FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

AND

SCHEDULE OF APPROPRIATED EXPENDITURES
YEAR ENDED JUNE 30, 2022

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

Table of Contents

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Bank of North Dakota, an enterprise fund of the State of North Dakota, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Bank of North Dakota, as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. 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 Bank of North Dakota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

Reporting Entity
As discussed in Note 1, the financial statements of the Bank of North Dakota are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2022 and 2021 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

Financial Statement Presentation
As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

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 opinions. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 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.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the bank's share of net pension liability and the schedule of bank contributions, and the schedule of bank's share of net OPEB liability and schedule of bank contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank of North Dakota's basic financial statements. The schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and schedule of appropriated expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards and schedule of appropriated expenditures are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2023 on our consideration of the Bank of North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bank of North Dakota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bank of North Dakota's internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
April 3, 2023

The discussion and analysis which follows provides an overview of the Bank of North Dakota's (Bank) financial performance for the calendar years ended December 31, 2022, 2021 and 2020. Please read it in conjunction with the financial statements of the Bank.

FINANCIAL HIGHLIGHTS:

Total assets and deferred outflows increased by $140,000 or 1.4% to $10,195,000 as of December 31, 2022. The Bank's asset size remained relatively stable in 2022, but the asset mix changed. In 2021, total assets and deferred outflows increased by $2,247,000 or 28.8%. This increase was largely due to the Bank's cash position that directly related back to the increase in deposits as discussed below as well as an increase in its security portfolio. In 2020, total assets and deferred outflows increased by $739,000 or 10.5%. The increase was due to its cash position that directly related back to the increase in deposits.

On an aggregate basis, securities increased $1,721,000 or 66.5% to $4,307,000 as of December 31, 2022. The Bank's investment strategy and rising rate environment offered sound investment options to increase its security portfolio in 2022. In 2021, the security portfolio increased $753,000 or 41.0% to $2,586,000. In 2020, the security portfolio decreased $149,000 or 7.5% to $1,834,000.

On a net loan basis, the loan portfolio increased by $678,000 or 14.9% to $5,237,000 in 2022. Commercial loan demand drove the increase in the loan portfolio. In 2021, the loan portfolio decreased by $68,000 or 1.5% to $4,559,000. In 2020, the loan portfolio increased by $205,000 or 4.6% to $4,627,000.

On an aggregate basis, deposits are up $178,000 or 2.2% to $8,312,000 as of December 31, 2022. Deposit balances remain high due to increased state tax revenues and American Rescue Plan dollars. In 2021, deposits increased by $2,338,000 or 40.3%. The increase was primarily attributable to $1 billion American Rescue Plan Dollars, additional state dollars of nearly $1 billion related to Legacy Fund Earnings and additional tax revenue as well as higher correspondent bank deposits. In 2020, deposits increased by $706,000, or 13.9%. The increase was due to $1.25 billion of Federal CARES Act dollars, higher bank deposits related to PPP loans and government issued COVID-19 relief payments.

The tier one leverage ratio is 11.43% compared to 10.27% and 11.97% in the prior two years. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%.

REQUIRED FINANCIAL STATEMENTS:

The Bank is an enterprise fund and uses the accrual basis of accounting. The Bank's basic financial statements include the statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The statement of net position provides the basis for computing rate of return, evaluating the net position of the Bank and assessing the liquidity and financial flexibility of the Bank. The statements of revenues, expenses and changes in net position identify the operating performance of the Bank for the calendar year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities. It also provides answers to such questions as where the cash came from, what was cash used for, and what was the change in the cash balance during the reporting period.

(continued on next page)

(In Thousands)

CONDENSED STATEMENTS OF NET POSITION

	2022	2021	2020
ASSETS			
Cash and cash equivalents	**$ 450,323**	$ 2,773,032	$ 1,163,480
Interest receivable	**60,392**	46,169	54,788
Securities	**4,307,352**	2,586,394	1,833,699
FHLB Restricted Stock	**37,000**	13,613	15,910
Loans, net	**5,237,446**	4,559,001	4,627,392
Other assets	**75,562**	18,913	16,644
Capital assets, net	**9,311**	9,234	9,560
Total assets	**10,177,386**	10,006,356	7,721,473
DEFERRED OUTFLOWS OF RESOURCES	**17,736**	48,396	86,058
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 10,195,122**	$ 10,054,751	$ 7,807,530
LIABILITIES			
Federal funds purchased and repurchase agreements	**$ 205,845**	$ 763,250	$ 775,005
Non-interest bearing deposits	**632,498**	765,200	750,741
Interest bearing deposits	**7,679,450**	7,368,694	5,044,731
Interest payable	**2,597**	1,994	2,350
Other liabilities	**30,267**	50,361	104,204
Short and long-term debt	**675,000**	108,000	186,010
Total liabilities	**9,225,656**	9,057,499	6,863,041
DEFERRED INFLOWS OF RESOURCES	**74,899**	21,873	4,917
NET POSITION			
Invested in capital assets	**9,311**	9,234	9,559
Restricted for pledging purposes	**53,798**	964,545	1,127,804
Unrestricted	**831,457**	1,600	(197,791)
Total net position	**894,567**	975,379	939,572
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 10,195,122**	$ 10,054,751	$ 7,807,530

Securities

Securities totaled $4,307,000 as of December 31, 2022, compared to $2,586,000 as of December 31, 2021, and $1,834,000 as of December 31, 2020. The increase in 2022 and 2021 is the result of the Bank's investment strategy due to the increase in liquidity. The majority of the securities portfolio consists of AAA rated U.S. government/agency securities. The primary objective of the securities portfolio is to provide liquidity.

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-Loans

On a net loan basis, the loan portfolio increased by $678,000 or 14.9% to $5,237,000 in 2022. In 2021, the loan portfolio decreased by $68,000 or 1.5% to $4,559,000. In 2020, the loan portfolio increased by $205,000 or 4.6% to $4,627,000.

Commercial loans increased by $764,500 in 2022 compared to an increase of $161,800 in 2021 and an increase of $194,700 in 2020. The increase in 2022 was primarily related to increased commercial participation requests and lending with state institutions, as well as increased Match and PACE program demand.

Farm loans increased by $8,100 in 2022, decreased by $61,000 in 2021, and increased by $115,700 in 2020. The increased in the overall ag portfolio is partially attributed to larger volumes in the Beginning Farmer Program because of generational land sale transitions and the 2019 Legislative change extending the buydown period from 5 to 10 years.

Student loans decreased by $38,900 in both 2022 and 2021 compared to a decrease of $1,200 in 2020. In 2022, new student loans totaled $64,500 and new consolidated loans were $18,300. Decreases were from $121,700 in loan payments including loans paid in full through consolidation. In 2021, new student loans totaled $70,400 and new consolidation loans were $29,500. Decreases were from $138,800 in loan payments including loans paid in full through consolidation. In 2020, new student loans totaled $77,600 and new consolidation loans were $49,300. Decreases were from $128,100 in loan payments including loans paid in full through consolidation.

Residential loans decreased by $55,500 in 2022, decreased by $128,500 in 2021, and in 2020 decreased by $93,200. Transition of all residential originations to the Housing Finance Agency occurred on August 1, 2021 and the transition of nearly all residential servicing and collections to the Housing Finance Agency occurred on October 1, 2021. New and refinanced loans made in 2022, 2021, and 2020 totaled $0, $7,900, and $50,100, respectively, while normal loan payments and refinancing payoffs were $55,500, $136,400, and $143,300, respectively.

Loan Delinquencies and Allowance for Credit Losses

When the collectability of any loan becomes uncertain due to delinquency, the financial condition of the borrower, or other factors which cause the Bank to deem itself unsecured, the loan is considered nonperforming, and interest is no longer accrued on the loan.

The allowance for credit losses is established by charges to income and are decreased by loans charged off, net of recoveries. Adequacy of the allowance is determined by the credit quality of outstanding loans, which are assigned specific ratings commensurate with risk on a case-by-case basis. Management currently reviews the allowance for credit losses for adequacy on a monthly basis. As of December 31, 2022, 27% of the overall loan portfolio is federally or state guaranteed compared to 32% as of December 31, 2021, and 34% as of December 31, 2020.

