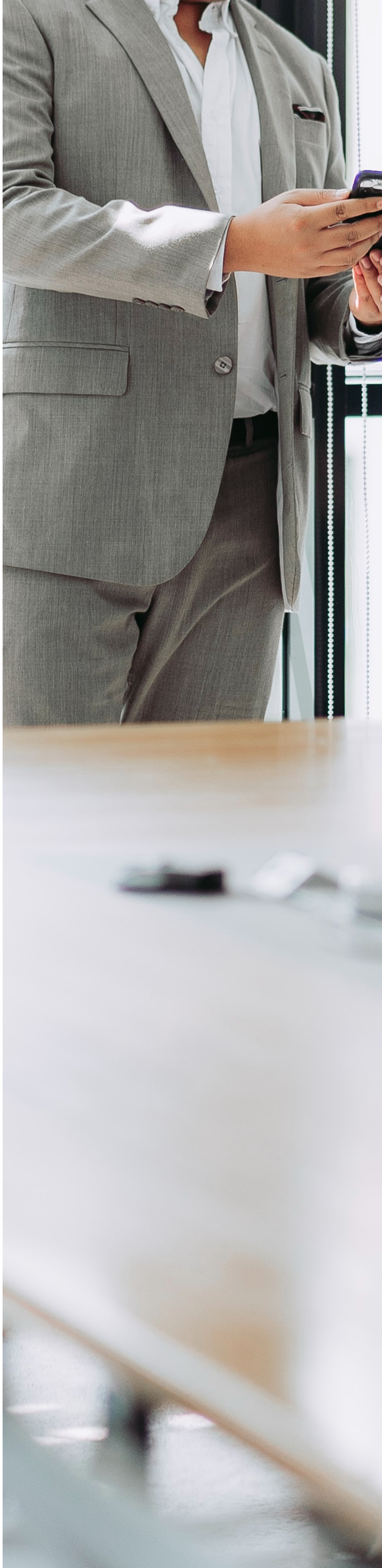
The Bank kicked off the Collateral Valuation program with a four-month pilot study in 2021, with full implementation in January 2022. At this time, valuations are available for agricultural land with or without improvements and chattel which includes farm machinery, livestock, commercial and industrial equipment, trucks, trailers and aircraft. Commercial and agricultural appraisal reviews of real estate are also provided by BND.

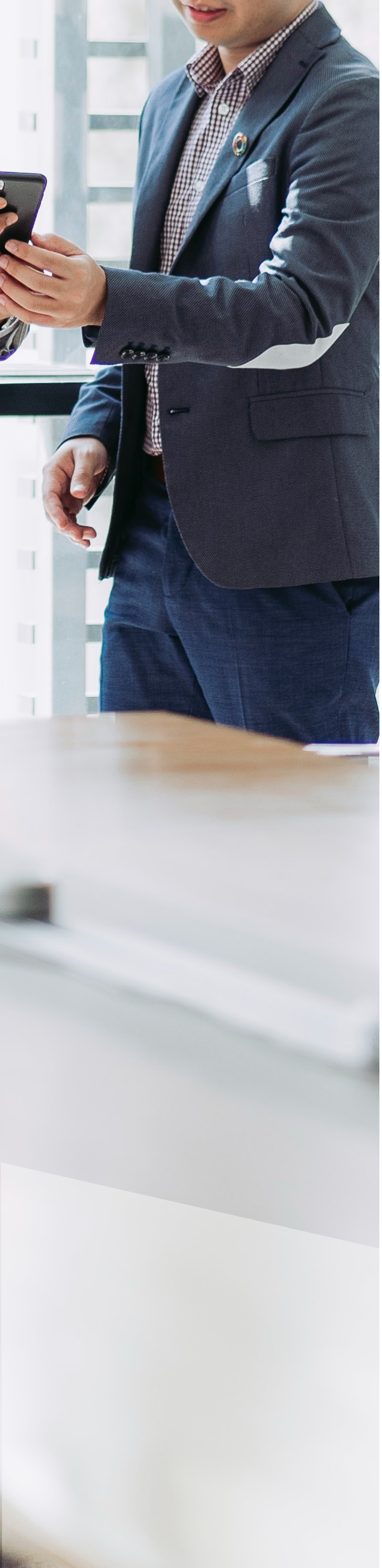
BANK STOCK LOANS

Bank Stock Loans provide financing options for the acquisition or refinancing of bank stock for North Dakota's financial institutions. In 2021, we made 55 Bank Stock Loans for $185 million, an increase of $82 million from the previous year.

TREASURY SERVICES BREAKS RECORDS

At the end of 2021, the Bank held 13,255 customer securities for $8.7 billion, up by nearly 3,500 holdings and $4 billion since year end 2019. Treasury Services also settled a record number of customer trades with over 4,100 trades settled in 2021, compared to 2,800 in 2019. The Bank's financial institution customers are also holding record balances on deposit at the Bank, three to four times greater than their historical average, primarily generated by federal and state stimulus.





BND Strategic Plan 2022-2024

Bank of North Dakota's 2022-2024 Strategic Plan was created after focus groups were held with key stakeholders and employees. In addition to the strategic plan, it documents events such as its response to the COVID-19 pandemic with a white paper to ensure the lessons learned are transferred to the next generation of the Bank's leadership.

These five strategies will assist with the prioritization of projects and direction through 2024:

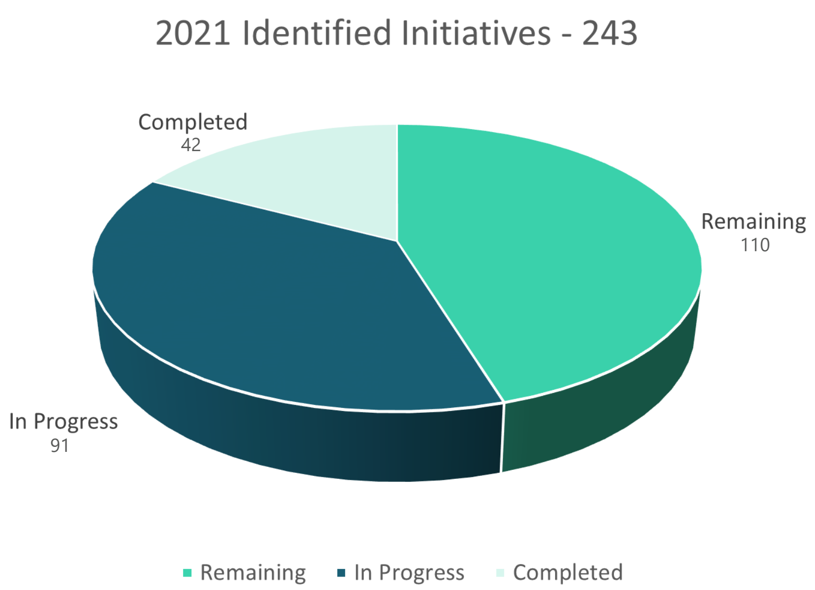
1. Drive innovation to enhance effective delivery of products and services.
2. Establish the new work environment to build community.
3. Support diversification in North Dakota's economy by creating financial solutions to current and emerging needs.
4. Educate North Dakotans about post-high school education opportunities and deliver innovative products and services that support them.
5. Increase stakeholder appreciation for BND's role as a bank in a competitive marketplace.

Employee-Driven Innovation

In 2021, BND focused efforts on employee-driven innovation. Employees are encouraged to ask why we do things a certain way and explore if there is a way to improve our customer's experience, improve our team's experience, or positively impact bank performance by either increasing revenue or decreasing expenses.

Innovation implementation managers were assigned to each business area to lead the efforts. Whiteboard sessions with business teams early in the year generated 243 initiatives. By the end of 2021, 42 were successfully completed and 91 were in progress. The BND Innovation Team is also collaborating with other state agencies on both bank-focused and statewide efficiencies and initiatives.

Innovation is ongoing and becomes the mindset as we continue to assess initiatives and priorities. Instead of defining innovation as the implementation of new technology, BND employees have adopted a holistic approach. Innovation efforts include improving the utilization of existing systems, streamlining processes and adding value whenever possible.



THE EMERGING LEADERS PROGRAM

BND's Emerging Leaders Program is a platform for non-management Bank employees that helps prepare them for future management opportunities. The six-month leadership program consists of John Maxwell's 21 Irrefutable Laws of Leadership, practical skill-based leadership training, team building events, and two significant strategic initiative assignments/projects to be completed as a team.

The 2021-2022 group has 13 participants working on two projects related to the strategic plan: assessing the needs of financial institution operations and treasury/trust partners and researching post-secondary education trends to identify funding gaps. From their research, recommendations will be developed.

Kirby Evanger, Senior Vice President of Credit Administration, is the Executive Committee member who sponsors the program. He shares, "I am so excited that BND is offering a comprehensive emerging leadership program to non-managers for leadership development. Our desire is to spark a passion within each participant for leading others, ultimately multiplying leadership traits and producing new leaders. Statistically, only about 5% of managers/supervisors reproduce other leaders. We intend to change that within our leaders at BND!"

Every new group begins and ends with this quote: "Leadership is lifting others with your presence and leaving an impact that lasts in your absence."

THE 2021 CLASS OF EMERGING LEADERS JOINED EXECUTIVE COMMITTEE MEMBERS FOR A TEAM BUILDING EVENT.

Thank Your Bank or Credit Union

Our state owes a great deal of gratitude to the network of banks and credit unions in North Dakota. They serve as the delivery channel for nearly all of BND's commercial and agricultural loans, and in times of disaster like the pandemic, relief loans as well.

Because of them, North Dakota was one of the leading states per capita in distributing the federal government's Paycheck Protection Program funds. They also assisted their customers with accessing Bank of North Dakota's relief loan programs.

BND invited the state's residents to recognize their local bank or credit union for what they bring to their community. In return, we randomly selected five of them which were given $5,000 to donate to a local school or education-related effort.

Congratulations to these well-deserving recipients!

PEOPLES STATE BANK in Velva used the funds for the **VELVA PUBLIC SCHOOLS ROBOTICS PROGRAM** and **MINOT PUBLIC SCHOOLS SOURCES OF STRENGTH**.

"I appreciate my bank because it is a locally run bank. If I have questions or concerns, I can call them, and I actually get to talk to a person that lives in the Velva community or surrounding area. There are no voice recordings with all the different extensions and departments. You talk to a human immediately and they will help you or refer you to the person you need to talk to."

BANK NORTH in Hunter donated the funds to the **NORTHERN CASS HIGH SCHOOL** to fund several of its student clubs: PTO, FFA, Math, Booster and the Destination Imagination Program.

"I appreciate my bank because of the friendly faces that greet me every time I enter Bank North. Their personable service always makes me feel welcome."

BRAVERA BANK in New England gave the funds to assist the **NEW ENGLAND SCHOOL SYSTEM** in purchasing a new history curriculum.

> *"The small-town branch has amazing customer service. The ladies that work in the New England branch are always friendly and helpful. They help the students and community with activities and support the local school. It is community involvement and customer support at its finest."*

NORTH STAR COMMUNITY CREDIT UNION in Maddock directed its $5,000 to the **MADDOCK PUBLIC SCHOOL AG/SHOP** department for the purchase of an MIG Welder and Industrial Plasma cutting table.

> *"I love my credit union because they are always supporting the community both financially and through volunteerism. They have programs for kids to learn about finances and saving. When our school needed volunteers to set up the new playground, the employees showed up for all the days as well as the CEO."*

UNISON BANK in Jamestown helped **LINTON HIGH SCHOOL** update its school track with the funds.

> *"I appreciate Unison Bank because they know people's names and anticipate their needs. Their banking hours are consumer friendly. Unison exemplifies what it means to be a hometown bank!"*

Meet Bank of North Dakota's Leadership Team

Bank of North Dakota is overseen by the North Dakota Industrial Commission. The governor appoints an Advisory Board which consists of banking and business leaders that advises the Industrial Commission and Bank of North Dakota on state trends and approves loans above $15 million. The Industrial Commission appoints the Bank president who hires the Executive Committee members.

THE INDUSTRIAL COMMISSION

GOVERNOR DOUG BURGUM

AGRICULTURE COMMISSIONER DOUG GOEHRING

ATTORNEY GENERAL DREW H. WRIGLEY

THE ADVISORY BOARD

GARY PETERSEN
Chairman of Advisory Board; Chairman of Cornerstone Bank

KARL BOLLINGBERG
Board Member; Loan Participation Adviser at Alerus Financial

PAT CLEMENT
Board Member; Retired Manager of Finance/ Accounting and Assistant Secretary at BNI Coal, Ltd.

