BND

Bank of North Dakota

Salute to the past. Addressing the future.

ANNUAL REPORT 2023

The Cover

Bank of North Dakota (BND) is often referred to as a family. Our mission to "promote agriculture, commerce and industry" is more than words on a page to us. It unites us and drives us to do more for North Dakota. Every day, BND staff takes care of today, but always with a forward-looking perspective.

This year, our front cover features the children and grandchildren of some of our BND employees. Among these beautiful young faces are tomorrow's bankers, community leaders, teachers, farmers, ranchers and entrepreneurs, just to name a few.

It is BND's honor to be one part of cultivating a strong financial future for North Dakota, a future that will benefit the next generation and beyond.

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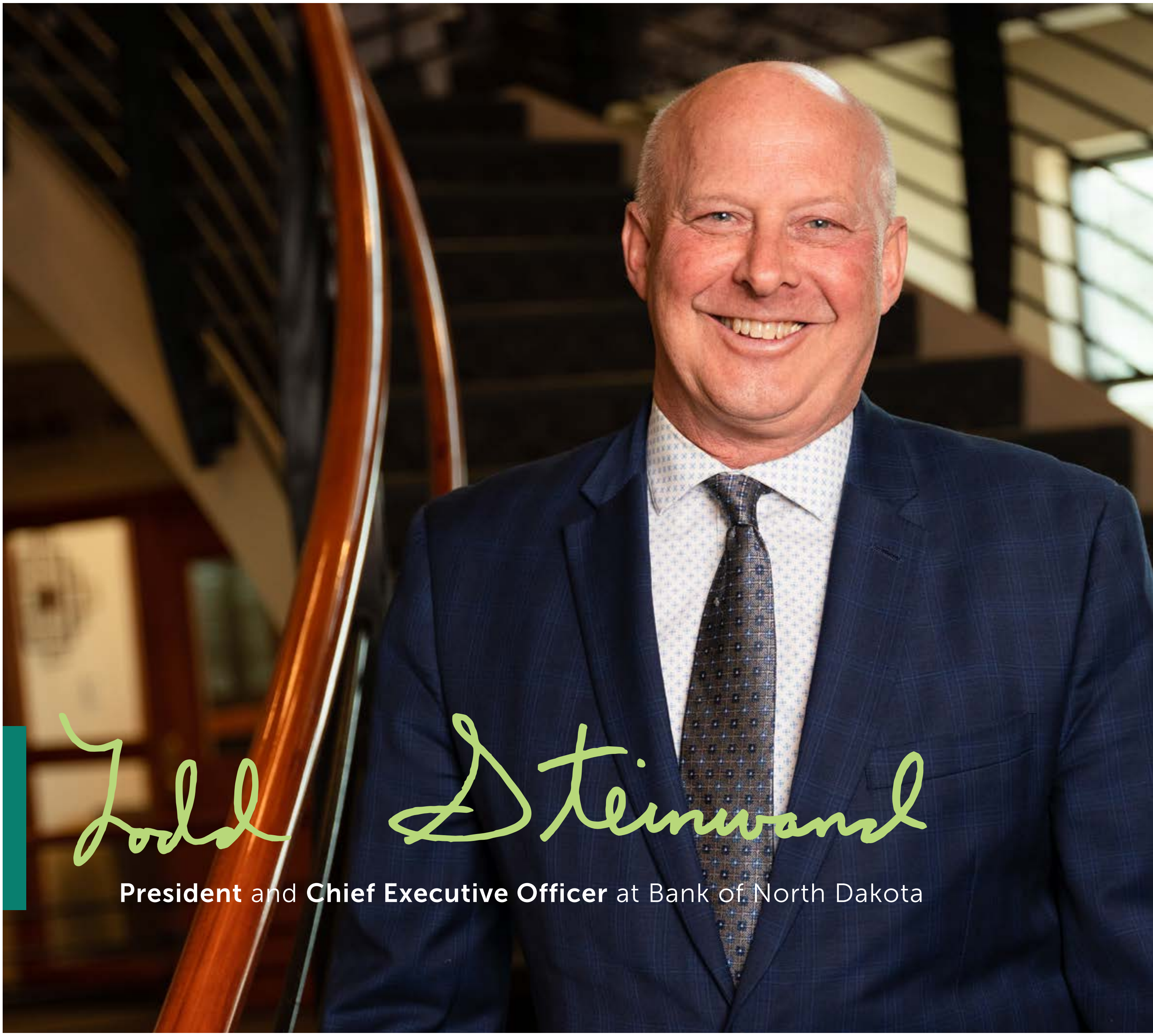


Salute to the past. Addressing the future.

Letter from the President

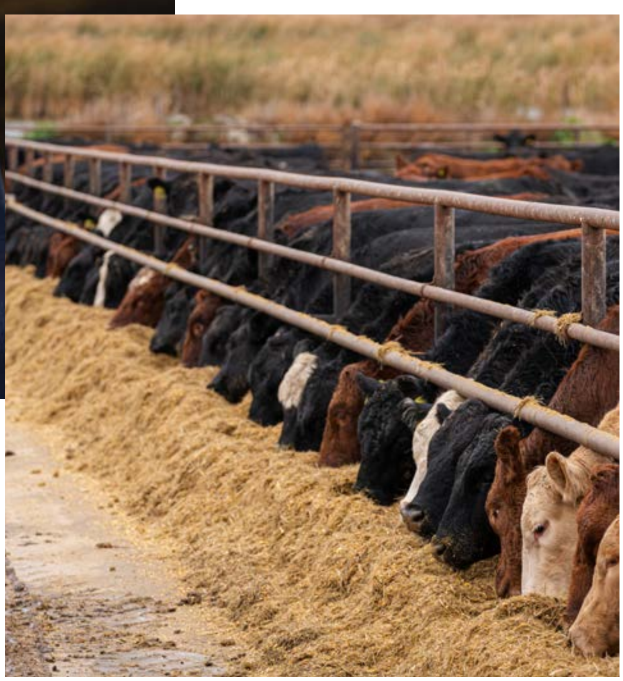
AT A GLANCE:

$192.7 million net income

$10.1 billion in assets

18.2% ROI

The Livestock Rebuilders Loan helped replenish cattle herds.

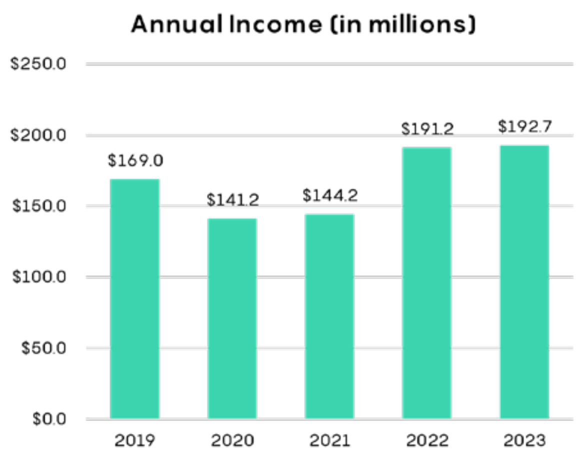


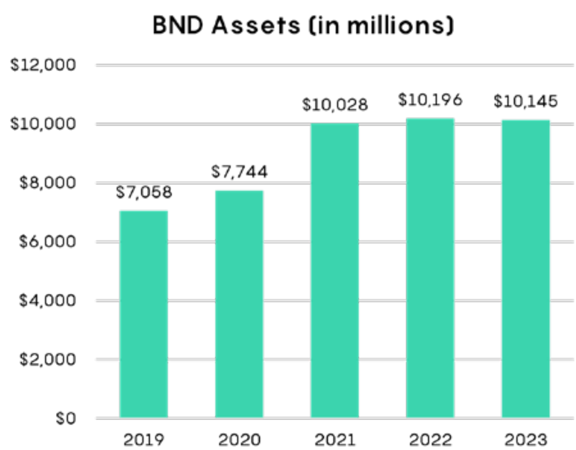
I am happy to report that BND had record profits in 2023 with a net income of $192.7 million, up slightly from 2022. Our asset size was consistent with last year at $10.1 billion. The return on investment was a healthy 18.2%. Standard & Poor's maintained BND's rating as A+/Stable in its annual review released in November, the same as in 2022.

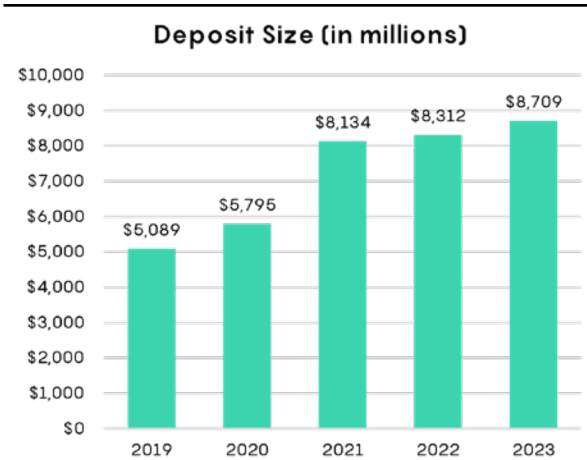
This year's annual report theme, **Salute to the Past. Addressing the Future**, is meaningful as we share this year's activities re-establishing cattle herds in the state, an important economic impact for the industry. Our past is deeply entrenched in our commitment to farm and ranch families. The front cover features some of the children and grandchildren of BND employees, young people who will benefit from the solid financial management and innovative thinking that is implemented today.

The Bank, which opened its doors in 1919, was established to provide more reasonable interest rates for ag producers than they were receiving from banks in Minneapolis and Chicago. Our commitment to them continues today. The Livestock Rebuilders Loan Program allowed ranchers to rebuild their cattle herds which were depleted by 89,000 head during the 2021 drought. It is rewarding to know we helped replenish approximately 16,000 head of cattle in our state.

Ensuring there are opportunities for the future farmers and ranchers in our state is one of the reasons we do what we do. Our BND team members often hear from residents how BND loan programs helped keep their family farm alive during tough times or helped it expand when the opportunity was right. The homework assignment on page 12 of this report was completed by the grandson of one of our featured business owners in our 2023 Financing Economic Development report when he was in first grade.







Early documents established that BND would not compete with local lenders. The partnership BND has with banks and credit unions across the state is a strong contributor to our success. As a result, our total loan portfolio has grown to $5.7 billion, with local lenders taking the lead on knowing what their communities need and accessing our programs. We expanded our Collateral Valuation Services to include commercial real estate evaluations as a service to financial institutions this year.

