

BANK OF NORTH DAKOTA

LINDA ALBERY PEGGY ANDERSON
RODNEY ANHELUK JENIFER ARTESEROS TIM ATKINSON MITCH AUE
TINA AXT BOB BAIER CONNIE BARDEN DEBBY BARTH LYNELL
BAUMGARTNER BETTY BECKER MARLA BELOHLAVEK STAN BENSON
JEFF BERGER RENEE BERRETH BILL BLUMHAGEN DOREN
BLUMHAGEN TROY BOEHM JANELL BOSCH MARLENE BRAUN SYLVIA
BROCKMAN SHELLY BROWN TAMMY CARLSON GAYLE CIAVARELLI
ANNETTE CURL SHEILA CURL SUE DAVY WANDA DELVO CRYSTAL
DERINGER JULIE DESAUTEL CLARA DOCKTER LYNDA DOLL GENELLE
DOLLINGER ALVA DRAEGER LORETTA DUMA DALE EBERLE MARCO
EHLI KAREN EISENBEIS WALLY ERHARDT JOEL ERICKSON RHONDA

ERICKSON ROSE ESPERLAND DAVID FALKENSTEIN CHAR FEIST NANCY
FEIST JOYCE FECH PATTY FILLION ELAINE FISCHER DAN FISHER
DAVID FISHER REYNE FISHER LUCY FLECKENSTEIN JULIE FLEMMING
ESTHER FOCKE DONNA FREY MARY FROHLICH JUDI FUCHS LOUISE
GABRIEL CLAUDINE GALT NANCY GLASS SHIRLEY GLASS MIRANDA
GREEN LARRY GROSS LEON GROSS DONNA GYTH ERIC HARDMEYER
KRIS HASKINS LORI HAUSAUER PAULA HAYWARD GAYLE HEINLE ROBERT

HIEB LANCE HILL RODNEY HOFF SHARON HOFFMANN TRUDI HOGUE
BOB HUMANN STACEY IRON ROAD KAREN IVERSON EVELYN JOCHIM
JIM KAISER MARSHA KAUK KIM KAUTZMAN KAREN KELLER TRACY
KETTERLING MARINA KHACHATURYAN DONNA KIENZLE KATHLEEN
KNUDSON JOHN KRAMER JENNY KRINGSTAD JULIE KUBISIA
SHARON KUNTZ LISA LANG PHYLLIS LASHER MELISSA LEHDE JILL
LEIER LADONNA LEINGANG CINDY LUND RICHARD MARQUARDT

JOANN MARSH KIRBY MARTZ ARDEAN MASSETH KENT MASSETT
GLEN MATERI JULIE MCCABE AUDREE MCLEAN RHONDA MENDIETA
JAMIE MERTZ KIM MILLER LAURA MILLER TRACY MITZEL LESLIE
MOSZER ROBERTA MUELLER KIM NEIGUM ROXANNE NELSON STEVEN
NOLZ AL NOSBUSCH SUE NUELLE EDDY OLSON TANYA OLSON LAUREN
PFLIGER DAVE PLUM STACEY POFFENBERGER TIM PORTER SPIRO

QUAINOO TOM REDMANN YVONNE REGNIER DEB REISENAUER
YVONNE REMMICK BRENDA RENNER TERI RIEDINGER LORETTA RIEH
DONNA ROLL LINDA ROSEN ED SATHER LORI SAYLER KAREN
SCHADLER DANIKA SCHELL ROBIN SCHIMKE HOLLY SCHIRADO KUPA
SCHIRADO MELINDA SCHIRADO DON SCHMID LESLIE SCHMIDT
DOROTHY SCHMITZ BONNIE SCHNEIDER TOM SCHOEDER BRUCE
SCHUMACHER JANET SCHWAB MARCIE SEAGREN SUE SEMINAR

LINDA SITZ PERRY SMITH DIANE SPERLE MAGGIE SPITZER DOUG
SPRYNCZYNATYK ALYCE STARCK BERTHA STICKA CHERYL STORHAUG
ROD STORHAUG KAREN STROM DEB THEISEN WANDA THESING
JEANNE THOMAS BRAD THOMPSON RHONDA VETTER SHIRLEY
VETTER TIMI VOLKERT DUANE WAGNER SHIRLEY WAGNER CECILIA
WANNER AL WELLS BOB WELLS DUNE WILCKEN KATHY

TEAM BND

Amid a year of economic volatility and the national tragedy of September 11, Bank of North Dakota (BND) continued its solid performance under the direction of new President Eric Hardmeyer.

For the sixth consecutive year, BND realized record profits with a net income of \$33.1 million. For the first time in its history, the Bank had footings in excess of \$2 billion.

Development of new programs and partnerships contribute to BND's financial success, promote growth, and provide opportunities across the state. BND partners with the State Industrial Commission, a number of organizations and local economic development groups including: Department of Commerce, Rural Department of Agriculture, Small Business Administration and One Stop Capital Center. BND believes these relationships are critical as we deliver quality programs and services to expand the economy of North Dakota.

Another key to financial strength is the increased emphasis on teamwork at BND. Teams were formed

to address key business initiatives, strategic planning and process improvements. Four of BND's strategic initiatives, along with the implementation teams, are featured in this report.

The foundation for these initiatives are Bank of North Dakota's core values which guide BND in providing quality service to customers and the state of North Dakota. The core values are:

SERVICE - Excel and Deliver - Make decisions based on customer needs and preferences; recognizing the importance of continuous improvement, cost effectiveness and timeliness.

TEAMWORK - Together We Accomplish More - Provide a positive work environment that fosters communication, respect, empowerment, accountability, commitment and partnerships.

ETHICS - Do the Right Thing - Expect honesty and promote integrity and trust.

PEOPLE - Set Us Apart - Provide a work culture that respects differences, encourages employee creativity and development, promotes work/personal balance and recognizes individuals for their unique contributions.

