FROM SURVIVING TO THRIVING

2019 ANNUAL REPORT

BND

100 YEARS · 1919-2019

President's Letter

What a privilege it was to be a part of the Bank's 100th anniversary celebration! It was a year filled with special activities, presentations and trips down memory lane with Bank employees, retirees, state officials and the public.

Among the special activities, Bank of North Dakota (BND) released the book, "The Bank of North Dakota | From Surviving to Thriving," by renowned author Mike Jacobs, as well as limited-edition silver and brass coins commemorating the anniversary. Historian Clay Jenkinson co-curated a museum in the Bank lobby heralding the first 100 years and assisted with writing content for a 100th anniversary website, **TheBNDStory.nd.gov**. The state Legislature also declared Feb. 25 as Bank of North Dakota Day, the day House Bill 18 was signed into law in 1919, creating the Bank, along with the Industrial Commission and the North Dakota Mill and Elevator.

On July 28, the 100th anniversary of the day the Bank opened its doors on the corner of Seventh Street and Main Avenue in Bismarck, Bank employees gathered for an old-fashioned picnic on the lawn and buried a time capsule. A public celebration held the next day welcomed state officials giving presentations, Pride of Dakota vendors and hundreds of people touring the Bank grounds and museum. The celebration continued with employees participating in parades around the state and completing 100 random acts of kindness.

It was also a year dedicated to growing the state's economy. The addition of the Accelerated Growth Loan program filled a funding gap for rapidly growing technology companies. The positive response to changes in the Bank's PACE programs was demonstrated with increases in those loans.

A.C. Townley, a talented orator, traversed the state inspiring local farmers to support the Nonpartisan League and its principles which were the forerunners of the Industrial Commission, Bank of North Dakota and North Dakota Mill and Elevator.

The state's agricultural producers experienced a devastating season due to weather conditions. In response, Bank of North Dakota introduced two disaster relief programs that are assisting farmers and ranchers. The Ag Disaster Relief Program provides borrowers with the ability to carry over operating shortfalls, term debt payments and to restructure existing debt. The Livestock Feed Program assists with the feed costs for livestock producers.

We continue to help the state's residents plan and pay for college. College SAVE, the state's 529 plan, reached nearly 30,000 account holders and grew its North Dakota assets by $40 million. The number of student loan borrowers decreased, reflecting a trend of lower postsecondary education registration and a heightened awareness of reducing student loan debt. Face-to-face presentations were given in many communities along with a strong online presence that educates our residents about the paths they can take to enter the workforce.

The Bank reported its 16th consecutive year of record profits with $169 million in income and just over $7 billion in assets. The state's return on investment was a healthy 18.6%. While the number of loans we originated in 2019 slightly decreased from the year before, larger loan amounts meant the portfolio size was stable.

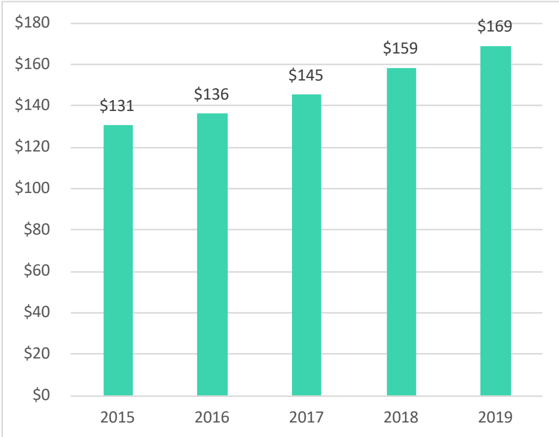
Our employees strive to further innovation in our daily work, collaborating internally and seeking new partners to expand the Bank's mission. Meetings with stakeholders across the state ensure the Bank's programs meet the needs of our citizens. Consistent dialogue with business and agriculture leaders and elected officials shape our efforts to live out our vision statement: BND is an agile partner that creates financial solutions for current and emerging economic needs.

Eric Hardmeyer
President and Chief Executive Officer

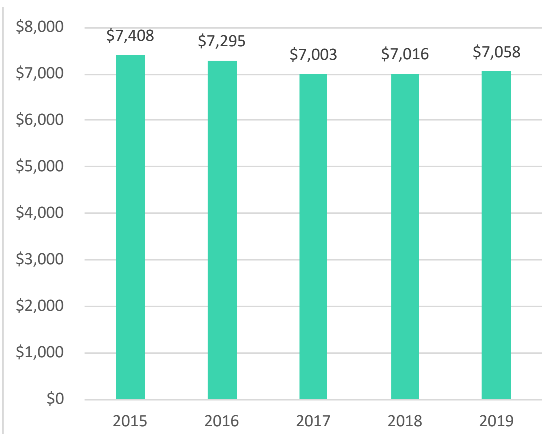
100-year celebration for Bank of North Dakota employees and families

Sunday, July 28, 2019

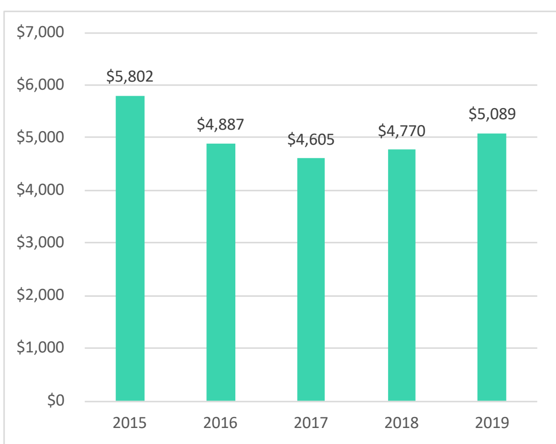
Annual Income (in millions)



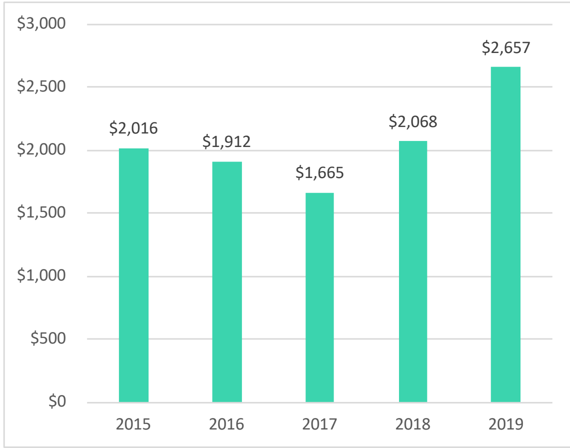
BND Assets (in millions)



Deposit Size (in millions)



Investment Portfolio (in millions)

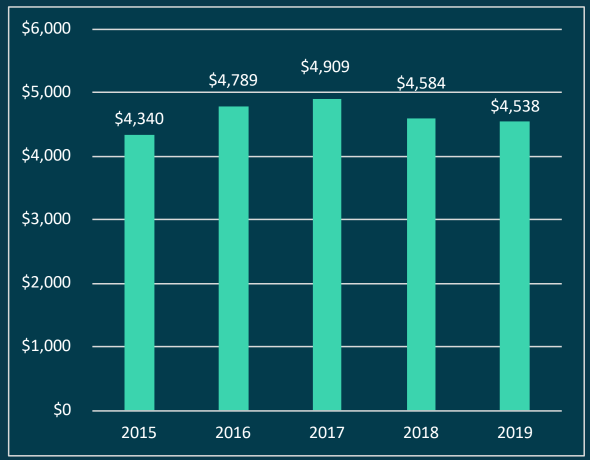


Lending Portfolio

Total Loan Portfolio

There were 15,696 loans for $1.33 billion originated or renewed in 2019. While the number of loans decreased by 1,600, the size of the portfolio remained stable.

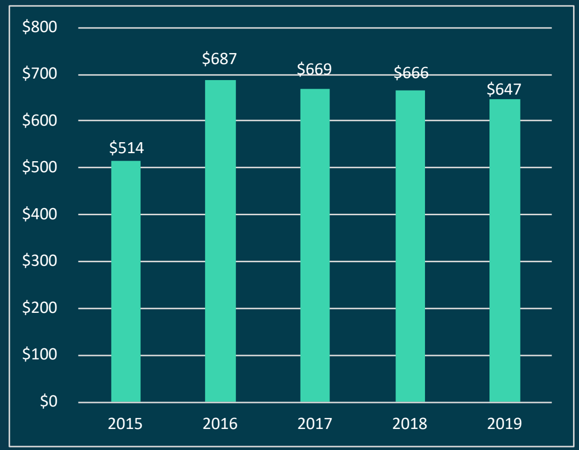
Total Loan Portfolio (in millions)



Agricultural Loan Portfolio

The ag loan portfolio decreased by $19 million this year. Farm and Ranch Participation loans led the way with $100 million followed by $23 million in the Beginning Farmer Real Estate Loan program and $14 million of Established Farmer Real Estate loans.

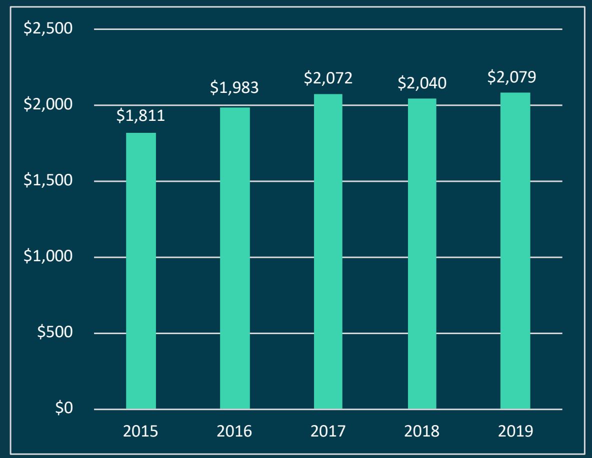
Agricultural Loan Portfolio (in millions)



Business Loan Portfolio

The business loan portfolio increased by $39 million with BND funding and renewing $1 billion of loans. The largest area of activity was the Bank Participation Loan program with BND funding and renewing $682 million. The number of loans distributed in 2019 increased by 1.9%, and the average loan size was larger.

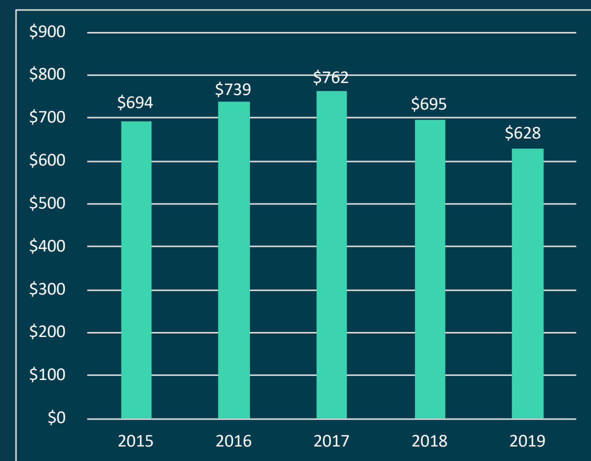
Business Loan Portfolio (in millions)



Home Loan Portfolio

The home loan portfolio decreased by $67 million during 2019 with BND funding $24 million of home loans. The size of the portfolio declined with paydowns and refinancing as BND has shifted its mission focus to the rural mortgage purchase and origination programs to fill a niche need in North Dakota.