BND was selected by the North Dakota Legislature to lead the state's sustainability effort. North Dakota is a leader in the agriculture and energy industries. It is imperative that we recognize the demands of the marketplace so we may continue to feed and fuel the world. A group of 24 stakeholders from the public and private sector will release their first report in May 2024. North Dakota is already doing so much to meet worldwide sustainability initiatives, and it is time we let people outside our state know about it!

This year was a highly productive year for BND as we laid the foundation for years to come. The successful rollout of Dynamics One-Stop Shop (DOSS), our online loan origination system with a direct application portal, is already increasing efficiencies in the loan application process.

Our employees kicked off "A Better Way" at the end of 2023, adopting a renewed commitment to innovation. The goal is that each employee will initiate or participate in a new way of doing business that improves customer service.

Finally, this is the last BND Annual Report to be released while I serve as President and Chief Executive Officer. I'm proud that I will leave the Bank in a strong financial position when I retire mid-year, but more than that, it has been a joy to work alongside some of the most talented people I've ever known. This team understands their important role in making the lives of North Dakotans better. Bank of North Dakota is in good hands.

Remembering Eric Hardmeyer

Eric passed away February 24, 2024, surrounded by the family he loved so dearly. The lives he touched reach far and wide across the state. Eric was fiercely dedicated to making North Dakota better through his work at Bank of North Dakota. He will be remembered as a leader, visionary, mentor, innovator and strategist.

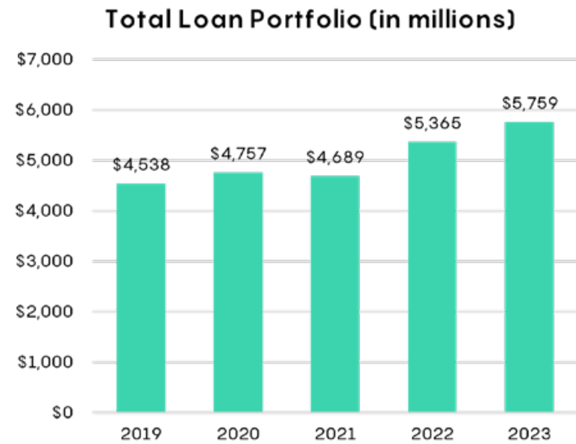
The legacy of Eric Hardmeyer will forever live on in the Hardmeyer family and the BND family.

BANK OF NORTH DAKOTA PRESIDENT 2000-2021

Lending Portfolio

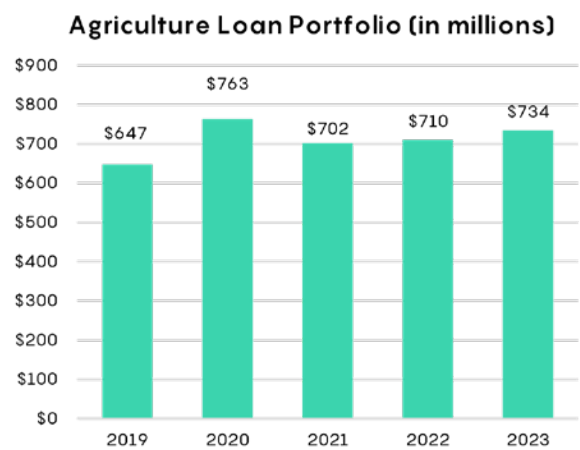
Total loan portfolio

The total loan portfolio grew by $394 million to $5.8 billion. Commercial and agriculture portfolios showed strong growth. The needs of financial institutions in North Dakota varied greatly throughout the year as some had more liquidity than needed, and others experienced the opposite. The agility of BND's loan programs helped meet those needs.



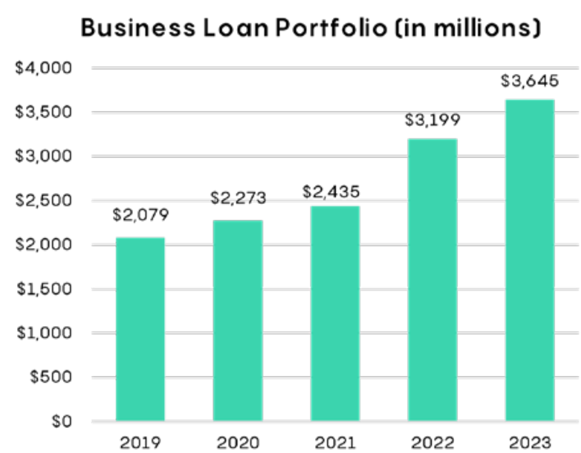
Agriculture loan portfolio

The agriculture loan portfolio increased by $24 million with BND funding and renewing nearly $194 million of loans. There was a slight uptick in the number of loans, but the average loan amount was lower due to higher interest rates, and land and rent expenses. The greatest number of loan originations were in the Livestock Rebuilders Program, followed by Farm & Ranch Loans.



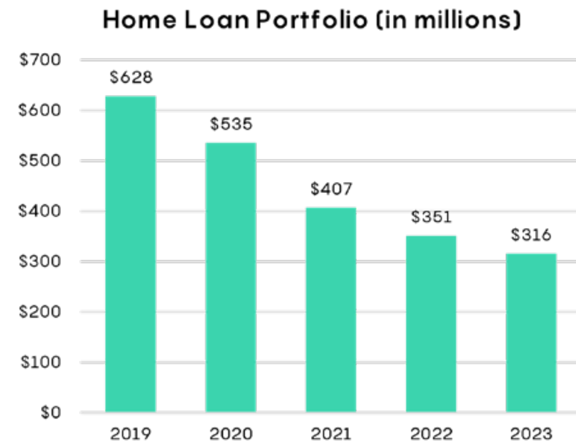
Business loan portfolio

The business loan portfolio increased by $446 million with BND funding and renewing $2.3 billion. Although the number of loans originated and renewed was down from the record-setting year the Bank had in 2022, the strong growth in Bank Participation and Flex PACE are good indicators for the business sector.



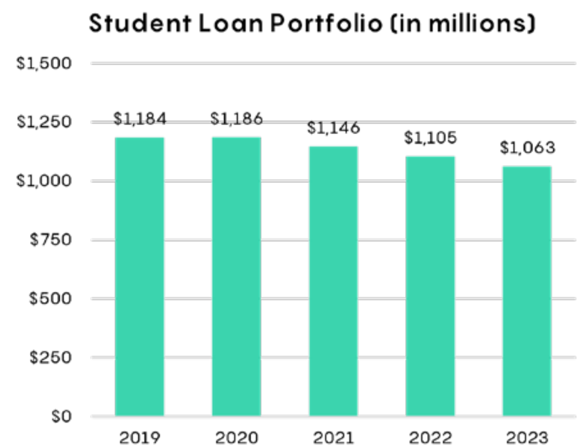
Home loan portfolio

As planned with the transfer of residential loan servicing to the North Dakota Housing Finance Agency on Oct. 1, 2021, and BND no longer originating home loans, the home loan portfolio decreased by $35 million and will continue to decline with paydowns.



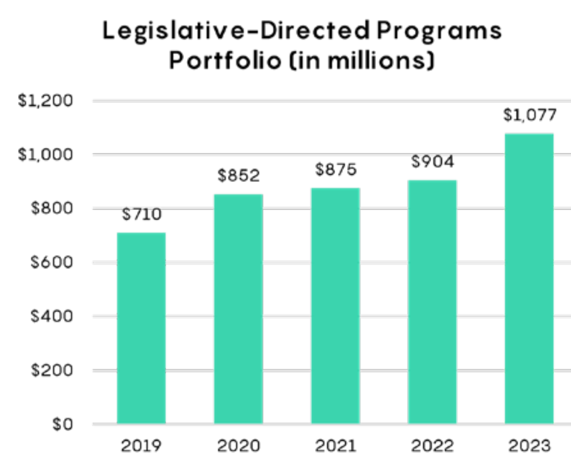
Student loan portfolio

BND student loan originations decreased by $41 million, primarily due to far less activity with North Dakota residents utilizing the consolidation option. With potential federal student loan repayment waivers under review, it is expected to remain quiet until a decision is made. The Bank disbursed $69 million in loans in 2023.

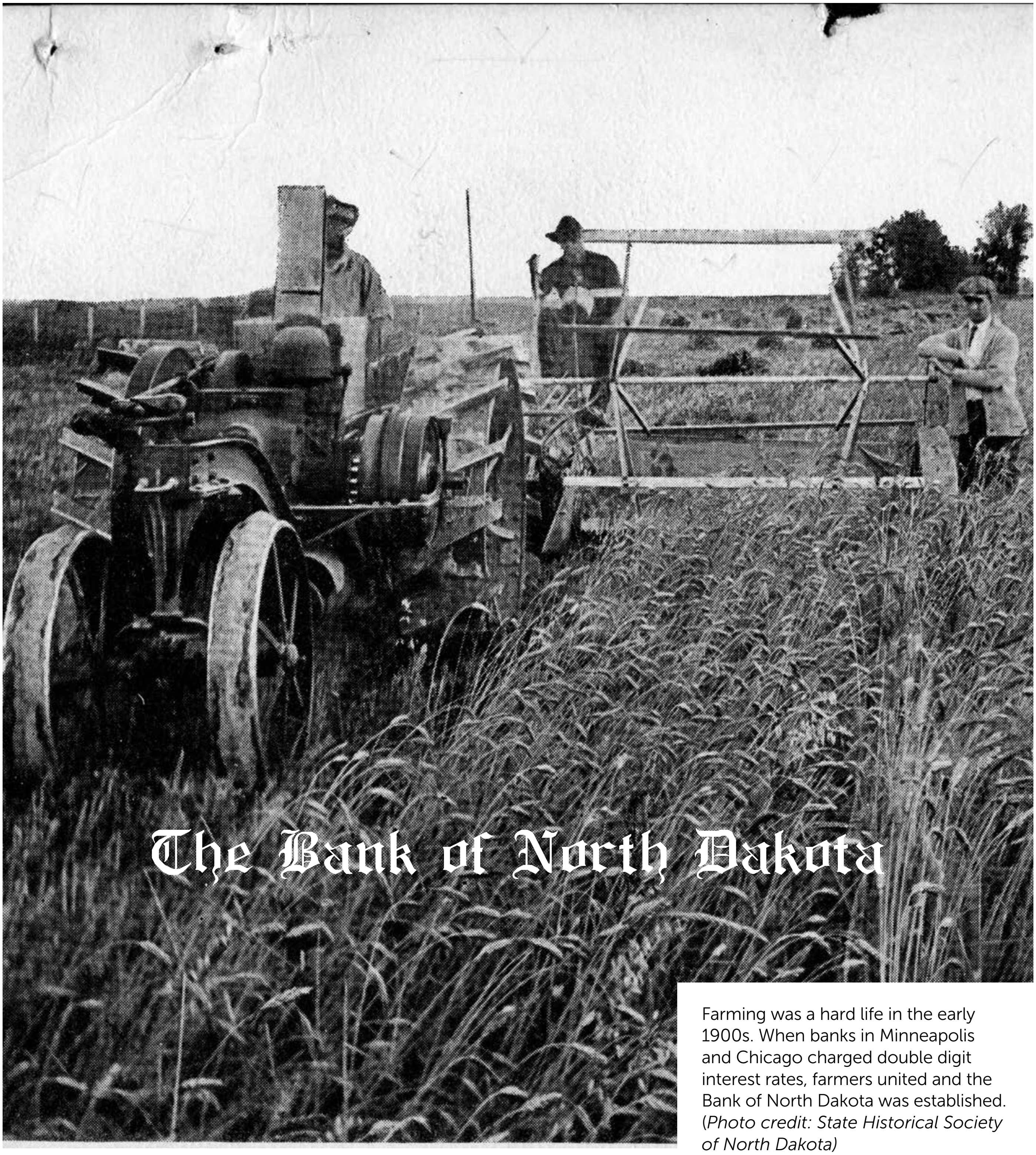


Legislative-directed programs portfolio

BND administered just over $1 billion in assets in legislative-directed programs, an increase of $173 million since 2022 and an increase of $367 million in five years. These programs serve a wide range of purposes including school construction, water projects, general and medical infrastructure.