STANDING TIM PORTER WANDA THESING LINDA ALBERY GAYLE CIAVARELLA
 LINDA ROSEN DORENA BLUMHAGEN
 LESLIE MOSZER SUE SEMINARY JIM KAISER
 SITTING PATTY FILLION DONNA ROLL
 LESLIE SCHMIT SUE NUELLE RHONDA MENDIETA



THE CULTURE TEAM

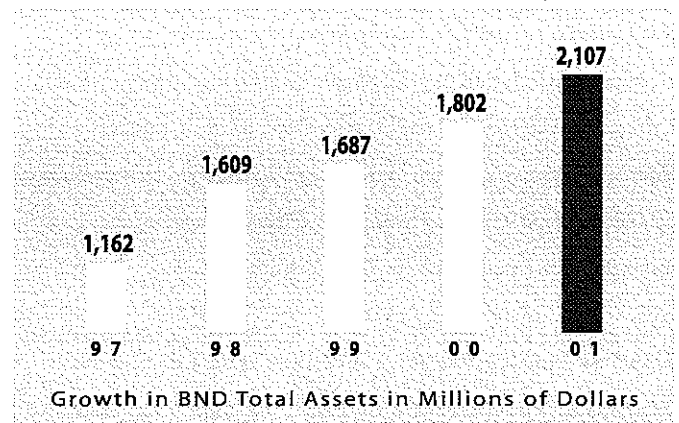
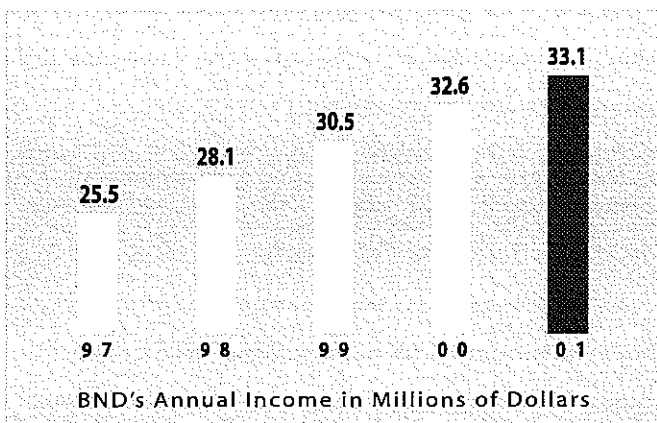
BND's Culture Team is responsible for defining and integrating core values for BND. The core values are a compass for the Bank as people work together to deliver sound financial services to customers.

These core values are the foundation of Team BND as employees work together to serve customers throughout the state.

With the customer in mind, Bank of North Dakota successfully implemented new Web-based technology. As part of the Bank's critical e-commerce initiative, BND is utilizing technology to serve customers in new ways. Over the past year, BND improved service and increased interaction on the Web site by providing college students and college financial aid officials student loan information online. In 2002, technology upgrades will provide greater functionality to BND's Web site. Technology

remains a cornerstone of customer service, and with each enhancement, the Bank connects with customers in new ways.

In addition to technology, the Bank continues its tradition of enriching the future of North Dakotans by implementing and expanding programs, improving loan processes, and staying in tune with the customer's needs. The Beginning Farmer Program was expanded beyond real estate, to provide financing for beginning farmers who wish to purchase equipment and livestock. This is an important change that fits with the ever-changing agricultural landscape. The Bank teamed with the



LEFT TO RIGHT SUE SEMINARY FAY BEHM DALE EBERLE JIM KAISER
 SUE DAVY DAVE FISHER DONNA FREY
 SHIRLEY VETTER SHIRLEY GLASS
 BONNIE SCHNEIDER

The Customer Service Team is working to assure BND procedures, processes and facilities are in place to provide exceptional customer service.



THE CUSTOMER SERVICE TEAM

State Water Commission to expand the AG Pace Program, doubling the amount of interest buy down a customer can receive to assist or expand into irrigation. This change allows customers the ability to seek up to \$40,000 in interest buy down funds.

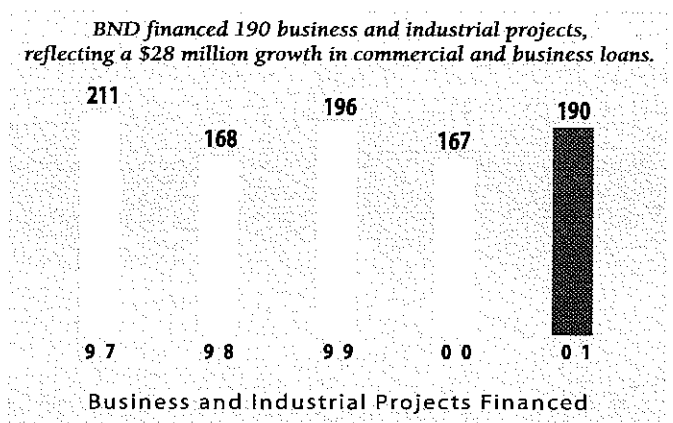
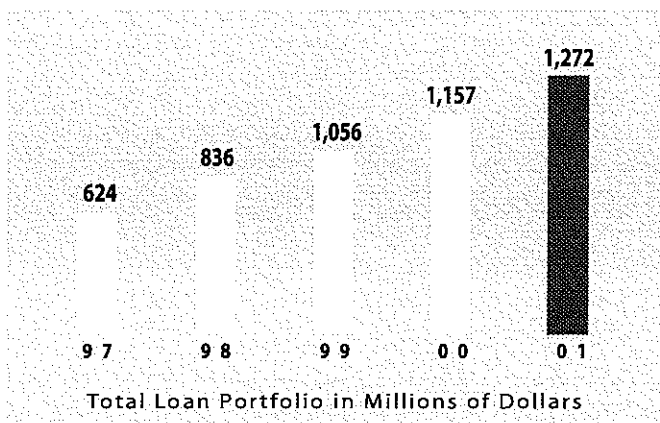
An exciting program implemented this year in partnership with the Industrial Commission, state legislators, and financial service providers is the College SAVE plan. College SAVE compliments the Bank's efforts to assist North Dakotans in financing the increasing cost of higher education. The plan is a "529 Plan" that provides customers a variety of investment options for college education savings

with substantial tax advantages. This team effort provides benefits to students, financial organizations and all citizens of North Dakota.

Teamwork Leads to Financial Success

Teamwork played a significant role in BND achieving record profits. Net income for 2001 was \$33.1 million, an increase of 1.5 percent over 2000. Return on assets was 1.68 percent and return on equity was 19.8 percent. Bank of North Dakota assets increased 16.7 percent to a record \$2.1 billion at year end.

Loan growth trends continued with an increase of \$116 million, an increase of 10 percent, to



**STANDING DAVE PLUM BRUCE SCHUMACHER
LADONNA LEINGANG JULIE KUBISIAK
SITTING KIM KAUTZMAN
JULIE MCCABE LINDA ALBERY
DEBBIE BARTH**



BND's Marketing Team is charged with developing universal standards for Bank of North Dakota's image and marketing plan.

THE MARKETING TEAM

**STANDING GLEN MATERI JIM LEIER
ED SATHER
ALLEN WEISBECK TIM PORTER
SITTING KIRBY MARTZ
STAN BENSON JULIE KUBISIAK**

The Financial Measurement Team was created to identify, define, and implement financial tools and measures that support achievement of BND's mission and financial objectives.



THE FINANCIAL MEASUREMENT TEAM

\$1.27 billion at year-end. Growth came in all four major loan categories: residential, business, agriculture and student loans.