DENNIS JOHNSON
Board Member; Chairman and Chief Executive Officer of TMI Systems

CHRISTIE OBENAUER
Board Member; Chief Executive Officer and President of Union State Bank

BILL PRICE
Board Member; Managing Partner of Price Cattle Ranch LLP and Missouri River Feeders LLP

JEAN VOORHEES
Board Member; Vice President of Business Development of WCCO Belting

THE EXECUTIVE COMMITTEE

TODD STEINWAND, PRESIDENT/CEO

Education: B.S. in business administration and history-political science from the University of Jamestown, Jamestown, North Dakota

Todd has worked in the banking industry since graduating college. He spent 33 years working for Wells Fargo, where he started as a trust officer and worked his way up, eventually becoming the senior vice president and business banking manager in the Bismarck office. He retired from Wells Fargo in 2015 and joined Bank of North Dakota where he now holds the position of president and chief executive officer.

KIRBY EVANGER, CHIEF CREDIT OFFICER/SENIOR VICE PRESIDENT OF CREDIT ADMINISTRATION

Education: B.S. in accounting from Minot State University in Minot, North Dakota

Certifications: Certified Public Accountant, Graduate of the Graduate School of Banking with honors.

Kirby Evanger began his career as a staff accountant with Eide Helmeke PLLP and WBI Holdings, Inc before taking on supervisory roles as the corporate accounting supervisor at BNCCorp, Inc., controller with North Dakota Concrete Products Company, accounting manager at Cross Country Courier, contract CPA with Bobcat, and senior credit analyst, credit department manager and chief credit officer at Starion Financial. He joined Bank of North Dakota in 2014 as the chief risk officer.

CRAIG HANSON, CHIEF LENDING OFFICER/SENIOR VICE PRESIDENT OF LENDING

Education: B.S. in accounting from Minot State University, Minot, North Dakota

Craig Hanson joined Bank of North Dakota in 2016 as a business banker working on economic development and large project loans and became the financial institutions market manager with a reorganization soon after that. Prior to joining BND, he worked at BNC National Bank as a business banking officer and credit analyst, as an auditor with the North Dakota State Tax Department and an accountant with Eide Bailly LLP.

KELVIN HULLET, CHIEF BUSINESS DEVELOPMENT OFFICER/SENIOR VICE PRESIDENT OF BUSINESS DEVELOPMENT

Education: A.A. in broadcast journalism & communication from Colby Community College in Colby, Kansas; B.S. in history and pre-law from Kansas State University in Manhattan, Kansas; M.A. in community and regional planning University of Nebraska in Lincoln, Nebraska

Certifications: Graduate of the Graduate School of Banking

Kelvin Hullet's work history includes more than 15 years as president of the Bismarck-Mandan Chamber of Commerce, three years as a public relations account executive at Bailey Lauerman and five years as a vice president of government affairs with the Lincoln, Nebraska Chamber of Commerce. He began at Bank of North Dakota in 2016.

LORI LEINGANG, CHIEF ADMINISTRATIVE OFFICER/SENIOR VICE PRESIDENT OF HUMAN RESOURCES AND COMMUNICATIONS

Education: B.S. in management from the University of Mary in Bismarck, North Dakota

Certifications: Graduate School of Banking - HR Management School graduate

Prior to joining Bank of North Dakota as the human resources manager in 2007, Lori Leingang worked in a variety of human resource roles within MDU Resources Group including senior human resources generalist, human resources assistant and executive secretary. She was named chief administrative officer in 2009.

ROB PFENNIG, CHIEF FINANCIAL OFFICER/SENIOR VICE PRESIDENT OF ACCOUNTING & TREASURY

Education: B.S. in accounting and business administration, University of Mary, Bismarck, North Dakota

Certifications: Certified Public Accountant, inactive; Graduate School of Banking –Financial Managers School graduate

With 25 years in a variety of financial management and accounting roles, Rob Pfennig started as the chief financial officer of Bank of North Dakota October 1, 2021. Prior to joining BND in 2018 as the controller and trust manager, he was the vice president and corporate controller at Bilfinger Westcon Inc, manager of corporate development at Knife River Corporation, and senior corporate development analyst at Centennial Energy Resources.

CHRISTY STEFFENHAGEN, CHIEF RISK OFFICER/SENIOR VICE PRESIDENT OF RISK MANAGEMENT

Education: B.S. in accounting from North Dakota State University in Fargo, North Dakota

Certifications: Graduate of the Graduate School of Banking with honors, Certified Internal Auditor, Certified Community Banking Internal Auditor

Christy Steffenhagen was named chief risk officer at Bank of North Dakota in 2020. She joined the Bank in 2009 to work in internal audit and led the Internal Audit Department from 2013 to 2020 and the Credit Review Department from 2018 to 2021. Her experience prior to that included senior internal auditor at the Hennepin County Internal Audit Department and a senior associate at RSM McGladrey.

JEFF WEILER, CHIEF INNOVATION OFFICER/SENIOR VICE PRESIDENT OF INNOVATION

Education: B.S. in business finance with minors in economics and management information systems, Northern State University in Aberdeen, South Dakota

Certifications: Graduate of the Graduate School of Banking with honors.

