

REGULAR STATE BANKING BOARD MEETING  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
1200 MEMORIAL HIGHWAY  
BISMARCK, NORTH DAKOTA

PUBLIC SESSION

Call to Order by Chair Kruse at 9:30 a.m., Wednesday, January 10, 2024.

I. APPROVAL OF MINUTES

Regular meeting of November 13, 2023

II. ITEMS TO BE NOTED

- A. Bell Bank, Fargo—Application to establish an LPO located at 2901 SW Burlingame Rd, Topeka, KS. Approved by the Commissioner.
- B. The Union Bank, Beulah—Application to establish a facility located at 113 1st Ave NW, Beulah. Approved by the Commissioner.
- C. Choice Financial Group, Fargo—Application to relocate a facility from 207 E Front Ave, Bismarck to 1050 E Interstate Ave, Bismarck. Approved by the Commissioner.
- D. Bell Bank, Fargo—Application to establish an interstate branch located at 6838 N 58th Dr, Glendale, AZ. Approved by the Commissioner.
- E. Bravera Bank, Dickinson—Application to merge Financial Security Bank, Kerkhoven, MN with and into Bravera Bank. Approved by the Commissioner.
- F. Banks and Co., Fargo, ND—Request to use the word “bank” in the registered trade name of the business. Approved by the Commissioner.



Lise Kruse  
COMMISSIONER

Corey Krebs  
ASSISTANT COMMISSIONER

Ryan Spah  
CHIEF EXAMINER

Chris Ludwig  
NON-DEPOSITORY DIVISION SUPERVISOR

- G. Creatoris Contractus Trust Enterprise, Viridis Ignis Express Trust Enterprise, and Quod Dicit Non Potest Trust Enterprise, Sioux Falls, SD—Request to use the word “trust” in the registered trade name of the business. Denied by the Commissioner.
- H. Rainforest Trust, Justin, TX—Request to use the word “trust” in the registered trade name of the business. Approved by the Commissioner.
- I. West Bank Contractor Services, LLC, Fargo, ND—Request to use the word “bank” in the registered trade name of the business. Approved by the Commissioner.

III. DISCUSSION ITEMS

- A. Bank Budget Update (attached)

Adjournment to Executive Session.

**EXECUTIVE SESSION** – Pursuant to North Dakota Century Code §6-01-07.1 to review Supervisory Reports of Examination, confidential documents, and confidential commercial and financial information under the authority of North Dakota Century Code §44-04-18.4(1), §44-04-19.1(9), and §44-04-19.2

- I. DASHBOARD
- II. STATE REPORTS OF EXAMINATION

Adjournment to public session.

**PUBLIC SESSION**

- I. Other Business

Adjournment



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Corey Krebs, Secretary

*Any person who requires an auxiliary aid or service may contact the Department of Financial Institutions at 328-9933 (TDD 1-800-366-6888) at least five days prior to the scheduled meeting date.*

REGULAR STATE BANKING BOARD MEETING  
OFFICE OF THE COMMISSIONER  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
1200 MEMORIAL HIGHWAY  
BISMARCK, NORTH DAKOTA

November 13, 2023

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 1200 Memorial Highway, Bismarck, North Dakota. Chair Kruse called the meeting to order at 9:30 a.m., Monday, November 13, 2023.

MEMBERS PRESENT: Lise Kruse, Chair  
Todd Heilman, Member  
Pao-Yueh (Claudia) Schollmeyer, Member  
Brenda Foster, Member  
Pete Jahner, Member  
John Schmid, Member  
Steven Rehovsky, Member

ALSO PRESENT: Corey Krebs, Secretary  
Ryan Spah, Chief Examiner  
Angie Mills Fischer, Review Examiner  
Megan Sauer, Administrative Examiner  
Dean DePountis, Assistant Attorney General

## APPROVAL OF MINUTES

Chair Kruse indicated the Board received copies of the minutes of the regular meeting held on September 18, 2023.

It was moved by Member Heilman seconded by Member Schmid and carried by a vote of 7 to 0, to approve the minutes of the regular meeting held on September 18, 2023.

9:34 a.m. Steve Rehovsky joined the meeting.

## ITEMS TO BE NOTED

Turtle Mountain State Bank, Belcourt applied to establish a DPO at 201 Missouri Dr, Mandan.

First Western Bank & Trust, Minot applied to merge State Bank of Lismore, Lismore, MN, with and into First Western Bank & Trust.

Bell Bank, Fargo applied to establish an LPO at 4840 Bob Billings Parkway, Lawrence, KS. And to relocate an LPO from 2001 Thomasville Rd, Tallahassee, FL to 113 S Monroe St, Tallahassee, FL.

Cut Bank Enterprises, Mohall, ND requested to use the word "bank" in the registered trade name.

The Land Trust Alliance, Inc., Washington D.C. requested to use the word "trust" in the registered trade name.

## BANK BUDGET UPDATE

Assistant Commissioner Krebs gave an overview of the Department's budget. He stated that OMB made some temporary changes in numbers available but is hoping to have more in the report at the next meeting. The Department expenditures, and what is remaining for the biennium are tracking within budget.

Assistant Commissioner Krebs and Commissioner Kruse gave requested input from the Board regarding assessment strategy of non-traditional banking activity and cited how other states handle this. It will be discussed and decided upon at a future date.

## 2024 MEETING DATES

Chair Kruse stated the proposed meeting dates for 2024. There were no objections to the schedule. The meeting dates for 2024 will be January 10, March 13, May 1, July 10, September 4, and November 6.

## EXECUTIVE SESSION

It was moved by Member Foster and seconded by Member Heilman and carried by a vote of 7 to 0 to adjourn to Executive Session.