- *BND teamed with higher-education and provided \$96 million in new student loans. After pay down and sales, net growth of the student loan portfolio was \$22.5 million.*
- *With 2001's decreased interest rates, residential real estate loan growth was a robust \$55 million.*
- *The Bank's commitment to economic development is reflected by its \$28 million of growth in commercial and business loans. BND loan programs financed 190 business and industrial projects.*
- *Despite seeing significant run-off due to refinancing, the Bank saw an increase of over \$14 million in net growth in agricultural loans.*

Overall, the Bank's loan portfolio continues to be balanced with student loans accounting for 31 percent, business loans 31 percent, residential loans 20 percent and agricultural loans at 18 percent. This balance provides necessary diversity and helps generate

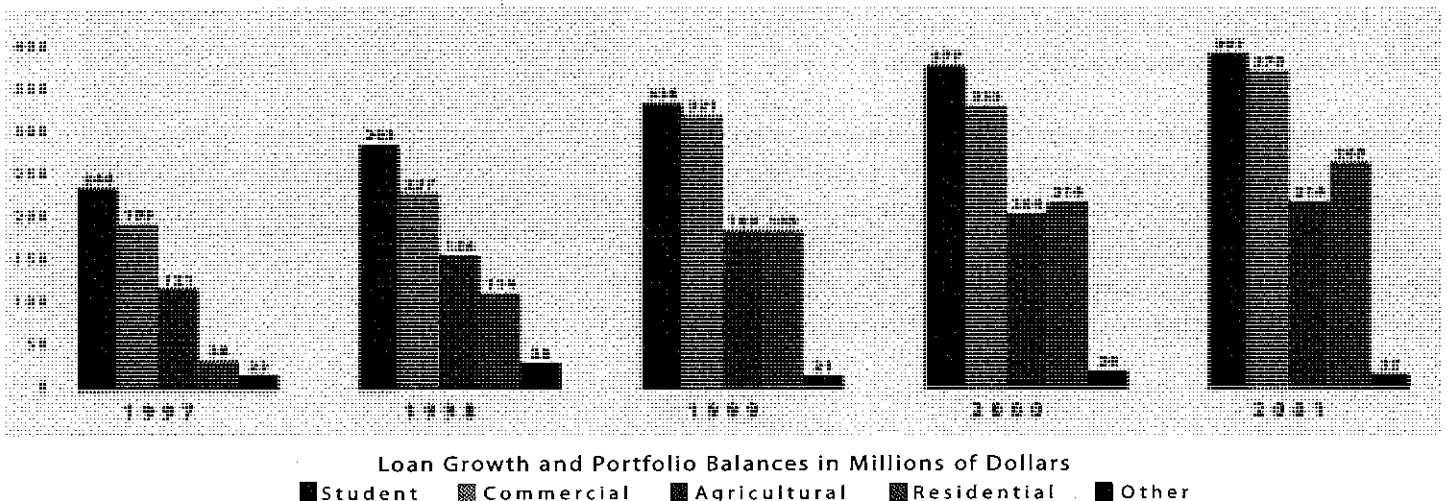
consistent earnings. The Bank uses federal guaranty programs to reduce risk with 56 percent of the total portfolio guaranteed.

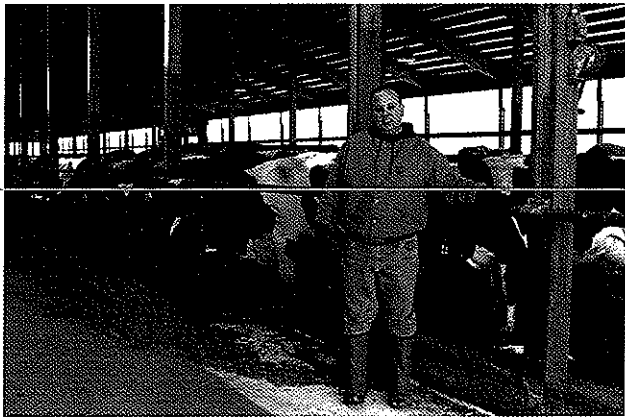
In 2001, Bank of North Dakota capital grew to a record level of \$170 million, an increase of 11.4 percent. With primary capital (capital plus loan loss reserve) at 9.7 percent, the Bank exceeds the State Banking Board minimum threshold of 7 percent.

The Bank continues to benefit the State of North Dakota with a commitment to provide \$60 million over the 2001-2003 biennium, placing the Bank among the top five revenue generators for the general fund. Teamwork between BND, North Dakota Industrial Commission, BND Advisory Board and the North Dakota Legislature has continued to assure appropriate capital retention through all economic cycles.

North Dakotans Work Together

The Bank enters the 21st century financially strong and ready to face the challenges of the future. The economic landscape continues to transition and BND's history demonstrates the ability to adapt and thrive for the benefit of North Dakota. Team BND is strongly committed to its mission of serving North Dakota, establishing strong business partnerships, and building relationships that foster growth and economic well-being for the state and its citizens.





Entzminger and Sons Dairy Operation

Entzminger and Sons is truly a family farm as father and sons work together on their dairy operation south of Jamestown. Through the teamwork of Darrei, his sons, Terry (pictured) and Greg, and help from daughter-in-law Karen Entzminger Rosemore, the business has grown to include over 700 Holsteins.

The Entzmingers recently expanded their operation with a new milking parlor and freestall barn, which allows them to increase the size of their herd and produce approximately 6,400 gallons of milk each day.

Teaming

Triebold Paleontology

Digging into the past and preserving it for future generations is what Triebold Paleontology is all about. This independent company, with an office in Valley City and Woodland Park, Colorado, is dedicated to preservation of vertebrate fossils, such as dinosaurs, marine reptiles, flying reptiles and giant fish from the late Cretaceous period of earth's history.

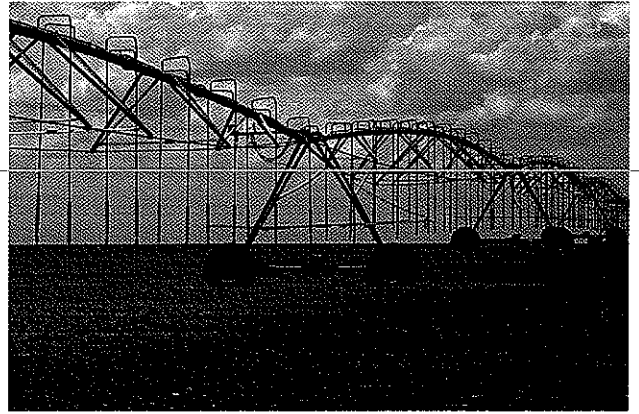
A full-time staff engages in the collection, preparation, restoration, molding, casting and mounting of prehistoric skeletons or sea creatures. In addition to preserving skeletons, the company creates cast forms for display in a variety of institutions including the American Museum of Natural History, California Academy of Sciences and Disneyworld.