Salute to the Past



Farming was a hard life in the early 1900s. When banks in Minneapolis and Chicago charged double digit interest rates, farmers united and the Bank of North Dakota was established. (*Photo credit: State Historical Society of North Dakota)*

Honoring our Roots: Agriculture and Bank of North Dakota

If you lived in North Dakota in 1919, it is likely that you made your living as a farmer or rancher, or in a profession that supported farmers and ranchers. There wasn't a great deal of economic diversity at the time.

When you put your grain on the railway to be delivered to an elevator in Minneapolis/St. Paul, you were given the most broken-down of the railcars, causing tons of grain to be lost along the way. You were paid for the grain that arrived in the Twin Cities, not the amount of grain you loaded in North Dakota. You weren't present when they tested your grain so you needed to rely on the elevator's assessment, often thought to be more favorable to the elevator than the farmer.

When a loan was needed, it most likely came from a bank in Minneapolis or Chicago, with interest rates in the double digits. It was unaffordable for most agriculture producers, and they barely squeaked by.

Bank of North Dakota moved to this location on the corner of Seventh Street and Main Avenue in Bismarck shortly after it was voted into law. (*Photo credit: State Historical Society of North Dakota)*

This set the stage for the Nonpartisan League to come into power, and as part of its platform, the 1919 North Dakota Legislature created the State Mill and Elevator, Workforce Safety Insurance, and Bank of North Dakota,

BND encouraged farmers to stay on the land and do their best to make a living.

along with the Industrial Commission to oversee them. North Dakota tax dollars would be used to support North Dakota residents. While it wasn't the first or only state-owned bank to be created, it is the only one that has survived the test of time.

The first test of the relationship between BND and the agriculture community came with the Great Depression when drought turned the richest soil to dust. At the time, BND held most of the farm loans in the state, and although they could not forgive the loans, they encouraged farmers to stay on the land and do their best to make a living. Their reward for doing so was that they were allowed to buy back their land after the Depression, keeping the family farm in the family.

When troops returned from World War II, the foreclosed land was made available for purchase to them if the original owner declined.

Bank of North Dakota offered its first disaster relief loan during the Red River Valley flood in 1997. Several years later in 2002, farmers were hit with drought and the strategy to expand disaster relief to the ag sector was born. Since the Financial Assistance Program Loan in that year, BND has responded to weather-related events that negatively impacted farmers and ranchers nine more times.

2023 Livestock Disaster Relief Program Results

The most recent use of BND funds for disaster relief was after the 2021 drought when beef cow numbers decreased by 89,000 head. The program closed in June 2023.

The drought created hay shortages, forcing producers to purchase and transport hay from other states. A statewide drought disaster was declared.

The Livestock Rebuilders Loan Program was part of a suite of programs rolled out by the state including the Emergency Feed Transportation Assistance Program, administered by the North Dakota Department of Agriculture, and the Livestock Drought Loan Program, administered by BND.

As with all previous disaster relief loans, local banks and credit unions serve as the loan program conduit for BND programs. For this effort, 32 different financial institutions, and a total of 56 branches within them, accessed the program for their customers. There were 190 loans made for a total loan amount of $25,850,471, of which BND funded $16,721,788. Approximately 16,000 head of cattle were replenished in the state with the assistance of the Livestock Rebuilders Loan Program.

The loan was available for up to a seven-year term with a fixed interest rate of 3.50%.

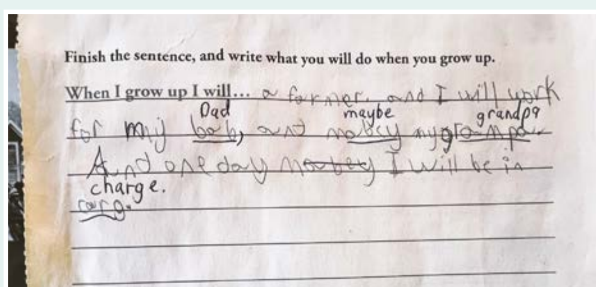
“The state’s response to the 2021 drought is an example of what makes North Dakota so successful,” said members of the Industrial Commission in a joint statement. The Commission, consisting of Gov. Doug Burgum as chairman, Attorney General Drew Wrigley, and Agriculture Commissioner Doug Goehring, oversees BND.

“We are able to work with key stakeholders who determine needs and state agencies that work together to respond quickly, and that sets us apart from so many others.”

Brandon Enger, a third-generation operator of Enger Grain and Livestock, walks through his family’s cattle barn in Marion, North Dakota.

Thoughts from a young North Dakotan

One of the business owners featured in BND’s Financing Economic Development report shared this school assignment completed by their grandson who was in the first grade. The Bank’s commitment to partnering with local banks and credit unions to finance the agriculture industry in North Dakota gives this young person a greater chance to achieve this dream.



When I grow up I will…a farmer. And I will work for my dad, and maybe my grandpa and one day maybe I will be in charge.

Addressing the Future

Today, drones are one aspect of technology used to monitor soil, count livestock and monitor their movement, focus crop spraying, and sample soil and water.

Dynamics One-Stop Shop Debuts

Dynamics One-Stop Shop (DOSS) is a BND initiative utilizing Microsoft Dynamics to change the way we do business. Started in October 2020 with a series of meetings to define opportunities where the Bank could improve customer service through technology, the project officially kicked off 13 months later.

The system went live internally in November 2022, and the customer portal was released in 2023 after a trial period with several financial institutions. The completely custom system includes 138 cloud flows and 126 processes. Initial results have already shown increased efficiencies. For example, approximately 20 minutes is saved per loan boarding due to automation. This translates into quicker turnaround times for financial institutions and employee time savings.

The first phase of the project includes loan application management, loan servicing document generation, direct application portal, interactive portal for participation loan financial institutions, vault inventory management, and other processes.

The DOSS team consisted of 52 Bank employees. Since the first day of kickoff, it took just over 11,000 hours to build the system. Currently, it is impacting the work processes of two-thirds of the Bank's staff, with plans to integrate more fully over the next several years.

Members of the BND Business Development Team review a new loan application. L to R: Craig Hanson, Senior VP of Lending; Lindsay Wagner, Loan Administration Manager; and Business Bankers Kaylen Hausauer and Bruce Schumacher.

Collateral Valuation Services Expands Offerings

Bank of North Dakota is responding to the needs of financial institutions by offering collateral valuation services that include ag real estate or chattel evaluations and appraisal reviews for ag and commercial real estate. In 2023, it expanded to include commercial real estate evaluation services.

The service was initiated at the request of the North Dakota Bankers Association and Independent Community Banks of North Dakota due to the lack of independent providers in the state.

BND's collateral valuation expertise and quick turnaround time helps local lenders serve their customers better.

Since offering the service in early 2022, the feedback from local financial institutions has been positive:

"

I couldn't be happier with the turnaround time and quality of work performed!

"

We just got our first appraisal review back. Thanks for completing that so quickly! You guys did a fantastic job.

"

I was very impressed with the reports this team has produced.

North Dakota's economic drivers, energy and agriculture, are formulating industry-specific strategies that align sustainability with resilience to address evolving global expectations.

Sustainability Initiative for North Dakota Moves Forward

North Dakota's common-sense approach to sustainability reflects a blend of political ideology, economic targets, conservation priorities and concerns about federal regulatory overreach. In an effort to comprehend the influence of a global movement driven by the financial and investment industries known as Environmental, Social and Governance (ESG), the 68th Legislative Assembly enacted House Bill 1429 directing Bank of North Dakota (BND), the sole state-owned bank in the United States, to lead a comprehensive statewide ESG study. Throughout this initiative there was a clear understanding that North Dakota is not stepping back from its commitment to the state's two largest industries, energy and agriculture.

Over the past year, BND has collaborated with stakeholders representing government, private industry and associations to create a dynamic report outlining industry-specific strategies. The object is to identify immediate and long-term strategies to strengthen the state's economy and enhance the quality of life for its citizens. These strategies will create a blueprint that demonstrates how transformation and innovation can thrive in a world focused on carbon management.

In the U.S., North Dakota ranks sixth for total energy production and 11th for agricultural exports, totaling more than $8.5 billion in exported goods and services to over 190 countries. North Dakota has a unique story to tell about its economy and commitment to environmental stewardship. Moving forward, BND in cooperation with numerous stakeholders, will launch STAND (Sustain, Transform, and Authenticate North Dakota), a digital platform to shape a comprehensive and compelling narrative about North Dakota's initiatives and values as a leader in agriculture and energy production, feeding and fueling the world.

Top BND President and CEO Todd Steinwand addresses the staff during the October all-employee event. **Bottom** BND team members from three separate areas visit, L to R: Kirby Evanger, Senior VP of Credit Administration; Nick Leintz, Internal Audit Manager; and Tyler Giffey, Education Market Leader of Quality Assurance.

A Better Way Drives Innovation

From the beginning, Bank of North Dakota has been an innovator. When its operating principles were established in 1919, state officials knew that it wouldn't prosper if it competed with other banks in the state. Its unique approach of partnering with the state's financial institutions rather than competing with them is a foundation for the Bank's success today.