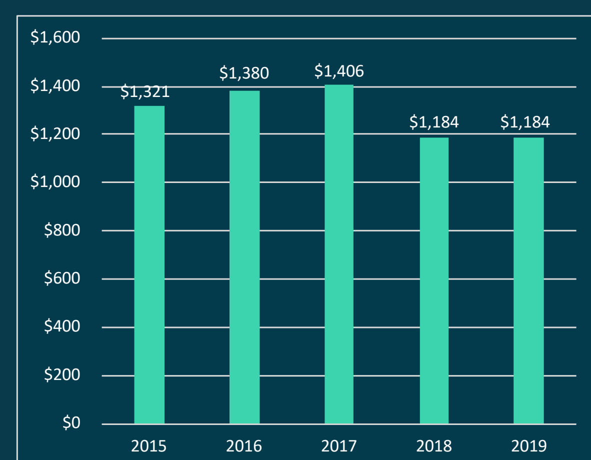
Home Loan Portfolio (in millions)



Student Loan Portfolio

The student loan portfolio decreased slightly in size by $189,000. BND disbursed $121 million in student loans during 2019.

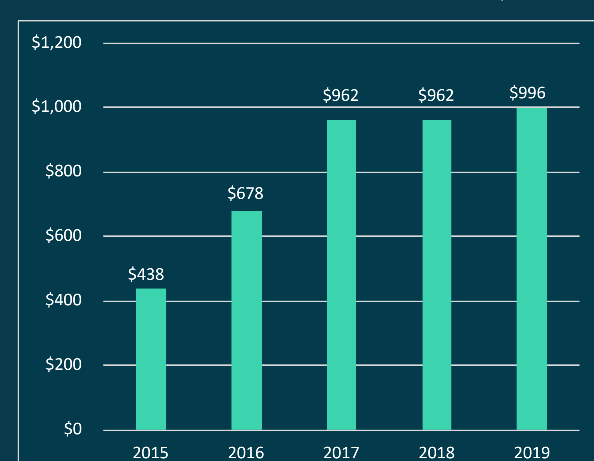
Student Loan Portfolio (in millions)



State and Administered Loan Portfolio

Although only a portion of loans are reflected on BND's balance sheet, the Bank's involvement in administering them is significant. The funding dollars and loan requirements for each program are set by the state Legislature.

State and Administered Loan Portfolio (in millions)



BND Releases Book

The third book ever written about BND, "The Bank of North Dakota | From Surviving to Thriving," chronicles the Bank's first century, covering a history rich in drama, failure and ultimately success.

The author is longtime North Dakota journalist Mike Jacobs. A native of Stanley, North Dakota, and a graduate of the University of North Dakota, Jacobs' career in the newspaper industry spans half a century. He led the staff of the Grand Forks Herald to a Pulitzer Prize for Public Service for continuing publication during the Red River flood of 1997.

"It was a privilege to help tell the story of the Bank of North Dakota," Jacobs said. "The Bank has an increasing important role in the state, all built on the determination and foresight of North Dakotans of the last century."

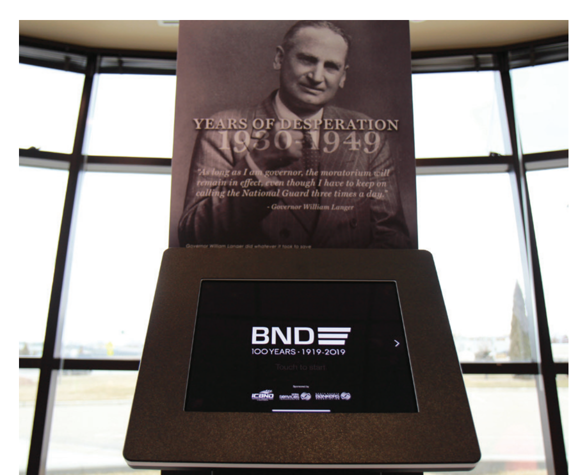
He continued, "The state-owned Bank is unique in the United States. It arose out of frustration and was chartered in controversy, and it has grown through adaptation and compromise to become the tool for money management, growth and stability that its founders sought when they confronted very difficult economic conditions 100 years ago."

Commemorative Coin Celebrates 100 Years

A limited-edition commemorative coin in pure silver or antique brass was also released. One side of the 1.5-inch coin features the Bank of North Dakota building. The other side recalls the Bank's mission statement "To promote agriculture, commerce and industry" which has remained unchanged for its 100 years of existence. The pure silver coin contains 1 troy ounce of .999 fine silver. The silver coining die was specially prepared to provide a mirror-polished background with frosted highlights on the coin.

BND Museum Opens and Microsite Launches

The Bank lobby was buzzing with activity when a museum, co-curated by noted historian and humanities scholar Clay Jenkinson, opened at the end of January. Four kiosks containing information and videos about different periods in the Bank's history, along with several cases filled with Bank memorabilia, are featured. The Bank also launched a microsite, **TheBNDStory.nd.gov**, detailing its first 100 years. The site includes interesting anecdotes, videos and written commentary about its history. Historian Clay Jenkinson wrote the content describing the early years of the Bank.



Bank of North Dakota Chamber Social

More than 300 Bismarck-Mandan Chamber EDC members, legislators and state officials were welcomed to the Bank at the end of January to view the new museum and visit with book author Mike Jacobs and museum co-curator Clay Jenkinson.

Bank of North Dakota Day

In honor of Feb. 25, the day BND was signed into law 100 years ago, the Bank invited the public to join the celebration with cookies in the lobby and tours of the BND museum. Employees were treated to Joy Benson's twisters, which was declared the official pastry of BND. Joy is the wife of longtime employee Stan Benson who has supplied twisters at many special occasions for more than 30 years. The day marked the kickoff of 100 Random Acts of Kindness, an effort of BND employees to complete good deeds in communities around the state.

Bank of North Dakota Employee Celebration

Nearly 150 Bank employees and their families gathered on the Bank's lawn July 28 to mark the 100th anniversary with an old-fashioned picnic. They buried a time capsule to be opened in 50 years, played classic children's games like three-legged and potato sack races, and enjoyed a delicious barbecue. The handwritten letter on the next page was penned by Bank President Eric Hardmeyer and buried with the time capsule.

July 29, 2019

Dear Bank of North Dakota employees,

This letter is written in the year of BND's 100th year anniversary 2019. It is now 2069 - it is difficult to imagine what life is like now. I think back 50 years ago to 1969. I was 10 years old man had just stepped on the moon. So what is possible in the next 100 years?

Today we talk of the big technological break throughs coming from Artificial Intelligence. I am sure that AI and Fintech (financial technology) have matured to levels that have changed banking that is hard to contemplate today.

We are close but perhaps a few years away from complete autonomous vehicles (air and ground). The technology is here but regulations and insurance liabilities are yet to be figured out.

Politics have become bitterly divisive - with no common ground between the two major parties - Republicans & Democrats. I wonder - are there many political parties now in 2069?

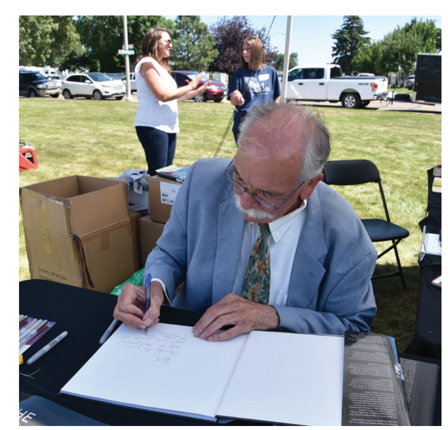
BND in its 100th year will celebrate its 16th straight year of record profits - $170 million+. Today we are about $7 billion in assets, with an employee count of 181.

I hope BND has continued its important work to assist with the development of ND. I am proud to have been a part of such a unique institution and to have worked with such a wonderful group of employees. Warmest Regards,

E. Hardmeyer President & CEO

BND Public Celebration

The Bank's lawn was filled with special activities for the general public July 29. More than 700 people enjoyed presentations by Governor Doug Burgum, Attorney General Wayne Stenehjem, Agriculture Commissioner Doug Goehring, Advisory Board Chairperson Gary Petersen, BND book author Mike Jacobs, former Agriculture Commissioner Sarah Vogel, BND employee Bruce Schumacher and Bank President Eric Hardmeyer. Pride of Dakota vendors sold food and crafts. Museum tours were provided, along with a showing of the movie "Northern Lights," an award-winning film covering the emergence of the Nonpartisan League in North Dakota.





BND Employee Efforts

To recognize and honor the Bank's 100-year history, BND employees participated in parades around the state, performed 100 random acts of kindness and gave museum tours to elementary and middle school children.



North Dakota Industrial Commission


Doug Burgum
Governor


Doug Goehring
Ag Commissioner


Wayne Stenehjem
Attorney General

BND Advisory Board


Gary Petersen

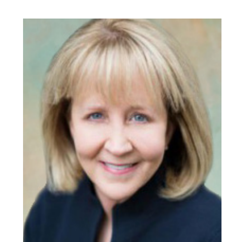

Karl Bollingberg


Pat Clement


Dennis Johnson


Pat Mahar


Christie Obenauer


Jean Voorhees

BND Executive Committee


Eric Hardmeyer


Kirby Evanger


Joe Herslip


Lori Leingang


Tim Porter


Todd Steinwand


Jeff Weiler

Ending Balance Sheet

Bank of North Dakota
December 31, 2019

			(In thousands)
Assets			
Cash and Due from Banks		$	487,689
Federal Funds Sold			10,685
Securities			2,016,126
Loans			
Commercial	2,078,573		
Agricultural	647,108		
Residential	628,319		
Student	1,183,943		
Total Loans	4,537,943		
Less Allowance for Loan Loss	(95,690)		
Total Loans Less Allowance			4,442,253
Other Assets			101,679
Total Assets		$	7,058,432
Liabilities and Equity			
Deposits			
Noninterest Bearing	$ 628,256		
Interest Bearing	4,460,836		
Total Deposits			5,089,092
Federal Funds Purchased and Repurchase Agreements			365,335
Short- and Long-term Borrowings			631,030
Other Liabilities			33,947
Total Liabilities			6,119,404
Equity			939,028
Total Liabilities and Equity		$	7,058,432