The Board went into closed session at 9:34 a.m. to review the Supervisory Reports of Examination pursuant to North Dakota Century Code 6-01-07.1, and to discuss any confidential records pursuant to North Dakota Century Code 44-04-19.2. Those that were present during the executive session were Chair Kruse, Member Foster, Member Jahner, Member Heilman, Member Schollmeyer, Member Schmid, Member Rehovsky, Corey Krebs, Angie Mills Fischer, Megan Sauer, and Dean DePountis.

## PUBLIC SESSION

The Board returned to open session at 11:00 a.m.

## OTHER DISCUSSION ITEM

Assistant Attorney General DePountis gave an overview of the new Ethics Commission Rules and stated the Board had already been following best practices, but that they should be reviewed by the Board.

The meeting adjourned at 11:03 a.m.

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Lise Kruse, Chair

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Corey Krebs, Secretary

413-100 Administration

2023-2025 Biennium

# Bank Status ...

## 74.56%

% Biennium Remaining

Run Date: January 4, 2024

Date Ending: January 2, 2024

As Viewed From: January 2, 2024

Division	Budget	Avg. Monthly Budget	MTD Expense	BTD Expenses	Budget Remaining	Budget Remaining %	MTD Revenue	Avg. Monthly Expense	Avg. Monthly Balance Remaining
<b>Bank</b>	<b>\$6,658,597</b>	<b>\$277,442</b>	<b>\$1.62</b>	<b>\$1,382,215.70</b>	<b>\$5,276,381.30</b>	<b>79.24%</b>	<b>\$0.00</b>	<b>\$197,459.39</b>	<b>\$310,375.37</b>
	\$0	\$0		\$0.00	\$0.00	0.00%		\$0.00	\$0.00
Contingency	\$11,600	\$483		\$0.00	\$11,600.00	100.00%		\$0.00	\$504.35
Operating Expenses	\$1,256,000	\$52,333	\$1.62	\$195,155.37	\$1,060,844.63	84.46%	\$0.00	\$27,879.34	\$62,402.63
Salaries and Wages	\$5,390,997	\$224,625		\$1,187,060.33	\$4,203,936.67	77.98%		\$197,843.39	\$233,552.04
<b>Total</b>	<b>\$6,658,597</b>	<b>\$277,442</b>	<b>\$1.62</b>	<b>\$1,382,215.70</b>	<b>\$5,276,381.30</b>	<b>79.24%</b>	<b>\$0.00</b>	<b>\$197,459.39</b>	<b>\$310,375.37</b>