BND hasn't forgotten its roots and is committed to instilling the drive for innovation throughout the organization. Two times per year, the Bank brings together all its employees for in-person meetings to ensure the strong culture of collaboration continues to grow, and to create strategic direction.

At the October all-employee meeting, the Executive Committee unveiled the "A Better Way" initiative, a challenge for the team to take collaboration and innovation to the next level. Departments identified opportunities in special working sessions and began implementing new ideas almost immediately. They continue to refine and find new ways to improve both internal and external customer service.

Two times per month, Innovation Team members lead virtual "A Better Way Conversations" with staff, showcasing how BND employees have utilized different technologies and processes to improve workflows. This stimulates new efficiencies and connects both on-site and off-site team members in a meaningful way.

The effort has rejuvenated the team and is leading them to proactively create new solutions that utilize technology, streamline workflows, and increase collaboration between areas.

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

BND Leadership Team

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

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

ND Industrial Commission

Doug Burgum
Governor

Drew H. Wrigley
Attorney General

Doug Goehring
Agriculture Commissioner

BND Advisory Board

Karl Bollingberg
Chairman of the Board

Dennis Johnson
Board Member

Jean Voorhees
Board Member

Pat Clement
Board Member

Christie Obenauer
Board Member

Bill Price
Board Member

Brenda Foster
Board Member

BND Executive Committee

Todd Steinwand
President/CEO

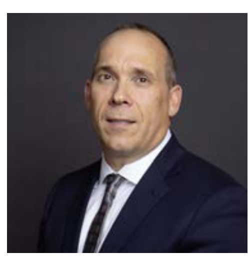
Alison Anderson
Chief Banking &
Innovation Officer

Kirby Evanger
Chief Credit Officer

Craig Hanson
Chief Lending Officer

Kelvin Hullet
Chief Business
Development Officer

Lori Leingang
Chief Administrative Officer



Rob Pfennig
Chief Financial Officer

Christy Steffenhagen
Chief Risk Officer

Ten-Year Summary

Bank of North Dakota | December 31, 2014-2023

	2023	2022	2021	2020
Operating results (in thousands)				
Interest income	$365,213	$260,591	$204,457	$225,479
Interest expense	137,201	40,882	28,921	41,018
Net interest income	228,012	219,709	175,536	184,461
Provision for loan losses	7,507	-	4,750	16,800
Net interest income after provision for loan losses	220,505	219,709	170,786	167,661
Noninterest income	6,697	4,751	6,381	4,603
Noninterest expense	34,463	33,310	32,996	31,063
Net income	**192,739**	**191,150**	**144,171**	**141,201**
Payments to general fund	140,000	-	35,000	70,000
Payments to other funds	88,238	30,397	39,605	67,550
Balance sheet (in thousands)				
Total assets - year end	**10,144,628**	**10,195,815**	**10,028,128**	**7,744,319**
Federal funds sold and resell agreements	37,470	44,605	4,450	10,000
Securities	3,876,909	4,344,352	2,600,007	1,849,609
Loans	**5,758,740**	**5,364,627**	**4,688,820**	**4,756,542**
Agricultural	734,237	709,866	701,768	762,809
Business	3,644,897	3,199,277	2,434,765	2,272,999
Residential	316,153	351,076	406,565	535,098
Student	1,063,453	1,104,408	1,145,722	1,185,636
Deposits	**8,709,148**	**8,311,947**	**8,133,894**	**5,795,472**
Noninterest bearing	664,010	632,498	765,200	750,741
Interest bearing	8,045,138	7,679,449	7,368,694	5,044,731
Federal funds purchased and repurchase agreements	323,010	205,845	763,250	775,005
Short- and long-term debt	**25,000**	**675,000**	**108,000**	**186,010**
Equity	**1,059,287**	**997,188**	**981,569**	**912,904**
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	72,000	72,000
Undivided profits	1,068,297	1,100,653	939,900	870,333
Accumulated other comprehensive income (loss)	(83,010)	(177,465)	(32,331)	(31,429)

2019	2018	2017	2016	2015	2014
$263,738	$240,002	$219,700	$210,803	$194,298	$174,584
58,515	46,442	37,865	33,975	32,164	31,455
205,223	193,560	181,835	176,828	162,134	143,129
6,000	12,000	12,000	16,000	12,500	8,000
199,223	181,560	169,835	160,828	149,634	135,129
6,916	7,170	6,335	6,323	7,688	7,987
37,090	30,222	30,886	30,996	26,668	32,157
169,049	**158,508**	**145,284**	**136,155**	**130,654**	**110,959**
35,000	70,000	170,000	-	-	-
45,109	58,614	16,932	19,989	28,645	17,345
7,058,432	**7,015,834**	**7,003,302**	**7,295,268**	**7,407,942**	**7,215,687**
10,685	39,465	57,555	63,070	77,905	42,105
2,016,126	1,912,743	1,665,252	2,068,327	2,657,527	2,933,570
4,537,943	**4,584,233**	**4,909,278**	**4,789,553**	**4,339,618**	**3,852,155**
647,108	665,691	668,904	687,486	513,899	436,970
2,078,573	2,039,833	2,071,953	1,982,625	1,811,259	1,559,137
628,319	694,577	762,480	739,412	693,712	652,076
1,183,943	1,184,132	1,405,941	1,380,030	1,320,748	1,203,972
5,089,092	**4,769,819**	**4,604,958**	**4,887,192**	**5,802,142**	**5,730,611**
628,256	567,352	555,020	663,156	641,264	700,446
4,460,836	4,202,467	4,049,938	4,224,036	5,160,878	5,030,165
365,335	271,505	299,775	242,480	119,500	178,455
631,030	**1,103,436**	**1,263,569**	**1,280,538**	**727,322**	**645,126**
939,028	**861,884**	**824,802**	**875,732**	**749,493**	**652,134**
2,000	2,000	2,000	2,000	2,000	2,000
72,000	72,000	72,000	72,000	72,000	72,000
866,682	777,742	747,848	789,496	673,330	571,276
(1,654)	10,142	2,954	12,236	2,163	6,858

FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

BND
Bank of North Dakota

BANK OF NORTH DAKOTA
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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Bank of North Dakota, which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, and the results of its operations and its cash flows for years then ended, in accordance with financial reporting provisions as promulgated by FASB described in Note 1.

Adverse Opinion U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Bank of North Dakota as of December 31, 2023 and 2022, or the results of its operations or its cash flows for the years then ended.

Basis for Opinion

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

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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank of North Dakota adopted the provisions of FASB Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank of North Dakota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank of North Dakota's ability to continue as a going concern for a reasonable period of time.

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

Eide Bailly LLP

Bismarck, North Dakota
February 7, 2024

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
ASSETS		
Cash and due from banks	**$ 402,587**	$ 405,718
Federal funds sold	**37,470**	44,605
Cash and cash equivalents	**440,057**	450,323
Debt securities		
Available-for-sale debt securities, at fair value (amortized cost 2023 - $4,004,801, 2022 - $4,547,885, net of allowance for credit losses 2023 - $0, 2022 - $0)	**3,869,666**	4,307,352
Loans held for investment	**5,758,740**	5,364,627
Less allowance for credit losses	**(99,865)**	(108,752)
	5,658,875	5,255,875
Interest receivable	**72,954**	60,392
Bank premises, equipment, and software, net	**9,149**	9,311
Other restricted stock, at cost	**7,243**	37,000
Other assets	**86,684**	75,562
Total assets	**$10,144,628**	$ 10,195,815
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	**$ 664,010**	$ 632,498
Interest bearing	**8,045,138**	7,679,449
	8,709,148	8,311,947
Federal funds purchased	**323,010**	205,845
Short and long-term debt	**25,000**	675,000
Other liabilities	**28,183**	5,835
Total liabilities	**9,085,341**	9,198,627
Equity		
Capital	**2,000**	2,000
Capital surplus	**72,000**	72,000
Undivided profits	**1,068,297**	1,100,653
Accumulated other comprehensive loss	**(83,010)**	(177,465)
Total equity	**1,059,287**	997,188
Total liabilities and equity	**$10,144,628**	$ 10,195,815

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
INTEREST INCOME		
Loans, including fees	$ 262,165	$ 186,158
Securities	100,335	73,873
Federal funds sold	2,713	560
Total interest income	365,213	260,591
INTEREST EXPENSE		
Deposits	100,255	29,241
Federal funds purchased and repurchase agreements	13,678	5,649
Short and long-term debt	23,268	5,992
Total interest expense	137,201	40,882
NET INTEREST INCOME	228,012	219,709
PROVISION FOR CREDIT LOSSES	7,507	-
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	220,505	219,709
NONINTEREST INCOME		
Service fees and other	6,697	4,751
Total noninterest income	6,697	4,751
NONINTEREST EXPENSE		
Salaries and benefits	19,564	17,547
Data processing	7,466	7,354
Long-term debt prepayment fee	-	1,171
Occupancy and equipment	828	752
Other operating expenses	6,605	6,486
Total noninterest expenses	34,463	33,310
NET INCOME	$ 192,739	$ 191,150

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
Net income	**$ 192,739**	$ 191,150
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale debt securities	**105,398**	(242,653)
Cash flow hedging activities -interest rate swap contracts	**(10,943)**	97,519
Other comprehensive income (loss)	**94,455**	(145,134)
Comprehensive income	**$ 287,194**	$ 46,016

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2021	$ 2,000	$ 72,000	$ 939,900	$ (32,331)	$ 981,569
Net income			191,150		191,150
Unrealized loss on available-for-sale debt securities				(242,653)	(242,653)
Unrealized gain on interest rate swaps				97,519	97,519
Appropriations In		305,500			305,500
Appropriations (Out)		(305,500)			(305,500)
Transfers to other state funds			(30,397)		(30,397)
BALANCE, DECEMBER 31, 2022	2,000	72,000	1,100,653	(177,465)	997,188
Cumulative change in accounting principal			3,143		3,143
Net income			192,739		192,739
Unrealized gain on available-for-sale debt securities				105,398	105,398
Unrealized loss on interest rate swaps				(10,943)	(10,943)
Appropriations In		5,500			5,500
Appropriations (Out)		(5,500)			(5,500)
Transfers to other state funds			(228,238)		(228,238)
BALANCE, DECEMBER 31, 2023	$ 2,000	$ 72,000	$ 1,068,297	$ (83,010)	$ 1,059,287

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Thousands)