Ending Income Statement

Bank of North Dakota
December 31, 2019

		(In thousands)
Interest Income	$ 263,738	
Interest Expense	(58,515)	
Net Interest Income		205,223
Provision for Loan Losses		(6,000)
Net Interest Income After Provision		199,223
Noninterest Income		6,916
Noninterest Expense		
Salaries and Benefits	(17,424)	
Data Processing	(5,488)	
Long-term Debt Prepayment	(6,352)	
Occupancy and Equipment	(728)	
Other Operating Expense	(7,098)	
Total Noninterest Expense		(37,090)
Net Income	$	169,049

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

Ten-Year Summary

Bank of North Dakota
December 31, 2019

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Operating Results (in thousands)										
Interest income	$263,738	$240,002	$219,700	$210,803	$194,298	$174,584	$153,182	$145,870	$137,459	$133,400
Interest expense	58,515	46,442	37,865	33,975	32,164	31,455	30,217	35,349	39,541	45,188
Net interest income	205,223	193,560	181,835	176,828	162,134	143,129	122,965	110,521	97,918	88,212
Provision for loan losses	6,000	12,000	12,000	16,000	12,500	8,000	-	2,000	11,000	12,100
Net interest income after provision for loan losses	199,223	181,560	169,835	160,828	149,634	135,129	122,965	108,521	86,918	76,112
Noninterest income	6,916	7,170	6,335	6,323	7,688	7,987	7,422	4,659	4,911	6,113
Noninterest expense	37,090	30,222	30,886	30,996	26,668	32,157	36,172	31,586	21,494	20,374
Net Income	**169,049**	**158,508**	**145,284**	**136,155**	**130,654**	**110,959**	**94,215**	**81,594**	**70,335**	**61,851**
Payments to general fund	35,000	70,000	170,000	-	-	-	-	-	-	-
Payments to other funds	45,109	58,614	16,932	19,989	28,645	17,345	19,356	28,997	2,815	5,088
Balance Sheet (in thousands)										
Total Assets - Year End	**7,058,432**	**7,015,834**	**7,003,302**	**7,295,268**	**7,407,942**	**7,215,687**	**6,873,409**	**6,155,201**	**5,375,073**	**4,029,927**
Federal funds sold and resell agreements	10,685	39,465	57,555	63,070	77,905	42,105	36,645	24,050	18,315	33,100
Securities	2,016,126	1,912,743	1,665,252	2,068,327	2,657,527	2,933,570	2,584,169	2,171,546	1,008,051	537,157
Loans	**4,537,943**	**4,584,233**	**4,909,278**	**4,789,553**	**4,339,618**	**3,852,155**	**3,476,946**	**3,279,778**	**2,995,154**	**2,814,548**
Agricultural	647,108	665,691	668,904	687,486	513,899	436,970	361,756	342,826	289,002	276,693
Commercial	2,078,573	2,039,833	2,071,953	1,982,625	1,811,259	1,559,137	1,388,104	1,278,403	1,068,598	1,022,002
Residential	628,319	694,577	762,480	739,412	693,712	652,076	629,931	594,508	575,020	471,411
Student	1,183,943	1,184,132	1,405,941	1,380,030	1,320,748	1,203,972	1,097,155	1,064,041	1,062,534	1,044,442
Deposits	**5,089,092**	**4,769,819**	**4,604,958**	**4,887,192**	**5,802,142**	**5,730,611**	**5,601,127**	**5,003,562**	**4,179,837**	**3,058,726**
Noninterest bearing	628,256	567,352	555,020	663,156	641,264	700,446	798,559	891,197	649,922	387,040
Interest bearing	4,460,836	4,202,467	4,049,938	4,224,036	5,160,878	5,030,165	4,802,568	4,112,365	3,529,915	2,671,686
Federal funds purchased and repurchase agreements	365,335	271,505	299,775	242,480	119,500	178,455	245,110	275,960	318,325	240,725
Short- and Long-term Debt	**631,030**	**1,103,436**	**1,263,569**	**1,280,538**	**727,322**	**645,126**	**465,961**	**406,252**	**471,422**	**397,365**
Equity	**939,028**	**861,884**	**824,802**	**875,732**	**749,493**	**652,134**	**551,797**	**463,662**	**399,903**	**327,297**
Capital	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	72,000	72,000	72,000	72,000	72,000	42,000	42,000	42,000
Undivided profits	866,682	777,742	747,848	789,496	673,330	571,276	477,705	402,846	350,249	282,729
Accumulated other comprehensive income (loss)	(1,654)	10,142	2,954	12,236	2,163	6,858	92	16,816	5,654	568

Photo Descriptions

Report cover

1. BND employees and their families gathered for an anniversary picnic and buried a time capsule on the Bank's lawn July 28, 2019.

Page 2

1. Bank of North Dakota started operations in the speaker's room of the state Capitol before moving to this building on the corner of Seventh Street and Main Avenue in Bismarck. (State Historical Society of North Dakota 00300-00060)

Page 3

1. A.C. Townley rallied the crowd at a Nonpartisan League meeting. (State Historical Society of North Dakota B0921-00001)

Page 9

1. An aerial view showcasing the North Dakota Capitol in Bismarck. (North Dakota Tourism)

Page 10

1. "The Bank of North Dakota | From Surviving to Thriving" rolled off the presses of Friesens History Book Division in September 2018.
2. The Communications & Marketing Team, from left, Melanie Moen, Beth IntVeld, Janel Schmitz, Darren Hertz and Chad Hatzenbuhler, were highly involved with author Mike Jacobs in designing, researching and proofreading the book.
3. Employees gathered for a book signing day with author Mike Jacobs.
4. Senior Vice President Jeff Weiler was present when Communications & Marketing Manager Janel Schmitz opened the shipment of books to the Bank.

Page 11

1. The coins, designed by BND Public Information Officer Chad Hatzenbuhler, were popular.
2. Visitors and employees appreciated the 100th anniversary mural in the main staircase.
3. Four kiosks detailed different periods of the 100-year history of the Bank in the museum located in the lobby.
4. The welcome sign provided an overview of the Bank's formation.

Page 12

1. Social attendees took in the 100th anniversary museum.
2. Longtime colleagues, book author Mike Jacobs (left) and museum co-curator and website author Clay Jenkinson, reminisced at the social.
3. Community members, businesspeople and legislators enjoyed the comradery of the evening.
4. Governor Doug Burgum congratulated Bank President Eric Hardmeyer.
5. Jason Anderson, technology services manager, and Jeff Weiler, senior vice president of risk management, celebrated.
6. Student loan representatives, Erica Unrath and Brittany Scheett, greeted guests at the front door.
7. From left, BND Business Bankers Tyson Zeltinger and Rod Heit, Business Banking Associate Lead Rachel Subart, and Business Banker Annette Curl enjoyed a laugh.

Page 13

1. Employees gathered for breakfast in the lunchroom to enjoy twisters (shown in foreground).
2. Stan Benson, semi-retired BND employee who still served as a legislative liaison in 2019, is shown with the BND proclamation announcing the twister as the official pastry of BND. His wife, Joy, had been sharing them for more than 30 years with Bank employees.
3. Employees enjoyed combing through scrapbooks with newspaper clippings and convention brochures.
4. The 100 random acts of kindness spurred employees to focus on special acts they could do for co-workers and our communities.

Page 14

1. Bank employees enjoyed a delicious barbecue under a white tent.
2. Bank President Eric Hardmeyer addressed employees and their families before the time capsule was buried.
3. Children enjoyed inflatables on the Bank lawn.
4. From left, Senior Vice President Kirby Evanger, Bank President Eric Hardmeyer, Tech Services Specialist Jaden Evanger, and Financial Services Representative David Hanson participated in the adults' three-legged race.
5. From left, Sue Seminary's guest Steve Sharkey, Project Management Officer Sue Seminary, and Information Technology Officer Tina Radenz filled their plates.
6. Kenleigh Volk, daughter of Human Resources Manager Allison Volk, and Abbigale Yanish, daughter of Student Loan Representative Samantha Yanish, got high fives as they reached the finish line during potato sack races.
7. Todd Steinwand, senior vice president of business development, told his version of the story.

Page 16

1. The Nonpartisan League's rally cries were re-enacted on the anniversary by (from left) Leader of Education Outreach and College Planning Cindy Sanford; Student Loan Representative Roxy Jacobson; Annette Tait; Hailey IntVeld, daughter of Public Information Officer Beth IntVeld; LeAnn Harner; Olivia Hatzenbuhler, daughter of Public Information Officer Chad Hatzenbuhler; Student Loan Representative Janae Geiger; Student Loan Quality Assurance Coordinator Tyler Giffey; and Student Loan Representative Pam Lewis.
2. Cindy Lund from Residential Mortgage and Facilities Manager Truman Lund posed for the camera.
3. Governor Doug Burgum addressed the crowd.
4. More than 30 Pride of Dakota vendors sold their products at the celebration.

Page 17

1. BND employees from Credit Administration and Business Development enjoyed celebrating the Bank's accomplishments. From left, Andrew Tweet, Rod Heit, Kim Swenson, Rhiannon Betz, Courtney Heiser and Lisa Harmon.
2. A proud group of North Dakotans learning more about the Nonpartisan League activities participated in the 100th anniversary celebration.
3. Food vendors were popular places for the guests to refuel.
4. Two former agriculture commissioners and Industrial Committee members, Sarah Vogel and Myron Just, attended the celebration.
5. Author Mike Jacobs signed books.
6. Retirees Darlene Felchle, Leila Bender and Evelyn Zelmer enjoyed the day reminiscing.
7. Attendees visited and enjoyed a sunny July day.

Page 18-19

1. BND employees gathered for this photo on the grand staircase in late 2018 with the 100th anniversary t-shirts depicting the former wagon wheel logo of the Bank.

Page 20

1. Lead Loan Operation Specialist Tiffany Kapla (right) and her mom Cheryle Guthmiller participated in the North Dakota State Fair Parade in Minot.
2. BND joined the Potato Bowl Parade in Grand Forks. Back row - Tyson Zeltinger, Dan Holzheimer, Harper Holzheimer, Claire Bruland, Staci Holzheimer, Joel Erickson, David Hanson, Carrie Willits, Melissa Fonder, Justina Schuchard, Matt Schuchard, Janae Geiger, Bruce Schumacher, Kristie Schumacher.
   Front row – Savannah Holzheimer, Alex Schumacher, Effie Zeltinger, Cade Zeltinger, Noah Schuchard.
3. BND employees and family members holding the banner at the State Fair Parade, from left, Madison Dow, Tavey Dow, Jessica Dow, Tiffany Kapla, Ariana Kapla, Evan Kapla, Cheryle Guthmiller, Tyler Giffey, Tracy Boehm, Jeanne Thomas, Travis Albertson, Ashton Boehm, Erika Albertson, Carrie Willits, Janae Geiger, Ryan Geiger, Roxy Jacobson, Kim Kautzman, Brandon Green, Melissa Heaton and Mallory Green.
4. Halsey Ressler, internal auditor, conducted a school tour of the Bank's museum.
5. Jessica Dow, Madison Dow, Ariana Kapla, Cheryle Guthmiller and Carrie Willits marched in the State Fair Parade.
6. Tayla and Hailey IntVeld, daughters of Public Information Officer Beth IntVeld, Trust Administrator Carrie Willits and her husband Craig walked in the Bismarck-Mandan Band Night Parade.
7. Janae Geiger and Ashton Boehm, daughter of Loan Servicing Associate Tracy Boehm, handed out metal doubloons, which replicated the commemorative coin, and College SAVE fliers.

FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

BANK OF NORTH DAKOTA

Table of Contents

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 Financial Statements

We have audited the accompanying financial statements of Bank of North Dakota, which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities
As described in Note 1 of the financial statements, Bank of North Dakota is a governmental entity as defined by the Governmental Accounting Standards Board (GASB). Accordingly, the standards as promulgated by GASB are the appropriate accounting standards for Bank of North Dakota to follow. However, Bank of North Dakota has prepared its financial statements in accordance with accounting standards as promulgated by the Financial Accounting Standards Board (FASB) even though the entity meets the “governmental” criteria.

The effects on the financial statements of the variances between the accounting policies described in Note 1 and generally accepted accounting principles for governmental entities, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities
In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities,” the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America for governmental entities, the financial position of Bank of North Dakota as of December 31, 2019 and 2018, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Accounting Standards as Promulgated by the Financial Accounting Standards Board
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of North Dakota as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting standards as promulgated by FASB.

Eide Bailly LLP

Bismarck, North Dakota
February 13, 2020

BANK OF NORTH DAKOTA
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands)

	2019	2018
ASSETS		
Cash and due from banks	$ 487,689	$ 470,227
Federal funds sold	10,685	39,465
Cash and cash equivalents	498,374	509,692
Securities	2,016,126	1,912,743
Loans held for investment	4,537,943	4,584,233
Less allowance for loan losses	(95,690)	(92,750)
	4,442,253	4,491,483
Interest receivable	56,926	56,865
Bank premises, equipment, and software, net	9,773	10,249
Rebuilders loan program receivable	9,325	10,288
Other assets	25,655	24,514
Total assets	$ 7,058,432	$ 7,015,834
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	$ 628,256	$ 567,352
Interest bearing	4,460,836	4,202,467
	5,089,092	4,769,819
Federal funds purchased and repurchase agreements	365,335	271,505
Short and long-term debt	631,030	1,103,436
Other liabilities	33,947	9,190
Total liabilities	6,119,404	6,153,950
Equity		
Capital	2,000	2,000
Capital surplus	72,000	72,000
Undivided profits	866,682	777,742
Accumulated other comprehensive (loss) income	(1,654)	10,142
Total equity	939,028	861,884
Total liabilities and equity	$ 7,058,432	$ 7,015,834

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands)

	2019	2018
INTEREST INCOME		
Loans, including fees	**$ 208,672**	$ 198,686
Securities	**54,482**	40,225
Federal funds sold	**584**	1,092
Total interest income	**263,738**	240,003
INTEREST EXPENSE		
Deposits	**28,349**	17,341
Federal funds purchased and repurchase agreements	**6,417**	4,705
Short and long-term debt	**23,749**	24,396
Total interest expense	**58,515**	46,442
NET INTEREST INCOME	**205,223**	193,561
PROVISION FOR LOAN LOSSES	**6,000**	12,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**199,223**	181,561
NONINTEREST INCOME		
Service fees and other	**6,916**	7,170
Total noninterest income	**6,916**	7,170
NONINTEREST EXPENSE		
Salaries and benefits	**17,424**	16,870
Data processing	**5,488**	5,253
Long-term debt prepayment fee	**6,352**	-
Occupancy and equipment	**728**	932
Other operating expenses	**7,098**	7,168
Total noninterest expenses	**37,090**	30,223
NET INCOME	**$ 169,049**	$ 158,508

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands)

	2019	2018
Net income	**$ 169,049**	$ 158,508
Other comprehensive income (loss)		
Unrealized gain (loss) on debt securities available for sale	**14,964**	(703)
Unrealized (loss) gain on interest rate swap	**(26,760)**	7,632
Reclassification adjustment for losses realized in net income	**-**	259
Other comprehensive (loss) income	**(11,797)**	7,188
Comprehensive income	**$ 157,252**	$ 165,696

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2017	$ 2,000	$ 72,000	$ 747,848	$ 2,954	$ 824,802
Net income			158,508		158,508
Unrealized loss on debt securities available for sale				(703)	(703)
Unrealized gain on interest rate swap				7,632	7,632
Reclassification adjustment for losses realized in net income				259	259
Transfers to other state funds			(128,614)		(128,614)
BALANCE, DECEMBER 31, 2018	2,000	72,000	777,742	10,142	861,884
Net income			169,049		169,049
Unrealized gain on debt securities available for sale				14,964	14,964
Unrealized loss on interest rate swap				(26,760)	(26,760)
Transfers to other state funds			(80,109)		(80,109)
BALANCE, DECEMBER 31, 2019	$ 2,000	$ 72,000	$ 866,682	$ (1,654)	$ 939,028

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands)

	2019	2018
OPERATING ACTIVITIES		
Net income	**$ 169,049**	$ 158,508
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	**623**	813
Provision for loan losses	**6,000**	12,000
Net amortization/(accretion) of securities	**(1,472)**	4,238
(Gain) loss on available-for-sale securities	**-**	(58)
Other than temporary impairment on equity securities	**-**	317
Gain on sale of residential and student loans	**-**	(1,620)
Loss (gain) on sale of foreclosed assets	**(2,264)**	(705)
Increase in interest receivable	**(61)**	(3,340)
Decrease (increase) in other assets	**(855)**	1,895
Increase in other liabilities	**2,462**	674
NET CASH FROM OPERATING ACTIVITIES	**173,482**	172,722
INVESTING ACTIVITIES		
Debt securities available for sale transactions		
Purchase of securities	**(1,047,971)**	(861,167)
Proceeds from sales, maturities, and principal repayments	**935,746**	603,033
Purchase of Federal Home Loan Bank stock	**(248,815)**	(250,080)
Sale of Federal Home Loan Bank stock	**267,695**	256,857
Purchase of other equity securities	**(234)**	(1,787)
Sale of other equity securities	**6,632**	712
Proceeds from sales of loans	**-**	283,647
Net (increase) decrease in loans	**35,178**	36,204
Purchases of premises, equipment, and software	**(147)**	(143)
Payments from rebuilders loan program	**963**	3,394
Proceeds from sale of foreclosed assets	**5,565**	3,859
NET CASH (USED FOR) FROM INVESTING ACTIVITIES	**(45,388)**	74,529
FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	**60,904**	12,332
Net increase (decrease) in interest bearing deposits	**258,369**	152,529
Net increase (decrease) in federal funds purchased and repurchase agreements	**93,830**	(28,270)
Proceeds from issuance of short and long-term debt	**6,330,775**	6,377,000
Payment of short and long-term debt	**(6,803,181)**	(6,537,133)
Payment of transfers to other state funds	**(80,109)**	(128,614)
NET CASH USED FOR FINANCING ACTIVITIES	**(139,412)**	(152,156)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(11,318)**	95,095
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**509,692**	414,597
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 498,374**	$ 509,692

(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

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

BND also prepares financial statements in accordance with GASB pronouncements.

Use of Estimates

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

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers within the State of North Dakota. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2019 and 2018:

	2019	2018
Commercial loans, of which 1% and 2% are federally guaranteed	**46%**	45%
Student loans, of which 100% and 99% are guaranteed	**26%**	26%
Residential loans, of which 66% and 68% are federally guaranteed	**14%**	15%
Agricultural loans, of which 5% and 4% are federally guaranteed	**14%**	14%
	100%	100%

Continued on next page

Cash and Cash Equivalents

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

Securities

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

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

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

Nonmarketable equity securities represented venture capital equity securities that are not publicly traded. The Bank reviewed these assets at least annually for possible other-than-temporary impairment. These securities did not have a readily determinable fair value and were stated at cost. The Bank reduced the asset value when it considers declines in value to be other than temporary. The Bank recognized any estimated loss as a loss from equity securities in the line item net gain/(loss) on available for sale securities included in non-interest expense. Other-than-temporary write-downs totaled $0 and $317 as of December 31, 2019 and 2018, respectively. These nonmarketable securities were sold during 2019.

Loans Held For Sale

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Bank. The carrying value of the mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Loans held for sale are carried at the lower of aggregate cost or market value. Gains or losses on sale of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

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Loans

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

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

Allowance for Credit Losses

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

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

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

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

Continued on next page

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

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

Loan Charge-Offs

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

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

Transfers of Financial Assets

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

Bank Premises, Equipment, and Software

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

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $8,903 and $4,152 as of December 31, 2019 and 2018, respectively.

Continued on next page

Derivatives and Hedging Activities

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

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

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

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

During 2019, the Bank adopted the provisions of Accounting Standards Update (ASU) 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". The effects of the adoption of ASU 2017-12 are to be applied in the year of adoption with a cumulative effect adjustment to beginning undivided profits. The Bank determined the implementation of ASU 2017-12 did not have a material effect and as a result no cumulative effect adjustment for initial adoption was required.

Continued on next page

(In Thousands)

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

Income Taxes

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

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

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average required reserve balances maintained at the Federal Reserve Bank were approximately $62,347 in 2019 and $73,917 in 2018.

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. Deposits at these institutions are insured up to $250,000 with the Federal Deposit Insurance Corporation except for deposits with the Federal Reserve Bank and the Federal Home Loan Bank. The amount of cash deposits not covered by FDIC insurance was $186,053 and $155,813 as of December 31, 2019 and 2018, respectively. Of these amounts, $164,950 and $153,465 were deposited at the Federal Reserve Bank.

NOTE 3 - SECURITIES

Securities have been classified in the financial statements according to management's intent. The carrying value of securities as of December 31, 2019 and 2018 consists of the following:

	2019	2018
Debt securities available for sale, at fair value	**$ 1,982,467**	$ 1,853,806
Federal Home Loan Bank stock, at cost	**33,659**	52,539
Other equity securities, at cost	**-**	6,398
	$ 2,016,126	$ 1,912,743

Continued on next page

(In Thousands)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2019				
Debt securities available for sale				
Federal agency	**$ 944,243**	**$ 11,499**	**$ 1,052**	**$ 954,690**
Mortgage-backed	**1,022,419**	**6,465**	**2,107**	**1,026,777**
State and municipal	**1,000**	**-**	**-**	**1,000**
	$ 1,967,662	**$ 17,964**	**$ 3,159**	**$ 1,982,467**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2018				
Debt securities available for sale				
Federal agency	$ 1,181,821	$ 3,461	$ 3,477	$ 1,181,805
Mortgage-backed	671,144	1,798	1,941	671,001
State and municipal	1,000	-	-	1,000
	$ 1,853,965	$ 5,259	$ 5,418	$ 1,853,806

There were $905,554 and $435,162 of debt securities pledged as of December 31, 2019 and 2018 for other required pledging purposes. FHLB stock totaling $33,659 and $52,539 at December 31, 2019 and 2018, respectively, was pledged on the FHLB advances (Note 9).