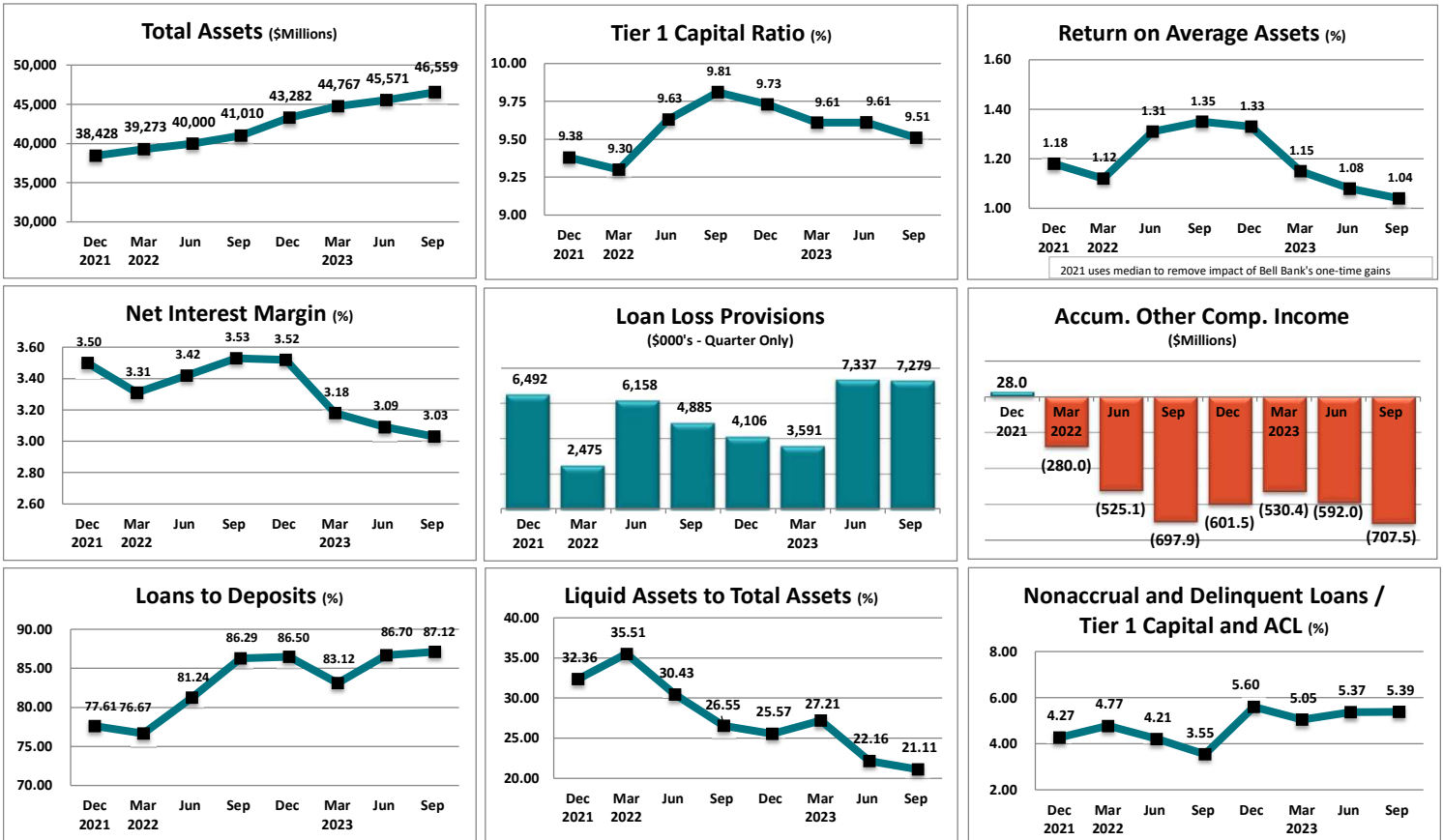


# North Dakota - State Banking Dashboard

November 30, 2023

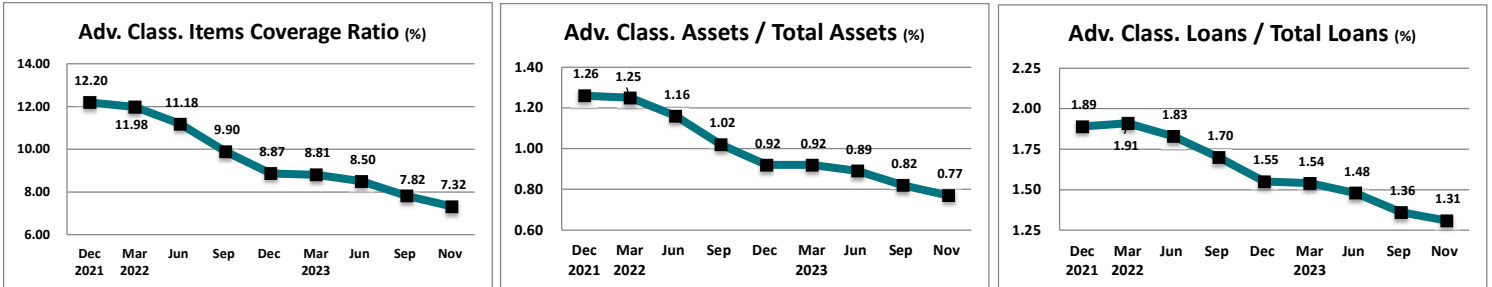
## Financial Performance Trends (from Call Report data)

Data through September 30, 2023



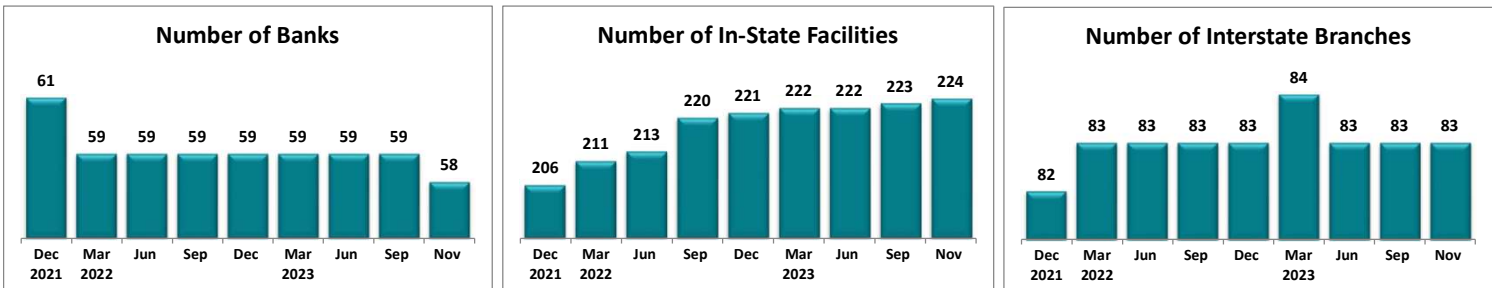
## Asset Quality Trends (from most recent examinations)

Data through November 30, 2023



## Bank Trends (from DFI records and most recent examinations)

Data as of November 30, 2023



**Examinations Completed Since the Last State Banking Board Meeting**

Bank	Exam Date	Agency	Ratings
American State Bank & Trust Company of Williston, Williston	10/16/2023	DFI	1-1-1-1-1-1/1
Cornerstone Bank, Fargo	8/21/2023	DFI/FDIC	2-2-2-2-2-2/2
First International Bank & Trust, Watford City	9/25/2023	DFI/FDIC	2-2-2-1-3-2/2
Peoples State Bank, Westhope	10/16/2023	FDIC	1-1-1-1-1-1/1
Harwood State Bank, Harwood	11/27/2023	FDIC	2-2-2-2-1-2/2
First State Bank & Trust, Williston (Trust)	7/24/2023	DFI/FDIC	3-2-1-2-1/2
First International Bank & Trust, Watford City (Trust)	9/11/2023	DFI/FDIC	2-2-3-2-2/2

**Examination Information from recently examined banks – Department of Financial Institutions**

Bank:	<b>American State Bank &amp; Trust Company of Williston</b>			Certificate #:	<b>15444</b>
EIC:	<b>Scott M. Bruns</b>	Exam Date:	<b>10/16/2023</b>		
CAMELS:	<b>1-1-1-1-1/1</b>	Previous CAMELS:	<b>1-1-1-1-1/1</b>	TA (\$000):	<b>629,823</b>
<b>COMPONENT INFORMATION (As of 6/30/2023)</b>					
<b>Capital</b>					
Tier 1 Leverage Ratio	11.91	Opted into CBLR (Y/N)	N	Asset Growth Rate	0.93
Total Risk-Based Capital Ratio	22.16	Dividends/Net Income	132.33	Retained Earnings/Avg Total Equity	(9.90)
<b>Asset Quality</b>					
Substandard	4,971	Adv. Classified Items Coverage Ratio	5.81	Total Loans	293,969
Doubtful		Adv. Class. Assets/Total Assets	0.79	ACL/Total Loans	1.91
Loss		Adv. Class. Loans/Total Loans	1.69	Is ACL Adequate (Y/N)	Y
Total Adv. Class. Items	4,971	Past Due & NA/Total Loans & Leases	2.48	If no, deficiency	
Special Mention	6,013	ADC Loans /Tier 1 Capital + ACL)	7.98	Concentrations (Y/N)	Y
<b>Earnings</b>					
Year to Date: (6/30/2023)	ROAA-Sub S	1.57	Net Interest Margin	2.72	Overhead/Avg. Assets
Year End: (12/31/2022)	ROAA-Sub S	1.76	Net Interest Margin	2.86	Overhead/Avg. Assets
<b>Liquidity</b>					
Net Noncore Fund. Depend.	1.39	Net Loans & Leases/TA	45.78	Liquid Assets/Total Assets	42.55
<b>Sensitivity to Market Risk</b>					
Loans/Securities over 5 Yrs/TA	48.95	Net Over 3 Year Position	67.95	AOCI/Tier 1 Capital	(48.40)