Hartsoch Irrigation Farm

Klint Hartsoch is a young North Dakotan with goals of staying on the farm as he works on the family farm and moves toward building an operation of his own. Klint works with his father, David Hartsoch, south of Ray in the Nesson Valley area, where they raise a variety of crops.

Over the past year, Klint purchased land and a center pivot irrigation system. He is looking forward to this spring and summer when he can try out a full season with the new irrigation system. Hartsoch also raises livestock and provides custom haying to diversify his operation.



With North Dakota

Killdeer Mountain Manufacturing

Killdeer Mountain Manufacturing, Inc. is a contract manufacturer specializing in aerospace electronics. They are a preferred supplier to several major aerospace companies including Boeing, Lockheed-Martin, Raytheon, Motorola, Crane-Eldec and Northwest Airlines.

Located in the western part of the state with facilities in Killdeer, Halliday and Hettinger, the company employs 120 workers including assemblers, technicians, engineers and business professionals.

The manufacturing company has research contracts underway involving wire chafing detection and telemetry bandwidth compression which provides opportunities for growth.



Leading Our Team

NORTH DAKOTA INDUSTRIAL COMMISSION



John Hoeven
Governor



Roger Johnson
Commissioner of Agriculture



Wayne Stenehjem
Attorney General

BND ADVISORY BOARD



*standing - Shirley Montgomery, Frank Keogh, Elaine Fremling,
Bill Kingsbury, Marlys Brown*
sitting - John Stewart, Frank Larson

BND EXECUTIVE COMMITTEE



*standing - Tim Atkinson, Ed Sather, Eric Hardmeyer, Bob
Humann, Dale Eberle*
sitting - Kirby Martz, Phyllis Lasher, Julie Kubisiak, Jim Kaiser

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission

State of North Dakota

Bismarck, North Dakota

We have audited the accompanying balance sheets of the Bank of North Dakota as of December 31, 2001 and 2000 and the related statements of income, equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. However, the Bank of North Dakota has prepared the accompanying financial statements in accordance with Financial Accounting Standards Board pronouncements, which are generally accepted accounting principles for financial institutions. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles applicable to governmental units.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank of North Dakota as of December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Erde Bailly LLP

Bismarck, North Dakota

January 18, 2002

BANK OF NORTH DAKOTA

Balance Sheets

December 31, 2001 and 2000

ASSETS

	(In Thousands)	
	2001	2000
Cash and due from banks	\$ 240,551	\$ 172,595
Federal funds sold	257,830	271,510
Cash and cash equivalents	<u>498,381</u>	<u>444,105</u>
Securities	<u>329,632</u>	<u>192,093</u>
Loans	1,272,786	1,156,614
Less allowance for loan losses	(23,958)	(22,424)
	<u>1,248,828</u>	<u>1,134,190</u>
Bank premises, equipment and software, net	3,971	3,645
Interest receivable	20,545	25,174
Other assets	<u>6,099</u>	<u>7,310</u>
Total assets	<u>\$ 2,107,456</u>	<u>\$ 1,806,517</u>

LIABILITIES AND EQUITY

Deposits		
Non-interest bearing	\$ 193,354	\$ 130,470
Interest bearing	1,015,247	1,005,261
	<u>1,208,601</u>	<u>1,135,731</u>
Federal funds purchased and securities sold under agreements to repurchase	315,713	215,072
Short and long-term debt	399,553	254,439
Other liabilities	13,093	48,230
Total liabilities	<u>1,936,960</u>	<u>1,653,472</u>
Equity		
Capital	2,000	2,000
Capital surplus	42,000	42,000
Undivided profits	126,237	108,707
Unrealized gain on securities available for sale	259	338
Total equity	<u>170,496</u>	<u>153,045</u>
Total liabilities and equity	<u>\$ 2,107,456</u>	<u>\$ 1,806,517</u>

See Notes to Financial Statements

BANK OF NORTH DAKOTA
Statements of Income
Years ended December 31, 2001 and 2000

	(In Thousands)	
	2001	2000
INTEREST INCOME		
Federal funds sold and securities purchased under agreements to resell	\$ 16,112	\$ 12,479
Securities	10,884	14,253
Loans	87,494	90,431
Total interest income	114,490	117,163
INTEREST EXPENSE		
Deposits	43,065	49,060
Federal funds purchased and securities sold under agreements to repurchase	10,296	9,851
Short and long-term debt	19,479	16,863
Total interest expense	72,840	75,774
NET INTEREST INCOME	41,650	41,389
PROVISION FOR LOAN LOSSES	2,700	2,700
NET INTEREST AFTER PROVISION FOR LOAN LOSSES	38,950	38,689
NON-INTEREST INCOME		
Service fees and other	8,644	7,802
Net gain (loss) on sales of securities	2	(578)
Total non-interest income	8,646	7,224
NON-INTEREST EXPENSE		
Salaries	5,475	5,298
Pensions and other employee benefits	1,704	1,627
Data processing	2,543	2,259
Other operating expenses	3,984	3,530
Depreciation and amortization	831	617
Total non-interest expenses	14,537	13,331
NET INCOME	\$ 33,059	\$ 32,582

See Notes to Financial Statements

BANK OF NORTH DAKOTA
Statements of Equity
Years ended December 31, 2001 and 2000

(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Unrealized Gain (Loss) on Securities Available for Sale	Total
BALANCE, DECEMBER 31, 1999	\$ 2,000	\$ 42,000	\$ 96,703	\$ (1,428)	\$ 139,275
Comprehensive income					
Net income			32,582		32,582
Unrealized gain on securities available for sale				1,766	1,766
Total comprehensive income					34,348
Appropriation to state general fund from current earnings			(20,578)		(20,578)
BALANCE, DECEMBER 31, 2000	2,000	42,000	108,707	338	153,045
Comprehensive income					
Net income			33,059		33,059
Unrealized loss on securities available for sale				(79)	(79)
Total comprehensive income					32,980
Appropriation to Industrial Commission			(85)		(85)
Reduction in appropriations to Industrial Commission			12		12
Appropriation to state general fund from current earnings			(15,456)		(15,456)
BALANCE, DECEMBER 31, 2001	\$ 2,000	\$ 42,000	\$ 126,237	\$ 259	\$ 170,496

See Notes to Financial Statements

BANK OF NORTH DAKOTA
Statements of Cash Flows
Years ended December 31, 2001 and 2000