Prior to joining the executive leadership team at Bank of North Dakota in 2016, Jeff Weiler was an executive vice president with Starion Financial. Before taking on that role, he was a senior vice president and vice president of enterprise risk management. From 1996 to 2008, he held a variety of roles with Wells Fargo in Des Moines, Iowa, including the vice president of operational risk.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Ending Balance Sheet

Bank of North Dakota
December 31, 2021

			(In thousands)
Assets			
Cash and Due from Banks	$		2,768,582
Federal Funds Sold			4,450
Securities			2,600,007
Loans			
Commercial		2,434,765	
Agricultural		701,768	
Residential		406,565	
Student		1,145,722	
Total Loans		4,688,820	
Less Allowance for Loan Loss		(108,047)	
Total Loans Less Allowance			4,580,773
Other Assets			74,316
Total Assets	$		$10,028,128
Liabilities and Equity			
Deposits			
Noninterest Bearing	$	765,200	
Interest Bearing		7,368,694	
Total Deposits			8,133,894
Federal Funds Purchased and Repurchase Agreements			763,250
Short- and Long-term Borrowings			108,000
Other Liabilities			41,415
Total Liabilities			9,046,559
Equity			981,569
Total Liabilities and Equity	$		10,028,128

Ending Income Statement

Bank of North Dakota
December 31, 2021

		(In thousands)
Interest Income	$ 204,457	
Interest Expense	(28,921)	
Net Interest Income		175,536
Provision for Loan Losses		(4,750)
Net Interest Income After Provision		170,786
Noninterest Income		6,381
Noninterest Expense		
Salaries and Benefits	(17,979)	
Data Processing	(7,140)	
Occupancy and Equipment	(731)	
Other Operating Expense	(7,146)	
Total Noninterest Expense		(32,996)
Net Income	$	144,171

View a complete copy of the Audited Financial Statements
at bnd.nd.gov/annualreport.

Ten-Year Summary

Bank of North Dakota
December 31, 2021

	2021	2020	2019	2018
Operating Results (in thousands)				
Interest income	$204,457	$225,479	$263,738	$240,002
Interest expense	28,921	41,018	58,515	46,442
Net interest income	175,536	184,461	205,223	193,560
Provision for loan losses	4,750	16,800	6,000	12,000
Net interest income after provision for loan losses	170,786	167,661	199,223	181,560
Noninterest income	6,381	4,603	6,916	7,170
Noninterest expense	32,996	31,063	37,090	30,222
Net Income	**144,171**	**141,201**	**169,049**	**158,508**
Payments to general fund	35,000	70,000	35,000	70,000
Payments to other funds	39,605	67,550	45,109	58,614
Balance Sheet (in thousands)				
Total Assets - Year End	**10,028,128**	**7,744,319**	**7,058,432**	**7,015,834**
Federal funds sold and resell agreements	4,450	10,000	10,685	39,465
Securities	2,600,007	1,849,609	2,016,126	1,912,743
Loans	**4,688,820**	**4,756,542**	**4,537,943**	**4,584,233**
Agricultural	701,768	762,809	647,108	665,691
Commercial	2,434,765	2,272,999	2,078,573	2,039,833
Residential	406,565	535,098	628,319	694,577
Student	1,145,722	1,185,636	1,183,943	1,184,132
Deposits	**8,133,894**	**5,795,472**	**5,089,092**	**4,769,819**
Noninterest bearing	765,200	750,741	628,256	567,352
Interest bearing	7,368,694	5,044,731	4,460,836	4,202,467
Federal funds purchased and repurchase agreements	763,250	775,005	365,335	271,505
Short- and Long-term Debt	**108,000**	**186,010**	**631,030**	**1,103,436**
Equity	**981,569**	**912,904**	**939,028**	**861,884**
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	72,000	72,000
Undivided profits	939,900	870,333	866,682	777,742
Accumulated other comprehensive income (loss)	(32,331)	(31,429)	(1,654)	10,142

2017	2016	2015	2014	2013	2012
$219,700	$210,803	$194,298	$174,584	$153,182	$145,870
37,865	33,975	32,164	31,455	30,217	35,349
181,835	176,828	162,134	143,129	122,965	110,521
12,000	16,000	12,500	8,000	-	2,000
169,835	160,828	149,634	135,129	122,965	108,521
6,335	6,323	7,688	7,987	7,422	4,659
30,886	30,996	26,668	32,157	36,172	31,586
145,284	**136,155**	**130,654**	**110,959**	**94,215**	**81,594**
170,000	-	-	-	-	-
16,932	19,989	28,645	17,345	19,356	28,997
7,003,302	**7,295,268**	**7,407,942**	**7,215,687**	**6,873,409**	**6,155,201**
57,555	63,070	77,905	42,105	36,645	24,050
1,665,252	2,068,327	2,657,527	2,933,570	2,584,169	2,171,546
4,909,278	**4,789,553**	**4,339,618**	**3,852,155**	**3,476,946**	**3,279,778**
668,904	687,486	513,899	436,970	361,756	342,826
2,071,953	1,982,625	1,811,259	1,559,137	1,388,104	1,278,403
762,480	739,412	693,712	652,076	629,931	594,508
1,405,941	1,380,030	1,320,748	1,203,972	1,097,155	1,064,041
4,604,958	**4,887,192**	**5,802,142**	**5,730,611**	**5,601,127**	**5,003,562**
555,020	663,156	641,264	700,446	798,559	891,197
4,049,938	4,224,036	5,160,878	5,030,165	4,802,568	4,112,365
299,775	242,480	119,500	178,455	245,110	275,960
1,263,569	**1,280,538**	**727,322**	**645,126**	**465,961**	**406,252**
824,802	**875,732**	**749,493**	**652,134**	**551,797**	**463,662**
2,000	2,000	2,000	2,000	2,000	2,000
72,000	72,000	72,000	72,000	42,000	42,000
747,848	789,496	673,330	571,276	477,705	402,846
2,954	12,236	2,163	6,858	92	16,816

FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

Opinions

We have audited the financial statements of the Bank of North Dakota, which comprise the balance sheets as of December 31, 2021 and 2020, 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with the 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, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

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 opinions.

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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 the financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible 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 24, 2022

BANK OF NORTH DAKOTA
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
ASSETS		
Cash and due from banks	$ 2,768,582	$ 1,153,480
Federal funds sold	4,450	10,000
Cash and cash equivalents	2,773,032	1,163,480
Securities	2,600,007	1,849,609
Loans held for investment	4,688,820	4,756,542
Less allowance for loan losses	(108,047)	(106,303)
	4,580,773	4,650,239
Interest receivable	46,169	54,789
Bank premises, equipment, and software, net	9,234	9,559
Rebuilders loan program receivable	2,149	4,986
Other assets	16,764	11,657
Total assets	$10,028,128	$ 7,744,319
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	$ 765,200	$ 750,741
Interest bearing	7,368,694	5,044,731
	8,133,894	5,795,472
Federal funds purchased	763,250	775,005
Short and long-term debt	108,000	186,010
Other liabilities	41,415	74,928
Total liabilities	9,046,559	6,831,415
Equity		
Capital	2,000	2,000
Capital surplus	72,000	72,000
Undivided profits	939,900	870,333
Accumulated other comprehensive loss	(32,331)	(31,429)
Total equity	981,569	912,904
Total liabilities and equity	$10,028,128	$ 7,744,319