	2023	2022
OPERATING ACTIVITIES		
Net income	**$ 192,739**	$ 191,150
Adjustments to reconcile net income to net cash from (used for) operating activities		
Depreciation and amortization	**547**	379
Provision for credit losses	**7,507**	-
Amortization of debt securities	**13,785**	20,121
Loss on sale of foreclosed assets	**1**	1,742
Net change in interest receivable	**(12,562)**	(14,223)
Net change in other assets	**(22,091)**	(1,075)
Net change in other liabilities	**9,501**	201
NET CASH FROM OPERATING ACTIVITIES	**189,427**	198,295
INVESTING ACTIVITIES		
Debt securities available for sale transactions		
Purchases of available-for-sale debt securities	**(298,914)**	(2,627,516)
Proceeds from sales, maturities, and repayments of available for sale securities	**828,213**	643,784
Purchase of Federal Home Loan Bank stock	**(445,000)**	(151,707)
Proceeds from sales, maturities, and repayments of Federal Home Loan Bank stock	**474,757**	128,320
Loan principal collections (originations) net	**(394,616)**	(675,775)
Purchases of premises, equipment, and software	**(385)**	(456)
Payments from rebuilders loan program	**-**	2,149
Proceeds from sale of foreclosed assets	**124**	2,946
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	**164,179**	(2,678,255)
FINANCING ACTIVITIES		
Net change in non-interest bearing deposits	**31,512**	(132,702)
Net change in interest bearing deposits	**365,689**	310,755
Net change in federal funds purchased	**117,165**	(557,405)
Proceeds from issuance of short and long-term debt	**13,300,001**	3,775,001
Repayment of short and long-term debt	**(13,950,001)**	(3,208,001)
Payment of transfers to other state funds	**(228,238)**	(30,397)
NET CASH (USED FOR) FROM FINANCING ACTIVITIES	**(363,872)**	157,251
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(10,266)**	(2,322,709)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**450,323**	2,773,032
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 440,057**	$ 450,323

(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 credit 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, 2023 and 2022:

	2023	2022
Commercial loans, of which 2% and 2% are federally guaranteed	**63%**	60%
Student loans, of which 100% and 100% are guaranteed	**19%**	20%
Residential loans, of which 70% and 67% are federally guaranteed	**5%**	7%
Agricultural loans, of which 4% and 5% are federally guaranteed	**13%**	13%
	100%	100%

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Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all with original maturities of 90 days 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 excluded from earnings and reported in comprehensive income (loss). 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Allowance for Credit Losses – Available-for-Sale Securities

The Bank measures the allowance for credit losses on available for sale debt securities by first assessing whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost. If it is determined that the Bank intends or will be required to sell the security, it is written down to its fair value through income. For securities issued by government agencies that do not meet the aforementioned criteria, there are no expected credit losses as they are guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. For other debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses on available-for-sale investments is recorded and is limited to the amount that the fair value is less that the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as provision for or (reversal) of credit losses. Losses are charged against the allowance when management believes the uncollectability of an available-for-sale debt security is confirmed or when the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaling $12,440 and $12,685 at December 31, 2023 and 2022, respectively, is included in interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

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Other Restricted Stock

The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

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. Effective December 15, 2023, the amount of stock that the Bank must hold is equal to .06% of total bank assets plus 4.50% of total FHLB advances.

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.

Interest income on loans is accrued at the specific rate on the unpaid principal balance. The accrual of interest is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection or 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.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Accrued interest receivable on loans totaling $58,776 and $46,613 at December 31, 2023 and 2022, respectively, is included in interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

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Commercial loans are primarily made for business working capital needs and are underwritten based on the identified or projected cash flows of the borrower and/or the underlying collateral provided by the borrower. The primary repayment risks of C&I loans are that the cash flows of the borrower may be unpredictable, and the collateral securing these loans may fluctuate in value. Collateral for these loans generally includes the business assets financed, accounts receivable, inventory, and equipment. The collateral securing these loans may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. These loans may incorporate a corporate or personal guarantee.

Commercial real estate loans are offered to commercial customers for the acquisition of real estate used in their businesses, such as offices, warehouses and production facilities, and to real estate investors for the acquisition of apartment buildings, retail centers, office buildings and other commercial buildings. Commercial real estate loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on sufficient income from the properties securing the loans to cover operating expenses and debt service. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

Agricultural operating loans are generally comprised of loans to fund farm operations and the purchase of equipment and livestock. Operating lines are typically written for one year and secured by the crop and other farm assets or business assets, as considered appropriate. Repayment of agricultural loans depends on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The ability of the borrower to repay may be affected by many factors outside of the borrower's control including adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations.

Agricultural real estate loans are primarily comprised of real estate operated and owned or leased by a farmer, or other organization authorized to own, or lease land used for farming or ranching. The Bank may make direct loans through Beginning Farmer and Established Farmer for the purchase of farm real estate. The Bank may also participate in loans for the purchase of farm real estate through other agricultural programs.

Residential real estate loans are collateralized by primary and secondary positions on 1-4 family real estate and are underwritten primarily based on borrower's documented income, credit scores, and collateral values. Repayment of these loans is largely dependent on the borrower's financial stability and may be impacted by adverse personal circumstances. Credit risk is minimized within the residential mortgage portfolio due to relatively smaller loan balances spread across many individual borrowers. The Bank no longer originates residential mortgage loans. In December 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.

Continued on next page

Student loans are offered to North Dakota residents and non-residents to attend both in-state and out-of-state colleges. Dakota Education Alternative Loans (DEAL) are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. DEAL Student Loans are offered to assist in covering the cost of attending college if federal loans, grants, scholarships and savings don't meet funding needs. It can be used for undergraduate and graduate classes. In addition, refinancing options are available to combine loans from one or more lenders into one new loan, with the option for extended repayment terms. As of April 1, 2024, BND will only offer student loans to North Dakota residents attending an eligible in-state and out-of-state school, and out-of-state residents attending a North Dakota school.

Allowance for Credit Losses (ACL) - Loans

The ACL for loans is a valuation allowance for the current expected credit losses in the Bank's loan portfolio that is deducted from the loan's amortized cost basis to present the net amount expected to be collected. Loans are charged-off against the allowance when management believes the collectability of the loan balance is unlikely. Subsequent recoveries, if any, are credited to the ACL. Prior to January 1, 2023, the valuation allowance (Allowance for Loan Losses) was established for probable and inherent credit losses.

Management estimates the allowance over the loan's entire contractual term, adjusted for expected prepayments when appropriate. The allowance estimate considers relevant, available information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for qualitative or environmental factors that cause the estimate for expected losses as of the evaluation date to differ from historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the collateral valuations; concentrations of credit; the effect of other external factors such as competition and legal and regulatory requirements; and other relevant factors determined by management.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist and on an individual basis when management determines that the loan does not share similar risk characteristics with other loans. The Bank has identified the following loan pools: commercial, agricultural, residential, and student loans. Relevant risk characteristics for commercial, agricultural, residential, and student loan pools include debt service coverage, loan-to-value ratios and financial performance. Relevant risk characteristics for commercial, agricultural, residential, and student loan pools include credit scores, debt-to income ratios, collateral type and loan-to-value ratios. The Bank uses the Weighted Average Remaining Maturity method to measure the ACL for all loan pools to calculate a loss rate that combines the pool's risk characteristics, historical loss experience, and reasonable and supportable future economic forecasts to project lifetime losses. The loss rate is then combined with the loans balance and contractual maturity, adjusted for expected prepayments, to determine expected future losses. Future and supportable economic forecasts are based on various economic conditions over a period of up to 72 months followed by a reversion back to historical losses.

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Loans that do not share similar risk characteristics to their loan pool are evaluated on an individual basis and are excluded from the collective measurement. Loans can be identified for individual evaluation for various reasons including delinquency, nonaccrual status, risk rating and loan modifications. A loan is considered collateral dependent when management determines that foreclosure is probable or when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL on collateral dependent loans is measured using the amortized cost basis of the financial asset less the fair value of the underlying collateral, adjusted for costs to sell, when applicable. If the value of the underlying collateral is determined to be less than the recorded amount of the loan, a specific reserve for that loan is recorded. If the Bank determines that the loss represented by the specific reserve is uncollectible it records a charge-off for the uncollectible portion.

Allowance for Credit Losses (ACL) – Unfunded Commitments

The Bank establishes a liability for estimated expected credit losses on unfunded commitments to originate or fund loans and standby letters of credit, excluding commitments that are unconditionally cancellable. The estimate is included in “Other Liabilities” on the balance sheets. Expected credit losses are estimated over the contractual period in which the Bank is exposed to credit risk through the commitment adjusted for anticipated prepayments when appropriate. The estimate of the liability also considers the likelihood that funding will occur. The ACL on unfunded commitments is adjusted through provision for credit losses on statements of income. The underwriting process and risks associated with unfunded commitments and standby letters of credit are essentially the same as loans and therefore the Bank uses the same ACL process as loans to estimate the liability.

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.

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.

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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.

Bank Premises, Equipment, and Software

Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 40 years. Furniture, fixtures, software and equipment are depreciated using the straight- line or accelerated method with useful lives ranging from 3 to 10 years.

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 credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $4,223 and $4,249 as of December 31, 2023 and 2022, respectively.

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

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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.

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.

Recent Accounting Guidance

On January 1, 2023, the Bank adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended,* which replaces the incurred loss methodology with an expected loss methodology referred to as current expected credit losses ("CECL"). The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans, held-to-maturity debt securities and off-balance sheet credit exposures. In addition, Topic 326 made changes to the accounting for available-for-sale debt securities including the requirement to present credit losses as an allowance rather than a write-down on available-for-sale debt securities that management does not intend to sell or believes it is more likely than not they will be required to sell.

The Bank adopted Topic 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Bank recorded a net increase to undivided profits of $3,143 as of January 1, 2023 for the cumulative effect of adopting Topic 326. The transition adjustment impact is due solely to the decrease in ACL related to loans.

Continued on next page

(In Thousands)

	Pre-ASU 2016-13 Adoption December 31, 2022	Impact of ASU 2016-13	As Reported Under ASU 2016-13 January 1, 2023
Assets			
Loans			
Commercial	$ 94,886	$ (16,387)	$ 78,499
Agricultural	12,400	(1,119)	11,281
Residential	1,466	167	1,633
Student	-	-	-
Total allowance for credit losses on loans	$ 108,752	$ (17,339)	$ 91,413
Liabilities			
Accrued expenses and other liabilities - Allowance for credit losses on unfunded commitments	-	14,196	14,196
Total allowance for credit losses	$ 108,752	$ (3,143)	$ 105,609

ASU 2022-02, Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures - This ASU addresses and amends areas identified by the FASB as part of its post-implementation review of the accounting standard that introduced the current expected credit losses model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the current expected credit losses model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. The company adopted ASU 2022-02 in conjunction with ASU 2016-13 on January 1, 2023 using the prospective approach.