	(In Thousands)	
	2001	2000
OPERATING ACTIVITIES		
Net income	\$ 33,059	\$ 32,582
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	831	617
Provision for loan losses	2,700	2,700
Net amortization (accretion) of securities	(249)	(147)
Loss on retirement of equipment and software	1	-
Net (gain) loss on sales of securities	(2)	578
Decrease (increase) in interest receivable	4,629	(4,524)
Decrease (increase) in other assets	1,211	(71)
(Decrease) increase in other liabilities	(630)	4,508
NET CASH FROM OPERATING ACTIVITIES	41,550	36,243
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	(631,939)	(124,684)
Proceeds from sales, maturities and principal repayments	505,595	138,726
Securities held to maturity transactions		
Purchase of securities	(30,926)	-
Proceeds from sales, maturities and principal repayments	24,296	21,207
(Purchase of) proceeds from Federal Home Loan Bank stock	(4,393)	9,000
Net increase in loans	(117,338)	(100,764)
Purchases of equipment and software	(1,158)	(1,425)
NET CASH USED FOR INVESTING ACTIVITIES	(255,863)	(57,940)
FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	62,884	46,672
Net increase in interest bearing deposits	9,986	178,407
Net decrease (increase) in federal funds purchased and securities sold under repurchase agreements	100,641	(35,913)
Proceeds from issuance of short and long-term debt	151,141	7,300
Payment of short and long-term debt	(6,027)	(115,937)
Payment of appropriations	(50,036)	(35)
NET CASH FROM FINANCING ACTIVITIES	268,589	80,494
NET CHANGE IN CASH AND CASH EQUIVALENTS	54,276	58,797
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	444,105	385,308
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 498,381	\$ 444,105

See Notes to Financial Statements

BANK OF NORTH DAKOTA

Notes to Financial Statements
Year ended December 31, 2001 and 2000

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 and state government with a primary role in financing economic development. BND is a participation lender; the vast majority of its loans are made in tandem with financial institutions throughout the State of North Dakota. BND's primary deposit products are interest-bearing accounts for state and political subdivisions.

Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. As such, the Bank 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. In accordance with GASB Statement No. 20, the Bank follows all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements issued, including those issued after November 30, 1989, unless they conflict with the GASB pronouncements.

However, the accompanying financial statements are prepared in accordance with Financial Accounting Standards Board pronouncements, which is generally accepted accounting principles for financial institutions. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles applicable to governmental units.

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 determination of the allowance for loan losses.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers within the State of North Dakota. Concentrations of credit are present in the agricultural industry. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture. Loans for agricultural purposes comprised approximately 17% and 18% of total loans as of December 31, 2001 and 2000.

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 of which mature within 90 days.

Securities Available for Sale

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 securities available for sale. These securities are recorded at fair value, with unrealized holding gains and losses, reported in capital. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The change in unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income.

Securities Held to Maturity

Securities that management has the positive intent and ability to hold to maturity are classified as securities held to maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized by adjustments to interest income using the interest method over the terms of the securities.

Loans

Loans are stated at the outstanding unpaid principal balance. Interest income on loans is accrued at the specific rate on the unpaid principal balance.

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowance for Loan Losses

The Bank uses the allowance method in providing for loan losses. Accordingly, the allowance is increased by the current year's provision for loan losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful.

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.

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

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

Residential Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of residential loans. Capitalized servicing rights are reported in other assets and are amortized in proportion to and over the period of, the estimated future net servicing income of the underlying residential loans. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Fair value is determined using the pricing model provided by the Office of Thrift Supervision. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount of the stratum.

Credit Related Financial Instruments

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

Transfers of Financial Assets

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

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 over the estimated useful lives of the assets.

Other Real Estate

Other real estate (ORE), which is included in other assets, represents properties acquired through loan foreclosure or other proceedings. ORE is recorded at the lower of the amount of the loan or fair market value of the properties. Any write-down to fair market value at the time of the transfer to ORE is charged to the allowance for loan losses. Property is evaluated regularly to ensure that the recorded amount is supported by the current fair market value. Revenue and expenses from operations and change in the valuation allowance are included in other operating expense.

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 obligated for federal or state income taxes.

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

Federal Reserve Board regulations require reserve balances on deposits to be maintained by BND with the Federal Reserve Bank. BND maintains a clearing account with an average balance of \$4 million with the Federal Reserve Bank as of December 31, 2001 and 2000.

NOTE 3 - DEBT AND EQUITY SECURITIES

Debt and equity securities have been classified in the financial statements according to management's intent. The carrying value of Securities as of December 31, 2001 and 2000, consists of the following:

	(In Thousands)	
	2001	2000
Securities available for sale, at fair value	\$ 239,268	\$ 112,700
Securities held to maturity, at amortized cost	70,402	63,824
Investment in Federal Home Loan Bank stock, at cost	19,962	15,569
	<u>\$ 329,632</u>	<u>\$ 192,093</u>

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

	(In Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2001				
Securities available for sale				
Commercial paper	\$ 159,856	\$ -	\$ -	\$ 159,856
Federal agency	33,025	217	4	33,238
Mortgage-backed	46,128	220	174	46,174
	<u>\$ 239,009</u>	<u>\$ 437</u>	<u>\$ 178</u>	<u>\$ 239,268</u>
Securities held to maturity				
Mortgage-backed	\$ 61,416	\$ 238	\$ 247	\$ 61,407
State and municipal	8,986	-	-	8,986
	<u>\$ 70,402</u>	<u>\$ 238</u>	<u>\$ 247</u>	<u>\$ 70,393</u>

(continued on next page)

	(In Thousands)			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
DECEMBER 31, 2000				
Securities available for sale				
Commercial paper	\$ 44,950	\$ -	\$ 5	\$ 44,945
Federal agency	57,499	251	7	57,743
Mortgage-backed	9,913	100	1	10,012
	<u>\$ 112,362</u>	<u>\$ 351</u>	<u>\$ 13</u>	<u>\$ 112,700</u>
Securities held to maturity				
Mortgage-backed	\$ 53,467	\$ 393	\$ 660	\$ 53,200
State and municipal	10,357	-	-	10,357
	<u>\$ 63,824</u>	<u>\$ 393</u>	<u>\$ 660</u>	<u>\$ 63,557</u>

Securities carried at \$29,035,000 at December 31, 2001 and \$81,599,000 at December 31, 2000, were used for securities sold under agreements to repurchase and for other required pledging purposes.

The maturity distribution of debt securities at December 31, 2001, 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.

	(In Thousands)			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 174,278	\$ 174,382	\$ -	\$ -
Over one year through five years	62,701	62,856	62,289	62,274
Over five years through ten years	2,030	2,030	7,454	7,455
Over ten years	-	-	659	664
	<u>\$ 239,009</u>	<u>\$ 239,268</u>	<u>\$ 70,402</u>	<u>\$ 70,393</u>

Proceeds from sales of securities available for sale for the years ended December 31, 2001 and 2000, were \$6,500,000 and \$73,793,000. Gross realized gains on sales for the years ended December 31, 2001 and 2000, were \$2,000 and \$0. Gross realized losses on sales for the years ended December 31, 2001 and 2000, were \$0 and \$578,000.