Continued on next page

(In Thousands)

The maturity distribution of debt securities at December 31, 2019, is shown below. The distribution of mortgage-backed securities is based on average expected maturities. Actual maturities may differ because issuers may have the right to call or prepay obligations.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 357,144	$ 358,849
Over one year through five years	1,322,374	1,334,742
Over five years through ten years	210,238	210,403
Over ten years	77,906	78,473
	$ 1,967,662	$ 1,982,467

For the year ended December 31, 2019, proceeds from the sale of debt securities available for sale were $0. Gross realized gains or losses were $0 on these sales. For the year ended December 31, 2018, proceeds from the sale of debt securities available for sale were $25,522. Gross realized gains were $58 on these sales.

Continued on next page

(In Thousands)

Information pertaining to debt securities with gross unrealized losses at December 31, 2019 and 2018 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2019				
Debt securities available for sale				
Federal agency	**$ 387**	**$ 92,014**	**$ 665**	**$ 93,521**
Mortgage-backed	**1,880**	**427,943**	**227**	**39,070**
	$ 2,267	**$ 519,957**	**$ 892**	**$ 132,591**

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2018				
Debt securities available for sale				
Federal agency	$ 583	$ 147,988	$ 2,894	$ 565,764
Mortgage-backed	693	200,070	1,248	207,724
	$ 1,276	$ 348,058	$ 4,142	$ 773,488

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

At December 31, 2019 and 2018, no available for sale debt securities were written down as other-than-temporary impairments. The unrealized loss position is primarily driven by changes in interest rates and not due to underlying credit losses. The Bank has evaluated and concluded that it does not intend to sell any of these securities, and that it is more likely than not that it will not be required to sell prior to recovery.

Continued on next page

(In Thousands)

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2019 and 2018 is as follows:

	2019	2018
Commercial	**$ 2,078,573**	$ 2,039,833
Student	**1,183,943**	1,184,132
Residential	**628,319**	694,577
Agricultural	**647,108**	665,691
	4,537,943	4,584,233
Allowance for loan losses	**(95,690)**	(92,750)
	$ 4,442,253	$ 4,491,483

Unamortized deferred student loan costs totaled $20,710 and $14,476 as of December 31, 2019 and 2018, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $725 and $904 as of December 31, 2019 and 2018, respectively.

In the normal course of business, overdrafts of deposit accounts are reclassified as loans. There were no overdrafts of deposit accounts at December 31, 2019 and 2018.

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

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

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for credit losses of $95,690 adequate to cover loan losses inherent in the loan portfolio at December 31, 2019. 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)

	2019				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 72,618**	**$ 16,984**	**$ 3,105**	**$ 43**	**$ 92,750**
Charge-offs	**(4,317)**	**-**	**(334)**	**(46)**	**(4,697)**
Recoveries	**1,635**	**-**	**-**	**2**	**1,637**
Provision	**6,208**	**(273)**	**27**	**38**	**6,000**
Ending Balance	**$ 76,144**	**$ 16,711**	**$ 2,798**	**$ 37**	**$ 95,690**

	2018				
	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 65,712	$ 16,395	$ 2,490	$ 361	$ 84,958
Charge-offs	(5,977)	-	(131)	(49)	(6,157)
Recoveries	1,944	1	2	2	1,949
Provision	10,939	588	744	(271)	12,000
Ending Balance	$ 72,618	$ 16,984	$ 3,105	$ 43	$ 92,750

Continued on next page

(In Thousands)

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

	2019				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$ 54,323**	**$ 15,587**	**$ 2,798**	**$ 37**	**$ 72,745**
Individually evaluated	**21,821**	**1,124**	**-**	**-**	**22,945**
Total	**$ 76,144**	**$ 16,711**	**$ 2,798**	**$ 37**	**$ 95,690**

	2018				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 53,746	$ 16,004	$ 3,105	$ 43	$ 72,898
Individually evaluated	18,872	980	-	-	19,852
Total	$ 72,618	$ 16,984	$ 3,105	$ 43	$ 92,750

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

	2019				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$1,830,958**	**$ 572,964**	**$ 622,862**	**$ 37**	**$3,026,821**
Individually evaluated	**100,463**	**43,323**	**5,425**	**-**	**149,211**
Loan types excluded	**-**	**-**	**-**	**-**	**-**
from allowance	**147,152**	**30,821**	**32**	**1,183,906**	**1,361,911**
Total	**$2,078,573**	**$ 647,108**	**$ 628,319**	**$1,183,943**	**$4,537,943**

	2018				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 1,768,131	$ 596,230	$ 689,726	$ 43	$ 3,054,130
Individually evaluated	77,618	43,019	4,818	-	125,455
Loan types excluded					
from allowance	194,084	26,442	33	1,184,089	1,404,648
Total	$ 2,039,833	$ 665,691	$ 694,577	$ 1,184,132	$ 4,584,233

Continued on next page

The Bank's internally assigned ratings are as follows:

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

Continued on next page

(In Thousands)

The following table represents credit exposures by internally assigned risk ratings for the years ended December 31, 2019 and 2018. The rating analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk rating is based on experiences with similarly rated loans. Credit risk ratings are refreshed periodically as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance.

	2019				
Risk Rating	**Commercial Participations**	**Bank Stock**	**Business Loans (Including PACE)**	**Farm & Ranch**	**Farm Real Estate**
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	1,154	-	77,193	8,479	119
3	279,729	196,576	89,628	40,081	55,733
4	702,639	37,812	306,797	68,609	257,635
5	107,970	-	33,701	23,191	12,343
6	80,928	-	10,823	3,161	4,445
7	6,292	-	179	576	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	147,152	-	-
Total	$ 1,178,712	$ 234,388	$ 665,473	$ 144,097	$ 330,275

Risk Rating	**All Other Farm Loans**	**Residential Real Estate**	**Student Loans**	**Total**
No assigned risk rating	$ -	$ 628,287	$ 37	$ 628,324
1	-	-	-	-
2	1,993	-	-	88,938
3	20,622	-	-	682,369
4	86,626	-	-	1,460,118
5	23,080	-	-	200,285
6	9,438	-	-	108,795
7	156	-	-	7,203
8	-	-	-	-
Loan types excluded from allowance	30,821	32	1,183,906	1,361,911
Total	$ 172,736	$ 628,319	$ 1,183,943	$ 4,537,943

Continued on next page

(In Thousands)

	2018				
Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	251	-	140,677	6,097	130
3	229,485	191,660	89,187	47,433	57,842
4	707,588	44,083	233,365	88,227	234,861
5	95,274	-	24,725	19,639	26,685
6	72,951	-	3,531	4,491	1,879
7	10,250	-	2,703	628	-
8	19	-	-	-	-
Loan types excluded from allowance	-	-	194,084	-	-
Total	$ 1,115,818	$ 235,743	$ 688,272	$ 166,515	$ 321,397

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	**$ -**	**$ 694,544**	**$ 43**	**$ 694,587**
1	**-**	**-**	**-**	**-**
2	**1,944**	**-**	**-**	**149,099**
3	**17,847**	**-**	**-**	**633,454**
4	**84,966**	**-**	**-**	**1,393,090**
5	**37,866**	**-**	**-**	**204,189**
6	**8,612**	**-**	**-**	**91,464**
7	**102**	**-**	**-**	**13,683**
8	**-**	**-**	**-**	**19**
Loan types excluded from allowance	**26,442**	**33**	**1,184,089**	**1,404,648**
Total	**$ 177,779**	**$ 694,577**	**$ 1,184,132**	**$ 4,584,233**

Continued on next page

(In Thousands)

Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2019 and 2018. Also included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (1) well-secured and in the process of collection, (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual or (3) student loans where accrued interest is guaranteed.

	2019						
Loan Class	**31-60 days past due**	**61 - 90 days past due**	**Greater than 90 days**	**Total Past Due**	**Current**	**Total Loans**	**Investment >90 days and accruing**
Commercial Participations	$ 5,989	$ 3,391	$ 7,376	$ 16,756	$1,161,956	$1,178,712	$ 544
Bank Stock	-	-	-	-	234,388	234,388	-
All other Business Loans (Including PACE)	463	339	710	1,512	663,961	665,473	330
Farm & Ranch	2,475	108	796	3,379	140,718	144,097	780
Farm Real Estate	3,916	1,287	178	5,381	324,894	330,275	178
All other Farm loans	463	-	-	463	172,273	172,736	-
Residential Real Estate	17,058	6,298	8,332	31,688	596,631	628,319	8,306
Student Loans	8,111	3,452	12,321	23,884	1,160,059	1,183,943	12,284
Totals	$ 38,475	$ 14,875	$ 29,713	$ 83,063	$ 4,454,880	$ 4,537,943	$ 22,422

	2018						
Loan Class	31-60 days past due	61 - 90 days past due	Greater than 90 days	Total Past Due	Current	Total Loans	Investment >90 days and accruing
Commercial Participations	$ 10,903	$ 1,304	$ 13,853	$ 26,060	$ 1,089,758	$ 1,115,818	$ -
Bank Stock	-	-	-	-	235,743	235,743	-
All other Business Loans (Including PACE)	1,560	557	3,109	5,226	683,046	688,272	242
Farm & Ranch	5,396	-	1,360	6,756	159,759	166,515	1,359
Farm Real Estate	1,908	924	-	2,832	318,565	321,397	-
All other Farm loans	69	-	30	99	177,680	177,779	-
Residential Real Estate	15,753	5,422	11,620	32,795	661,782	694,577	11,518
Student Loans	6,561	2,749	15,221	24,531	1,159,601	1,184,132	15,178
Totals	$ 42,150	$ 10,956	$ 45,193	$ 98,299	$ 4,485,934	$ 4,584,233	$ 28,297

Continued on next page

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

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

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

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

Continued on next page

(In Thousands)