The institution is a \$630 million community bank offers traditional deposit and credit products to commercial, agricultural, and retail customers within its trade area of Williston, North Dakota, as well as investment brokerage and trust department services. The institution's overall condition remains strong. Earnings and capital remain strong with ample liquidity. Sensitivity to market risk remains well-controlled. Board of Director (Board) oversight is sound with frequent meetings to monitor the bank's financial condition and to ensure effective policies and committees promote strong decision making. A concurrent examination of the Anti-Money Laundering (AML) / Countering the Financing of Terrorism (CFT) function was conducted, and the program is satisfactory. The Information Technology (IT) program remains strong.

Adversely classified items (ACI) decreased from \$10.4 million to \$5.0 million, resulting in the Adversely Classified Items Coverage (Coverage) Ratio decreasing from 13 percent to 6 percent since the prior Federal Deposit insurance Corporation (FDIC) examination. The elevated commodity prices in recent years have allowed borrowers to reduce debt and increase working capital. The majority of classifications stem from two relationships.

The Leverage ratio increased from the prior examination from 11.64 percent to 11.91 percent. The improvement is attributed to assets decreasing due to deposit runoff as rates become more competitive. Dividends increased in recent years in accordance with the Board's strategy for distributing excess capital. Dividend distributions for the prior 3 years ranged from 70 to 103 percent of net income. As of June 30, 2023, net income totals \$6.3 million, which results in a Subchapter-S Adjusted (Sub-S) Return on Average Assets (ROAA) ratio of 1.57 percent, down from 1.76 percent as of December 31, 2022. The net interest margin (NIM) compressed to 2.72 percent from 2.86 at the end of 2022. The compression in NIM is primarily attributed to the cost of deposits increasing throughout

2023. Stable non-interest income from the trust and investment departments have supplemented earnings as the NIM decreases.

On-balance sheet liquidity totals 43 percent of assets, a decline from 54 percent at the prior examination. The decrease is attributed to the funding of higher yielding assets in the loan portfolio. The institution maintains a relatively longer-term asset structure with 49 percent of loans and securities repricing in more than 5 years.

Apparent violations were cited for one late filing of a suspicious activity report and an instance of Federal Reserve Act Section 23A for an affiliate overdraft.

**Examination Information from recently examined banks –  
Joint with the Federal Deposit Insurance Corporation**

Bank:	<b>Cornerstone, Fargo</b>				Certificate #:	<b>13198</b>
EIC:	<b>Taylor K. Harms - DFI Justin G. Bergeron - FDIC</b>		Exam Date:	<b>8/21/2023</b>		
CAMELS:	<b>2-2-2-2-2/2</b>	Previous CAMELS:	<b>2-2-2-2-2/2</b>		TA (\$000):	<b>1,381,957</b>
<b>COMPONENT INFORMATION (As of 6/30/2023)</b>						
<b>Capital</b>						
Tier 1 Leverage Ratio	7.99	Opted into CBLR (Y/N)	N	Asset Growth Rate	11.02	
Total Risk-Based Capital Ratio	10.62	Dividends/Net Income	48.35	Retained Earnings/Avg Total Equity	10.49	
<b>Asset Quality</b>						
Substandard	20,261	Adv. Classified Items Coverage Ratio	16.18	Total Loans	1,032,662	
Doubtful		Adv. Class. Assets/Total Assets	1.47	ACL/Total Loans	1.51	
Loss	69	Adv. Class. Loans/Total Loans	1.82	Is ACL Adequate (Y/N)	Y	
Total Adv. Class. Items	20,330	Past Due & NA/Total Loans & Leases	1.10	If no, deficiency		
Special Mention	60,306	ADC Loans /Total Risk-Based Capital)	54.60	Concentrations (Y/N)	N	
<b>Earnings</b>						
Year to Date: (6/30/2023)	ROAA-Sub S	0.94	Net Interest Margin	3.70	Overhead/Avg. Assets	2.41
Year End: (12/31/2022)	ROAA-Sub S	1.09	Net Interest Margin	3.52	Overhead/Avg. Assets	2.11
<b>Liquidity</b>						
Net Noncore Fund. Depend.	15.30	Net Loans & Leases/TA	73.60	Liquid Assets/Total Assets	10.00	
<b>Sensitivity to Market Risk</b>						
Loans/Securities over 5 Yrs/TA	22.86	Net Over 3 Year Position	49.56	AOCI/Tier 1 Capital	(30.56)	

The bank's overall financial condition is satisfactory, and the risk profile of the institution is moderate. This \$1.38 billion community bank offers traditional deposit and credit products throughout North Dakota and part of South Dakota. The institution has 10 full-service locations in North Dakota and a branch in Sioux Falls, South Dakota. The Board and management effectively control significant risks. The overall satisfactory financial condition of the institution is built upon maintaining satisfactory capital levels and asset quality. Adequate earnings performance was noted. Liquidity levels remain satisfactory despite significant loan growth, a decrease in on-balance sheet liquidity, and increased reliance on wholesale funds since the prior examination. Unrealized losses in the investment portfolio have increased with rising interest rates, potentially limiting available liquidity. Sensitivity to market risk is adequate and appropriately controlled. A concurrent AML/CFT examination found the program to be satisfactory.