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

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

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. Deposits at these institutions are insured up to $250,000 with the Federal Deposit Insurance Corporation except for deposits with the Federal Reserve Bank and the Federal Home Loan Bank. The amount of cash deposits not covered by FDIC insurance was $42,977 and $47,782 as of December 31, 2023 and 2022, respectively. Of these amounts, $39,562 and 44,619 were deposited at the Federal Reserve Bank.

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

Continued on next page

(In Thousands)

H.B. 1003, Section 10 of the sixty-eighth legislative session states the office of management and budget shall transfer $5,500 from the strategic investment and improvements fund to the economic diversification research fund, the sum of which is appropriated to the Bank of North Dakota for the purpose of providing grants to institutions under the control of the state board of higher education, for the biennium beginning July 1, 2023, and ending June 30, 2025, as requested by the commissioner of higher education. As of December 31, 2023, SIIF has transferred $5,500.

NOTE 3 - SECURITIES

The following summarizes the amortized cost, gross unrealized gain, gross unrealized losses, fair value and allowance for credit losses of available-for-sale debt securities at December 31, 2023 and 2022:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
DECEMBER 31, 2023					
Debt securities available for sale					
US Treasury	**$ 1,543,949**	**$ -**	**$ 56,691**	**$ -**	**$ 1,487,258**
U.S. government agencies	**346,250**	**2,213**	**13,373**	**-**	**335,090**
States and municipalities	**1,000**	**-**	**-**	**-**	**1,000**
Mortgage-backed	**2,113,602**	**10,043**	**77,327**	**-**	**2,046,318**
	$ 4,004,801	**$ 12,256**	**$ 147,391**	**$ -**	**$ 3,869,666**

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

There were $1,501,836 and $1,183,250 of debt securities pledged as of December 31, 2023 and 2022 for other required pledging purposes. FHLB stock totaling $7,243 and $37,000 as of December 31, 2023 and 2022, respectively, was pledged on the FHLB advances (Note 8).

Continued on next page

(In Thousands)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2023, follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 942,697	$ 919,737
Due in one to five years	2,833,906	2,717,509
Due from five to ten years	160,296	162,916
Due after ten years	67,902	69,504
	$ 4,004,801	$ 3,869,666

There were no sales of available-for-sale securities during the years ended December 31, 2023 and 2022.

The following tables shows the gross unrealized losses and fair value of the Bank's available-for-sale securities with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. Securities at December 31, 2023 are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
DECEMBER 31, 2023	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Debt securities available for sale						
US Treasury	**$ 3**	**$ 621**	**$ 56,688**	**$ 1,486,638**	**$ 56,691**	**$ 1,487,259**
U.S. government agencies	**4**	**6,272**	**13,369**	**249,063**	**13,373**	**255,335**
States and municipalities	**-**	**-**	**-**	**-**	**-**	**-**
Mortgage-backed	**816**	**70,786**	**76,511**	**1,660,061**	**77,327**	**1,730,847**
	$ 823	**$ 77,679**	**$ 146,568**	**$ 3,395,762**	**$ 147,391**	**$ 3,473,441**

Continued on next page

(In Thousands)

Securities at December 31, 2022 were as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
DECEMBER 31, 2022	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Debt securities available for sale						
US Treasury	$ 31,895	$ 571,258	$ 80,606	$ 1,383,874	$ 112,501	$ 1,955,132
U.S. government agencies	4,867	109,316	16,270	163,856	21,137	273,172
States and municipalities	-	-	-	-	-	-
Mortgage-backed	67,469	1,508,378	42,697	447,394	110,166	1,955,772
	$ 104,231	$ 2,188,952	$ 139,573	$ 1,995,124	$ 243,804	$ 4,184,076

At December 31, 2023 no ACL was established for available-for-sale securities. Unrealized losses at December 31, 2023 are a result of expected fluctuations in the bond market primarily driven by changes in market interest rate.

At December 31, 2023 unrealized losses on available-for-sale securities are primarily composed of securities that are directly or implicitly guaranteed by the U.S. government and are highly rated by major rating agencies with a history of no credit losses. Timely payments of principal and interest are expected. Obligations of states and political subdivisions are of high credit quality, with a total of 100% rated AA or higher. All issuers continue to make timely principal and interest payments and financial statements are periodically reviewed as part of post-purchase analysis. The decline in value in any of these securities is deemed to be temporary and not attributable to credit losses. Furthermore, the Bank does not intend to sell, and it is likely that management will not be required to sell, these securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

As of December 31, 2022, 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.

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.

Continued on next page

(In Thousands)

NOTE 4 - LOANS

The composition of the loan portfolio as of December 31, 2023 and 2022 is as follows:

	2023	2022
Commercial	**$ 3,644,897**	$ 3,199,277
Student	**1,063,453**	1,104,408
Residential	**316,153**	351,076
Agricultural	**734,237**	709,866
	5,758,740	5,364,627
Allowance for credit losses	**(99,865)**	(108,752)
	$ 5,658,875	$ 5,255,875

Unamortized deferred student loan costs totaled $16,836 and $20,127 as of December 31, 2023 and 2022, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled ($28) and ($72) as of December 31, 2023 and 2022, respectively.

In the normal course of business, overdrafts of deposit accounts are reclassified as loans. There were $891 overdrafts of deposit accounts as of December 31, 2023. There were $1,310 overdrafts of deposit accounts as of December 31, 2022.

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.

Continued on next page

(In Thousands)

The following tables present the activity in the ACL by portfolio segment for the years ended December 31, 2023 and 2022:

	2023				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 94,886**	**$ 12,400**	**$ 1,466**	**$ -**	**$ 108,752**
Transfer to ACL on off-balance sheet reserve	**(13,774)**	**(422)**	**-**	**-**	**(14,196)**
Impact of adopting ASC 326	**(2,613)**	**(697)**	**167**	**-**	**(3,143)**
Charge-offs	**(3,402)**	**-**	**(15)**	**-**	**(3,417)**
Recoveries	**3,013**	**-**	**-**	**-**	**3,013**
Provision	**9,452**	**(403)**	**(193)**	**-**	**8,856**
Ending Balance	**$ 87,562**	**$ 10,878**	**$ 1,425**	**$ -**	**$ 99,865**

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

In addition to the ACL on loans, the Bank has established an ACL on off-balance sheet exposures of $12,847 at December 31, 2023. The following table present the activity in the ACL on off-balance sheet exposures for the year ended December 31, 2023.

	2023
Beginning Balance	**$ -**
Impact of adopting ASC 326	**14,196**
(reversals) to ACL recorded as provision for credit losses	**(1,349)**
Ending Balance	**$ 12,847**

Continued on next page

(In Thousands)

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

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

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

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

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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 tables represents credit exposures by internally assigned risk ratings for the years ended December 31, 2023 and 2022. 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.

	2023				
Risk Rating	**Commercial Participations**	**Bank Stock**	**Business Loans (Including PACE)**	**Farm & Ranch**	**Farm Real Estate**
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	4,022	-	147,526	-	-
2	4,353	243	14,170	12,031	4,564
3	701,839	357,502	257,664	67,989	97,951
4	1,325,866	41,370	455,905	72,273	260,633
5	63,490	-	30,869	7,397	22,207
6	80,755	-	10,342	1,665	4,234
7	5,321	-	32	101	-
8	-	-		-	-
Loan types excluded from allowance	-	-	143,628	-	-
Total	$ 2,185,646	$ 399,115	$ 1,060,136	$ 161,456	$ 389,589

Risk Rating	**All Other Farm Loans**	**Residential Real Estate**	**Student Loans**	**Total**
No assigned risk rating	$ -	$ 315,925	$ -	$ 315,925
1	-	-	-	151,548
2	4,706	-	-	40,067
3	41,239	-	-	1,524,184
4	90,263	-	-	2,246,310
5	11,922	-	-	135,885
6	3,292	-	-	100,288
7	56	-	-	5,510
8	-	-	-	-
Loan types excluded from allowance	31,714	228	1,063,453	1,239,023
Total	$ 183,192	$ 316,153	$ 1,063,453	$ 5,758,740

Continued on next page

(In Thousands)

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

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

Continued on next page

(In Thousands)

The following tables include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2023 and 2022. Also included are loans that are 90 days or more past due with interest and principal 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.

	2023						
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	$ 3,151	$ 3,732	$ 22,864	$ 29,747	$2,155,899	$2,185,646	$ -
Bank Stock	-	-	-	-	399,115	399,115	-
All other Business Loans (Including PACE)	1,135	781	2,249	4,165	1,055,971	1,060,136	2
Farm & Ranch	22,434	-	-	22,434	139,022	161,456	-
Farm Real Estate	3,463	-	476	3,939	385,650	389,589	476
All other Farm loans	440	183	888	1,511	181,681	183,192	802
Residential Real Estate	7,743	3,592	2,644	13,979	302,174	316,153	2,644
Student Loans	11,095	5,306	15,325	31,726	1,031,727	1,063,453	15,325
Totals	$ 49,461	$ 13,594	$ 44,446	$ 107,501	$ 5,651,239	$ 5,758,740	$ 19,249

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

Continued on next page

(In Thousands)

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of the years ended December 31, 2023.

	December 31, 2023		
	Nonaccrual	Nonaccrual With No Allowance for Credit Loss	Loans Past Due Over 89 Days Sill Accruing
Commercial Participations	$ 28,031	$ 6,020	$ -
All Other Business Loans (Including PACE)	2,255	390	2
Farm & Ranch	432	432	-
Farm Real Estate	-	-	476
All Other Farm Loans	86	-	802
Residential Real Estate	-	-	2,644
Student Loans	-	-	15,325
Total	$ 30,804	$ 6,842	$ 19,249

The Bank recognized $109 of interest income on nonaccrual loans during the year ended December 31, 2023. The Bank charged-off $353 of accrued interest during the year ended December 31, 2023.

Accruing loans 90 days or more past due include guaranteed student loans of $15,325 and $15,652 as of December 31, 2023 and 2022, 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 $2,644 and $4,832 as of December 31, 2023 and 2022, respectively, are also included in accruing loans 90 days or more past due.

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.

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 following table presents the amortized cost basis of collateral dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of December 31, 2023.