	2019				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ 29,938	$ 32,048	$ -	$ 32,248	$ 1,471
Bank Stock	180	180	-	264	16
All other Business Loans (Including PACE)	2,130	2,130	-	2,179	98
Farm & Ranch	10,004	10,004	-	10,550	758
Farm Real Estate	2,371	2,371	-	2,412	112
All other Farm loans	24,541	24,541	-	25,687	919
Residential Real Estate	5,425	5,425	-	5,505	212
With an Allowance Recorded:					
Commercial Participations	$ 61,413	$ 61,860	$ 20,317	$ 62,956	$ 2,251
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	6,802	6,802	1,504	6,963	320
Farm & Ranch	3,569	3,569	712	3,697	246
Farm Real Estate	-	-	-	-	-
All other Farm loans	2,838	2,838	412	2,990	88
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 91,351	$ 93,908	$ 20,317	$ 95,204	$ 3,722
Bank Stock	180	180	-	264	16
All other Business Loans (Including PACE)	8,932	8,932	1,504	9,142	418
Farm & Ranch	13,573	13,573	712	14,247	1,004
Farm Real Estate	2,371	2,371	-	2,412	112
All other Farm loans	27,379	27,379	412	28,677	1,007
Residential Real Estate	5,425	5,425	-	5,505	212

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

Continued on next page

(In Thousands)

	2018				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ 22,658	$ 22,658	$ -	$ 22,847	$ 902
Bank Stock	307	307	-	391	16
All other Business Loans (Including PACE)	2,175	2,175	-	2,235	105
Farm & Ranch	11,406	11,406	-	11,678	192
Farm Real Estate	2,513	2,513	-	2,542	139
All other Farm loans	25,421	25,421	-	26,649	1,102
Residential Real Estate	4,818	4,818	-	4,857	182
With an Allowance Recorded:					
Commercial Participations	$ 49,285	$ 50,418	$ 17,833	$ 53,065	$ 1,670
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	3,193	4,717	1,039	4,745	23
Farm & Ranch	2,078	2,078	603	2,100	-
Farm Real Estate	-	-	-	-	-
All other Farm loans	1,601	1,601	377	1,651	39
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 71,943	$ 73,076	$ 17,833	$ 75,912	$ 2,572
Bank Stock	307	307	-	391	16
All other Business Loans (Including PACE)	5,368	6,892	1,039	6,980	128
Farm & Ranch	13,484	13,484	603	13,778	192
Farm Real Estate	2,513	2,513	-	2,542	139
All other Farm loans	27,022	27,022	377	28,300	1,141
Residential Real Estate	4,818	4,818	-	4,857	182

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

Continued on next page

(In Thousands)

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

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

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

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

On the following table are the financing receivables on nonaccrual status as of December 31, 2019 and 2018. The balances are presented by class of financing receivable.

	2019	2018
Commercial Participations	**$ 15,966**	$ 21,001
All Other Business Loans (Including PACE)	**487**	3,039
Farm & Ranch	**1,136**	1,350
All Other Farm Loans	**405**	471
Residential Real Estate	**26**	102
Student Loans	**37**	43
TOTAL	**$ 18,057**	$ 26,006

Accruing loans 90 days or more past due include guaranteed student loans of $12,284 and $15,178 as of December 31, 2019 and 2018, respectively. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

Residential loans of $8,306 and $11,518 as of December 31, 2019 and 2018, respectively, are also included in accruing loans 90 days or more past due. In the event of a foreclosure a residential loan guaranteed by the Federal Housing Administration will be paid in full and the property title is transferred to them with the exception of flooded properties. The Department of Veterans Affairs has the option of paying their guaranty percentage and the Bank keeps the foreclosed property as well as any gain or loss from the sale or they can pay the loan in full and title is transferred to them.

Continued on next page

(In Thousands)

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.

The following table presents information related to loans modified in a troubled debt restructuring during the years ended December 31, 2019 and 2018. Eight of these loans subsequently defaulted after modification.

	2019		2018	
	Number of Modifications	**Recorded Investment**	Number of Modifications	Recorded Investment
Commercial Participations	**8**	**$ 16,666**	17	$ 22,633
All Other Business Loans (Including PACE)	**4**	**5,911**	4	1,501
Farm & Ranch	**3**	**886**	6	4,019
All Other Farm Loans	**5**	**3,079**	10	7,824
Residential Real Estate	**9**	**1,491**	9	1,098
TOTAL	**29**	**$ 28,033**	46	$ 37,075

Continued on next page

(In Thousands)

The following table presents the unpaid principal of loans modified in a troubled debt restructuring during the years ended December 31, 2019 and 2018, by type of modification.

	2019			
	To Interest Only	Below Market Rate	Other (1)	Total
Commercial Participations	**$ 4,819**	**$ 9,538**	**$ 2,309**	**$ 16,666**
All Other Business Loans (Including PACE)	**2,896**	**2,988**	**27**	**5,911**
Farm & Ranch	**236**	**-**	**650**	**886**
All Other Farm Loans	**3,079**	**-**	**-**	**3,079**
Residential Real Estate	**-**	**-**	**1,491**	**1,491**
TOTAL	**$ 11,030**	**$ 12,526**	**$ 4,477**	**$ 28,033**

	2018			
	To Interest Only	Below Market Rate	Other (1)	Total
Commercial Participations	$ 4,033	$ 4,751	$ 13,849	$ 22,633
All Other Business Loans (Including PACE)	-	304	1,197	1,501
Farm & Ranch	-	-	4,019	4,019
All Other Farm Loans	3,461	-	4,363	7,824
Residential Real Estate	-	-	1,098	1,098
TOTAL	$ 7,494	$ 5,055	$ 24,526	$ 37,075

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

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2019 and 2018.

Continued on next page

(In Thousands)

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND loan sales during 2019 and 2018 follows:

	2019	2018
Student loans sold on the secondary market	**$ -**	$ 245,663
Residential loans sold on the secondary market	**-**	28,905
	$ -	$ 274,568

BND recognized gains on sale of loans of $1,620 in 2018 which is included in non-interest income on the Statements of Income.

BND has contracts to provide servicing of loans for others. These loans are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others as of December 31, 2019 and 2018 were as follows:

	2019	2018
Student loans		
North Dakota Student Loan Trust	**$ 894**	$ 1,033
Residential loans		
Fannie Mae	**42,477**	44,523
Other state fund loans		
School Construction Assistance Revolving Loan Fund	**233,578**	188,000
Western Area Water	**74,500**	74,500
Infrastructure Revolving Loan Fund	**96,320**	77,896
Medical Facility Infrastructure Loan Fund	**44,714**	45,836
Rebuilders Loan Program	**24,985**	28,152
State Water Commission	**23,124**	24,137
Community Water Facility Loan Fund	**20,116**	21,344
Board of University and School Lands	**10,415**	13,560
Information Technology Department	**4,247**	4,753
Department of Human Services	**4,246**	4,622
Addiction Counseling Internship Loan Program	**110**	123
Workforce Safety	**84**	93
	$ 579,810	$ 528,572

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

Continued on next page

(In Thousands)

NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, furniture, and software at December 31, 2019 and 2018 is as follows:

	Balance 2018	Additions	Retirements	Balance 2019
Land	**$ 2,449**	**$ -**	**$ -**	**$ 2,449**
Building	**10,317**	**-**	**-**	**10,317**
Equipment	**731**	**86**	**85**	**732**
Furniture	**777**	**33**	**7**	**803**
Hardware	**173**	**-**	**5**	**168**
Software	**6,243**	**28**	**542**	**5,729**
	20,690	**147**	**639**	**20,198**
Less accumulated depreciation	**10,441**	**623**	**639**	**10,425**
	$ 10,249	**$ (476)**	**$ -**	**$ 9,773**

	Balance 2017	Additions	Retirements	Balance 2018
Land	$ 2,449	$ -	$ -	$ 2,449
Building	10,317	-	-	10,317
Equipment	736	22	27	731
Furniture	777		-	777
Hardware	173	-	-	173
Software	6,122	121	-	6,243
	20,574	143	27	20,690
Less accumulated depreciation	9,655	813	27	10,441
	$ 10,919	$ (670)	$ -	$ 10,249

Depreciation and amortization expense on the above assets amounted to $623 and $813 in 2019 and 2018.

NOTE 7 - DEPOSITS

At December 31, 2019, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 2,661,796
One to three years	86,333
Over three years	111,371
	$ 2,859,499

Continued on next page

(In Thousands)

NOTE 8 - REPURCHASE AGREEMENTS

The Bank enters into agreements to repurchase the same securities that it previously sold. These agreements may have a fixed maturity or be open-ended, callable at any time. There were no repurchase agreements as of December 31, 2019 and 2018.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2019	2018
Federal Home Loan Bank advances - long-term	**$ 206,000**	$ 426,375
Federal Home Loan Bank advances - short-term	**425,000**	677,000
ND Public Finance Authority, 3%, matures from September 2020 through September 2021	**30**	61
	$ 631,030	$ 1,103,436

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

	Principal	Interest	Total
2020	445,020	$ 5,444	$ 450,464
2021	78,010	4,591	82,601
2022	53,000	1,922	54,922
2023	40,000	763	40,763
2024	15,000	102	15,102
Totals	$ 631,030	$ 12,822	$ 643,852

The FHLB long-term advances outstanding at December 31, 2019, mature from February 2020 through March 2024. The FHLB long-term advances have fixed rate interest, ranging from 1.61% to 5.56%**.** All FHLB advances must be secured by minimum qualifying collateral maintenance levels. Residential, agriculture, and commercial loans with carrying values of $1,359,720 and $1,466,515 at December 31, 2019 and 2018, respectively, are currently being used as security to meet these minimum levels.

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

Continued on next page

(In Thousands)

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

	2019	2018
Interest payable	**$ 2,545**	$ 1,367
Salary and benefits payable	**2,674**	2,668
Interest rate swap payable	**24,840**	2,544
Accounts payable, accrued expenses and other liabilities	**3,889**	2,610
	$ 33,947	$ 9,190

NOTE 11 - PENSION PLAN

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

NDPERS is a multi-employer defined benefit pension plan covering substantially all classified employees of Bank of North Dakota. The Plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred, or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

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

Continued on next page

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% of the participant's salary be contributed to the Plan by either the employee or by the employer under a "salary reduction" agreement. Bank of North Dakota is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 2019 and 2018 were approximately $1,413 and $1,399, respectively, and are charged directly to operations. There were no surcharges paid by the Bank to the Plan in 2019 and 2018.

Specific plan assets and accumulated benefit information for the Bank's portion of the fund is not available. Under the Employee Retirement Income and Security Act of 1974 ("ERISA"), a contributor to a multi-employer pension plan may be liable in the event of complete or partial withdrawal for the benefit payments guaranteed under ERISA, but there is no intention to withdraw. NDPERS operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under ERISA and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Plan. As of December 31, 2019, and 2018, there were no funding improvement plans or rehabilitation plans implemented. The Plan is a single plan under Internal Revenue Code 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. The Bank's contributions to the Plan do not represent more than 5 percent of total contributions to the Plan as indicated in the Plan's most recently available annual report as of June 30, 2019. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action – Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2019 and ending June 30, 2021. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1014, Section 9 – 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, 2019 and ending June 30, 2021. 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, 2019, the Bank had transferred $35,000.

H.B. 1014, Section 10 – 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, 2019, the Bank had transferred $7,000.