As of June 30, 2023, the Leverage ratio was 7.99 percent, and the Total Capital ratio was 10.61 percent. The Leverage ratio increased from 7.42 percent at the prior examination, while the Total Capital ratio decreased from 11.84 percent at the prior examination. Year-over-year loan growth of 25 percent resulted in the Total Capital ratio decreasing as management deployed lower risk-weighted interest-bearing bank balances to fund the loan growth. Annualized asset growth totaled 11 percent as of June 30, 2023.

Net income totaled \$17.7 million in 2022, resulting in a Sub-S ROAA of 1.09 percent. Earnings in 2022 outperformed 2021 and 2020 levels as management deployed lower-yielding assets into higher-yielding loans. As of June 30, 2023, net income totaled \$7.8 million, resulting in a Sub-S ROAA of 0.94 percent. The NIM totaled

3.70 percent as of June 30, 2023, a year-over-year increase of 56 basis points. The NIM has benefited from the rising interest rate environment.

The level of problem assets is moderate and continues a downward trend over the last three examinations. Adverse classifications total \$20.3 million, compared to \$29.8 million at the prior examination. This equates to a Coverage ratio of 16 percent, down from 28 percent at the prior examination. The positive adverse classification trend is largely attributed to improvements in previously classified borrower cash flow and financial positions, as well as management's successful workout plans. Four credit relationships account for approximately 75 percent of all adverse classifications.

On-balance sheet liquidity totals 10 percent of total assets. Since the prior examination, on-balance sheet liquidity decreased from 28 percent of total assets as management deployed interest-bearing bank balances into loans, which resulted in net loan growth of approximately 36 percent during that timeframe. Net loans now comprise 74 percent of total assets as of June 30, 2023, similar to levels prior to the COVID-19 pandemic. In an effort to help fund loan growth management increased the use of non-core funding in 2023, and purchased \$41.2 million in brokered deposits with laddered maturities ranging from 9 to 60 months. Management also increased the level of non-core liabilities to include \$40.0 million in advances with the Federal Home Loan Bank, Des Moines, Iowa. Sufficient borrowing lines are established providing additional support to the liquidity position, and management periodically tests all lines to ensure accessibility. The investment portfolio provides some secondary liquidity; however, approximately 59 percent of securities are pledged to municipal deposits and depreciation in the investment portfolio totals \$33.6 million, or 31 percent of Tier 1 Capital. Management has indicated they have no plans to sell securities to meet funding needs.

The balance sheet is relatively non-complex, with an asset base funded primarily through core deposits. The asset base remains relatively short-term as 77 percent of loans and securities reprice within five years. Derivative activity is limited to interest rate swaps with strong and experienced loan customers. As of June 30, 2023, the notional amount of derivative contracts totaled \$180 million, an increase from \$167 million at the prior examination. Appropriate policies and procedures are in place to guide derivative activity.

An apparent violation was cited for seven ineligible securities pledged to public deposits.

Bank:	<b>First International Bank &amp; Trust, Watford City</b>				Certificate #:	<b>10248</b>
EIC:	<b>Alex M. Jacobsen – DFI</b> <b>Ross J. Forney – FDIC</b>		Exam Date:	<b>9/25/2023</b>		
CAMELS:	<b>2-2-2-1-3-2/2</b>	Previous CAMELS:	<b>2-2-2-1-2-1/2</b>	TA (\$000):	<b>4,998,298</b>	
<b>COMPONENT INFORMATION (As of 6/30/2023)</b>						
<b>Capital</b>						
Tier 1 Leverage Ratio	8.35	Opted into CBLR (Y/N)	N	Asset Growth Rate	(1.28)	
Total Risk-Based Capital Ratio	10.89	Dividends/Net Income	64.64	Retained Earnings/Avg Total Equity	7.49	
<b>Asset Quality</b>						
Substandard	48,858	Adv. Classified Items Coverage Ratio	11.24	Total Loans	4,123,597	
Doubtful	283	Adv. Class. Assets/Total Assets	1.03	ACL/Total Loans	1.09	
Loss	2,724	Adv. Class. Loans/Total Loans	1.23	Is ACL Adequate (Y/N)	Y	
Total Adv. Class. Items	51,865	Past Due & NA/Total Loans & Leases	0.89	If no, deficiency		
Special Mention	165,999	ADC Loans /Tier 1 Capital + ACL)		Concentrations (Y/N)		
<b>Earnings</b>						
Year to Date: (6/30/2023)	ROAA Sub-S	1.22	Net Interest Margin	3.79	Overhead/Avg. Assets	3.11
Year End: (12/31/2022)	ROAA Sub-S	1.42	Net Interest Margin	4.13	Overhead/Avg. Assets	3.32
<b>Liquidity</b>						
Net Noncore Fund. Depend.	9.54	Net Loans & Leases/TA	81.60	Liquid Assets/Total Assets	3.38	
<b>Sensitivity to Market Risk</b>						
Loans/Securities over 5 Yrs/TA	23.15	Net Over 3 Year Position	45.69	AOCI/Tier 1 Capital	(17.97)	

This \$5 billion commercial institution operates a full-service banking model. Management offers a full line of traditional deposit and credit products along with insurance, investments, mortgage banking, automated clearing house payment processing, and trust services. The institution's trade areas include all of North Dakota and select markets within South Dakota, Minnesota, and Arizona. The Board and management demonstrate a strategic focus on achieving high profitability with an elevated risk tolerance. The earning-asset base is predominately comprised of loans to commercial borrowers. Resultantly, concentrations are present in commercial real estate (CRE) and construction and development loans, including a significant hotel loan portfolio. The institution's financial condition is stable; however, significant loan growth throughout 2022 exhausted on-balance sheet liquidity and elevated liquidity risk. Concurrent AML/CFT and IT examinations were also completed. The IT program is strong and the AML/CFT program is satisfactory.