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2001 and 2000, is as follows:

	(In Thousands)	
	2001	2000
Guaranteed student loans	\$ 399,002	\$ 376,535
Bank participation loans:		
Commercial	356,848	328,205
Agricultural	150,042	138,753
Residential loans	267,837	213,009
Farm real estate loans	63,699	65,377
State institutions and political subdivisions	21,808	25,487
Bank stock	13,550	9,248
	<u>1,272,786</u>	<u>1,156,614</u>
Allowance for loan losses	23,958	22,424
	<u>\$ 1,248,828</u>	<u>\$ 1,134,190</u>

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The total amount of impaired loans was \$2,655,000 and \$2,330,000 at December 31, 2001 and 2000. The carrying value of the impaired loans was less than the fair value of the collateral and, accordingly, no allowance for credit losses is specifically required for impaired loans. The average balance of impaired loans was \$3,473,000 and \$2,485,000 during 2001 and 2000. The interest income recorded on impaired loans is not significant.

The total amount of restructured loans was \$17,465,000 and \$15,011,000 at December 31, 2001 and 2000.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2001.

The composition of the allowance for loan losses for the years ended December 31, 2001 and 2000, is as follows:

	(In Thousands)	
	2001	2000
Balance - beginning of year	\$ 22,424	\$ 20,106
Provision for loan losses	2,700	2,700
Loans charged off	(1,264)	(746)
Recoveries	98	364
Balance - end of year	<u>\$ 23,958</u>	<u>\$ 22,424</u>

NOTE 5 - RESIDENTIAL LOAN SERVICING

Residential loans serviced for other are not included in the accompanying balance sheets. The unpaid principal balances of residential loans serviced for others were \$43,089,000 and \$47,372,000 at December 31, 2001 and 2000.

The balance of capitalized servicing rights, net of valuation allowances, included in other assets at December 31, 2001 and 2000, was \$327,000 and \$396,000, respectively. The fair value of these rights was \$597,000 and \$835,000 at December 31, 2001 and 2000.

The following table summarizes the changes in capitalized servicing rights for the years ended December 31, 2001 and 2000:

	(In Thousands)	
	2001	2000
Balance - beginning of year	\$ 396	\$ 491
Purchases	63	10
Amortization	(132)	(105)
	327	396
Less valuation allowance	-	-
Balance - end of year	<u>\$ 327</u>	<u>\$ 396</u>

NOTE 6 - BANK PREMISES, EQUIPMENT and SOFTWARE

The following is a summary of changes in bank premises, equipment, furniture and software at December 31, 2001 and 2000, is as follows:

	(In Thousands)			
	Balance 12/31/2000	Additions	Retirements	Balance 12/31/2001
Land	\$ 672	\$ -	\$ -	\$ 672
Building	4,285	-	-	4,285
Equipment	1,342	304	38	1,608
Furniture	607	25	130	502
Software	3,221	829	1	4,049
	10,127	1,158	169	11,116
Less accumulated depreciation	6,482	831	168	7,145
	<u>\$ 3,645</u>	<u>\$ 327</u>	<u>\$ 1</u>	<u>\$ 3,971</u>

(continued on next page)

	(In Thousands)			Balance 12/31/2000
	Balance 12/31/1999	Additions	Retirements	
Land	\$ 287	\$ 385	\$ -	\$ 672
Building	4,285	-	-	4,285
Equipment	1,326	69	53	1,342
Furniture	784	16	193	607
Software	2,266	955	-	3,221
	8,948	1,425	246	10,127
Less accumulated depreciation	6,111	617	246	6,482
	<u>\$ 2,837</u>	<u>\$ 808</u>	<u>\$ -</u>	<u>\$ 3,645</u>

Depreciation and amortization expense on the above assets amounted to \$831,000 and \$617,000 in 2001 and 2000.

NOTE 7 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than \$100,000 was \$583,558,000 and \$675,406,000 as of December 31, 2001 and 2000. Certificates of deposit sold on the national market were \$65,000,000 as of December 31, 2001 and 2000 and all are in denominations of \$10,000,000 or more.

At December 31, 2001, the scheduled maturities of certificates of deposits are as follows:

	(In Thousands)	
	Sold Locally	Sold on the National Market
2002	\$ 529,661	\$ -
2003	14,349	65,000
2004	18,390	-
2005	10,878	-
2006	6,266	-
Later years	21,080	-
	<u>\$ 600,624</u>	<u>\$ 65,000</u>

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank enters into securities sold under agreements to repurchase the same securities. These agreements may have a fixed maturity or be open-ended, callable at any time. These agreements are secured by Fed book-entry securities.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consist of:

	(In Thousands)	
	2001	2000
Federal Home Loan Bank advances	\$ 398,885	\$ 253,669
North Dakota Municipal Bond Bank, 3%, matures from September 2007 through September 2009	668	770
	<u>\$ 399,553</u>	<u>\$ 254,439</u>

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

	(In Thousands)		
	Principal	Interest	Total
2002	\$ 26,488	\$ 22,309	\$ 48,797
2003	35,271	20,467	55,738
2004	16,071	19,988	36,059
2005	54,591	19,147	73,738
2006	34,219	16,869	51,088
Later years	232,913	118,189	351,102
Totals	\$ 399,553	\$ 216,969	\$ 616,522

The Federal Home Loan Bank (FHLB) advances outstanding at December 31, 2001, mature from April 2002 through November 2021. All advances have fixed rate interest, ranging from 4.15% to 7.35%. In order to make FHLB advances, BND is required to purchase FHLB stock equal to 5% of total short and long-term advances from FHLB. FHLB short and long-term advances are secured by an assignment of the FHLB stock owned by BND totaling \$19,962,000. In addition, advances must also be secured by minimum qualifying collateral maintenance levels. BND meets these collateral maintenance levels by pledging guaranteed student loans totaling \$150,274,000 and residential loans totaling \$253,930,000.

The North Dakota Municipal Bond Bank long-term borrowing is unsecured. Proceeds from the long-term borrowing are used to make irrigation loans at Bank of North Dakota.

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

	(In Thousands)	
	2001	2000
Escrow balances	\$ 2,175	\$ 1,827
ACH clearing account	1,094	86
Appropriations payable	492	35,000
Interest payable	4,279	6,987
Student loan origination fee payable	178	140
Official checks	589	689
Accrued expenses	1,165	984
Other	3,121	2,517
Totals	\$ 13,093	\$ 48,230

The 2001 North Dakota Legislature passed House Bill 1015 that provides for an appropriation from Bank of North Dakota to the State's general fund. An appropriation of \$60,000,000 was made for the biennium beginning July 1, 2001 and ending June 30, 2003, from the current earnings and the accumulated undivided profits of the Bank. No more than \$15,000,000 of the amount transferred may come from accumulated undivided profits. The moneys shall be transferred in amounts and at such times as requested by the director of the Office of Management and Budget. \$15,000,000 has been transferred as of December 31, 2001.

No transfers may be made which would reduce the Bank's capital structure below \$140,000,000.