H.B. 1014, Section 11 – The Bank shall transfer up to $4,000 from its current earnings and undivided profits to the Agriculture Partnership in Assisting Community Expansion Fund. As of December 31, 2019, the Bank had transferred $750.

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H.B. 1014, Section 12 – The Bank shall transfer up to $1,000 from its current earnings and undivided profits to the Biofuels Partnership in Assisting Community Expansion Fund. As of December 31, 2019, the Bank had transferred $0.

H.B. 1014, Section 13 – The Bank shall transfer up to $6,000 from its current earnings and undivided profits to the Beginning Farmer Revolving Loan Fund. As of December 31, 2019, the Bank had transferred $1,750.

H.B. 1014, Section 14 – The Bank shall transfer the sum of $15,000 or so much of the sum as may be necessary from its current earnings and undivided profits to the North Dakota Development Fund to purchase existing venture capital assets held by the Bank for the biennium beginning July 1, 2019 and ending June 30, 2021. As of December 31, 2019, the Bank had transferred $15,000.

H.B. 1014, Section 23 – The Bank shall transfer the sum of $20,000 from its current earnings and undivided profits to the Statewide Interoperable Radio Network Fund (SIREN) once SIREN has accessed and utilized the $80,000 line of credit from the Bank for the biennium beginning July 1, 2019 and ending June 30, 2021. As of December 31, 2019, the Bank had transferred $0.

H.B. 1435, Section 6 – The Bank shall extend a line of credit not to exceed $80,000 to the Information Technology Department at the prevailing interest rate charged to North Dakota governmental entities for the purpose of defraying the expenses of the statewide interoperable radio network for the biennium beginning July 1, 2019 and ending June 30, 2021. The term of the loan may not exceed 20 years. As of December 31, 2019, there was no outstanding loan balance.

S.B. 2014, Section 22 – The Bank of North Dakota's budget approved during the 2015-2017 Session included $17,000 from the assets of the Bank of North Dakota which could be used for the purpose of constructing a North Dakota Financial Center on a site adjacent to the existing building on which the Bank is located. Legislation passed during that Session stated that the Bank may spend the funding only if the Bank's net income, reported in accordance with Financial Accounting Standards Board accounting standards, for calendar year 2015 exceeds $125,000. The Bank's net income exceeded this threshold as of December 31, 2015. During the 2017-2019 Session, language was modified to state that the funding appropriated for this purpose is available through June 30, 2021. No costs have been incurred through December 31, 2019 and 2018.

H.B. 1003, Section 29 – The Bank shall transfer the sum of $10,000 or so much of the sum as may be necessary from its current earnings and undivided profits to institutions under the control of the State Board of Higher Education for TIER II capital building funds as requested by the Commissioner of Higher Education for the biennium beginning July 1, 2019 and ending June 30, 2021. As of December 31, 2019, the Bank had transferred $0.

H.B. 1003, Section 30 – The Bank shall transfer the sum of $7,000 or so much of the sum as may be necessary from its current earnings and undivided profits to the North Dakota University System to the TIER III capital building fund pool as requested by the Commissioner of Higher Education for the biennium beginning July 1, 2019 and ending June 30, 2021. As of December 31, 2019, the Bank had transferred $0.

H.B. 1003, Section 32 – The Bank shall transfer to the University of North Dakota a total of $1,500, or so much as the sum as may be necessary and to North Dakota State University a total of $1,500, or so much as the sum as may be necessary, from the current earnings and accumulated profits of the Bank for campus network upgrades, for the biennium beginning July 1, 2019 and ending June 30, 2021, as requested by the Commissioner of Higher Education. As of December 31, 2019, the Bank had transferred $0.

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H.B. 1012, Section 7 – 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, 2019 and ending June 30, 2021. As of December 31, 2019, there was no outstanding balance.

H.B. 1171, Section 3 & 4 – The Bank shall transfer to the Skilled Workforce Student Loan Repayment Program $3,000, or so much as the sum as may be necessary and to the Skilled Workforce Scholarship Fund a total of $3,000, or so much as the sum as may be necessary from the current earnings and accumulated profits of the Bank during the effective date of this act and ending June 30, 2021. As of December 31, 2019, the Bank had transferred a total of $200.

H.B. 1333, Section 2 – The Bank shall transfer the sum of $15,000 or so much of the sum as may be necessary from its current earnings and undivided profits to the Innovation Loan Fund to support technology advancement for the purpose of providing technology loans during the biennium beginning July 1, 2019 and ending June 30, 2021. As of December 31, 2019, the Bank had transferred $100.

S.B. 2020, Section 17 – The Bank of North Dakota shall extend a line of credit not to exceed $75,000 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 water supply projects approved before June 30, 2021, and flood control projects that have approval for funding before June 30, 2021. As of December 31, 2019, there was no outstanding loan balance.

S.B. 2009, Section 9 – The Bank shall transfer the sum of $2,000 or so much of the sum as may be necessary from its current earnings and undivided profits to the Agriculture Commissioner for deposit in the Agriculture Products Utilization Commission Fund during the biennium beginning July 1, 2019 and ending June 30, 2021. As of December 31, 2019, the Bank had transferred $2,000.

S.B. 2019, Section 12 – The Parks and Recreation Department may borrow from the Bank $3,000 or the sum as may be necessary, which is appropriated to the Parks and Recreation Department for matching nonstate funds that may become available for capital projects at the International Peace Garden, for the biennium beginning July 1, 2019 and ending June 30, 2021. The Parks and Recreation Department shall request from the sixty-seventh legislative assembly an appropriation to repay any outstanding loans authorized. As of December 31, 2019, there was no outstanding balance.

S.B. 2024, Section 3 – It is the intent of the sixty-sixth 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-sixth 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-sixth 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, 2019 and 2018 was $13,362 and $14,778, respectively.

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

S.B. 2178, Section 1 – 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 for the following: (a) New or replacement of existing water treatment plants; (b) New or replacement of existing wastewater treatment plants; (c) New or replacement of existing sewer lines and water lines; and (d) New or replacement of existing storm water and transportation infrastructure, including curb and gutter construction. As of December 31, 2019, outstanding loans totaled $96,320.

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, 2019, the outstanding balance was $61,739.

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S.B. 2272, Section 4 – Provides for the creation of the School Construction Assistance Revolving Loan Fund. The School Construction Assistance Revolving Loan Fund is a special revolving loan fund administered by the Bank of North Dakota. The Fund consists of all moneys appropriated or transferred to the Fund by the Legislative Assembly and all interest or other earnings of the Fund, and all repayments of loans made from the Fund. Moneys in the Fund, interest upon the moneys in the Fund, and payments to the Fund of principal and interest are appropriated to the Bank of North Dakota on a continuing basis for the purpose of providing low-interest school construction loans and for paying administrative costs, in accordance with this section. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The maximum loan amount for which a school district may qualify is $10,000. The term of the loan is twenty years, unless the board of the school district requests a shorter term in the written loan application. The interest rate of the loan may not exceed two percent per year. The Bank may adopt policies and establish guidelines to administer this loan program in accordance with this section. The Bank of North Dakota may use a portion of the interest paid on the outstanding loans as a servicing fee to pay for administration costs which may not exceed one - half of one percent of the amount of the interest payment. The Bank of North Dakota shall deposit principal and interest payments made by school districts for loans under this section in the School Construction Assistance Revolving Loan Fund. The Bank of North Dakota shall arrange for the conduct of an annual audit of the School Construction Assistance Revolving Loan Fund, the cost of which must be paid from the Fund and which must be conducted by an independent accounting firm. As of December 31, 2019, outstanding loans in the School Construction Assistance Revolving Loan Fund totaled $233,578.

S.B. 2214, Section 1 – The Office of Management and Budget shall transfer the sum of $75,000 from the Foundation Aid Stabilization Fund to the School Construction Assistance Revolving Loan Fund during the biennium July 1, 2019 and ending June 30, 2021. Of the $75,000 transferred from the Foundation Aid Stabilization Fund, $35,000 is from funding available in the Fund on June 30, 2019, and $40,000 is from earnings anticipated to be deposited into the Fund during the biennium beginning July 1, 2019 and ending June 30, 2021. Pursuant to the continuing appropriation authority under section 15.1-36-08, $5,000, 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, 2019, the Office of Management and Budget transferred $35,000 to the School Construction Assistance Revolving Loan Fund. As of December 31, 2019, $57,849 in school construction assistance revolving loans have been transferred from the Bank to the School Construction Assistance Revolving Loan Fund.

S.B. 2311, Section 1 – The Bank of North Dakota shall provide a letter of credit to a city, in the northwest corner of the state with a population over twenty thousand residents, which is constructing an airport and is subject to the bonding requirements under section 52-04-06.1. The letter of credit shall cover the length of the construction term not to exceed five years. The Bank of North Dakota shall charge a one-time fee of no more than three quarters of one percent of the total amount of the letter of credit. The city obtaining the letter of credit assumes all liability for the letter of credit, the fee to be paid to the Bank of North Dakota, and any other requirements under section 52-04-06.1. As of December 31, 2019, the letter of credit has been provided.

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S.B. 2008, Section 4 – The Bank of North Dakota shall transfer from the Beginning Farmer Revolving Loan Fund to the Public Service Commission the sum of $900, or so much of the sum as may be necessary, included in the estimated income line item in section 1 of this Act to pay for costs associated with a rail rate complaint case. Transfers must be made during the biennium beginning July 1, 2019, and ending June 30, 2021, 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, 2019, the Bank had transferred $0.

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, 2019, 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, 2019, and 2018, the Bank has guarantees outstanding totaling $508 and $807, 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, 2019 and 2018.

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, 2019, 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, 2019, the outstanding loan balance was $0.

Theodore Roosevelt Presidential Library Museum Endowment Fund – Bank of North Dakota Loan

Chapter 54-08-03.8 the Governor may obtain a loan from the Bank in an amount not to exceed $35,000. The term may not exceed six years and the interest rate must be set at the prevailing interest rate charged by the Bank to other governmental entities. The Governor shall repay the loan from funds appropriated by the Legislative Assembly. As of December 31, 2019, 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 $50,000. 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, 2019, the balance in the reserve fund was $0.

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, 2019, and 2018, the Bank has guarantees outstanding totaling $7,053 and $8,070, respectively, and had guarantee commitments outstanding of $328 and $613, 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, 2019 and 2018.

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(In Thousands)

NOTE 13 - RELATED PARTY TRANSACTIONS

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

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

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,163,196 and $1,169,613 at December 31, 2019 and 2018, respectively.

In the ordinary course of business, the Bank holds loans and deposits of principal officers and directors and their affiliates. Outstanding principal balances of these loans held by the Bank at December 31, 2019 and 2018 amounted to $31,123 and $27,646, respectively. Deposits and short-term borrowings held by the Bank were $5,232 and $4,995, 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, 2019 the Bank had a receivable from this program for $9,325. At year end December 31, 2018 the Bank had a receivable from this program for $10,288.