(continued on next page)

(In Thousands)

The following sets forth certain information with respect to the Bank's loan loss experience:

	2022	2021	2020
Gross loans at end of year	**$ 5,346,198**	$ 4,667,048	$ 4,733,695
Allowance for credit losses			
Balance, beginning of year	**$ 108,047**	$ 106,303	$ 95,690
Provision charged to operations	**-**	4,750	16,800
Loans charged off	**(1,276)**	(3,363)	(6,268)
Recoveries	**1,981**	357	81
Balance, end of year	**$ 108,752**	$ 108,047	$ 106,303

	2022	2021	2020
Net loan charge-offs to total loans at the end of period	**-0.01%**	0.06%	0.13%
Net loan charge-offs to non-guaranteed loans at the end of period	**-0.02%**	0.09%	0.20%
Allowance at end of period to total loans at end of period	**2.03%**	2.32%	2.25%
Allowance at end of period to non-guaranteed loans at the end of period	**2.77%**	3.40%	3.41%

Capital Assets

Bank of North Dakota had $9,300 in bank premises, equipment, and software at year-end 2022, $9,200 at year-end 2021, and $9,600 at year-end 2020. Capital expenditures totaled $456 in 2022 compared to $55 in 2021 and $256 in 2020. This year's expenditures were related to equipment purchases. (See Note 8 to the financial statements.)

Deposits

Noninterest bearing deposits are $632,500 as of December 31, 2022 compared to $765,200 as of December 31, 2021, and $750,700 as of December 31, 2020. Noninterest bearing deposits are primarily related to the amount of check clearing activities of respondent banks. Interest-bearing deposits totaled $7,679,500 as of December 31, 2022 compared to $7,369,000 as of December 31, 2021, and $5,044,700 as of December 31, 2020. Deposit balances remain high in 2022 due to increased state tax revenues and American Rescue Plan dollars. The increase in 2021 was primarily attributable to $1 billion American Rescue Plan Dollars, additional state funds of nearly $1 billion related to Legacy Fund earnings and additional tax revenue as well as higher correspondent bank deposits.

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Short-Term Borrowings

Short-term borrowings are from North Dakota financial institutions investing in overnight federal funds at the Bank, customer investments in repurchase agreements with the Bank and overnight borrowings from the Federal Home Loan Bank (FHLB). Short-term borrowings were $880,800 as of December 31, 2022, comprised of $675,000 in FHLB borrowings and $205,800 in federal funds. Borrowings were $763,300 as of December 31, 2021, comprised of $0 in FHLB borrowings and $763,300 in federal funds. Borrowings were $775,000 as of December 31, 2020, comprised of $0 in FHLB borrowings and $775,000 in federal funds.

Long-Term Debt

FHLB long-term debt is $0 as of December 31, 2022, compared to $108,000 as of December 31, 2021, and $186,000 as of December 31, 2020. FHLB long-term debt is one funding source utilized to fund long-term fixed rate loans. (See Note 11 to the financial statements.)

Net Position

The Bank has a tier one capital leverage ratio of 11.43%, 10.27%, and 11.97% as of December 31, 2022, 2021, and 2020, respectively. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%. The total net position of the Bank is affected by several factors, some of which are external to the Bank's operations. The State Legislature, representing the ownership interest in the Bank, makes transfers to the State's General Fund or other programs. By statute, however, in no event is the Bank's net position to be reduced below $175,000.

Asset/Liability Management - Interest Rate Risk

The Bank's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements. Interest rate risk is measured and reported to the Bank's Funds Management Committee through the use of traditional gap analysis which measures the difference between assets and liabilities that reprice in a given time period, and simulation modeling which produces projections of net interest income under various interest rate scenarios and statement of net position strategies.

It is the Bank's policy to maintain a low interest rate risk position by monitoring the amount of forecasted net interest income at risk over a 12-month and 24-month period assuming several interest rate scenarios. Forecasted results are sensitive to many assumptions, including estimates of the timing of changes in rates which are determined by reference to market indices, such as prime or the Treasury market curve, relative to each other and relative to rates which are determined by the Bank subject to competitive factors.

Liquidity Management

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers. The Bank's Funds Management Committee, within its Funds Management Policy, establishes contingency funding guidelines that seek to provide sufficient funding sources to meet these demands while achieving the Bank's financial objectives. The committee meets regularly to review the Bank's liquidity position, taking into consideration available funding sources, current and forecasted loan demand and projected investment balances.

(continued on next page)

(In Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2022	2021	2020
INTEREST INCOME	**$ 284,032**	$ 199,179	$ 219,115
INTEREST EXPENSE	**40,882**	28,921	41,018
NET INTEREST INCOME	**243,150**	170,258	178,097
Provision for credit losses	**-**	4,750	16,800
NET INTEREST INCOME AFTER PROVISION	**243,150**	165,508	161,297
Noninterest income (loss)	**(258,023)**	(21,310)	29,541
Noninterest expense	**35,543**	33,786	35,696
INCOME (LOSS) BEFORE TRANSFERS	**(50,415)**	110,412	155,142
TRANSFERS IN	**305,500**	374,500	-
TRANSFERS OUT	**(335,897)**	(449,105)	(137,550)
NET TRANSFERS	**(30,397)**	(74,605)	(137,550)
CHANGE IN NET POSITION	**(80,812)**	35,807	17,592
NET POSITION - BEGINNING	**975,379**	939,572	921,980
NET POSITION - ENDING	**$ 894,567**	$ 975,379	$ 939,572

Earnings Summary

The Bank's loss before transfers was $50,400 in 2022 compared to income of $110,400 in 2021 and $155,100 in 2020. The loss in 2022 was comprised mostly of net decreases in the fair value of securities.

Net Interest Income

Results of operations are primarily dependent upon the level of net interest income, which is affected by the mix of earning assets (loans, securities, and federal funds sold) and the interest rates earned thereon; and the amount of interest-bearing liabilities (deposits, federal funds purchased, and other funds borrowed) on which interest is paid and the rates of interest paid thereon. Net interest income increased $72,900 from 2021 to 2022 and decreased $7,800 from 2020 to 2021.

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(In Thousands)

The following table shows the average rates earned and paid for 2022, 2021, and 2020:

	2022	2021	2020
Annualized average interest rate earned			
Federal funds sold	**0.72%**	0.14%	0.14%
Securities	**1.68%**	1.54%	2.12%
Loans	**3.88%**	3.64%	3.99%
Weighted average interest rates earned	**2.66%**	2.33%	3.03%
Annualized average interest rate paid			
Deposits	**0.34%**	0.19%	0.41%
Federal funds purchased and repurchase agreements	**1.11%**	0.10%	0.39%
Short and long-term debt	**3.67%**	2.81%	2.53%
Weighted average interest rates paid	**0.49%**	0.40%	0.67%
Net interest spread	**2.17%**	1.93%	2.36%
Net interest margin	**2.24%**	2.62%	2.48%

Provision for Credit Losses

The provision for credit losses was $0 in 2022, $4,750 in 2021, and $16,800 in 2020. The provision for credit losses were lower in 2022 due to improved performance of the loan portfolio. The Bank continually evaluates its allowance for credit loss position and any additional provision that would be needed.

Noninterest Income

Overall, noninterest income decreased by $236,700 in 2022 and $50,900 in 2021. The main drivers in the fluctuation of noninterest income are changes in the fair value of securities as well as the amortization and accretion of securities.

Noninterest Expense

Noninterest expense increased by $1,800 in 2022 and decreased by $1,900 in 2021. Noninterest expense includes salaries and benefits, occupancy and equipment, data processing, and other operating expenses.

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ECONOMIC CONDITION AND OUTLOOK

In November of 2022, Standard and Poor's published a ratings report for the Bank, in which the Bank received a credit rating of "A+". The report noted the long and stable history of the Bank, very strong capital ratios, high loan credit quality, and conservative management as major rating factors.

As reported on previous pages, the Bank's capital position is as strong as it has ever been with a tier one capital leverage ratio of 11.43%, much higher than the "well capitalized" threshold of 5% as defined by federal banking regulations.

CONTACTING BANK OF NORTH DAKOTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Bank's finances and to demonstrate the Bank's accountability for the money it receives. If you have any questions about this report or need additional financial information, you can contact Bank of North Dakota by mail at P.O. Box 5509, Bismarck, North Dakota 58506-5509. If you wish to visit the Bank for information, the physical address is 1200 Memorial Hwy, Bismarck, ND 58504.