	December 31, 2023				
	Real Estate	Equipment	Other	Total	ACL
Commercial Participations	$ 9,986	$ 14,372	$ 5,375	$ 29,733	$ 4,988
Bank Stock	-	-	-	-	-
All Other Business Loans (Including PACE)	2,271	152	76	2,499	620
Farm & Ranch	-	433	101	534	23
Farm Real Estate	1,316	-	-	1,316	-
All Other Farm Loans	1,770	468	-	2,238	30
Residential Real Estate	702	-	-	702	-
Student Loans	-	-	-	-	-
Total	$ 16,045	$ 15,425	$ 5,552	$ 37,022	$ 5,661

The following table includes 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.

Continued on next page

(In Thousands)

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.

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

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

Continued on next page

(In Thousands)

Occasionally, the Bank may modify loans to borrowers who are experiencing financial difficulty. Loan modifications to borrowers experiencing financial difficulty may be in the form of principal forgiveness, term extension, an other-than-insignificant payment delay, interest rate reduction, or combination thereof.

The following table presents the amortized cost basis of loans that were both, experiencing financial difficulty and modified by loan type and type of modification for the year ended December 31, 2023.

	December 31, 2023						
	Principal Forgiveness	Payment Delay	Term	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension and Interest Rate	Percentage of Modifications Relative to Year-End Balance
Commercial Participations	$ -	$ 8,071	$ 4,278	$ -	$ -	$ -	1%
Bank Stock	-	-	-	-	-	-	0%
All Other Business Loans (Including PACE)	-	77	-	-	-	-	0%
Farm & Ranch	-	-	359	-	-	-	0%
Farm Real Estate	-	1,316	-	-	-	-	0%
All Other Farm Loans	-	-	-	-	-	-	0%
Residential Real Estate	-	-	-	-	-	-	0%
Student Loans	-	-	-	-	-	-	0%
Total	$ -	$ 9,464	$ 4,637	$ -	$ -	$ -	0%

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

	2022	
	Number of Modifications	Recorded Investment
Commercial Participations	2	$ 7,628
All Other Business Loans (Including PACE)	2	440
All Other Farm Loans	2	673
Residential Real Estate	-	-
TOTAL	6	$ 8,741

The Bank has no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2023 and 2022 to borrowers included in the tables above.

Continued on next page

(In Thousands)

The following table presents the financial effect of the loan modifications presented above to the borrowers experiencing financial difficulty for the year ended December 31, 2023.

	December 31, 2023		
	Principal Forgiveness	Weighted Average Interest Rate Reduction	Weighted Average Term Extension (Yrs)
Commercial Participations	$ -	0.00%	5
Bank Stock	-	0.00%	-
All Other Business Loans (Including PACE)	-	0.00%	-
Farm & Ranch	-	0.00%	1
Farm Real Estate	-	0.00%	-
All Other Farm Loans	-	0.00%	-
Residential Real Estate	-	0.00%	-
Student Loans	-	0.00%	-
	$ -	0.00%	6

The Bank closely monitors the performance of loans modified to borrowers experiencing financial difficulty to understand the effectiveness of its loan modifications. All loans modified during the year ended December 31, 2023 are current. None of the loans modified for the period were payment default during the year ended December 31, 2023.

The following table presents loans purchased and sold during the year ended December 31, 2023. The Bank considers all newly originated participations as purchased loans, as reflected below.

	December 31, 2023	
	Purchases	Sales
Commercial Participations	$ 652,294	$ -
Bank Stock	-	-
All Other Business Loans (Including PACE)	195,351	-
Farm & Ranch	76,091	-
Farm Real Estate	-	-
All Other Farm Loans	33,505	-
Residential Real Estate	-	-
Student Loans	-	-
Total	$ 957,241	$ -

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, 2023 and 2022 were as follows:

	2023	2022
Student loans		
North Dakota Student Loan Trust	**$ 472**	$ 522
Residential loans		
Fannie Mae	**17,455**	19,281
Other state fund loans		
School Construction Assistance Revolving Loan Fund	**313,989**	273,538
Infrastructure Revolving Loan Fund	**167,101**	121,440
Medical Facility Infrastructure Loan Fund	**41,528**	43,510
Rebuilders Loan Program	**32,246**	38,257
State Water Commission	**539**	550
Water Infrastructure Revolving Loan Fund	**43,708**	37,299
Board of University and School Lands	**2,373**	3,962
Information Technology Department	**695**	1,070
Department of Human Services	**2,082**	2,532
Addiction Counseling Internship Loan Program	**69**	76
Workforce Safety	**40**	51
Clean Sustainable Energy	**43,018**	30,000
Legacy Investment for Technology Fund	**25,608**	21,087
Bulk Propane Storage	**571**	-
Legacy Infrastructure Loan Fund	**49,169**	-
	$ 740,663	$ 593,175

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 the cost and accumulated depreciation of premises and equipment follows:

	2023	2022
Land	**$ 2,449**	$ 2,449
Building	**10,342**	10,327
Equipment	**789**	724
Furniture	**817**	817
Software	**6,491**	6,186
	20,888	20,503
Less accumulated depreciation	**11,739**	11,192
	$ 9,149	$ 9,311

Depreciation expense totaled $547 and $379 for the years ended December 31, 2023 and 2022, respectively.

NOTE 7 - DEPOSITS

As of December 31, 2023, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 4,733,148
One to three years	246,410
Over three years	680,772
	$ 5,660,330

Continued on next page

(In Thousands)

NOTE 8 - FEDERAL HOME LOAN BANK (FHLB) ADVANCES

Short and long-term debt consists of:

	2023	2022
Federal Home Loan Bank advances - short-term	**$ 25,000**	$ 675,000
	$ 25,000	$ 675,000

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

	Principal	Interest	Total
2024	$ 25,000	$ 15	$ 25,015

The FHLB short-term advances outstanding as of December 31, 2023 all matured in January 2024 and had a fixed interest rate of 5.64%. The FHLB short-term advances outstanding as of December 31, 2022 all matured in January 2023 and had fixed interest rates ranging from 4.44% to 4.60%. All FHLB advances must be secured by minimum qualifying collateral maintenance levels. Residential, agriculture, and commercial loans with carrying values of $864,435 and $691,798 as of December 31, 2023 and 2022, respectively, are currently being used as security to meet these minimum levels.

NOTE 9 - OTHER ASSETS

	2023	2022
Fees receivable	**1,080**	2,492
Securities receivable	**28,421**	4,737
Interest rate swap receivable	**52,125**	63,068
Foreclosed assets	**4,223**	4,249
Prepaid expenses, deferred expenses and other receivables	**835**	1,016
	$ 86,684	$ 75,562

Continued on next page

(In Thousands)

NOTE 10 - OTHER LIABILITIES

Other Liabilities consist of:

	2023	2022
Interest payable	**$ 8,234**	$ 2,597
Salary and benefits payable	**3,154**	2,775
ACL on unfunded loan commitments	**12,847**	-
Accounts payable, accrued expenses and other liabilities	**3,948**	463
	$ 28,183	$ 5,835

NOTE 11 - PENSION PLAN

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

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

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

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

Continued on next page

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

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

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

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

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

Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 2023 and 2022 were approximately $1,623 and $1,461, respectively, and are charged directly to operations. There were no surcharges paid by the Bank to the Plan in 2023 and 2022.

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, 2023, and 2022, there were no funding improvement plans or rehabilitation plans implemented. The Plan is a single plan under Internal Revenue Code 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. The Bank's contributions to the Plan do not represent more than 5 percent of total contributions to the Plan as indicated in the Plan's most recently available annual report as of June 30, 2023. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

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NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action – Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2023 and ending June 30, 2025. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1014, Section 11 – 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, 2023 and ending June 30, 2025. 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, 2023, the Bank had transferred $0.

H.B. 1014, Section 12 – The Bank shall transfer up to $39,000 from its current earnings and undivided profits to the Partnership in Assisting Community Expansion Fund during the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $7,000.

H.B. 1014, Section 12 – The Bank shall transfer up to $5,000 from its current earnings and undivided profits to the Agriculture Partnership in Assisting Community Expansion Fund during the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $2,000.

H.B. 1014, Section 12 – The Bank shall transfer up to $1,000 from its current earnings and undivided profits to the Biofuels Partnership in Assisting Community Expansion Fund during the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $500.

H.B. 1014, Section 12 – The Bank shall transfer up to $15,000 from its current earnings and undivided profits to the Beginning Farmer Revolving Loan Fund during the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $1,000.

H.B. 1014, Section 12 – The Bank shall transfer up to $1,500 from its current earnings and undivided profits to the University of North Dakota Small Business Development Center during the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $1,500.

H.B. 1003, Section 7 – 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 Scholarships during the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $0.

H.B. 1003, Section 8 – The Bank shall transfer the sum of $3,400 or so much of the sum as may be necessary from its current earnings and undivided profits to the Skilled Workforce Student Loan Repayment Program Fund during the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $100.

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H.B. 1003, Section 9 – The Bank shall transfer the sum of $3,400 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, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $400.

H.B. 1012, Section 4 – 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, 2023 and ending June 30, 2025. As of December 31, 2023, there was no outstanding balance.

H.B. 1012, Section 5 – The Department of Transportation may borrow from the Bank, up to $28,500, which is appropriated to the Department for the contingent loan authorization line item in section 1 of this Act for matching funds made available from the state of Minnesota for northern Red River Valley transportation projects, for the biennium beginning July 1, 2023 and ending June 30, 2025. As of December 31, 2023, there was no outstanding balance.

H.B. 1242, Section 2 – The Bank of North Dakota shall transfer the sum of $20,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the Statewide Interoperable Radio Network fund during the biennium beginning July 1, 2023, and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $0.

H.B. 1003, Section 10 – The Office of Management and Budget shall transfer $5,500 from the strategic investment and improvements fund to the economic diversification research fund, the sum of which is appropriated to the Bank of North Dakota for the purpose of providing grants to institutions under the control of the State Board of Higher Education, for the biennium beginning July 1, 2023, and ending June 30, 2025, as requested by the commissioner of higher education. As of December 31, 2023, SIIF had transferred $5,500.

H.B. 1003, Section 13 – The legislative assembly authorizes the Mayville State University Old Main renovation project to be funded in two phases as provided under this section. The capital assets line item in subdivision 9 of section 1 of this Act includes the sum of $17,330, or so much of the sum as may be necessary, for phase 1 of the project. During the biennium beginning July 1, 2023, and ending June 30, 2025, and continuing into the biennium beginning July 1, 2025, and ending June 30, 2027, the State Board of Higher Education may borrow the sum of $34,925, or so much of the sum as may be necessary, from the Bank of North Dakota for completion of phase 2 of the Mayville State University Old Main renovation project. The State Board of Higher Education shall seek funding from the sixty-ninth legislative assembly to repay the loan authorized under this section. As of December 31, 2023, no funds have been utilized.