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
INTEREST INCOME		
Loans, including fees	**$ 169,842**	$ 181,585
Securities	**34,594**	43,855
Federal funds sold	**21**	39
Total interest income	**204,457**	225,479
INTEREST EXPENSE		
Deposits	**12,972**	24,026
Federal funds purchased and repurchase agreements	**859**	2,014
Short and long-term debt	**15,090**	14,978
Total interest expense	**28,921**	41,018
NET INTEREST INCOME	**175,536**	184,461
PROVISION FOR LOAN LOSSES	**4,750**	16,800
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**170,786**	167,661
NONINTEREST INCOME		
Service fees and other	**6,381**	4,603
Total noninterest income	**6,381**	4,603
NONINTEREST EXPENSE		
Salaries and benefits	**17,979**	18,223
Data processing	**7,140**	6,440
Occupancy and equipment	**731**	777
Other operating expenses	**7,146**	5,623
Total noninterest expenses	**32,996**	31,063
NET INCOME	**$ 144,171**	$ 141,201

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
Net income	**$ 144,171**	$ 141,201
Other comprehensive income (loss)		
Unrealized gain/(loss) on debt securities available for sale	**(33,955)**	21,270
Unrealized gain/(loss) on interest rate swaps	**33,053**	(51,045)
Other comprehensive (loss) income	**(902)**	(29,775)
Comprehensive income	**$ 143,269**	$ 111,426

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2019	$ 2,000	$ 72,000	$ 866,682	$ (1,654)	$ 939,028
Net income			141,201		141,201
Unrealized gain on debt securities available for sale				21,270	21,270
Unrealized loss on interest rate swaps				(51,045)	(51,045)
Transfers to other state funds			(137,550)		(137,550)
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

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands)

	2021	2020
OPERATING ACTIVITIES		
Net income	$ 144,171	$ 141,201
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	380	470
Provision for loan losses	4,750	16,800
Net (accretion) of securities	(6,264)	(3,668)
(Gain) loss on sale of foreclosed assets	(466)	867
Decrease in interest receivable	8,620	2,138
(Increase) decrease in other assets	(1,265)	2,465
(Decrease) in other liabilities	(1,791)	(1,683)
NET CASH FROM OPERATING ACTIVITIES	148,135	158,590
INVESTING ACTIVITIES		
Debt securities available for sale transactions		
Purchase of securities	(1,384,915)	(473,592)
Proceeds from sales, maturities, and principal repayments	604,530	647,298
Purchase of Federal Home Loan Bank stock	(863)	(44,251)
Sale of Federal Home Loan Bank stock	3,160	62,000
Net (increase) decrease in loans	61,028	(225,073)
Purchases of premises, equipment, and software	(55)	(256)
Payments from rebuilders loan program	2,837	4,339
Proceeds from sale of foreclosed assets	1,642	2,571
NET CASH USED FOR INVESTING ACTIVITIES	(712,636)	(26,964)
FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	14,459	122,485
Net increase in interest bearing deposits	2,323,963	583,895
Net (decrease) increase in federal funds purchased	(11,755)	409,670
Proceeds from issuance of short and long-term debt	2,002	1,125,001
Payment of short and long-term debt	(80,012)	(1,570,021)
Payment of transfers to other state funds	(74,604)	(137,550)
NET CASH FROM FINANCING ACTIVITIES	2,174,053	533,480
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,609,552	665,106
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,163,480	498,374
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,773,032	$ 1,163,480

(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, 2021 and 2020:

	2021	2020
Commercial loans, of which 2% and 1% are federally guaranteed	**52%**	48%
Student loans, of which 100% and 100% are guaranteed	**24%**	25%
Residential loans, of which 68% and 67% are federally guaranteed	**9%**	11%
Agricultural loans, of which 5% and 5% are federally guaranteed	**15%**	16%
	100%	100%

Continued on next page

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.

Continued on next page

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 $8,264 and $5,752 as of December 31, 2021 and 2020, respectively.

Continued on next page

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.

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

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average required reserve balances maintained at the Federal Reserve Bank were approximately $0 in 2021 and $12,828 in 2020.

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 $2,536,607 and $944,513 as of December 31, 2021 and 2020, respectively. Of these amounts, $2,503,753 and $877,923 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, 2021, the Bank has received and transferred to Public Finance Authority net proceeds of $374,500.

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, 2021 and 2020 consists of the following:

	2021	2020
Debt securities available for sale, at fair value	**$ 2,586,394**	$ 1,833,699
Federal Home Loan Bank stock, at cost	**13,613**	15,910
	$ 2,600,007	$ 1,849,609

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, 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**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2020				
Debt securities available for sale				
Federal agency	$ 721,689	$ 13,475	$ 646	$ 734,518
Mortgage-backed	1,074,935	23,678	432	1,098,181
State and municipal	1,000	-	-	1,000
	$ 1,797,624	$ 37,153	$ 1,078	$ 1,833,699

There were $595,625 and $621,635 of debt securities pledged as of December 31, 2021 and 2020 for other required pledging purposes**.** FHLB stock totaling $13,613 and $15,910 as of December 31, 2021 and 2020, 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, 2021, 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	$ 471,109	$ 474,931
Over one year through five years	1,981,733	1,978,261
Over five years through ten years	74,855	75,782
Over ten years	56,577	57,420
	$ 2,584,274	$ 2,586,394

There were no sales of available for sale securities during the years ended December 31, 2021 and 2020.

Continued on next page

(In Thousands)

Information pertaining to debt securities with gross unrealized losses as of December 31, 2021 and 2020 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	
	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**

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2020				
Debt securities available for sale				
Federal agency	$ 23	$ 19,977	$ 623	$ 79,486
Mortgage-backed	339	98,872	93	41,871
	$ 362	$ 118,849	$ 716	$ 121,357

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, 2021, and 2020, 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, 2021 and 2020 is as follows:

	2021	2020
Commercial	**$ 2,434,765**	$ 2,272,999
Student	**1,145,722**	1,185,636
Residential	**406,565**	535,098
Agricultural	**701,768**	762,809
	4,688,820	4,756,542
Allowance for loan losses	**(108,047)**	(106,303)
	$ 4,580,773	$ 4,650,239

Unamortized deferred student loan costs totaled $22,558 and $23,620 as of December 31, 2021 and 2020, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled ($142) and $887 as of December 31, 2021 and 2020, respectively.