BANK OF NORTH DAKOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
ASSETS		
Cash and due from banks		
Unrestricted	**$ 405,718**	$ 2,768,582
Federal funds sold	**44,605**	4,450
Cash and cash equivalents	**450,323**	2,773,032
Interest receivable		
Due from other funds	**1,930**	251
Other	**58,462**	45,918
	60,392	46,169
Securities	**4,307,352**	2,586,394
Federal Home Loan Bank restricted stock	**37,000**	13,613
Loans held for investment		
Restricted	**691,798**	1,058,932
Unrestricted	**4,654,400**	3,608,116
Less allowance for credit losses	**(108,752)**	(108,047)
	5,237,446	4,559,001
Other assets		
Due from other funds	**704**	2,835
Other	**74,858**	16,078
	75,562	18,913
Capital assets		
Land	**2,449**	2,449
Building and equipment, net	**6,396**	6,548
Intangibles, net	**466**	237
	9,311	9,234
Total assets	**10,177,386**	10,006,356
DEFERRED OUTFLOWS OF RESOURCES	**17,736**	48,396
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 10,195,122**	$ 10,054,751

STATEMENTS OF NET POSITION – PAGE 2

	2022	2021
LIABILITIES		
Federal funds purchased	**$ 205,845**	$ 763,250
Deposits		
Non-interest bearing	**540,767**	597,865
Non-interest bearing - of other funds	**91,730**	167,335
Interest bearing	**405,665**	342,597
Interest bearing - of other funds	**7,273,785**	7,026,097
	8,311,947	8,133,894
Interest payable		
Due to other funds	**1,803**	1,027
Other	**794**	967
	2,597	1,994
Other liabilities		
Net pension and OPEB liability	**27,029**	10,963
Other	**3,238**	39,398
	30,267	50,361
Short and long-term debt		
Current portion	**675,000**	53,000
Long-term portion	**-**	55,000
	675,000	108,000
Total liabilities	**9,225,656**	9,057,499
DEFERRED INFLOWS OF RESOURCES	**74,899**	21,873
NET POSITION		
Invested in capital assets	**9,311**	9,234
Restricted for pledging purposes	**53,798**	964,545
Unrestricted	**831,457**	1,600
Total net position	**894,567**	975,379
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$10,195,122**	$ 10,054,751

BANK OF NORTH DAKOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands)

	2022	2021
INTEREST INCOME		
Federal funds sold	**$ 560**	$ 21
Securities	**93,994**	28,330
Loans	**189,477**	170,828
Total interest income	**284,032**	199,179
INTEREST EXPENSE		
Deposits	**27,712**	12,972
Federal funds purchased and repurchase agreements	**5,649**	859
Short and long-term debt	**7,520**	15,090
Total interest expense	**40,882**	28,921
NET INTEREST INCOME	**243,150**	170,258
PROVISION FOR CREDIT LOSSES	**-**	4,750
NET INTEREST AFTER PROVISION FOR CREDIT LOSSES	**243,150**	165,508
NONINTEREST INCOME		
Service fees and other	**4,751**	6,381
Net decrease in the fair value of securities	**(262,774)**	(27,691)
Total noninterest loss	**(258,023)**	(21,310)
NONINTEREST EXPENSE		
Salaries and benefits	**19,779**	18,769
Data processing	**7,354**	7,140
Occupancy and equipment	**752**	731
Long-term debt prepayment fee	**1,171**	-
Other operating expenses	**6,486**	7,146
Total noninterest expenses	**35,543**	33,786
INCOME (LOSS) BEFORE TRANSFERS	**(50,415)**	110,412
TRANSFERS		
Transfers in	**305,500**	374,500
Transfers out	**(335,897)**	(449,105)
TRANSFERS OUT	**(30,397)**	(74,605)
CHANGE IN NET POSITION	**(80,812)**	35,807
TOTAL NET POSITION - BEGINNING OF YEAR	**975,379**	939,572
TOTAL NET POSITION - END OF YEAR	**$ 894,567**	$ 975,379

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

	2022	2021
OPERATING ACTIVITIES		
Receipt of service fees and other income from other funds	$ 3,131	$ 3,280
Receipt of service fees and other income from other entities	4,594	4,133
Payment of salaries and benefits	(17,540)	(18,239)
Payment of data processing expenses	(7,160)	(7,213)
Payment of occupancy and equipment	(413)	(389)
Payment of other operating expenses	(9,356)	(10,972)
NET CASH USED FOR OPERATING ACTIVITIES	(26,744)	(29,400)
NON-CAPITAL FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	(132,702)	14,459
Net increase in interest bearing deposits	310,755	2,323,963
Interest payments on deposits	(26,916)	(13,315)
Net (decrease) in federal fund purchased and repurchase agreements	(557,405)	(11,755)
Interest payments on federal funds purchased and repurchase agreements	(5,581)	(858)
Proceeds from issuance of short and long-term debt	3,775,001	2,002
Payment of short and long-term debt	(3,208,001)	(80,012)
Interest payments on short and long-term debt	(8,952)	(15,105)
Payment of transfers	(30,397)	(74,604)
NET CASH FROM NON-CAPITAL FINANCING ACTIVITIES	115,802	2,144,775
CAPITAL AND RELATED FINANCING ACTIVITY		
Purchases of capital assets	(456)	(55)
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	(2,627,516)	(1,384,915)
Proceeds from sales, maturities, and principal repayments	643,784	604,530
Purchase of Federal Home Loan Bank stock	(151,707)	(863)
Sale of Federal Home Loan Bank stock	128,320	3,160
Investment income received	86,416	27,902
Net (increase) decrease in loans	(675,775)	61,028
Loan income received	180,072	178,911
Payments from rebuilders loan program	2,149	2,837
Proceeds from sale of other real estate and property owned	2,946	1,642
NET CASH USED FOR INVESTING ACTIVITIES	(2,411,311)	(505,768)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,322,709)	1,609,552
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,773,032	1,163,480
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 450,323	$ 2,773,032

	2022	2021
RECONCILIATION OF INCOME BEFORE OPERATING TRANSFERS TO NET CASH USED FOR OPERATING ACTIVITIES		
Income (loss) before operating transfers	**$ (50,415)**	$ 110,412
Adjustments to reconcile income before operating transfers to net cash used for operating activities		
Depreciation and amortization	**379**	380
Provision for credit losses	**-**	4,750
(Gain) loss on sale of other real estate and property owned	**1,742**	(466)
Net decrease (increase) in the fair value of securities	**262,774**	27,691
and expense to other activities	**(243,150)**	(170,258)
(Increase) in other assets	**(58,780)**	(5,123)
Decrease in due from other funds	**2,131**	2,854
Decrease in deferred outflows	**30,660**	37,663
(Decrease) in due to other funds	**-**	(155)
(Decrease) in other liabilities	**(25,111)**	(54,104)
Increase in deferred inflows	**53,026**	16,956
NET CASH USED FOR OPERATING ACTIVITIES	**$ (26,744)**	$ (29,400)

NOTE 1 - 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.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, Bank of North Dakota should include all component units over which the Bank of North Dakota exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Bank.

Based on that criteria, no organizations were determined to be part of the reporting entity. The Bank of North Dakota is included as part of the primary government of the State of North Dakota's reporting entity.

Accounting Standards

The Bank follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the Bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the statement of net position of Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

The Bank's Statements of Revenues, Expenses and Changes in Net Position are presented in a format consistent with industry practice for financial institutions. Operating revenues are those revenues that are generated from the primary operations of the Bank, which include interest and noninterest income. Operating expenses are those expenses that are essential to the primary operations of the Bank, which include interest and noninterest expenses. All other revenues and expenses are reported as non-operating.

Fund Accounting

The Bank is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

(continued on next page)

(In Thousands)

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into (1) net invested in capital assets, (2) restricted (distinguishing between major categories of restrictions) and (3) unrestricted. The statements of revenues, expenses and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statements of cash flows present the cash flows for operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

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 statement of net position 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 determination of the allowance for credit losses and the fair value of interest rate swaps.

Significant Group Concentrations of Credit Risk

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

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

Cash and Cash Equivalents

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

Securities

Investments in debt and equity securities are carried at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Unrealized gains and losses due to fluctuations in fair value are included in noninterest income. Gains and losses on the sale of securities are recorded on the trade date in noninterest income and are determined using the specific identification method.

(continued on next page)

Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4% of total FHLB advances. Since ownership of this stock is restricted, the stock is carried at cost and evaluated periodically for impairment. The FHLB stock is pledged on the FHLB advances (Note 11).

Loans

Loans are reported at the outstanding unpaid principal balances, adjusted for charge-offs and premiums or discounts on purchased loans. Interest income on loans is accrued at the specific rate on the unpaid principal balance. Discounts and premiums are amortized to income over the estimated life of the loan using the interest or straight line method. Loans are not carried at fair value because they do not meet the definition of an investment in accordance with GASB 72.

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

Allowance for Credit Losses

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

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

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

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

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

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

Loan Charge-Offs

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

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

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit and financial standby letters of credit. Such financial instruments are recorded when they are funded.

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.

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Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 12 for additional information.

Capital Assets

Capital assets, which include intangibles (software), are stated at cost less accumulated depreciation or amortization. Capital assets with a purchase price of $5 (for software that is internally developed, the threshold is $50) or more are capitalized and reported in the accompanying financial statements. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for 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 $4,249 and $8,264 as of December 31, 2022 and 2021, respectively.