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 cost-sharing multiple-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

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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). The plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% 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 has implemented a salary reduction agreement and is currently contributing the employees share. Bank of North Dakota is required to contribute 4.12% of each participant's salary as the employer's share. In addition to the 4.12% employer contribution, the employer is required to contribute 1% 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, 2001 and 2000, were approximately \$438,000 and \$422,000.

NDPERS issues a publicly available report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 12 - POST-RETIREMENT BENEFITS

In addition to providing pension benefits, the state allows all PERS retirees to participate in the State Group Health Plan after retirement. The Bank's contribution requirement for the years ended December 31, 2001 and 2000, was approximately \$54,000 and \$52,000.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

Contingent Bank Transfer

The 2001 North Dakota Legislature passed House Bill 1015, which included a contingent Bank transfer to the state general fund. If, during the biennium ending June 30, 2003, the director of the Office of Management and Budget determines via revised projections that general fund revenue collections will not meet the revenues as forecast in the March 2001 legislative forecast, the Industrial Commission shall transfer to the state general fund an additional amount, as determined by the director of the Office of Management and Budget and as approved by the budget section, from the earnings and accumulated and undivided profits of Bank of North Dakota. The moneys must be transferred in amounts and at such times as requested by the director of the Office of Management and Budget. The additional amount transferred may not exceed the lesser of \$25,000,000 or the revenue shortfall of actual collections compared to the March 2001 legislative forecast. As of December 31, 2001, projected revenues exceed the March 2001 legislative forecast for projected revenues.

No transfers may be made which would reduce the Bank's capital structure below \$140,000,000.

Statewide Water Development Projects

The 2001 North Dakota Legislature passed House Bill 1023, which included the statewide water development goals. House Bill 1023 authorizes the state water commission to issue bonds and appropriates the proceeds for the statewide water development projects. The state water commission bonds issued for these projects may not exceed \$67,800,000.

Principal and interest on bonds issued for projects authorized by House Bill 1023 are payable from transfers to be made and appropriated by the legislative assembly from the water development trust fund, 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. If sufficient funds from these sources is not available, then principal and interest on bonds are payable 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 \$6,500,000 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from available current biennial earnings of the Bank of North Dakota. No appropriation was made from the Bank of North Dakota for statewide water development projects for the 2001-2003 biennium by the legislature.

The Bank of North Dakota shall extend a line of credit not to exceed \$25,000,000 for the biennium ending June 30, 2003, to the State Water Commission for the purpose of interim financing until bonds are issued. Advances on the line of credit may be made only when a source of repayment has been identified and determined to be available. As of December 31, 2001, Bank of North Dakota has not funded and has not committed to fund any amount under the line of credit.

Sale of Student Loans

The Bank has committed to sell student loans to the North Dakota Student Loan Trust for 2001-2003. The loans that will be sold are student loans that will be originated by the Bank during the three-year period. Approximately \$17 million of student loans were sold in 2001. Management anticipates that up to an additional \$44 million of student loans will be sold under the agreement with North Dakota Student Loan Trust.

Beginning Entrepreneur Loan Guarantee Program

The 2001 North Dakota Legislature passed Senate Bill 2349, which amended the Beginning Entrepreneur Loan Guarantee Program. The program provides that the Bank of North Dakota enters into 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 of North Dakota shall pay the lender the amount agreed upon up to 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. A lender may apply to the Bank of North Dakota for a loan guarantee for a loan of up to \$100,000. The term of the guarantee may not exceed five years. The Bank may provide guarantees totaling \$3,400,000. As of December 31, 2001, the Bank has provided guarantees totaling \$766,000 and has guarantee commitments outstanding of \$37,000 included in commitments to extend credit.

NOTE 14 - 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.

NOTE 15 - 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 and financial standby letters of credit. 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.

The following financial instruments were outstanding where contract amounts represent credit risk:

	Contract Amount (In Thousands)	
	2001	2000
Commitments to extend credit	\$ 241,481	\$ 263,196
Financial standby letters of credit	99,595	78,556
	<u>\$ 341,076</u>	<u>\$ 341,752</u>

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 likelihood of funding any of these letters of credit is considered to be remote. The Bank generally holds collateral supporting those commitments if deemed necessary.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Statement of Financial Accounting Standards No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

The carrying values and estimated fair values of the Bank's financial instruments as of December 31, 2001 and 2000, were as follows:

	(In Thousands)			
	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 498,381	\$ 498,381	\$ 444,105	\$ 444,105
Securities	329,632	329,623	192,093	191,826
Accrued interest receivable	20,545	20,545	25,174	25,174
Loans				
Guaranteed student loans	399,002	406,981	376,535	385,643
Residential loans	267,837	275,943	213,009	223,374
Other loans	605,947	585,382	567,070	552,541
Allowance for loan losses	(23,958)	-	(22,424)	-
Total loans	1,248,828	1,268,306	1,134,190	1,161,558
Total financial assets	\$ 2,097,386	\$ 2,116,855	\$ 1,795,562	\$ 1,822,663
Financial liabilities				
Non-maturity deposits	\$ 542,977	\$ 542,977	\$ 377,820	\$ 377,820
Deposits with stated maturities	665,624	670,341	757,911	751,406
Federal funds purchased and securities sold under agreements to repurchase	315,713	315,713	215,072	215,072
Short and long-term debt	399,553	403,510	254,439	253,854
Other liabilities	13,093	13,093	48,230	48,230
Total financial liabilities	\$ 1,936,960	\$ 1,945,634	\$ 1,653,472	\$ 1,646,382

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximates fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Securities

The fair value for securities are based on quoted market values, when available. If quoted market prices were not available, fair value was estimated using quoted market prices for similar assets.

Residential Loans

The fair value for residential loans has been estimated by discounting future cash flows to reflect management's estimate of current rates for financing borrowers under substantially similar terms and degrees of risk. Projected cash flows on non-accrual loans were reduced by the amount of the estimated losses in the portfolio.

Guaranteed Student Loans

The fair value for student loans is based on quoted market values.

Other Loans

The fair value for all other categories of loans has been estimated by discounting future cash flows to reflect management's estimate of current rates for financing borrowers under substantially similar terms and degrees of risk. Projected cash flows on non-accrual loans were reduced by the amount of the estimated losses on the portfolio.

Interest Receivable and Payable

The carrying amount of interest receivable and payable approximates fair value due to the relatively short period of time between accrual and expected realization.

Non-Maturity Deposits

The fair value for deposits with no stated maturity, such as demand deposits, savings, NOW and money market accounts are disclosed as the amount payable upon demand.

Deposits With Stated Maturities

The fair value for interest-bearing certificates of deposit has been estimated by discounted future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

The carrying amount of federal funds purchased and securities sold under agreements to repurchase approximates fair value due to the relatively short period of time between the origination of the instruments and their expected payments.