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial standby letters of credit, and guarantees related to loan programs as discussed in Note 12. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2019	2018
Commitments to extend credit	**$ 911,809**	$ 861,421
Financial standby letters of credit	**415,755**	412,614
Guarantees provided	**7,889**	9,490

Continued on next page

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

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

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party which require this type of facility. The maturities for these letters of credit range from one month to ten years, and the likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments. The Bank also has letters of credit with the North Dakota Public Finance Authority (NDPFA) with maturities ranging from 17 months to 29 years. If the letters issued to the NDPFA were ever drawn upon, the NDPFA is legally obligated to reimburse the Bank from funds legally available, or from any appropriation made available from the Legislative Assembly after certification by the Industrial Commission. The likelihood of funding any of these letters of credit is also considered to be remote. Outstanding issued letters of credit as of December 31, 2019 and 2018 were $108,645 and $106,834, respectively.

Confirming letters of credit are issued to North Dakota financial institutions to support letters of credit they have issued but are still in need of backing from an institution with a long-term, high quality bond rating. In the event these letters were to be drawn upon, based on the terms of the agreement, the Bank would immediately withdraw funds from the institution's correspondent bank account held at the Bank to cover the amount drawn. These agreements generally have terms of 12 months or less. The likelihood of funding any of these confirming letters of credit is also considered to be remote. Outstanding issued confirming letters of credit as of December 31, 2019 and 2018 were $3,950 and $3,525, 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 $303,160 and $302,255 at December 31, 2019 and 2018, 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, 2019 and 2018.

Continued on next page

(In Thousands)

NOTE 15 - INTEREST RATE SWAP CONTRACTS

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

The Bank has outstanding interest rate swap agreements with a notional amount totaling $545,000 as of December 31, 2019, and $350,000 as of December 31, 2018, to convert variable rate federal funds and variable rate LIBOR-indexed deposits into fixed-rate instruments over the term of the contracts. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements. These cash flow hedges were determined to be fully effective during all periods presented, and as such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets or other liabilities with changes in fair value recorded in other comprehensive income (loss). In the event a hedge is no longer considered effective, the resulting impact would be reclassified to current year earnings. The Bank expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table summarizes the derivative financial instruments utilized at December 31, 2019:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other assets	**$ 50,000**	**$ 4,003**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 2,462**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 1,722**	
Cash flow hedge	Other assets	**$ 45,000**	**$ 194**	
Cash flow hedge	Other liabilities	**$ 50,000**		**$ 3,174**
Cash flow hedge	Other liabilities	**$ 50,000**		**$ 4,493**
Cash flow hedge	Other liabilities	**$ 50,000**		**$ 4,826**
Cash flow hedge	Other liabilities	**$ 50,000**		**$ 4,001**
Cash flow hedge	Other liabilities	**$ 50,000**		**$ 1,278**
Cash flow hedge	Other liabilities	**$ 50,000**		**$ 5,468**
Cash flow hedge	Other liabilities	**$ 50,000**		**$ 1,600**

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(In Thousands)

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received at December 31, 2019:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	**$ 50,000**	**9.4**	**$ (5,468)**	**1.55%**	**2.86%**
Interest rate swap	**$ 50,000**	**10.3**	**$ (1,278)**	**1.55%**	**1.92%**
Interest rate swap	**$ 50,000**	**11.7**	**$ 1,722**	**1.71%**	**1.48%**
Interest rate swap	**$ 50,000**	**12.3**	**$ (3,174)**	**1.71%**	**2.39%**
Interest rate swap	**$ 50,000**	**12.5**	**$ (1,600)**	**1.55%**	**1.99%**
Interest rate swap	**$ 50,000**	**13.3**	**$ (4,493)**	**1.55%**	**2.47%**
Interest rate swap	**$ 50,000**	**13.5**	**$ (4,826)**	**1.55%**	**2.52%**
Interest rate swap	**$ 50,000**	**14.3**	**$ (4,001)**	**1.55%**	**2.36%**
Interest rate swap	**$ 50,000**	**14.8**	**$ 4,003**	**1.55%**	**1.15%**
Interest rate swap	**$ 50,000**	**14.8**	**$ 2,462**	**1.55%**	**1.38%**
Interest rate swap	**$ 45,000**	**3.8**	**$ 194**	**1.55%**	**1.33%**

Amongst all swap counterparties for the transactions noted above, the Bank has pledged $20,470 in cash under collateral arrangements related to the interest rate swaps at December 31, 2019, to satisfy the collateral requirements. The pledged cash under collateral arrangements is included with cash and due from banks.

The following table summarizes the derivative financial instrument utilized at December 31, 2018:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other assets	$ 50,000	$ 2,492	
Cash flow hedge	Other assets	$ 50,000	$ 2,710	
Cash flow hedge	Other assets	$ 50,000	$ 6,240	
Cash flow hedge	Other assets	$ 50,000	$ 1,404	
Cash flow hedge	Other liabilities	$ 50,000		$ 2,180
Cash flow hedge	Other liabilities	$ 50,000		$ 45
Cash flow hedge	Other liabilities	$ 50,000		$ 320

Continued on next page

(In Thousands)

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received at December 31, 2018:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	$ 50,000	10.4	$ (2,180)	2.28%	2.86%
Interest rate swap	$ 50,000	11.3	$ 2,492	2.28%	1.92%
Interest rate swap	$ 50,000	12.7	$ 6,240	2.35%	1.48%
Interest rate swap	$ 50,000	13.3	$ 1,404	2.35%	2.39%
Interest rate swap	$ 50,000	13.5	$ 2,710	2.28%	1.99%
Interest rate swap	$ 50,000	14.3	$ (45)	2.28%	2.47%
Interest rate swap	$ 50,000	14.5	$ (320)	2.28%	2.52%

Amongst all swap counterparties for the transactions noted above, the Bank holds a net $12,150 in cash pledged under collateral arrangements related to the interest rate swaps at December 31, 2018, to satisfy the collateral requirements. The pledged cash under collateral arrangements is included with cash and due from banks.

Interest expense recorded on these swap transactions totaled $198 and $896 as of December 31, 2019 and December 31, 2018, and is reported as a component of interest expense on short- and long-term debt.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

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

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Determination of Fair Value

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

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

Debt Securities Available for Sale

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

Loans

The carrying value of loans is described in Note 1, "Summary of Significant Accounting Policies". The Bank does not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for ASC 825-10 disclosure purposes. However, from time to time, the Bank records nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

The fair value estimates for ASC 825-10 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by product and loan rate.

- The fair value of student loans is based on market values as established by the secondary market.
- For real estate 1-4 family first and junior lien mortgages, fair value is based on market values as established by the secondary market.
- The fair value of all other loans is calculated by discounting contractual cash flows using discount rates that reflect our current pricing for loans with similar characteristics and remaining maturity.
- Off-Balance Sheet Credit-Related Instruments include loan commitments, standby letters of credit, and guarantees. These instruments generate ongoing fees at our current pricing levels, which are recognized over the term of the commitment period. The fair value of these instruments is estimated based upon fees charged for similar agreements. The carrying value of the deferred fees is a reasonable estimate of the fair value of the commitments.

Continued on next page

(In Thousands)

Interest Rate Swap Agreements

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and 2018.

	2019			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 81,375	$ -	$ 81,375	$ -
Collateralized mortgage obligations				
Agency	945,390	-	945,390	-
Non-agency	12	-	12	-
Agency bonds	954,690	954,690	-	-
Municipal bonds	1,000	-	1,000	-
Interest rate swaps	8,381	-	8,381	-
Totals	$ 1,990,848	$ 954,690	$ 1,036,158	$ -
LIABILITIES				
Interest rate swap	$ 24,840	$ -	$ 24,840	$ -
Totals	$ 24,840	$ -	$ 24,840	$ -

Continued on next page

(In Thousands)

	2018			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 153,591	$ -	$ 153,591	$ -
Collateralized mortgage obligations				
Agency	517,387	-	517,387	-
Non-agency	23	-	23	-
Agency bonds	1,181,805	1,181,805	-	-
Municipal bonds	1,000	-	1,000	-
Interest rate swap	12,846	-	12,846	-
Totals	$ 1,866,652	$ 1,181,805	$ 684,847	$ -
LIABILITIES				
Interest rate swap	$ 2,545	$ -	$ 2,545	$ -
Totals	$ 2,545	$ -	$ 2,545	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

The tables below presents the Bank's balances of financial instruments measured at fair value on a nonrecurring basis at December 31, 2019 and 2018.

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

Continued on next page

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

	2019		
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	**$ -**	**$ -**	**$ 126,266**
Totals	**$ -**	**$ -**	**$ 126,266**

	2018		
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ -	$ -	$ 105,603
Totals	$ -	$ -	$ 105,603

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Continued on next page

(In Thousands)

The changes in accumulated other comprehensive income by component for the years ended December 31, 2019 and 2018 follows:

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2019			
Beginning balance	**$ (158)**	**$ 10,301**	**$ 10,142**
Other comprehensive income (loss) before reclassifications	**14,964**	**(26,760)**	**(11,797)**
Amount reclassified from accumulated other comprehensive income	**-**	**-**	**-**
Net current period other comprehensive income	**14,964**	**(26,760)**	**(11,797)**
Ending balance	**$ 14,805**	**$ (16,459)**	**$ (1,654)**

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2018			
Beginning balance	$ 286	$ 2,669	$ 2,954
Other comprehensive income (loss) before reclassifications	(703)	7,632	6,929
Amount reclassified from accumulated other comprehensive income	259	-	259
Net current period other comprehensive income	(444)	7,632	7,188
Ending balance	$ (158)	$ 10,301	$ 10,142

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The line items in the statements of income affected by the reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2019 and 2018 is as follows:

2019

Details About Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement where Net Income is Presented**
Unrealized gains and losses on available for sale debt securities	**$ -**	**Other operating expenses**

2018

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement where Net Income is Presented
Unrealized gains and losses on available for sale debt securities	$ (259)	Other operating expenses

Continued on next page

(In Thousands)

NOTE 18 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2019	2018
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 27,189**	$ 16,950
Interest paid on federal funds purchased and securities sold under repurchase agreements	**6,461**	4,693
Interest paid on short and long-term debt	**23,688**	25,128
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**80,109**	128,614
Net change in fair value on debt securities available for sale	**14,964**	(444)
Net change in fair value on interest rate swaps	**(26,760)**	7,632
Foreclosed assets acquired in exchange for loans	**8,052**	986

NOTE 19 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

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

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

Continued on next page

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

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

The Bank adopted the ASU using the modified retrospective method as of January 1, 2019. The adoption of this ASU did not result in a change to the accounting for any of the in-scope revenue streams; as such no cumulative effect adjustment was recorded on the Bank's financial statements.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2020, which is the date these financial statements were available to be issued.

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