In the normal course of business, overdrafts of deposit accounts are reclassified as loans. There were no overdrafts of deposit accounts as of December 31, 2021 and 2020.

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 $108,047 adequate to cover loan losses inherent in the loan portfolio as of December 31, 2021. 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)

	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**

	2020				
	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 76,144	$ 16,711	$ 2,798	$ 37	$ 95,690
Charge-offs	(6,219)	(5)	(7)	(37)	(6,268)
Recoveries	80	-	-	1	81
Provision	15,250	2,118	(567)	(1)	16,800
Ending Balance	$ 85,255	$ 18,824	$ 2,224	$ -	$ 106,303

Continued on next page

(In Thousands)

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

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**

2020	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 64,605	$ 16,497	$ 2,224	$ -	$ 83,326
Individually evaluated	20,650	2,327	-	-	22,977
Total	$ 85,255	$ 18,824	$ 2,224	$ -	$ 106,303

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

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**

2020	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 1,985,726	$ 674,439	$ 529,692	$ -	$ 3,189,857
Individually evaluated	101,085	50,010	5,211	-	156,306
Loan types excluded from allowance	186,188	38,360	195	1,185,636	1,410,379
Total	$ 2,272,999	$ 762,809	$ 535,098	$ 1,185,636	$ 4,756,542

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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, 2021 and 2020. 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.

	2021				
Risk Rating	**Commercial Participations**	**Bank Stock**	**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)

	2020				
Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	-	-	46,178	7,243	835
3	281,365	239,459	142,372	27,062	64,897
4	718,795	43,589	361,223	67,806	264,175
5	108,432	-	51,247	22,596	22,296
6	77,198	-	9,833	7,901	3,931
7	3,509	-	3,611	123	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	186,188	-	-
Total	$ 1,189,299	$ 283,048	$ 800,652	$ 132,731	$ 356,134

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 534,903	$ -	$ 534,903
1	-	-	-	-
2	1,826	-	-	56,082
3	25,122	-	-	780,277
4	167,439	-	-	1,623,027
5	33,006	-	-	237,577
6	8,107	-	-	106,970
7	84	-	-	7,327
8	-	-	-	-
Loan types excluded from allowance	38,360	195	1,185,636	1,410,379
Total	$ 273,944	$ 535,098	$ 1,185,636	$ 4,756,542

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, 2021 and 2020. 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.

	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**

	2020						
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	$ 18,447	$ 3,049	$ 9,042	$ 30,538	$ 1,158,761	$ 1,189,299	$ 1,909
Bank Stock	-	151	-	151	282,897	283,048	-
All other Business Loans (Including PACE)	1,818	443	3,846	6,107	794,545	800,652	276
Farm & Ranch	320	-	3,475	3,795	128,936	132,731	2,787
Farm Real Estate	4,022	-	2,668	6,690	349,444	356,134	2,668
All other Farm loans	447	-	1,865	2,312	271,632	273,944	1,865
Residential Real Estate	9,675	8,337	38,138	56,150	478,948	535,098	38,112
Student Loans	26,497	44,013	2,045	72,555	1,113,081	1,185,636	2,045
Totals	$ 61,226	$ 55,993	$ 61,079	$ 178,298	$ 4,578,244	$ 4,756,542	$ 49,662

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)

	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.

Continued on next page

(In Thousands)

	2020				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ 25,955	$ 26,813	$ -	$ 29,086	$ 1,129
Bank Stock	47	47	-	137	9
All other Business Loans (Including PACE)	9,523	11,137	-	11,134	396
Farm & Ranch	4,054	4,054	-	4,053	133
Farm Real Estate	2,298	2,297	-	2,297	104
All other Farm loans	33,383	33,383	-	33,305	563
Residential Real Estate	5,211	5,211	-	5,241	160
With an Allowance Recorded:					
Commercial Participations	$ 59,142	$ 59,576	$ 17,744	$ 60,059	$ 2,149
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	6,418	6,418	2,906	6,012	268
Farm & Ranch	858	858	274	858	47
Farm Real Estate	-	-	-	-	-
All other Farm loans	9,417	9,417	2,053	9,417	130
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 85,097	$ 86,389	$ 17,744	$ 89,145	$ 3,278
Bank Stock	47	47	-	137	9
All other Business Loans (Including PACE)	15,941	17,555	2,906	17,146	664
Farm & Ranch	4,912	4,912	274	4,911	180
Farm Real Estate	2,298	2,297	-	2,297	104
All other Farm loans	42,800	42,800	2,053	42,722	693
Residential Real Estate	5,211	5,211	-	5,241	160

(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, 2021 and 2020. The balances are presented by class of financing receivable.

	2021	2020
Commercial Participations	**$ 10,125**	$ 12,450
All Other Business Loans (Including PACE)	**2,125**	7,264
Farm & Ranch	**544**	2,214
All Other Farm Loans	**75**	1,285
Residential Real Estate	**26**	26
Student Loans	**-**	-
TOTAL	**$ 12,895**	$ 23,239

Accruing loans 90 days or more past due include guaranteed student loans of $13,638 and $2,045 as of December 31, 2021 and 2020, 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 $12,200 and $38,112 as of December 31, 2021 and 2020, 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, 2021 and 2020. There were two of these loans subsequently defaulted after modification status during the year ended December 31, 2021 and there were four of these loans subsequently defaulted after modification status during the year ended December 31, 2020.

	2021		2020	
	Number of Modifications	**Recorded Investment**	Number of Modifications	Recorded Investment
Commercial Participations	**4**	**$ 10,479**	12	$ 20,028
All Other Business Loans (Including PACE)	**-**	**-**	6	2,675
Farm & Ranch	**-**	**-**	2	1,620
All Other Farm Loans	**3**	**1,688**	46	28,490
Residential Real Estate	**11**	**1,767**	3	646
TOTAL	**18**	**$ 13,934**	69	$ 53,459

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, 2021 and 2020, by type of modification.