Compensated Absences Payable

Annual Leave: Bank employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 56-06-14 of the North Dakota Century Code. Accrued annual leave cannot exceed 30 days as of April 30 of each year. Employees are paid for unused annual leave upon termination or retirement.

Sick Leave: Bank employees accrue sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the Bank is liable for 10 percent of the employee's accumulated unused sick leave.

The Bank's liability for accumulated unpaid annual leave and sick leave is reported in other liabilities and will be funded by the Bank's appropriation when the liability is to be liquidated. The net change in the liability is recorded in salaries and benefits.

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Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Restricted Assets and Restricted Net Position

Certain Bank assets and net position carry a restricted classification because they are pledged on short and long-term debt, securities sold under agreements to repurchase and other required pledging purposes. If an expense is incurred that qualifies for use of either restricted or unrestricted resources, the Bank will first apply restricted resources.

Interest Rate Swaps

The Bank enters into interest rate swap agreements to modify interest rates on certain liabilities. The fair values of both hedging derivative instruments and investment derivative instruments (if any) are presented on the Statement of Net Position, either as a derivative instrument liability (negative fair value) or as a derivative instrument asset (positive fair value). The change in the total fair value of derivative instruments that are determined to be effective hedges is recorded as a deferred inflow or outflow of resources on the Statement of Net Position. If a derivative instrument were determined to be an ineffective hedge, it would be classified as an investment derivative instrument, and the change in the total fair value would be presented as part of investment earnings. The Bank currently has one type of derivative instrument outstanding, interest rate swaps which are deemed effective hedges, therefore having no effect on net position.

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.

NOTE 2 - CHANGES IN ACCOUNTING POLICY

As of January 1, 2022, the Bank adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* The implementation of this standard provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The standard requires recognition of certain right-to-use assets – an intangible asset and a corresponding subscription liability that previously were classified as technology expenses and recognized as inflows of resources and/or outflows of resources based on subscription term. There is no impact to beginning net position as a result of the implementation of this standard and the impact to the financial statements is insignificant.

(continued on next page)

(In Thousands)

NOTE 3 - RESTRICTION 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.

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

The Bank has depository relationships where it is a requirement of the other institution to have a business relationship. On other significant depository relationships, the Bank requires the depository financial institution to have a minimum short-term rating of A-1 or P-1 as established by the rating agency.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Bank will not be able to recover deposits that are in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for deposits. All of the Bank's deposits are insured up to $250,000 with the Federal Deposit Insurance Company except for deposits at the Federal Reserve Bank and the Federal Home Loan Bank. The remaining deposits with these financial institutions are uncollateralized.

The following summary presents the amount of the Bank's deposits as of December 31, 2022 and 2021:

	2022	2021
Covered by depository insurance		
Due from banks	**$ 874**	$ 1,624
Uncollateralized		
Due from banks	**47,782**	2,536,607
Federal funds sold	**44,605**	4,450
Total bank balances	**$ 93,261**	$ 2,542,681

Investments

The Bank's investment policy provides guidelines for security custody, approved security dealers, investment authority, variance from the approved investment selection and purchase process, required investment data to be obtained and maintained, investment guidelines, investment management parameters, investment intent, and federal funds management.

The Bank's investment policy indicates that the Bank is authorized to own the following types of securities: U.S. Treasury securities, Federal agency securities, mortgaged-backed securities, collateralized mortgage obligations, corporate securities, asset-backed securities, state and municipal securities, money market securities, and capital stock of government sponsored agencies.

(continued on next page)

(In Thousands)

The composition of the investment portfolio, related credit quality rating (based on Moody's Investors Service), custody, and duration as of December 31, 2022 is provided below:

	Rating	Custody	Duration (In Years)	2022
U.S. Treasury	**Aaa**	**(1)**	**1.85**	**$ 1,955,132**
Mortgage-backed	**Aaa**	**(1) & (2)**	**2.40**	**1,978,344**
Federal agency	**Aaa**	**(1) & (2)**	**3.51**	**372,876**
State and municipal	**Not rated**	**(2) & (3)**	**9.00**	**1,000**
				$ 4,307,352

The composition of the investment portfolio, related credit quality rating (based on Moody's Investors Service), custody, and duration as of December 31, 2021 is provided below:

	Rating	Custody	Duration (In Years)	2021
U.S. Treasury	Aaa	(1)	2.61	$ 961,389
Mortgage-backed	Aaa	(1) & (2)	2.56	1,095,317
Federal agency	Aaa	(1) & (2)	3.28	528,688
State and municipal	Not rated	(2) & (3)	9.00	1,000
				$ 2,586,394

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Bank will not be able to recover the value of the investment that is in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for investments. The Bank is not exposed to any custodial credit risk for its investment portfolio. Custody of investments indicated above is as follows:

(1) These are fed-book entry securities.
(2) These are held by a DTC correspondent.
(3) Registered in the name of the Bank and held in the Bank's vault.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policy provides for a duration range of one to four years which will serve to decrease interest rate risk. The duration for the Bank's investments is provided in the table provided above using the modified duration method. The average duration for the Bank's entire investment portfolio was 2.2 years and 2.7 years as of December 31, 2022 and 2021, respectively.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of the Bank's investment in a single issuer. The Bank's investment policy provides the following minimum credit quality ratings for its investments and the following asset allocation range for investments as a percentage of the total portfolio:

(continued on next page)

(In Thousands)

	Minimum Credit Quality Ratings		Asset Allocation Range	
	Moody's	S & P	Minimum	Maximum
U.S. Treasury securities	Aaa	AAA	0%	100%
Federal agency securities	Aaa	AAA	0%	100%
Step-up agency securities	Aaa	AAA	0%	20%
Agency Mortgaged-backed securities	Aaa	AAA	0%	75%
Agency collateralized mortgage obligations	Aaa	AAA	0%	50%
Non-agency collateralized mortgage obligations	Aaa	AAA	0%	20%
Corporate securities	A2	A	0%	20%
Municipal obligations	None	None	0%	20%
Money market securities	P1	A1	0%	20%

Investments in any one issuer that represent 5% or more of total investments as of December 31, 2022 and 2021, are as follows:

	2022		2021	
	Amount	**Percent**	Amount	Percent
Federal agency				
U.S. Treasury securities	**$ 1,955,132**	**45.4%**	$ 961,389	37.2%
Federal Home Loan Bank	**205,005**	**4.7%**	216,652	8.4%
Small Business Administration	**98,382**	**2.3%**	144,730	5.6%
Farm Credit	**57,368**	**1.3%**	119,229	4.6%
Freddie Mac	**12,121**	**0.3%**	13,412	0.5%
Fannie Mae	**-**	**0.0%**	34,666	1.3%
Mortgage-backed				
Fannie Mae	**43,301**	**1.0%**	607,473	23.5%
Freddie Mac	**1,933,531**	**44.9%**	485,438	18.8%
Others less than 5%	**2,512**	**0.1%**	3,405	0.1%
	$ 4,307,352	**100.0%**	$ 2,586,394	100.0%

There were $1,183,250 and $595,625 of debt securities pledged as of December 31, 2022 and 2021 for other required pledging purposes.

(continued on next page)

(In Thousands)

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

Within one year	$ 702,961
Over one year through five years	3,308,174
Over five years through ten years	265,381
Over ten years	30,836
	$ 4,307,352

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

NOTE 5 - INTERFUND 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 6 for disclosure relating to loans sold to other state funds and/or loans serviced for other state funds, including the North Dakota Student Loan Trust.

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,084,281 and $1,123,163 as of December 31, 2022 and 2021, respectively. Administrative fees paid by the Bank to the North Dakota Guaranteed Student Loan Program were $1,847 and $2,585 for the years ended December 31, 2022 and 2021.
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 at December 31, 2022 and 2021 amounted to $38,556 and $26,927, respectively. Deposits and short-term borrowings held by the Bank were $25,165 and $6,655, respectively.

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

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

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. The Bank has received and transferred to Public Finance Authority net proceeds of $305,500 and $374,500 as of December 31, 2022 and 2021, respectively.