Aggressive loan growth throughout 2022 coupled with a lack of corresponding deposit generation has led to diminishing levels of on- and off-balance sheet liquidity. From December 2021 through December 2022, the loan portfolio grew \$659 million, or 20 percent, while core deposits incurred a slight runoff of \$30 million. As a result, the ratio of on-balance sheet liquid assets to total assets declined from its peak of 16 percent as of September 30, 2021, to the current 3 percent. Funds management practices are not commensurate with the institution's low level of liquid assets and elevated liquidity risk profile. The Funds Management Policy and Contingency Funding Plan (CFP) provide guidance for governing funds management practices. However, liquidity metrics in the CFP demonstrate an elevated risk tolerance. Furthermore, management has not incorporated early identification of potential liquidity stresses into its liquidity monitoring practices.

The level of ACI has remained relatively stable year-over-year and totals \$52 million, resulting in a Coverage ratio of 11 percent. The Coverage ratio increased modestly compared to 10 percent in 2022 but is down from 24 percent at the 2021 examination.

The Leverage and Total Capital ratios are 8.35 percent and 10.89 percent, respectively. Asset growth has been nominal in 2023 and was 4 percent in 2022 and 13 percent in 2021. The Board introduced the Pause-Protect-Produce strategic initiative in 2022 to aid management in capital planning for the institution. This strategic focus in 2023 centered on maintaining capital ratios, controlling loan growth in relation to deposit growth, and managing CRE exposure through selling loan participations and tightening underwriting standards.

The balance sheet is non-complex, with assets shorter term with approximately 77 percent of loans and securities contractually maturing or repricing within five years. Liabilities are comprised largely of non-maturity deposits that represent 78 percent of total assets, declining from 85 percent of total assets at the prior examination. IRR within the balance sheet has increased moderately since the prior examination with the significant rise in interest rates and corresponding large increase in funding costs.

Net income totaled \$84 million in 2022, resulting in a Sub-S ROAA of 1.42 percent. Interim earnings through June 30, 2023, totaled \$38 million, resulting in a Sub-S ROAA of 1.22 percent. The NIM of 3.79 percent declined from 4.13 percent as of year-end 2022 as a result of higher market interest rates and the cost of funds increasing faster than the yields on earning assets. Non-interest income levels total 1.06 percentage of average assets, compared to 1.18 percent at the prior examination. Kotapay, insurance, mortgage, and wealth management are sources of non-interest income, of which Kotapay is the largest contributor, making up roughly 10 percent of net income in 2022 and 12.50 percent through June 2023. Overhead expense at 3.11 percent of average assets is elevated but declining with management strategically focusing on improving efficiencies across departments.

A Matter Requiring Board Attention (MRBA) is listed for the Board has to develop an appropriate buffer of liquid assets or a formal strategy to increase or mitigate the low level of liquid assets.

Apparent violations are noted related to Federal Reserve Act Section 23A for an affiliate overdraft and pledging to public depositors, with two public entities having insufficient funds pledged and one instance of an ineligible security pledged to a public depositor.

A concentration is noted for non-owner occupied CRE loans representing 331 percent of Tier 1 Capital plus the Allowance for Credit Losses (ACL).



**Examination Information from recently examined banks – Federal Deposit Insurance Corporation**

Bank:	<b>Peoples State Bank, Westhope</b>				Certificate #:	<b>13196</b>
EIC:	<b>Justin R. Kraemer</b>		Exam Date:	<b>10/16/2023</b>		
CAMELS:	<b>1-1-1-1-1/1</b>	Previous CAMELS:	<b>1-1-1-2-1-1/1</b>	TA (\$000):	<b>73,200</b>	
<b>COMPONENT INFORMATION (As of 6/30/2023)</b>						
<b>Capital</b>						
Tier 1 Leverage Ratio	12.43	Opted into CBLR (Y/N)	Y	Asset Growth Rate	(4.68)	
Total Risk-Based Capital Ratio		Dividends/Net Income	31.22	Retained Earnings/Avg Total Equity	18.24	
<b>Asset Quality</b>						
Substandard	1	Adv. Classified Items Coverage Ratio	0.01	Total Loans	29,181	
Doubtful		Adv. Class. Assets/Total Assets	0.00	ACL/Total Loans	1.80	
Loss		Adv. Class. Loans/Total Loans	0.00	Is ACL Adequate (Y/N)	Y	
Total Adv. Class. Items	1	Past Due & NA/Total Loans & Leases	0.08	If no, deficiency		
Special Mention	568	ADC Loans /Tier 1 Capital + ACL)		Concentrations (Y/N)	Y	
<b>Earnings</b>						
Year to Date: (6/30/2023)	ROAA	1.87	Net Interest Margin	3.03	Overhead/Avg. Assets	1.53
Year End: (12/31/2022)	ROAA	1.01	Net Interest Margin	2.61	Overhead/Avg. Assets	1.73
<b>Liquidity</b>						
Net Noncore Fund. Depend.	(21.31)	Net Loans & Leases/TA	39.15	Liquid Assets/Total Assets	46.79	
<b>Sensitivity to Market Risk</b>						
Loans/Securities over 5 Yrs/TA	20.66	Net Over 3 Year Position	26.31	AOCI/Tier 1 Capital	(23.91)	

Peoples State Bank is a \$73 million privately owned community bank in Westhope, North Dakota. Management employs a traditional community bank model with loans and deposits centered in an agricultural dependent economy. The overall condition of the bank remains strong, and earnings performance has benefited from a balance sheet structure of shorter-term assets funded by stable, low cost core deposits in a rising interest rate environment. AML/CFT and IT examinations were conducted, with satisfactory performance noted.