	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

	2020			
	To Interest Only	Below Market Rate	Other (1)	Total
Commercial Participations	$ -	$ -	$ 20,028	$ 20,028
All Other Business Loans (Including PACE)	247	690	1,738	2,675
Farm & Ranch	-	-	1,620	1,620
All Other Farm Loans	-	-	28,490	28,490
Residential Real Estate	-	-	646	646
TOTAL	$ 247	$ 690	$ 52,522	$ 53,459

(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, 2021 and 2020.

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, 2021 and 2020 were as follows:

	2021	2020
Student loans		
North Dakota Student Loan Trust	**$ 601**	$ 762
Residential loans		
Fannie Mae	**22,702**	33,147
Other state fund loans		
School Construction Assistance Revolving Loan Fund	**272,312**	271,391
Western Area Water	**-**	74,500
Infrastructure Revolving Loan Fund	**112,650**	108,828
Medical Facility Infrastructure Loan Fund	**45,621**	46,309
Rebuilders Loan Program	**45,059**	22,489
State Water Commission	**571**	22,097
Water Infrastructure Revolving Loan Fund	**34,396**	-
Community Water Facility Loan Fund	**-**	14,232
Board of University and School Lands	**4,896**	7,079
Information Technology Department	**1,829**	2,844
Department of Human Services	**3,403**	3,776
Addiction Counseling Internship Loan Program	**86**	102
Workforce Safety	**65**	77
Small Employer Loan Fund	**-**	29,478
Innovation Loan Fund	**15,588**	11,554
	$ 559,779	$ 648,665

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, 2021 and 2020 is as follows:

	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**

	Balance 2019	Additions	Retirements	Balance 2020
Land	$ 2,449	$ -	$ -	$ 2,449
Building	10,317	-	-	10,317
Equipment	732	35	4	763
Furniture	803	14	-	817
Hardware	168	-	158	10
Software	5,729	207	-	5,936
	20,198	256	162	20,292
Less accumulated depreciation	10,425	470	162	10,733
	$ 9,773	$ (214)	$ -	$ 9,559

Depreciation and amortization expense on the above assets amounted to $380 and $470 in 2021 and 2020.

NOTE 7 - DEPOSITS

As of December 31, 2021, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 4,285,383
One to three years	128,982
Over three years	52,527
	$ 4,466,892

Continued on next page

(In Thousands)

NOTE 8 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2021	2020
Federal Home Loan Bank advances - long-term	**$ 108,000**	$ 186,000
ND Public Finance Authority, 3%, matures from September 2020 through September 2021	**-**	10
	$ 108,000	$ 186,010

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

	Principal	Interest	Total
2022	53,000	$ 1,922	$ 54,922
2023	40,000	763	40,763
2024	15,000	102	15,102
Totals	$ 108,000	$ 2,787	$ 110,787

The FHLB long-term advances outstanding as of December 31, 2021, mature from April 2022 through March 2024. The FHLB long-term advances have fixed rate interest, ranging from 2.22% to 3.32%**.** All FHLB advances must be secured by minimum qualifying collateral maintenance levels. Residential, agriculture, and commercial loans with carrying values of $1,058,932 and $1,297,894 as of December 31, 2021 and 2020, respectively, are currently being used as security to meet these minimum levels.

The money borrowed from the ND Public Finance Authority is unsecured and was used to fund irrigation and livestock waste program loans.

NOTE 9 - OTHER LIABILITIES

Other liabilities consist of:

	2021	2020
Interest payable	**$ 1,994**	$ 2,350
Salary and benefits payable	**2,768**	3,028
Interest rate swap payable	**35,781**	67,503
Accounts payable, accrued expenses and other liabilities	**872**	2,047
	$ 41,415	$ 74,928

Continued on next page

NOTE 10 - PENSION PLAN

Bank of North Dakota participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

NDPERS is a multi-employer defined benefit pension plan covering substantially all classified employees of Bank of North Dakota. The Plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred, or monthly payments in an amount equal to the employee'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 employee'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 employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). For employee with an effective employment date on and after January 1, 2016, pension benefits will begin when the sum of age and years of credited service equal or exceed 90, or at normal retirement age (65). The Plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% of the participant's salary be contributed to the Plan by either the employee or by the employer under a "salary reduction" agreement. Bank of North Dakota is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 2021 and 2020 were approximately $1,476 and $1,465, respectively, and are charged directly to operations. There were no surcharges paid by the Bank to the Plan in 2021 and 2020.

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, 2021, and 2020, 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.

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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, 2021. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 11 - 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, 2021, 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, 2021, the Bank had transferred $7,000.

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, 2021, the Bank had transferred $1,000.

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, 2021, the Bank had transferred $250.

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, 2021, the Bank had transferred $3,000.

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, 2021, the Bank had transferred $0.

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, 2021, the Bank had transferred $100.

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, 2021, the Bank had transferred $2,700.

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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, 2021, 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, 2021, the Bank had transferred $100.

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, 2021, 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, 2021, 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, 2021, the Bank had not extended any credit.

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, 2021, 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, 2021, 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, 2021, 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, 2021 and 2020 was $13,362 and $13,971, 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, 2021, outstanding loans totaled $112,650.

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, 2021, the outstanding balance was $18,268.

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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, 2021, outstanding loans in the School Construction Assistance Revolving Loan Fund totaled $272,312.

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, 2021, $95,145 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, 2021, 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, 2021, the Bank has received and transferred to Public Finance Authority $384,558.

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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, 2021, 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, 2021, and 2020, the Bank had guarantees outstanding totaling $0 and $241, 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, 2021 and 2020.

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, 2021, 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, 2021, 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, 2021, the balance in the reserve fund was $42,257.

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, 2021, and 2020, the Bank has guarantees outstanding totaling $7,414 and $8,274, respectively, and had guarantee commitments outstanding of $188 and $0, 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, 2021 and 2020.

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, 2021, the Bank transferred $30,000.

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NOTE 12 - 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 $1,123,163 and $1,162,016 as of December 31, 2021 and 2020, 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, 2021 and 2020 amounted to $26,927 and $31,167, respectively. Deposits and short-term borrowings held by the Bank were $6,655 and $11,684, 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, 2021 the Bank had a receivable from this program for $2,149. At year end December 31, 2020, the Bank had a receivable from this program for $4,986.