(continued on next page)

(In Thousands)

LOANS AND INTEREST RECEIVABLE – DUE FROM OTHER FUNDS – See NOTE 5

	2022	2021
OTHER ASSETS - Due from other funds (accounts receivable - current, unless noted otherwise)		
Rebuilders Loan Program ($0 and $539 non-current in 2022 and 2021)	**$ -**	$ 2,149
North Dakota Guaranteed Student Loan Program	**5**	20
North Dakota Student Loan Trust	**-**	1
Department of Human Services	**4**	4
Information Technology Department	**2**	2
Board of University and School Lands	**23**	25
School Construction Assistance Revolving Loan Fund	**321**	341
Medical Facility Infrastructure Loan Program	**55**	57
State Water Commission	**46**	44
Infrastructure Revolving Fund	**149**	138
Innovation Loan Fund	**26**	18
Value ADD	**21**	-
Clean Sustainable Energy	**24**	-
Small Employer Loan Fund	**28**	33
	$ 704	$ 2,833
OPERATING TRANSFERS - IN		
Bond Proceeds	**$ 305,500**	$ 374,500
	$ 305,500	$ 374,500
OPERATING TRANSFERS - OUT		
Bond Transfers	**$ 305,500**	$ 374,500
General Fund	**-**	35,000
PACE Fund	**19,750**	13,450
Beginning Farmer Revolving Loan Fund	**5,000**	3,500
Ag PACE Fund	**4,000**	3,000
Skilled Workforce Program	**1,568**	200
Industrial Commission	**79**	60
Department of Agriculture	**-**	3,000
ND Univeristy System	**-**	16,395
	$ 335,897	$ 449,105

(continued on next page)

(In Thousands)

NOTE 6 - LOANS

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

	2022	2021
Commercial	**$ 3,200,960**	$ 2,435,535
Student	**1,084,281**	1,123,164
Residential loans	**351,076**	406,565
Agricultural	**709,881**	701,784
	5,346,198	4,667,048
Allowance for credit losses	**(108,752)**	(108,047)
	$ 5,237,446	$ 4,559,001
Current portion	**$ 1,842,412**	$ 697,863

Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled ($72) and ($142) as of December 31, 2022 and 2021, respectively.

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

The composition of State Institution loans as of December 31, 2022 and 2021 is as follows:

	2022		2021	
	Principal	**Interest**	Principal	Interest
Mill and Elevator (annual operating)	**$ 115,758**	**$ 46**	$ 85,587	$ 17
Office of the Adjutant General	**14,266**	**619**	13,362	144
ND Industrial Commission	**30,000**	**525**	-	-
Williston State College	**1,751**	**5**	1,892	3
Depart of Ag - State of ND	**1,694**	**50**	-	-
Information Technology	**30,000**	**685**	10,000	87
	$ 193,469	**$ 1,930**	$ 110,841	$ 251
Current portion	**$ 93,959**	**$ 704**	$ 110,841	$ 251

(continued on next page)

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

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

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

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the statement of net position date. The Bank considers the allowance for credit losses of $108,752 and $108,047 adequate to cover loan losses inherent in the loan portfolio at December 31, 2022 and 2021. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

(continued on next page)

(In Thousands)

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

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

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

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

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 being placed in a non-accrual status.

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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.

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

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

(continued on next page)

(In Thousands)

NOTE 7 - LOAN SALES AND LOAN SERVICING

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

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

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

(continued on next page)

(In Thousands)

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 is as follows:

	Balance 2021	Additions	Retirements	Balance 2022
Capital assets not being depreciated:				
Land	**$ 2,449**	**$ -**	**$ -**	**$ 2,449**
Capital assets being depreciated:				
Building	**$ 10,317**	**$ 10**	**$ -**	**$ 10,327**
Equipment	**701**	**178**	**155**	**724**
Furniture	**817**	**-**	**-**	**817**
Hardware	**10**	**-**	**10**	**-**
Intangibles - software	**5,918**	**268**	**-**	**6,186**
	17,763	**456**	**165**	**18,054**
Less accumulated depreciation for				
Building	**3,930**	**269**	**-**	**4,199**
Equipment	**628**	**56**	**155**	**529**
Furniture	**730**	**14**	**-**	**744**
Hardware	**10**	**-**	**10**	**-**
Intangibles - software	**5,680**	**39**	**-**	**5,719**
Total accumulated depreciation	**10,978**	**379**	**165**	**11,192**
Capital assets being depreciated, net	**$ 6,785**	**$ 77**	**$ -**	**$ 6,862**

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

Capital asset activity for the year ended December 31, 2021 is as follows:

	Balance 2020	Additions	Retirements	Balance 2021
Capital assets not being depreciated:				
Land	$ 2,449	$ -	$ -	$ 2,449
Capital assets being depreciated:				
Building	$ 10,317	$ -	$ -	$ 10,317
Equipment	763	55	117	701
Furniture	817	-	-	817
Hardware	10	-	-	10
Intangibles - software	5,936	-	18	5,918
	17,843	55	135	17,763
Less accumulated depreciation for				
Building	3,661	269	-	3,930
Equipment	687	57	116	628
Furniture	714	16	-	730
Hardware	10	-	-	10
Intangibles - software	5,661	38	19	5,680
Total accumulated depreciation	10,733	380	135	10,978
Capital assets, net	$ 7,110	$ (325)	$ -	$ 6,785

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

(continued on next page)

(In Thousands)

NOTE 9 - DEPOSITS

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

	2022
One year or less	$ 4,410,804
One to three years	330,498
Over three years	419,016
	$ 5,160,318

NOTE 10 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

	December 31, 2022 Federal Funds Purchased	Repurchase Agreements
Ending balance	**$ 205,845**	**$ -**
Highest month-end balance	**1,077,250**	**-**
Average daily balance	**532,212**	**-**
Interest rate as of year-end	**4.350%**	**0.00%**
Weighted average interest rate paid during year	**1.110%**	**0.00%**

	December 31, 2021 Federal Funds Purchased	Repurchase Agreements
Ending balance	$ 763,250	$ -
Highest month-end balance	1,140,690	-
Average daily balance	847,272	3
Interest rate as of year-end	0.100%	0.00%
Weighted average interest rate paid during year	0.100%	0.00%

The purpose of federal funds purchased and repurchase agreements is to provide continuous short-term investments for the Bank's customers. A schedule disclosing the increases and decreases of federal funds purchased and repurchase agreements has not been provided since this information would not provide any useful information to the users of the financial statements.

Federal funds purchased generally mature the day following the date of purchase. The Bank enters into repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying agreements to repurchase normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the Bank or provide securities or cash of equal value, the Bank would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There was no credit exposure as of December 31, 2022 and 2021 because the dealer did not take control of the securities. The Bank had not incurred any losses on these agreements in 2022 and 2021. All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of agreements to repurchase, the Bank policy is for the term to maturity of the investment to be the same as the term of the agreement to repurchase. Such matching existed at year-end.

(continued on next page)

(In Thousands)

NOTE 11 - SHORT AND LONG-TERM LIBILITIES

Activity for short and long-term liabilities for the year ended December 31, 2022 was as follows:

	Balance 2021	Additions	Reductions	Balance 2022	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	**$ 108,000**	**$ 4,075,001**	**$ 3,508,001**	**$ 675,000**	**$ 675,000**
Compensated absences	**1,302**	**739**	**735**	**1,306**	**672**
Total long-term liabilities	**$ 109,302**	**$ 4,075,740**	**$ 3,508,736**	**$ 676,306**	**$ 675,672**

Activity for short and long-term liabilities for the year ended December 31, 2021 was as follows:

	Balance 2020	Additions	Reductions	Balance 2021	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	$ 186,000	$ 2,002	$ 80,002	$ 108,000	$ 53,000
ND Public Finance Authority	10	-	10	-	-
Compensated absences	1,559	467	724	1,302	545
Total long-term liabilities	$ 187,569	$ 2,469	$ 80,736	$ 109,302	$ 53,545

As of December 31, 2022, a summary, by years, of future minimum payments required to amortize the outstanding short and long-term debt is as follows:

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

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

(continued on next page)

(In Thousands)

NOTE 12 - DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred Outflows of Resources and Deferred Inflows of Resources are grouped into one line item on the face of the financial statements. Details as of December 31, 2022 and 2021 are provided as follows:

	2022	2021
Deferred Outflows of Resources		
Unrealized loss on interest rate swap	**$ -**	$ 35,781
Derived from pension	**17,175**	12,403
Derived from other postemployment benefits	**561**	212
	$ 17,736	$ 48,396
Deferred Inflows of Resources		
Unrealized gain on interest rate swaps	**$ 63,068**	$ 1,330
Derived from pension	**11,769**	20,305
Derived from other postemployment benefits	**62**	238
	$ 74,899	$ 21,873

Notes 13, 14 and 17 of the financial statements contain details of the pension plan, other postemployment benefits, and interest rate swaps, respectively.

NOTE 13 - PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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.

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Pension Benefits

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 be 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.

Death and Disability Benefits

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 members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits 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.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

(continued on next page)

(In Thousands)

Member and Employer Contributions

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2022 and 2021, the Bank reported a liability of $25,875 and $10,391, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Bank's proportion of the net pension liability was based on the Bank's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2022, the Bank's portion was 0.898416 percent. At June 30, 2021, the Bank's portion was 0.996946 percent.