Short and Long-Term Debt

Current market prices were used to estimate the fair value of short and long-term debt using current market rates of similar maturity debt.

Other Liabilities

The carrying amount of other liabilities approximates fair value due to the short period of time until expected payment.

Off-Balance-Sheet Instruments

Fair values of off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The carrying amount and fair value of off-balance-sheet instruments are not significant.

NOTE 17 - COMPREHENSIVE INCOME

The Bank recognizes and includes revenue, 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 a separate component of the capital funds section of the balance sheet, such items, along with net income, are components of comprehensive income.

Changes in and determination of accumulated other comprehensive income are as follows:

	(In Thousands)	
	Unrealized Gain (Loss) on Securities Available for Sale	
	2001	2000
Balance, beginning of year	\$ 338	\$ (1,428)
Unrealized holding gains (losses) arising during the period	(77)	1,188
Reclassification adjustment for (gains) losses realized	(2)	578
Other comprehensive income	(79)	1,766
Balance, end of year	\$ 259	\$ 338

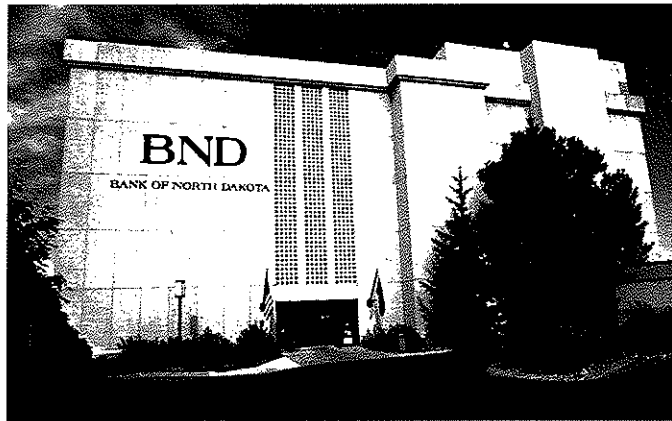
NOTE 18 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	(In Thousands)	
	2001	2000
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	\$ 45,674	\$ 46,517
Interest paid on federal funds purchased and securities sold under repurchase agreements	10,396	9,772
Interest paid on short and long-term debt	19,479	16,962
Supplemental schedule of noncash investing and financing activities		
Reduction in appropriation payable	12	-
Appropriations transfer from undivided profits to other liabilities	15,541	20,578
Net change in unrealized gain (loss) on securities available for sale	(79)	1,766

TEN-YEAR SUMMARY

	2001	2000	1999
OPERATING RESULTS (in thousands)			
Interest income	\$ 114,490	\$ 117,163	\$ 99,350
Interest expense	72,840	75,774	62,487
Net interest income	41,650	41,389	36,863
Provision for loan losses	2,700	2,700	1,600
Net interest income after provision for loan losses	38,950	38,689	35,263
Non-interest income	8,646	7,224	7,838
Non-interest expense	14,537	1,331	12,642
Net income	33,059	32,582	30,459
Payments to general fund	50,000	0	15,000
Payments to other funds	36	35	35
BALANCE SHEET - YEAR END (in thousands)			
TOTAL ASSETS	2,107,456	1,806,517	1,687,167
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS			
	257,830	271,510	249,565
SECURITIES	329,632	192,093	235,007
LOANS	1,272,786	1,156,614	1,056,232
Loans held for sale	-	-	-
Residential loans	267,837	213,009	188,474
Guaranteed student loans	399,002	376,535	335,687
Bank participation loans			
Commercial	356,848	328,205	311,787
Agriculture	150,042	138,753	127,131
Farm real estate loans	63,699	65,377	62,080
State institutions	21,808	25,487	21,037
Bank stock	13,550	9,248	10,036
DEPOSITS	1,208,601	1,135,731	910,652
Non-interest bearing	193,354	130,470	83,798
Interest bearing	1,015,247	1,005,261	826,854
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS			
	315,713	215,072	250,985
SHORT AND LONG-TERM DEBT	399,553	254,439	363,076
EQUITY	170,496	153,045	139,275
Capital	2,000	2,000	2,000
Capital Surplus	42,000	42,000	42,000
Contributed capital	-	-	-
Unrealized gain (loss) on securities available for sale	259	338	(1,428)
Undivided profits	126,237	108,707	96,703

1998	1997	1996	1995	1994	1993	1992
\$ 87,788	\$ 70,891	\$ 67,377	\$ 62,742	\$ 51,273	\$ 46,985	\$ 57,335
53,852	40,768	39,865	37,595	28,564	23,456	28,251
33,936	30,123	27,512	25,147	22,709	23,529	27,584
1,700	600	600	1,700	2,500	600	667
32,236	29,523	26,912	23,447	20,209	22,929	26,917
8,651	8,189	7,812	9,514	9,597	6,373	4,534
12,750	12,168	11,533	11,322	11,775	11,772	10,611
28,137	25,544	23,191	21,639	18,031	17,530	22,340
29,600	12,715	37,500	-	10,000	11,100	18,521
40	41	38	25,195	37	16	75
1,609,039	1,162,415	1,068,082	1,033,816	935,070	872,220	1,064,109
206,095	128,180	86,470	67,045	79,810	62,680	208,951
427,842	269,860	284,491	347,180	358,399	428,333	458,414
835,654	623,532	554,001	487,297	393,756	305,552	313,873
-	-	-	-	203	14,996	-
113,934	38,089	29,595	27,808	32,913	42,322	61,655
292,896	244,154	205,787	168,755	122,714	75,026	118,639
228,723	190,088	181,179	155,654	120,918	78,697	63,722
94,971	75,528	82,253	83,217	68,514	53,405	43,422
61,205	45,217	40,035	33,314	31,255	25,638	20,675
34,678	20,561	5,947	11,271	10,459	12,264	2,965
9,247	9,895	9,205	7,278	6,780	3,204	2,795
943,537	719,508	728,122	676,798	587,837	573,317	571,355
133,307	117,708	106,120	117,579	98,337	87,916	91,158
810,230	601,800	622,002	559,219	489,500	485,401	480,197
309,496	234,114	198,108	164,956	155,527	121,112	322,308
203,779	54,087	14,500	57,000	53,455	49,908	49,862
139,931	128,888	98,477	76,000	100,206	100,000	114,119
22,000	22,000	22,000	22,000	22,000	22,000	22,000
22,000	22,000	22,000	22,000	22,000	22,000	22,000
-	-	-	-	1,394	1,394	1,394
195	102	(61)	508	206	-	-
95,736	84,786	54,538	31,492	54,606	54,606	68,725



CORE VALUES

SERVICE - Excel and Deliver

TEAMWORK - Together We Accomplish More

ETHICS - Do The Right Thing

PEOPLE - Set Us Apart