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 NDFHA $1,077 in unamortized service release premiums and fees. NDHFA will service a total of $283,744 in loans from BND.

NOTE 13 - 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 12. 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.

Continued on next page

(In Thousands)

As of December 31, 2021, and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2021	2020
Commitments to extend credit	**$ 1,486,164**	$ 1,242,214
Financial standby letters of credit	**517,094**	442,641
Guarantees provided	**7,601**	8,515

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 17 months to 29 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, 2021 and 2020 were $31,321 and $104,150, 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, 2021 and 2020 were $8,220 and $4,746, 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 $300,785 and $333,745 as of December 31, 2021 and 2020, 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, 2021 and 2020.

NOTE 14 - 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, 2021 and 2020, 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, 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 liabilities	**$ 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.

The following table summarizes the derivative financial instrument utilized as of December 31, 2020:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other liabilities	$ 50,000		$ 8,223
Cash flow hedge	Other liabilities	$ 50,000		$ 9,509
Cash flow hedge	Other liabilities	$ 50,000		$ 9,895
Cash flow hedge	Other liabilities	$ 45,000		$ 1,546
Cash flow hedge	Other liabilities	$ 50,000		$ 9,248
Cash flow hedge	Other liabilities	$ 50,000		$ 1,288
Cash flow hedge	Other liabilities	$ 50,000		$ 2,851
Cash flow hedge	Other liabilities	$ 50,000		$ 5,717
Cash flow hedge	Other liabilities	$ 50,000		$ 9,461
Cash flow hedge	Other liabilities	$ 50,000		$ 3,274
Cash flow hedge	Other liabilities	$ 50,000		$ 6,492

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, 2020:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	$ 50,000	8.4	$ (9,461)	0.09%	2.86%
Interest rate swap	$ 50,000	9.3	$ (5,717)	0.09%	1.92%
Interest rate swap	$ 50,000	10.7	$ (3,274)	0.15%	1.48%
Interest rate swap	$ 50,000	11.3	$ (8,223)	0.15%	2.39%
Interest rate swap	$ 50,000	11.5	$ (6,492)	0.09%	1.99%
Interest rate swap	$ 50,000	12.3	$ (9,509)	0.09%	2.47%
Interest rate swap	$ 50,000	12.5	$ (9,895)	0.09%	2.52%
Interest rate swap	$ 50,000	13.3	$ (9,248)	0.09%	2.36%
Interest rate swap	$ 50,000	13.8	$ (1,288)	0.09%	1.15%
Interest rate swap	$ 50,000	13.8	$ (2,851)	0.09%	1.38%
Interest rate swap	$ 45,000	2.7	$ (1,546)	0.09%	1.33%

Amongst all swap counterparties for the transactions noted above, the Bank has pledged $66,740 in cash under collateral arrangements related to the interest rate swaps as of December 31, 2020, 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 $10,498 and $8,766 as of December 31, 2021 and December 31, 2020 and is reported as a component of interest expense on short- and long-term debt.

NOTE 15 - 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.

Continued on next page

Determination of Fair Value

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. FHLB stock and nonmarketable securities are not publicly traded and management has determined fair value approximate cost.

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, 2021 and 2020.

	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	$ -

Continued on next page

(In Thousands)

	2020			
	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	$ 86,599	$ -	$ 86,599	$ -
Collateralized mortgage obligations				
Agency	1,011,580	-	1,011,580	-
Non-agency	2	-	2	-
Agency bonds	734,518	734,518	-	-
Municipal bonds	1,000	-	1,000	-
Totals	$ 1,833,699	$ 734,518	$ 1,099,181	$ -
LIABILITIES				
Interest rate swap	$ 67,504	$ -	$ 67,504	$ -
Totals	$ 67,504	$ -	$ 67,504	$ -

Continued on next page

(In Thousands)

Assets Measured at Fair Value on a Nonrecurring Basis

The tables below present the Bank's balances of financial instruments measured at fair value on a nonrecurring basis as of December 31, 2021 and 2020.

The significant unobservable inputs used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to customized discounting criteria applied to the customer's reported amount of collateral. The amount of the collateral discount depends upon the marketability of the underlying collateral. The Bank's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, in which collateral with lesser marketability characteristics would receive a larger discount.

The valuations are reviewed at least quarterly by the internal Problem Loan Committee and are considered in the overall calculation of the allowance for credit losses. Unobservable inputs are monitored and adjusted if market conditions change.

	2021		
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	**$ -**	**$ -**	**$ 94,809**
Totals	**$ -**	**$ -**	**$ 94,809**

	2020		
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ -	$ -	$ 133,329
Totals	$ -	$ -	$ 133,329

NOTE 16 - 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.

Continued on next page

(In Thousands)

The changes in accumulated other comprehensive income by component for the years ended December 31, 2021 and 2020 follows:

	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)**

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2020			
Beginning balance	$ 14,805	$ (16,459)	$ (1,654)
Other comprehensive income (loss) before reclassifications	21,270	(51,045)	(29,775)
Amount reclassified from accumulated other comprehensive income	-	-	-
Net current period other comprehensive income	21,270	(51,045)	(29,775)
Ending balance	$ 36,075	$ (67,504)	$ (31,429)

Continued on next page

(In Thousands)

NOTE 17 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2021	2020
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 13,315**	$ 24,912
Interest paid on federal funds purchased and securities sold under repurchase agreements	**858**	2,026
Interest paid on short and long-term debt	**15,105**	14,274
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**74,604**	137,550
Net change in fair value on debt securities available for sale	**(33,954)**	21,270
Net change in fair value on interest rate swaps	**33,052**	(51,045)
Foreclosed assets acquired in exchange for loans	**3,688**	287

NOTE 18 - REVENUE RECOGNITION

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 2014-09, "Revenue from Contracts with Customers (Topic 606)" and subsequent related Updates that modifies the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The Updates also require new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. The amendments in this update were effective for fiscal years beginning after December 15, 2018. On January 1, 2019, the Bank adopted ASU 2014-09 and all subsequent amendments to the ASU (collectively, "ASC 606").

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:

Continued on next page

- 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 19 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 24, 2022, which is the date these financial statements were available to be issued.

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