For the years ended December 31, 2022 and 2021 the Bank recognized pension expense of $3,637 and $2,322, respectively. As of December 31, 2022 and 2021, the Bank reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 135**	**$ 494**
Changes of assumptions	**15,474**	**9,593**
Net difference between projected and actual earnings on pension plan investments	**947**	**-**
Changes in proportion and differences between employer contributions and proportionate share of contributions	**184**	**1,682**
Employer contributions subsequent to the measurement date (see below)	**435**	**-**
	$ 17,175	**$ 11,769**

(continued on next page)

(In Thousands)

The employer contributions subsequent to the measurement date of $435 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended December 31, 2023.

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 179	$ 1,061
Changes of assumptions	11,501	14,995
Net difference between projected and actual earnings on pension plan investments	-	3,854
Changes in proportion and differences between employer contributions and proportionate share of contributions	302	395
Employer contributions subsequent to the measurement date (see below)	421	-
	$ 12,403	$ 20,305

The employer contributions subsequent to the measurement date of $421 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and were recognized as a reduction of the net pension liability in the year ended December 31, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2023	$ 1,374
2024	1,704
2025	(265)
2026	2,158

Actuarial Assumptions

The total pension liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	5.10%, net of investment expenses
Cost-of-living adjustments	None

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(In Thousands)

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.00%
International Equity	21%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
International Fixed Income	0%	0.00%
Global Real Assets	19%	4.77%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.50%; the municipal bond rate is 3.69%; and the resulting Single Discount Rate is 5.10%.

(continued on next page)

(In Thousands)

Sensitivity of the Bank's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 5.10 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.10 percent) or 1-percentage-point higher (6.10 percent) than the current rate:

	1% Decrease (4.10%)	Current Discount Rate (5.10%)	1% Increase (6.10%)
Bank's proportionate share of the net pension liability	$ 34,153	$ 25,875	$ 19,079

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. NDPERS issues a publicly available financial statement that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB 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.

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OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit in-creases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to $5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of December 31, 2022 and 2021, the Bank reported a liability of $1,154 and $572, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured at June 30, 2022 and 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Bank's proportion of the net OPEB liability was based on the Bank's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2022, the Bank's proportion was 0.960695 percent. At June 30, 2021, the Bank's proportion was 1.027595 percent.

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(In Thousands)

For the years ended December 31, 2022 and 2021, the Bank recognized OPEB expense of $194 and $81, respectively. As of December 31, 2022 and 2021, the Bank reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 27**	**$ 10**
Changes of assumptions	**291**	**-**
Net difference between projected and actual earnings on OPEB plan investments	**155**	**-**
Changes in proportion and differences between employer contributions and proportionate share of contributions	**18**	**52**
Employer contributions subsequent to the measurement date (see below)	**70**	**-**
	$ 561	**$ 62**

The employer contributions subsequent to the measurement date of $70 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2023.

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 33	$ 15
Changes of assumptions	89	-
Net difference between projected and actual earnings on pension plan investments	-	196
Changes in proportion and differences between employer contributions and proportionate share of contributions	23	27
Employer contributions subsequent to the measurement date (see below)	67	-
	$ 212	$ 238

The employer contributions subsequent to the measurement date of $67 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and were recognized as a reduction of the net OPEB liability in the year ended December 31, 2022.

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(In Thousands)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended December 31:	
2023	110
2024	102
2025	92
2026	125

Actuarial Assumptions

The total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	5.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	5.85%
Small Cap Domestic Equities	6%	6.75%
Domestic Fixed Income	35%	0.50%
International Equities	26%	6.25%

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(In Thousands)

Discount Rate

The discount rate used to measure the total OPEB liability was 5.39%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plans as of June 30, 2022, calculated using the discount rate of 5.39%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.39 percent) or 1-percentage-point higher (6.39 percent) than the current rate:

	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
Bank's proportionate share of the net pension liability	$ 1,472	$ 1,154	$ 886

OPEB Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. NDPERS issues a publicly available financial statement that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State Water Commission

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

Farm Real Estate Loan Guarantee Program

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

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

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

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Invisible Reinsurance Pool – Bank of North Dakota Line of Credit

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

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

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

Beginning Entrepreneur Loan Guarantee Program

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

Rebuilders Permanent Loan Fund

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

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(In Thousands)

NOTE 16 - 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 15. 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.

At December 31, 2022 and 2021, the following financial instruments were outstanding where contract amounts represent credit risk:

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

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

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

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

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(In Thousands)

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

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

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

NOTE 17 - INTEREST RATE SWAP CONTRACTS

Objective of the Interest Rate Swap

The Bank has outstanding interest rate swap agreements with a notional amount $545,000 to convert variable rate federal funds and variable SOFR fallback indexed deposits into fixed-rate instruments over the term of the contract. The following table summarizes the terms of the interest rate swap contracts:

Trade Date	Maturity Date	Notional Amount	Pay Fixed	Receive Variable
June 5, 2014	June 1, 2029	$ 50,000	2.86%	Fed Funds
April 14, 2015	May 1, 2030	$ 50,000	1.92%	Fed Funds
August 11, 2016	September 1, 2031	$ 50,000	1.48%	1 Month SOFR Fallback
April 5, 2017	May 1, 2032	$ 50,000	2.39%	1 Month SOFR Fallback
June 15, 2017	July 1, 2032	$ 50,000	1.99%	Fed Funds
March 27, 2018	April 1, 2033	$ 50,000	2.47%	Fed Funds
June 28, 2018	July 1, 2033	$ 50,000	2.52%	Fed Funds
April 25, 2019	May 1, 2034	$ 50,000	2.36%	Fed Funds
September 3, 2019	October 1, 2034	$ 50,000	1.15%	Fed Funds
October 2, 2019	November 1, 2034	$ 50,000	1.38%	Fed Funds
December 5, 2019	October 1, 2023	$ 45,000	1.33%	Fed Funds

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(In Thousands)

Termination Risk and Fair Value

Either the Bank or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract. Termination could result in the Bank being required to make a payment of the fair value of the swap to the counterparty. The following table summarizes the derivative financial instruments utilized as of December 31, 2022:

		Fair Value		Changes in Fair Value	
	Amount	Classification	Amount	Classification	Amount
June 2014 Swap	**$ 50,000**	**Other assets**	**$ 2,101**	**Deferred inflow**	**$ 8,025**
April 2015 Swap	**$ 50,000**	**Other assets**	**$ 5,289**	**Deferred inflow**	**$ 7,980**
August 2016 Swap	**$ 50,000**	**Other assets**	**$ 7,944**	**Deferred inflow**	**$ 8,281**
April 2017 Swap	**$ 50,000**	**Other assets**	**$ 4,852**	**Deferred inflow**	**$ 9,518**
June 2017 Swap	**$ 50,000**	**Other assets**	**$ 6,145**	**Deferred inflow**	**$ 9,500**
March 2018 Swap	**$ 50,000**	**Other assets**	**$ 4,440**	**Deferred inflow**	**$ 10,475**
June 2018 Swap	**$ 50,000**	**Other assets**	**$ 4,313**	**Deferred inflow**	**$ 10,693**
April 2019 Swap	**$ 50,000**	**Other assets**	**$ 5,284**	**Deferred inflow**	**$ 11,090**
September 2019 Swap	**$ 50,000**	**Other assets**	**$ 11,311**	**Deferred inflow**	**$ 9,981**
October 2019 Swap	**$ 50,000**	**Other assets**	**$ 10,228**	**Deferred inflow**	**$ 10,296**
December 2019 Swap	**$ 45,000**	**Other assets**	**$ 1,161**	**Deferred inflow**	**$ 1,680**

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

		Fair Value		Changes in Fair Value	
	Amount	Classification	Amount	Classification	Amount
June 2014 Swap	$ 50,000	Other liabilities	**$ (5,924)**	**Deferred outflow**	$ 3,537
April 2015 Swap	$ 50,000	Other liabilities	**$ (2,691)**	**Deferred outflow**	$ 3,026
August 2016 Swap	$ 50,000	Other liabilities	**$ (337)**	**Deferred outflow**	$ 2,937
April 2017 Swap	$ 50,000	Other liabilities	**$ (4,666)**	**Deferred outflow**	$ 3,557
June 2017 Swap	$ 50,000	Other liabilities	**$ (3,355)**	**Deferred outflow**	$ 3,137
March 2018 Swap	$ 50,000	Other liabilities	**$ (6,035)**	**Deferred outflow**	$ 3,474
June 2018 Swap	$ 50,000	Other liabilities	**$ (6,380)**	**Deferred outflow**	$ 3,515
April 2019 Swap	$ 50,000	Other liabilities	**$ (5,806)**	**Deferred outflow**	$ 3,442
September 2019 Swap	$ 50,000	Other assets	**$ 1,330**	**Deferred inflow**	$ 2,618
October 2019 Swap	$ 50,000	Other liabilities	**$ (68)**	**Deferred outflow**	$ 2,783
December 2019 Swap	$ 45,000	Other liabilities	**$ (519)**	**Deferred outflow**	$ 1,027

Credit Risk

As of December 31, 2022 and 2021, the Bank was not exposed to material credit risk because each counterparty is required to fully collateralize the fair value of the swaps within $250 of daily mark-to-market valuations by depositing funds with the other counterparty.