There is one nominal adverse classification, which is consistent with prior examinations. The Leverage Ratio totals 12.43 percent, which is consistent with prior years due to minimal asset growth and sustained earnings performance. Management incorrectly recognized a \$360,000 reverse provision in March 2023 instead of year-end 2022. After adjusting the reverse provision to 2022, earnings through June 2023 totaled \$601,000 and resulted in an estimated Sub-S ROAA of 1.18 percent. This improved from June 2022 net income of \$247,000 and ROAA of 0.54 percent. Over the same time frame, the NIM increased from 2.24 percent to 3.03 percent. These sharp year-over-year improvements in earnings are attributable to increased loan volume and improved yields, as loans and securities repriced in the rising rate environment.

On-balance sheet liquidity represent 47 percent of total assets. Although liquid assets have drawn down from their peak in 2022, current levels are more than sufficient to meet funding needs. The balance sheet is non-complex and relatively short-term, with 38 percent of loans and securities repricing within 1 year, 62 percent within 3 years, and 79 percent within 5 years. Six large depositors represent an aggregate funding concentration at 23 percent of total assets.

Bank:	<b>Harwood State Bank, Harwood</b>				Certificate #:	<b>9128</b>
EIC:	<b>Michael J. Lemke</b>	Exam Date:	<b>11/27/2023</b>			
CAMELS:	<b>2-2-2-2-1-2/2</b>	Previous CAMELS:	<b>2-1-3-2-1-2/2</b>	TA (\$000):	<b>48,732</b>	
<b>COMPONENT INFORMATION (As of 9/30/2023)</b>						
<b>Capital</b>						
Tier 1 Leverage Ratio	8.78	Opted into CBLR (Y/N)	N		Asset Growth Rate	2.29
Total Risk-Based Capital Ratio	14.12	Dividends/Net Income			Retained Earnings/Avg Total Equity	20.00
<b>Asset Quality</b>						
Substandard	777	Adv. Classified Items Coverage Ratio	18.52	Total Loans	27,091	
Doubtful		Adv. Class. Assets/Total Assets	1.59	ACL/Total Loans	1.06	
Loss		Adv. Class. Loans/Total Loans	2.87	Is ACL Adequate (Y/N)	Y	
Total Adv. Class. Items	777	Past Due & NA/Total Loans & Leases	0	If no, deficiency		
Special Mention	777	ADC Loans /Tier 1 Capital + ACL)		Concentrations (Y/N)		
<b>Earnings</b>						
Year to Date: (9/30/2023)	ROAA	1.93	Net Interest Margin	3.91	Overhead/Avg. Assets	1.91
Year End: (12/31/2022)	ROAA	0.44	Net Interest Margin	2.87	Overhead/Avg. Assets	2.18
<b>Liquidity</b>						
Net Noncore Fund. Depend.	(47.61)	Net Loans & Leases/TA	55.00	Liquid Assets/Total Assets	37.78	
<b>Sensitivity to Market Risk</b>						
Loans/Securities over 5 Yrs/TA	13.02	Net Over 3 Year Position	28.68	AOI/Tier 1 Capital	(1.46)	

Harwood State Bank is an approximately \$50 million community bank with a single location in Harwood, North Dakota. First Financial Corporation, a multi-bank holding company, Arthur, North Dakota, acquired the institution on July 21, 2023. This change of ownership resulted in new policies, procedures, and strategic plans for the bank. This change of control is not expected to change the operational focus, but will provide access to additional staffing support from the larger affiliated BankNorth, Arthur, North Dakota. Risk management practices, which were noted as needing improvement at the prior two examinations, are improving through adoption of BankNorth policies and procedures, assistance with operational support in the bookkeeping department, and inclusion in BankNorth's audit program. The transformation has been positive, and has helped management address several outstanding supervisory concerns. Harwood State Bank is expected to be merged into BankNorth in 2024 in conjunction with a core processing software conversion, but a date has not yet been finalized. The financial condition of the bank is satisfactory. Earnings performance has improved with higher yields on Federal funds sold, and the liquidity position remains strong. Capital levels are stable, and supported by satisfactory asset quality. The IT and AML/CFT programs are all satisfactory.

Risk management practices, internal routines and controls, and governance have improved. In anticipation of the planned merger, the Harwood State Bank Board is adopting operating policies and procedures to align with BankNorth, and to assimilate staff. These policies and procedures provide a satisfactory governance framework. In addition, adoption of various procedural checklists and assistance from BankNorth staff with bookkeeping tasks including reconciling of accounts, Reports of Condition and Income preparation, and IT support has strengthened the bank's control structure and mitigates management succession issues.

ACI have increased over the past couple of examinations when none were noted, but remain at a manageable Coverage ratio of 19 percent. Nearly all of the Substandard amount is tied to one distressed CRE construction project. This participation purchased is a mixed commercial and residential construction project that has

construction delays, significant cost over runs, construction quality concerns resulting in a legal dispute with a sub-contractor, and a borrower requested concession to extend the interest only period beyond the initial 18-month construction time frame. In addition, the guarantor has been either unable or unwilling to support the project as interest only payments are late and the guarantor failed to make the first principal payment due in October 2023.

The Leverage ratio is 8.78 percent, which has remained stable over the last several years. Capital levels have historically increased with earnings retention, but were reduced in 2023 by a one-time dividend of \$250,000 associated with the bank sale. The institution earned \$212,000 in 2022, resulting in a post ROAA of 0.44 percent. While this level remained modest, it was an improvement over 2021 as the balance sheet structure was poised to benefit from any increase in market interest rates that came to fruition in 2022. This is largely due to holding substantial Federal funds sold balances. Through September 30, 2023, pre-tax earnings have totaled \$625,000 and results in a pre-tax ROAA of 1.75 percent. The bank's sale in May 2023 had a modest impact on earnings performance outside of a large tax expense stemming from the premium received on the sale.

These liquid assets represent 31 percent of total assets, and are in line with prior examination balances. The institution benefits from a stable core deposit base, which represents 82 percent of total assets. Within the deposit base are seven customers with balances exceeding two percent of total assets. The balance sheet is composed of short-term assets funded with core deposits. Of the total loans and securities, only 13 percent mature in over five years.