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H.B. 1199, Section 2 – The Bank of North Dakota shall extend a line of credit not to exceed $68,276 to the Department of Career and Technical Education at the prevailing interest rate charged to North Dakota governmental entities, the sum of which is appropriated to the Department of Career and Technical Education for the purpose of providing grants to entities approved by the State Board for Career and Technical Education to build career academies through the statewide area and career center initiative grant program for the period beginning with the effective date of this Act, and ending June 30, 2025. The department may award funding provided in this section to foundations that are working with school districts on career academy projects approved by the state board for career and technical education. The department shall repay the line of credit and accrued interest from funding appropriated from the general fund in section 1 of this Act and from funding appropriated from the federal coronavirus capital projects fund in section 1 of chapter 548 of the 2021 Session Laws. If moneys available on June 30, 2025, are not sufficient to repay the line of credit, the department of career and technical education shall request from the sixty-ninth legislative assembly a deficiency appropriation to repay the line of credit. As of December 31, 2023, there was no outstanding balance.

S.B. 2009, Section 10 – The Bank shall transfer the sum of $3,000 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, 2023 and ending June 30, 2025. As of December 31, 2023, the Bank had transferred $3,000.

S.B. 2020, Section 11 – The Bank of North Dakota shall extend a line of credit not to exceed $100,000 at the prevailing interest rate charged to North Dakota government entities. The Department of Water Resources 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 Department of Water Resources may access the line of credit, as necessary, to provide up to $50,000 for the Northwest Area Water Supply project and up to $50,000 for the Southwest Pipeline project during the biennium beginning July 1, 2023, and ending June 30, 2025. As of December 31, 2023, the there were no funds extended on the line.

H.B. 1014, Section 23 – The Bank shall extend a line of credit not to exceed $390,000 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, 2023, the Bank had extended $12,930.

H.B. 1014, Section 8 – The sum of $1,818, or so much of the sum as may be necessary, included in the appropriation in subdivision 1 of section 1 of this Act, may be transferred from the entities within the control of the industrial commission or entities directed to make payments to the industrial commission fund for administrative services rendered by the commission. Transfers must be made during the biennium beginning July 1, 2023, and ending June 30, 2025, upon order of the commission. Transfers from the student loan trust fund must be made to the extent permitted by sections 54-17-24 and 54-17-25. As of December 31, 2023, the Bank had transferred $138.

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Continuing Commitments and Contingent Liabilities

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, 2023 and 2022 was $13,362 and $13,362, respectively.

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, 2023 and 2022, outstanding loans totaled $167,101 and $121,440, respectively.

S.B. 2018, Section 5 – The Bank of North Dakota shall extend a line of credit to the State Historical Society to provide funding to pay costs associated with the construction of a North Dakota Military Museum and related expansion projects for the State Historical Society. The line of credit may not exceed $20,000, and the interest rate associated with the line of credit must be the prevailing rate charged to North Dakota government entities. It is the intent of the sixty-eighth legislative assembly that the State Historical Society request funding from the sixty-ninth legislative assembly from the legacy earnings fund to repay the line of credit. As of December 31, 2023, no funds have been utilized.

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S.B. 2019, Section 3 – The Bank of North Dakota shall extend a line of credit not to exceed $70,000 to the Parks and Recreation Department for the Theodore Roosevelt Presidential Library project. The interest rate on the line of credit may not exceed the prevailing interest rate charged to North Dakota governmental entities. As of December 31, 2023, no funds have been utilized.

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, 2023 and 2022, outstanding loans in the School Construction Assistance Revolving Loan Fund totaled $313,989 and $273,538, respectively.

S.B. 2008, 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, 2023, and ending June 30, 2025, 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, 2023, the Bank had transferred $0.

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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, 2023, 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, 2023, and 2022, the Bank had guarantees outstanding totaling $0 and $0, respectively, and had no guarantee commitments outstanding, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2023 and 2022.

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, 2023, 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, 2023, 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 $150,000. 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, 2023, the balance in the reserve fund was $36,915.

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, 2023, and 2022, the Bank has guarantees outstanding totaling $6,944 and $7,561, respectively, and had guarantee commitments outstanding of $309 and $119, 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, 2023 and 2022.

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, 2023, the Bank transferred $30,000.

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NOTE 13 - RELATED PARTY TRANSACTIONS

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

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

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,046,618 and $1,084,281 as of December 31, 2023 and 2022, 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, 2023 and 2022 amounted to $39,836 and $38,556, respectively. Deposits and short-term borrowings held by the Bank were $30,355 and $25,165, respectively.

On December 22, 2020, the Bank signed a Servicing Agreement with the North Dakota Housing Finance Agency (NDHFA) effective April 1, 2021, to transfer the Bank's mortgage servicing to NDHFA. NDHFA paid the Bank the amount of the unamortized service release premium and services the mortgage loans and manages the premises in the event of foreclosure of any mortgage loans. As of year-end December 31, 2021, the Bank received from NDHFA $1,077 in unamortized service release premiums and fees. NDHFA will service a total of $283,744 in loans from BND. As of December 31, 2023 and 2022, the outstanding balance of loans serviced by NDHFA was $189,846 and $210,817, respectively. Mortgage servicing fees paid to NDHFA for the years ended December 31, 2023 and 2022 were $497 and $569, respectively.

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

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

Continued on next page

(In Thousands)

As of December 31, 2023, and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2023	2022
Commitments to extend credit	**$ 2,073,963**	$ 1,859,343
Financial standby letters of credit	**871,330**	657,329
Guarantees provided	**7,253**	7,680

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 11 months to 22 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, 2023 and 2022 were $27,278 and $27,278, 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, 2023 and 2022 were $5,584 and $4,110, respectively.

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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 $572,975 and $369,095 as of December 31, 2023 and 2022, 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, 2023 and 2022.

NOTE 15 - INTEREST RATE SWAP CONTRACTS

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

The Bank has outstanding interest rate swap agreements with a notional amount totaling $500,000 and $545,000 as of December 31, 2023 and 2022, respectfully, 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.

Continued on next page

(In Thousands)

The following table summarizes the derivative financial instruments utilized as of December 31, 2023:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other assets	**$ 50,000**	**$ 4,126**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 3,562**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 3,453**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 4,390**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 10,053**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 9,046**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 4,175**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 1,347**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 6,878**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 5,096**	

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received as of December 31, 2023:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	**$ 50,000**	**5.4**	**$ 1,347**	**5.33%**	**2.86%**
Interest rate swap	**$ 50,000**	**6.3**	**$ 4,175**	**5.33%**	**1.92%**
Interest rate swap	**$ 50,000**	**7.7**	**$ 6,878**	**5.46%**	**1.48%**
Interest rate swap	**$ 50,000**	**8.3**	**$ 4,126**	**5.46%**	**2.39%**
Interest rate swap	**$ 50,000**	**8.5**	**$ 5,096**	**5.33%**	**1.99%**
Interest rate swap	**$ 50,000**	**9.3**	**$ 3,562**	**5.33%**	**2.47%**
Interest rate swap	**$ 50,000**	**9.5**	**$ 3,453**	**5.33%**	**2.52%**
Interest rate swap	**$ 50,000**	**10.3**	**$ 4,390**	**5.33%**	**2.36%**
Interest rate swap	**$ 50,000**	**10.8**	**$ 10,053**	**5.33%**	**1.15%**
Interest rate swap	**$ 50,000**	**10.8**	**$ 9,046**	**5.33%**	**1.38%**

Amongst all swap counterparties for the transactions noted above, the Bank holds a net $51,500 in cash pledged under collateral arrangements related to the interest rate swaps as of December 31, 2023, to satisfy the collateral requirements.

Continued on next page

(In Thousands)

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

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

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

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

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

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Interest expense recorded on these swap transactions totaled ($16,309) and $1,528 as of December 31, 2023 and December 31, 2022 and is reported as a component of deposit interest expense.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

Under ASC 820-10, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Determination of Fair Value

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).

Continued on next page

(In Thousands)

Debt Securities Available for Sale

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

Interest Rate Swap Agreements

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022.

	2023			
	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	$ 57,074	$ -	$ 57,074	$ -
Collateralized mortgage obligations				
Agency	1,989,244	-	1,989,244	-
Agency bonds	335,090	335,090	-	-
U.S. treasuries	1,487,258	1,487,258	-	-
Municipal bonds	1,000	-	1,000	-
Interest rate swaps	52,126	-	52,126	-
Totals	$ 3,921,792	$ 1,822,348	$ 2,099,444	$ -
LIABILITIES				
Interest rate swap	$ -	$ -	$ -	$ -
Totals	$ -	$ -	$ -	$ -

Continued on next page

(In Thousands)

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

Assets Measured at Fair Value on a Nonrecurring Basis

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

	2023	**2022**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Avg.)**
Individually Evaluated Loans	$ 31,361	$ 93,500	Collateral valuation	Discount from market value	85%
Foreclosed Assets	$ 4,223	$ 4,249	Collateral valuation	Discount from market value	92%

Continued on next page

(In Thousands)

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

The changes in accumulated other comprehensive income by component for the years ended December 31, 2023 and 2022 follows:

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2023			
Beginning balance	**$ (240,533)**	**$ 63,068**	**$ (177,465)**
Other comprehensive income (loss) before reclassifications	**105,398**	**(10,943)**	**94,455**
Amount reclassified from accumulated other comprehensive income	**-**	**-**	**-**
Net current period other comprehensive income	**105,398**	**(10,943)**	**94,455**
Ending balance	**$ (135,135)**	**$ 52,125**	**$ (83,010)**

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

Continued on next page

(In Thousands)

NOTE 18 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2023	2022
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 94,256**	$ 29,385
Interest paid on federal funds purchased and securities sold under repurchase agreements	**13,571**	5,581
Interest paid on short and long-term debt	**23,739**	5,311
Supplemental schedule of noncash investing and financing activities		
Net change in fair value on debt securities available for sale	**105,398**	(242,653)
Net change in fair value on interest rate swaps	**(10,943)**	97,519
Transfer of ACL loans to unfunded commitments	**14,196**	-
Transition adjustment to undivided profits for ASC 326	**3,143**	-
Foreclosed assets acquired in exchange for loans	**99**	673

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NOTE 19 - REVENUE RECOGNITION

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

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

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

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 7, 2024, which is the date these financial statements were available to be issued.

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