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

(continued on next page)

(In Thousands)

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

Interest Rate Risk

The Bank is exposed to interest rate risk on its swap agreements. On its pay-fixed, receive variable interest rate swaps, the Bank's net payment increases as the USD-FEDERAL FUNDS-H.15 and USD-1 MONTH SOFR Fallback interest rates decrease.

Swap Payments and Hedged Debt

Using rates as of December 31, 2022, the interest expense of the variable rate federal funds, variable rate 1-month SOFR Fallback and the net swap payments are as follows. As rates vary, the federal funds and 1-month SOFR Fallback interest expense and the net swap payments will vary.

	Pay Fixed	Receive Variable		
Year ended December 31:	Contract Interest	Federal Fund Interest	1-Month SOFR Fallback Interest	Interest Rate Swap, net
2023	$ 10,707	$ 18,782	$ 4,390	$ (12,464)
2024	10,259	17,320	4,390	(11,451)
2025	10,259	17,320	4,390	(11,451)
2026	10,259	17,320	4,390	(11,451)
2027	10,259	17,320	4,390	(11,451)
2028-2032	41,334	71,986	17,560	(48,212)
2033-2035	4,785	12,268	-	(7,483)
	$ 97,862	$ 172,316	$ 39,510	$ (113,964)

(continued on next page)

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENT

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

Fair Value Hierarchy

Under GASB Statement No. 72, 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 GASB Statement No. 72, 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.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.
Securities

Securities consist primarily of Federal agencies and mortgage backed securities. Securities 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 settlement value adjusted by estimated nonperformance risk.

(continued on next page)

(In Thousands)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2022 and 2021:

	2022			
	Total	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
ASSETS AND DEFERRED OUTFLOWS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	**$ 66,967**	**$ -**	**$ 66,967**	**$ -**
Collateralized mortgage obligations				
Agency	**1,911,378**	**-**	**1,911,378**	**-**
Non-agency	**-**	**-**	**-**	**-**
Agency bonds	**372,875**	**372,875**	**-**	**-**
US treasuries	**1,955,133**	**1,955,133**	**-**	**-**
Municipal bonds	**1,000**	**-**	**1,000**	**-**
Interest rate swap	**63,068**	**-**	**63,068**	**-**
Totals	**$ 4,370,421**	**$ 2,328,008**	**$ 2,042,413**	**$ -**
LIABILITIES AND DEFERRED INFLOWS				
Interest rate swap	**$ -**	**$ -**	**$ -**	**$ -**
Totals	**$ -**	**$ -**	**$ -**	**$ -**

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

(continued on next page)

NOTE 19 - RISK MANAGEMENT

The Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Bank also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Bank pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reimbursed by a third party insurance carrier for losses in excess of $1 million per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket employee fidelity bond coverage in the amount of $2,000,000. The State Bonding Fund does not currently charge any premium for this coverage. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 3, 2023, which is the date these financial statements were available to be issued.

(In Thousands)

Schedule of Bank's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018
1. Bank's proportion of the net pension liability (asset)	**0.898416%**	0.996946%	0.982579%	1.026477%	1.016377%
2. Bank's proportionate share of the net pension liability (asset)	**$25,875**	$10,391	$30,912	$12,031	$17,152
3. Bank's covered payroll	**$10,429**	$11,289	$10,839	$10,677	$10,441
4. Bank's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	**248.11%**	92.05%	285.19%	112.68%	164.28%
5. Plan fiduciary net position as a percentage of the total pension liability	**54.47%**	78.26%	48.91%	71.66%	62.80%

	2017	2016	2015	2014
1. Bank's proportion of the net pension liability (asset)	1.040712%	0.997523%	0.997523%	0.995461%
2. Bank's proportionate share of the net pension liability (asset)	$16,728	$9,722	$6,769	$6,245
3. Bank's covered payroll	$10,624	$10,053	$8,868	$8,288
4. Bank's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	157.45%	96.71%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of 7/1/2022, 7/1/2021, 7/1/2020, 7/1/2019, 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015, and 7/1/2014.

(In Thousands)

Schedule of Bank Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018
1. Statutorily required contribution	**$785**	$833	$767	$777	$769
2. Contribution in relation to the statutorily required contribution	**($775)**	($822)	($779)	($837)	($757)
3. Contribution deficiency (excess)	**$10**	$11	($12)	($60)	$12
4. Bank's covered payroll	**$10,429**	$11,289	$10,839	$10,677	$10,441
5. Contributions as a percentage of covered payroll	**7.43%**	7.28%	7.19%	7.84%	7.25%

(Continued)	2017	2016	2015	2014
1. Statutorily required contribution	$770	$728	$674	$590
2. Contribution in relation to the statutorily required contribution	($762)	($707)	($717)	($674)
3. Contribution deficiency (excess)	$8	$21	($43)	($84)
4. Bank's covered payroll	$10,624	$10,053	$8,868	$8,288
5. Contributions as a percentage of covered payroll	7.17%	7.03%	8.09%	8.13%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of 7/1/2022, 7/1/2021, 7/1/2020, 7/1/2019, 7/1/2018, 7/1/2017, 7/1/2016, 7/1/2015, and 7/1/2014.

(In Thousands)

Schedule of Bank's Share of Net OPEB Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017
1. Bank's proportion of the net OPEB liability (asset)	**0.960695%**	1.027595%	0.984965%	1.013680%	1.028534%	1.044284%
2. Bank's proportionate share of the net OPEB liability (asset)	**$1,154**	$572	$829	$814	$810	$826
3. Bank's covered payroll	**$9,918**	$11,203	$11,228	$11,311	$11,254	$11,297
4. Bank's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	**11.64%**	5.11%	7.38%	7.20%	7.20%	7.31%
5. Plan fiduciary net position as a percentage of the total OPEB liability	**56.28%**	76.63%	63.38%	63.13%	61.89%	59.78%

*Complete data for this schedule is not available prior to 2017.

Data reported is measured as of 7/1/2022, 7/1/2021, 7/1/2020, 7/1/2019, 7/1/2018 and 7/1/2017.

Schedule of Bank Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017
1. Statutorily required contribution	**$121**	$135	$132	$132	$132	$131
2. Contribution in relation to the statutorily required contribution	**($122)**	($134)	($131)	($142)	($121)	($122)
3. Contribution deficiency (excess)	**($1)**	$1	$1	($10)	$11	$9
4. Bank's covered payroll	**$9,918**	$11,203	$11,228	$11,228	$11,311	$11,297
5. Contributions as a percentage of covered payroll	**1.23%**	1.19%	1.17%	1.26%	1.07%	1.08%

*Complete data for this schedule is not available prior to 2017.

Data reported is measured as of 7/1/2022, 7/1/2021, 7/1/2020, 7/1/2019, 7/1/2018 and 7/1/2017.

Changes of Pension Benefit Terms

The interest rate earned on member contributions decreased from 6.50 percent to 6.00 percent effective January 1, 2023 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System increased from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of Pension Assumptions

The investment return assumption was updated from 7.00% to 6.50% beginning with the actuarial valuation as of July 1, 2022. All other actuarial assumptions used in the actuarial valuation as of July 1, 2022 were based on an experience review for the period from July 1, 2014 to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020.

Changes of Other Post Employment Benefit Terms

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

Changes of Other Post Employment Benefit Assumptions

The investment return assumption was updated from 6.50% to 5.75% beginning with the actuarial valuation as of July 1, 2022. All actuarial assumptions and the actuarial cost method are un-changed from the last actuarial valuation as of July 1, 2021.