Concentrations include an agricultural industry concentration at 339 percent; a concentration in leases purchased from United Lease and Finance, Inc. Fargo, North Dakota, at 168 percent; and two individual borrower concentrations at 44 percent and 42 percent of Tier 1 Capital plus the ACL. In addition, a funding concentration is identified for seven large depositors representing 25 percent of total assets.

**Examination Information from recently examined trusts –  
Joint with the Federal Deposit Insurance Corporation**

Bank:	<b>First State Bank &amp; Trust, Williston</b>			Certificate #:	<b>14801</b>
EIC:	<b>Angela M. Mills Fischer – DFI</b>	Exam Date:	<b>7/24/2023</b>		
	<b>Thomas J. Jacobsen – FDIC</b>				
MOECA:	<b>3-2-1-2-1/2</b>	Previous MOECA:	<b>2-2-1-2-1/2</b>		
<b>INFORMATION (As of 12/31/2022)</b>					
Total Managed Accounts	408	\$375,937			
Total Non-Managed Accounts	65	\$12,539			
Custody and Safekeeping	206	\$95,765			
Gross Fiduciary Income & Related Service Income		\$3,041			
Net Fiduciary Income & Related Service Income		\$1,580			

The trust department has total trust assets of \$481 million as of May 31, 2023, primarily in personal trust, employee benefit trustee and participant recordkeeping services, and investment management agency accounts. The overall condition of the department is satisfactory, although management and Board oversight is less than satisfactory for not developing strategies for attracting staff or managing workloads to address inadequate staffing triggered by attrition. Also, management did not monitor prior examination recommendation correction during staff turnover, resulting in repeat recommendations and heavy workloads, which have significant delays in closing out estate administration. Compliance with applicable laws and regulations, and operations, internal controls, and audits are satisfactory. Earnings performance and asset management are strong.

Significant turnover has occurred as nine trust department officers or employees have resigned or retired since the previous 2020 examination. Management has been advertising for two trust officer positions and one trust employee benefits administrator position, including using headhunter services, but has been challenged by the local job market and limited pool of qualified candidates. Despite these efforts, there have been no formal interviews for these positions in the last six months. In addition, prior examination recommendations have not been fully addressed, with similar or repeat recommendations for trust cash reconcilements, stale asset pricing, and several repeat recommendations in the area of employee benefits administration.

Compliance with applicable laws and regulations, fiduciary principles, and governing instruments is generally satisfactory. However, employee benefit compliance risk management should be strengthened by addressing the following repeat recommendations: a conflict of interest from indirect compensation, estate administration needs to be more timely, and two related trust accounts that are managed as a commingled pool by an outside party. Operational functions, internal controls, and audit coverage are satisfactory. Asset management practices and procedures are strong for the size and complexity of discretionary accounts and assets. The trust department reported strong profitability with net fiduciary income of \$732,000; \$568,000; and \$1,580,000 in 2020, 2021, and 2022, respectively. Through June 30, 2023, the department’s net fiduciary income was \$727,000. Management attributed the higher revenues in 2022 to increased fee income from oil-related accounts and a large estate settled in 2022 that generated a larger \$300,000 fee.

A MRBA was listed to develop a plan for adequate trust department staffing.

Bank:	<b>First International Bank &amp; Trust, Watford City</b>			Certificate #:	<b>10248</b>
EIC:	<b>Angela M. Mills Fischer – DFI</b> <b>Martin D. Ahrens – FDIC</b>	Exam Date:	<b>9/11/2023</b>		
MOECA:	<b>2-2-3-2-2/2</b>	Previous MOECA:	<b>3-2-3-3-2/3</b>		
<b>INFORMATION (As of 12/31/2022)</b>					
Total Managed Accounts	624	\$774,234			
Total Non-Managed Accounts	248	\$1,350,154			
Custody and Safekeeping	11	\$8,070			
Gross Fiduciary Income & Related Service Income		\$8,564			
Net Fiduciary Income & Related Service Income		\$(505)			

The overall condition of the trust department is satisfactory with an elevated risk profile. The department's business model has evolved over the past several years from a historical focus on traditional trust services and 401(k) employee benefit plans to rapidly growing a higher risk portfolio of employee stock ownership plans. As of June 30, 2023, management reported trust department assets just over \$2.5 billion, with employee stock ownership plans representing over 50 percent of the assets. Since the September 7, 2021, examination, there have been several changes in department senior officer and manager positions. However, staff turnover appears stabilized, managing officials are experienced and well-qualified, and action has been taken to build out a compliance and risk management structure including a compliance officer devoted to employee benefit plan oversight. Since the prior examination where the department was rated less than satisfactory and the Board entered into a Memorandum of Understanding with regulatory authorities, management has addressed previously identified weaknesses; implemented various procedures for measuring, monitoring, and controlling risks; and continues progress with existing initiatives to further strengthen the department's policies, procedures, data integrity, account review process, and profitability. Operations, internal controls, and audit coverage are satisfactory in relation to the volume and character of department activities. Asset management practices are satisfactory.

Net operating income continues to be negative, although the trends are improving. Core trust earnings, which excludes management assigned intra-company credits totaled negative \$248,000 year-to-date July 31, 2023; negative \$953,000 in 2022; and negative \$864,000 in 2021. Year-to-date, net income remains negative primarily due to significant salary, legal, and consulting expenses that have been incurred to address the weaknesses identified at the previous examination and improve management of the department. Trust net income was on pace to be positive in 2022, however, expenditures of \$959,000 primarily related to client reimbursements to address the conflict of interest issue caused elevated 2022 losses. Management expects no additional losses related to this issue.

Compliance with applicable laws, regulations, and governing documents has improved and is satisfactory. The apparent violations noted in the previous examination have been addressed. Officials also addressed several other recommendations that resulted in a formal annual administrative review process for employee benefit accounts, providing an improved covered service provider fee disclosure with required content for both employee stock ownership plans and 401(k) plan relationships.