BANK OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS — EXHIBIT A-1
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Program Title	Federal Financial Assistance Listing/ CFDA Number	Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Program:		
Federal Housing Administration (FHA) Loan Program	14.117	
Guaranteed Loans:		
Previous year balance of loans on which there are continuing compliance requirements		$ 205,101,394
FHA loan principal disbursed during the fiscal year		-
Total guaranteed loans (Note 2)		205,101,394
Total Department of Housing and Urban Development		205,101,394
DEPARTMENT OF DEFENSE		
Direct Program:		
Veteran's Benefits Administration (VA) Loan Program	64.114	
Guaranteed Loans:		
Previous year balance of loans from on which there are continuing compliance requirements		117,651,984
VA loan principal disbursed during the fiscal year		-
Total guaranteed loans (Note 3)		117,651,984
Total Department of Defense		117,651,984
DEPARTMENT OF JUSTICE		
Direct Program:		
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
Grant for loan forgiveness		31,682
Department of Justice		31,682
TOTAL FEDERAL FINANCIAL ASSISTANCE		$ 322,785,060

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the Bank of North Dakota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. No federal financial assistance has been provided to a subrecipient.

The Bank has not elected to use the 10% de minimis cost rate.

NOTE 2 - The outstanding balance of guaranteed FHA residential loans on which there are continuing compliance requirements totaled $174,651,126 as of December 31, 2022.

NOTE 3 - The outstanding balance of guaranteed VA residential loans on which there are continuing compliance requirements totaled $101,038,901 as of December 31, 2022.

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Bank of North Dakota, an enterprise fund of the State of North Dakota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Bank of North Dakota's basic financial statements, and have issued our report thereon dated April 3, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank of North Dakota's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank of North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank of North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bank of North Dakota's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
April 3, 2023

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Bank of North Dakota's, an enterprise fund of the State of North Dakota, compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Bank of North Dakota's major federal programs for the year ended December 31, 2022. Bank of North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Bank of North Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Bank of North Dakota and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal programs. Our audit does not provide a legal determination of Bank of North Dakota's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Bank of North Dakota's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Bank of North Dakota's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Bank of North Dakota's compliance with the requirements of the major federal programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Bank of North Dakota's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Bank of North Dakota's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Bank of North Dakota's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
April 3, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over federal programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance with major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

Identification of major programs:

Name of Federal Program	CFDA number
Federal Housing Administration (FHA) Loan Program	14.117
Veteran's Benefits Administration (VA) Loan Program	64.114

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

No financial statements findings reported in the current year.

Section III – Federal Award Findings and Questioned Costs

No federal award findings or questioned costs reported in the current year.

CPAs & BUSINESS ADVISORS

Bank of North Dakota
Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee
Year Ended December 31, 2022

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

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the December 31, 2022 audit of Bank of North Dakota are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

   Unmodified

2. Was there compliance with statutes, laws, rules and regulations under which the Agency was created and is functioning?

   Yes

3. Was internal control adequate and functioning effectively?

   Yes

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

   No

5. Was action taken on prior audit findings and recommendations?

   N/A – There were no findings in the prior year's audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

   No

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Audit Committee Communications:

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

   Bank of North Dakota changed accounting policies related to accounting for subscription-based information technology arrangements to adopt the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* Accordingly, the accounting change has been retrospectively applied to the financial statements beginning January 1, 2021. The impact to the financial statements in the current and prior period were insignificant.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of these estimates.

   Bank of North Dakota has a significant accounting estimate in their determination of the allowance for credit losses. The allowance for credit losses is maintained at an amount considered by management to adequately provide for probable losses in the loan portfolio at the statement of net position date. The allowance for credit losses is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. We evaluated the key factors and assumptions used to develop the allowance for credit losses in determining that it is reasonable in relation to the financial statements taken as a whole.

   The Bank of North Dakota also has a significant estimate in their determination of the net pension liability. The net pension liability is based on an actuary's calculation in accordance with the plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

   None

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.

   None

5. Identify any significant difficulties encountered in performing the audit.

   None

6. Identify any major issues discussed with management prior to retention.

   None

7. Identify any management consultations with other accountants about auditing and accounting matters.

   None

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

   Based on the audit procedures performed, Bank of North Dakota's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the Governor or North Dakota, Legislative Assembly, Industrial Commission, Advisory Board of the Bank of North Dakota, and management of the Bank of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
April 3, 2023

BANK OF NORTH DAKOTA
SCHEDULE OF APPROPRIATED EXPENDITURES — EXHIBIT B-1
YEAR ENDED JUNE 30, 2022

	Biennium Appropriation July 1, 2021 to June 30, 2023	Expenditures for Year Ended June 30, 2022	Unexpended Appropriations
PROPRIATED EXPENDITURES:			
Operating Expenses	$ 67,318,046	$ 28,510,029	. $ 38,808,017
Capital Assets	1,510,000	284,229	1,225,771
	$ 68,828,046	$ 28,794,258	$ 40,033,788
Expenditures Reconciliation (In Thousands):			
Total expenses per financial statements-			
Interest expense		$ 40,882	
Provision for loan losses		-	
Operating expenses		35,543	
		76,424	
Non-appropriated expenditures:			
Interest expense		40,882	
Provision for loan losses		-	
Correspondent fees		940	
Depreciation and amortization		379	
Other real estate expense		25	
Loan collection expenses		305	
Loan servicing fee expense		973	
Other expenses		1,618	
Nonappropriated expenditures		45,122	
Equipment capitalized		178	
Facility capitalized		10	
Hardware capitalized		-	
Software capitalized		68	
Salaries capitalized		-	
		256	
Timing differences for appropriated expenditures:			
July 1, 2021 to December 31, 2021		14,658	
July 1, 2022 to December 31, 2022		(17,422)	
		(2,764)	
Appropriated Expenditures for the fiscal year		$ 28,794	

The continuing appropriation for non-appropriated expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority provided by Article 10, Section 12 of the North Dakota Constitution.

BANK OF NORTH DAKOTA

DETAILED SCHEDULE OF APPROPRIATED EXPENDITURES **EXHIBIT B-2**
YEAR ENDED JUNE 30, 2022
(In Thousands)

	2022
Operating	
Salaries and wages	$ 12,197
Social security	930
Hospital insurance	2,675
State retirement contribution	1,446
Vacation and sick leave benefits	77
Unemployment insurance and worker's compensation premium	16
Building expenses	303
Furniture and equipment expenses	104
Processing and development expenses	2,425
Software/IT supplies	248
Contractual services/repairs	4,680
IT equipment < $5,000	106
Telephone	208
Marketing	552
Professional services	841
Travel	135
Dues and publications	298
Supplies	104
Postage	328
Other operating expenses	837
	28,510
Capital assets	284
	$ 28,794

CPAs & BUSINESS ADVISORS

April 3, 2023

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

We have audited the financial statements of the Bank of North Dakota as of and for the year ended December 31, 2022*,* and have issued our report thereon dated April 3, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated October 25, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the Bank of North Dakota complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Bank of North Dakota's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Bank of North Dakota solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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Our responsibility, as prescribed by professional standards as it relates to the audit of Bank of North Dakota major federal program compliance, is to express an opinion on the compliance for each of Bank of North Dakota major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the Bank of North Dakota's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated April 3, 2023. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated April 3, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks". We have identified the following as significant risks.

- Management override of internal control – management override of controls is considered to be a presumed audit risk.
- Valuation of allowance for loan losses – the allowance for loan losses is considered to be a significant estimate.
- Misapplication of federal funds purchased and sold transactions – federal funds purchased or sold handled through the Bank's trust/investment department may be incorrectly applied to banking customers' accounts with the potential to create an overdraft. This matter was identified during a previous year's audit.
- Misapplication of student loan payments – the misapplication of student loan payments was discovered during a previous year's audit.
- Net Pension Liability – the net pension liability is considered to be a significant estimate.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Bank of North Dakota is included in Note 1 to the financial statements. We noted the following significant accounting policies were adopted during 2022, as described in Note 2 to the financial statements, as follows –

- Bank of North Dakota changed accounting policies related to accounting for subscription-based information technology arrangements to adopt the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* Accordingly, the accounting change has been retrospectively applied to the financial statements beginning January 1, 2021. The impact to the financial statements in the current and prior period were insignificant.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the allowance for credit losses is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. We evaluated the key factors and assumptions used to develop the allowance for credit losses in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability is based on an actuary's calculation in accordance with the plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Bank of North Dakota's financial statements relate to Note 6 – Loans and Note 13 – Pension Plan.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were not any significant unusual transactions.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were no uncorrected or corrected missstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Bank of North Dakota's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

Reporting Entity
As discussed in Note 1, the financial statements of the Bank of North Dakota are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2022 and 2021 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Financial Statement Presentation
As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated April 3, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Bank of North Dakota, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Bank of North Dakota's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Bank of North Dakota's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

However, in accordance with such standards, we will review the information inputted into the data collection form and will consider whether such information, or the manner of its presentation, is materially consistent with the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the Governor of North Dakota, Legislative Assembly, Industrial Commission, Advisory Board of the Bank of North Dakota, and management of the Bank of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota