



BNID 

ANNUAL REPORT 2010

IGNITING SUCCESS

CORE VALUES

SERVICE: Excel and Deliver

TEAMWORK: Together We Accomplish More

ETHICS: Do the Right Thing

PEOPLE: Set Us Apart

VISION

Bank of North Dakota is a financial services leader in North Dakota fostering growth and economic well-being for the state and its citizens, using a partnership approach. Bank of North Dakota has knowledgeable, well-trained people delivering exceptional customer service, resulting in consistent financial returns to the state.

MISSION

To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.

PRESIDENT'S MESSAGE



In 2010 North Dakota was often in the spotlight as the country, and even the world, tried to understand our state's success during times of economic trouble and slow recovery. For the State of North Dakota it was business as usual. Bank of North Dakota continued to play a vital role in igniting successful projects that move the state and its citizens forward.

While we proceeded to stoke the embers of business, agriculture and commerce, we experienced significant change. The retirement of four top executives resulted in internal promotions and shifts of responsibility to create a new business model. Accounting and treasury became one Service Area managed by Tim Porter. We combined our Information Technology department with Operations, now managed by Joe Herslip. Bob Humann, our longtime manager of the loan functions, added student loans to his oversight of commercial, agricultural, and residential loans. Lastly, we joined our Human Resource function with customer service, managed by Lori Leingang. This new management team has the background and experience to provide a diversified and fresh approach to the challenges that confront us today.

This past year we also ended our long-term involvement with the Federal Family Education Loan (FFEL) program. This program was eliminated by a congressional act and was replaced by the Federal Direct program administered by the U.S. Department of Education. We move forward!

While we lost the FFEL program, Bank of North Dakota was selected to administer the College Access Challenge Grant. This grant program provides \$1.5 million in funding to assist with educational outreach. We have developed an exciting program which touches many areas of the educational spectrum. Additionally, we spent considerable time working with issues in the energy regions of western North Dakota. Bankers and economic developers worked together to use our programs to address a number of housing related issues.

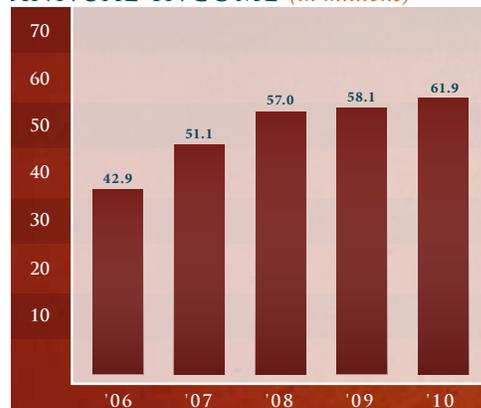
Financially, 2010 was our strongest year ever. Profits increased by nearly \$4 million to \$61.9 million during our seventh consecutive year of record profits. Earnings were fueled by a strong and growing deposit base, brought about by a surging energy and agricultural economy. We ended the year with the highest capital level in our history at just over \$325 million. The Bank returned a healthy 19 percent ROE, which represents the state's return on its investment.

As the only state-owned bank in the nation, our mission to be a catalyst for progress in North Dakota is well defined. Together with our partners across the state, we contribute to a thriving state economy and ignite success for the people of North Dakota.

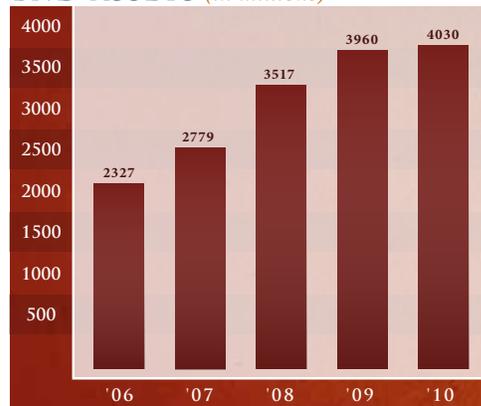


Eric Hardmeyer, President

ANNUAL INCOME (in millions)



BND ASSETS (in millions)



FLEX PACE FURTHERS PROGRESS FOR RURAL HEALTH CARE PROVIDER

Access to quality healthcare is essential to the vitality of North Dakota's rural communities. Coal Country Community Health Center (CCCHC) in Beulah is a non-profit health care provider serving low income and medically underserved Beulah residents and its surrounding communities. CCCHC and its local governing board of directors know the key to keeping the center's doors open is growing services and keeping up with technology. In 2010 when the health center had the opportunity to purchase the building it had been leasing and make improvements to it, CCCHC was eager to take it.

CCCHC's board of directors secured loans from The Union Bank of Beulah to purchase the building and remodel the lower level of the clinic to create additional exam rooms, a lead-lined room for a CT scanner, space for physical therapy, and other areas to make the operation more efficient. "The expansion allowed CCCHC to double

the size of its facility and expand services," said Gordon Hoffner, president and chief executive officer of The Union Bank and member of CCCHC's board of directors. "It's now convenient for our residents, especially the elderly population, to receive health care services in Beulah. This expansion helps keep people living in Beulah and shopping at local businesses instead of leaving town."

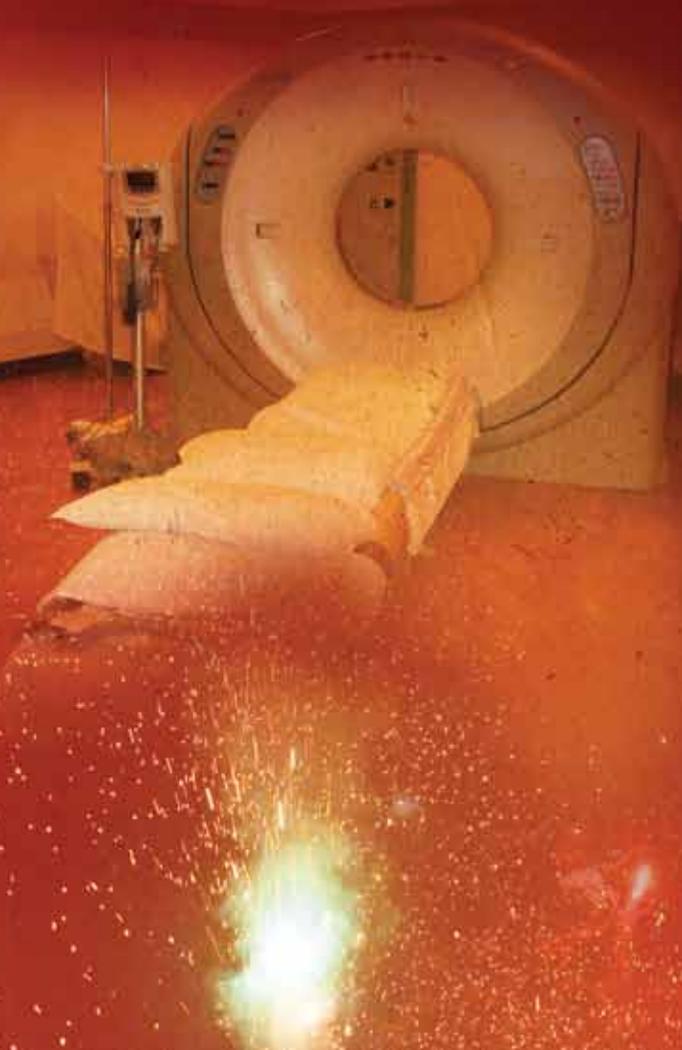
The Union Bank approached both Bank of North Dakota and the city of Beulah about using the Flex PACE program, which provides interest buy-down of up to 5 percent to borrowers that do not fit into the traditional parameters of a Partnership in Assisting Community Expansion (PACE) loan. "The Flex PACE program is a good fit for CCCHC and Beulah," said Brad Thompson, loan officer at BND, "as it leaves the decision up to the community whether the project is worthy of receiving the interest buy-down." Flex PACE allows communities to provide assistance to borrowers with a business focus or need outside of the current requirements of PACE, including the essential community services that CCCHC provides.

The PACE Fund provided \$70,000 and the city of Beulah added \$30,000 in interest buy-down for CCCHC. This lowered the interest cost to CCCHC by 5 percent for three and one-half years, saving them thousands of dollars. The total Flex PACE loan was for \$600,000 with another \$250,000 provided by funds through the Dakota Certified Development Corporation (CDC) Intermediary Relending Program (IRP).

"The loans to purchase and remodel the clinic with the Flex PACE interest buy-down program have made it possible to provide low-cost medical care for the underserved patients in our area," said Hoffner. "Without them, there would not be a clinic in Beulah."

IGNITING SUCCESS

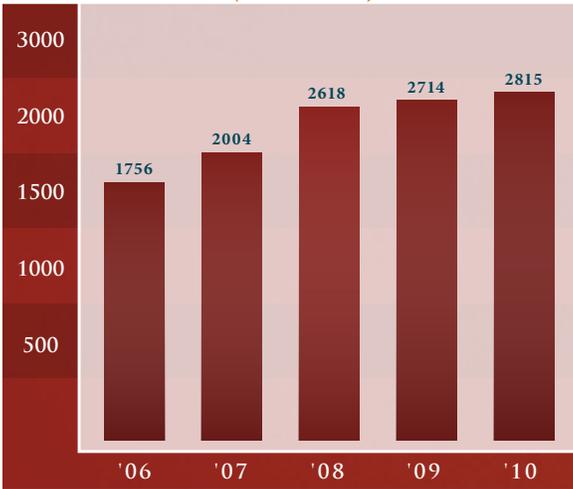
Coal Country Community Health Center



BND: IGNITING SUCCESS

Bank of North Dakota has been igniting success for more than 90 years by seeking important opportunities to partner, change and grow. In 2010, the Bank fueled responsible growth within its diverse loan portfolio of agriculture, commercial, residential and student loans. The entire loan portfolio grew a modest 3.6 percent over 2009 to a record \$2.8 billion. At the end of 2010, BND was a \$4.03 billion institution with capital of over \$327 million.

TOTAL LOAN PORTFOLIO *(in millions)*



The agriculture loan portfolio grew by 3 percent to \$277 million. Agriculture participation loans increased because of higher annual operating costs for farmers and ranchers. More than half of this portfolio is energized by Farm and Ranch program loans with \$149 million in volume.

Following the national trend for the third consecutive year, the commercial loan portfolio saw a small decline of just over 1 percent, or \$15 million. The need for Flex PACE funding was substantial, growing by 62 percent to help finance essential

community services as energy development spiked in western North Dakota. Commercial bank participation loans grew to 64 percent of the entire \$1.022 billion portfolio. BND funded 255 business and industrial projects.

Homeowners took advantage of low interest rates for purchasing and refinancing, fueling a healthy housing market. BND acts as a secondary market for financial institutions seeking to sell FHA and VA mortgages. BND funded \$93 million in home loans, which was down by \$4 million from 2009. BND made 27 loans through two new rural housing programs, accounting for \$3.8 million of this \$471 million residential portfolio.

BND disbursed \$81.2 million in Federal Stafford loans in 2010, but federal law ended the Federal Family Education Loan (FFEL) program as of July 1. The termination of that program, while significant, allowed BND to focus on and grow our exceptional state loan option, the Dakota Education Alternative Loan (DEAL). The DEAL loan saw a 38 percent increase in disbursements for a second straight year. In total, BND
(Continued on page 5)

LOAN PORTFOLIO *(balances in millions)*



2010 YEAR IN REVIEW

JANUARY



BND assisted in the launch of a new ND JumpStart website.

JANUARY 21

BND participated in the first "Crash Course" partnership event for college preparation.

FEBRUARY



FEBRUARY 21

BND participated in the third North Dakota College Goal Sunday event.

FUELING THE FLAME OF HIS FAMILY FARM

Over the past four years, Kyle Anderson has been working his family's corn, soybean and wheat farm in Verona, North Dakota, with plans to one day assume full ownership. For 24-year-old Anderson, seizing opportunities for expansion and keeping up to speed with the latest equipment and technology ensures the Anderson farm thrives well into the future.

After acquiring land from retiring neighbors, Anderson quickly realized that their current crop sprayer couldn't keep up with the demands of the expanding operation that he farms with his parents, Kevin and Lynette, and business partner Mike Vogel. "We needed to upgrade to a self-propelled sprayer that would accommodate both the larger acreage and taller crops," said Anderson.

With help from Matt Van Bruggen, loan officer at AgCountry Farm Credit Services in LaMoure, Anderson secured funding to purchase the upgraded sprayer through Bank of North Dakota's Beginning Farmer Chattel Loan Program. "This new equipment has made our operation more efficient," said Anderson. "We're now able

to spray our own crops instead of hiring someone to have it done."

In addition to funds for upgraded equipment, Anderson accessed BND's Beginning Farmer Real Estate Loan Program to purchase two quarters (320 acres) of land from his parents. Anderson and Van Bruggen again partnered with Bank of North Dakota for the best finance package to spark success for the young farming operation.

"BND's Beginning Farmer Real Estate and Chattel Loan Programs allow for more affordable financing with below-market interest rates and lower down payment requirements for the purchases," said BND loan officer Bruce Schumacher. "It is rewarding for me to see a young farmer willing to work hard to continue a farming tradition."

"These loans have allowed Kyle to start building equity on his balance sheet and secure a favorable rate to apply more toward principal," said Van Bruggen. "I tend to look to BND when I start to work with any young producer."

Anderson agrees. "Anyone who wants to get into farming should look at BND's programs. They have helped me expand my farming operation and allowed me to do what I want to do, which is to take over the family farm when my parents retire. And I'm on my way to doing just that."

IGNITING SUCCESS

Kyle Anderson



(Continued from page 3)

disbursed over \$178 million in student loans and the total portfolio grew 12 percent. In its eighth consecutive year of growth, BND continued to service its \$1.044 billion student loan portfolio. While the portfolio grew, BND's student loan default rate dropped to 1.8 percent, outperforming the national average of 7 percent.

This well-diversified loan portfolio provided consistent earnings throughout 2010. Commercial loans accounted for 36 percent, student loans 37 percent, agricultural loans 10 percent, and residential 17 percent of the entire portfolio. BND continued its role as an important catalyst in a strong and healthy North Dakota economy.

PROGRAMS & SERVICES

ACCOUNTING & TREASURY

Safekeeping Nearly \$3 Billion

BND had over \$2.9 billion of securities in safekeeping for North Dakota financial institutions at the end of 2010. The Bank provided Secured and Unsecured Federal Fund Lines to 95 financial institutions with combined lines of over \$318 million for 2010. Federal Fund sales averaged over \$13 million per day, peaking at \$36 million in June. These numbers of borrowing are down from previous years and reflect the substantial excess liquidity in the marketplace. The Letter of Credit for Public Deposits program provided an average of nearly \$261 million in additional liquidity daily, allowing the availability of additional securities to increase financial institutions' funding sources. Both programs provided a daily average of over \$274 million of liquidity to North Dakota financial institutions, topping out at over \$297 million in June.

LENDING

Igniting Opportunity in Rural Housing

BND and NDHFA Team Up to Help Rural Financial Institutions

Bank of North Dakota and the North Dakota Housing Finance Agency (NDHFA) began jointly offering a \$10 million Rural Mortgage Loan Program on January 1, 2010. The Rural Mortgage Loan Program temporarily allows rural financial institutions who do not have FHA approval to access a pool of \$10 million to increase their likelihood of working with local residential home loan borrowers. Home locations that are not in Bismarck, Fargo, Grand Forks, Mandan or Minot are eligible.

Financial institutions may choose to originate the loan or partner with another financial institution with residential lending experience in order to expedite the process. BND and NDHFA worked with the North Dakota Bankers Association (NDBA) to bring financial institutions together to structure a program that truly benefits those willing to use it. In 2010, 18 loans were made totaling \$2.5 million.

2010 YEAR IN REVIEW

MAY



BND held "College SAVE" events at zoos in Minot, Bismarck and Fargo.

JUNE



BND Leadership group graduated.



Carrie Willits in Investments and Carinna Hendrickson in Credit Review graduated from Dakota School of Banking.

SPARKING GROWTH WITH PACE

While Bernie Kringstad did farm repairs from his small welding shop south of Hoople over 20 years ago, he didn't imagine one day being a leader in his industry. As a result of programs offered by Bank of North Dakota, he not only expanded his business, but is now the second largest employer in Park River. "It positions us to pursue bigger contracts and have an edge on the competition by expanding and obtaining additional equipment," Kringstad said.

Kringstad Ironworks has manufactured agriculture equipment for many years, but in 2005 the company saw a niche within the beet industry to primarily build sugar beet pilers. The 200-foot long machines can be found in 180 locations throughout the Red River Valley, and the company has secured contracts with strong players in the industry, including American Crystal Sugar.

IGNITING SUCCESS

Kringstad Ironworks

Business took off quickly, so Kringstad Ironworks needed more space. In 2006, they leased a former mushroom plant from the City of Park River to give them the room needed to fulfill their new piler contracts. Funding from the Red River Regional Council allowed them to renovate the building. Two years later, Kringstad requested assistance from BND's PACE (Partnership in Assisting Community Expansion) Program and US Bank of Grand Forks to purchase the building and continue renovations. In 2009, PACE funded construction of additional space.

By participating with local lenders and the community, BND's PACE program boosts businesses like Kringstad Ironworks by reducing the interest rate on a loan by 5 percent.

Kringstad's local lender teamed with BND to offer Kringstad more operating capital as well. "With their volume growing dramatically over the last few years, they needed additional equipment," said Niel McWalter, vice president of US Bank. "Bank of North Dakota helped put the parts together where it would otherwise have been hard for Kringstad to grow as he has been able to."

"Without Bank of North Dakota's assistance, we wouldn't have been able to afford the building renovation, expansions and equipment purchases," Kringstad said. "The Bank provided funding to help us meet the demand of the sugar industry."



JULY 1

Federal Family Education Loan Program ended.



College SAVE promoted at the North Dakota State Fair.



Bonnie Schneider received BND Leadership Award.

AUGUST



Chad Johnson and Joel Erickson jointly received the Small Business Development Center (SBDC) Lender of the Year Award.

BND Now Purchases USDA Guaranteed Rural Housing Loans

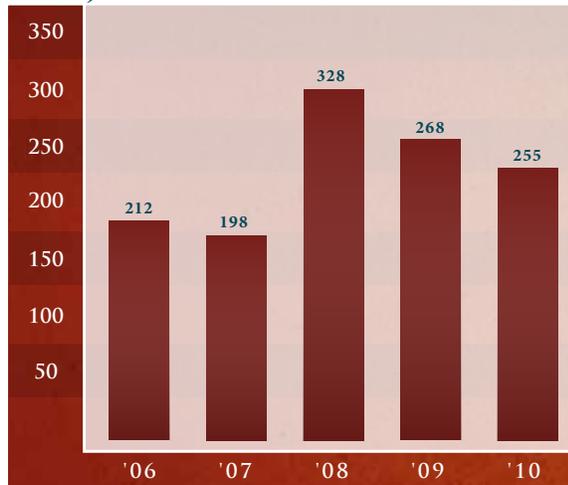
During a spring focus group, it came to light that BND could better serve the needs of its lending partners throughout the state by assisting with USDA Guaranteed Rural Housing Loans. The Bank wasted no time in submitting an application which was approved in July to purchase such loans. Therefore, BND created a secondary market for these types of loans, which assists community financial institutions to continue an important service to qualified homebuyers in rural areas. In the last six months of the year, \$1.3 million in funding was disbursed through nine loans.

Jump-Starting Health Information Projects in North Dakota

The North Dakota legislature established a revolving loan fund with Bank of North Dakota in 2009 to provide low-interest loans to health care entities to build their health information technology infrastructure. By spring of 2010, parameters had been set and the program became available to

assist healthcare providers in purchasing, installing and supporting fully functional, standards-based, interoperable electronic health information technology systems. Eight loans were made in 2010 under this program for a total of \$2.8 million.

BUSINESS & INDUSTRIAL PROJECTS FINANCED

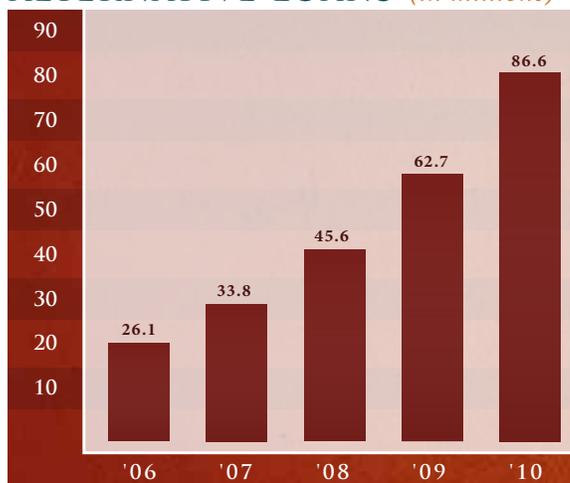


A Year of Change in Student Loans

Generating New Focus After Federal Program Ends

BND has a long history in the student loan industry as we made the first federally insured student loan in the country in 1967. Effective July 1, 2010, federal legislation required students to borrow from the Federal Direct Loan Program through the U.S. Department of Education.

DAKOTA EDUCATION ALTERNATIVE LOANS *(in millions)*



While this change impacted the Bank, BND continues to serve the needs of students by providing the Dakota Education Alternative Loan (DEAL) for those students who are unable to obtain adequate funds through federal student aid programs, as well as those high school students who are taking dual credit courses.

The DEAL loan is one of the most competitive alternative loans in the nation. North Dakota students or those who attend school here pay zero fees, have the option of fixed or variable interest rates, and can count on quality local customer service.

POTATO BUSINESS RECHARGES THROUGH PARTICIPATION PROGRAM

A multi-generation, family-owned business firmly planted in the Red River Valley more than 80 years ago, Black Gold Farms has evolved into an international production, sales and service operation specializing in potatoes.

However, back in the mid-1990s Black Gold was primarily raising irrigated chipping potatoes in five states when the farm operation encountered challenges including the low carbohydrate craze – an obstacle for the potato chip industry. Black Gold's originating lender, AgCountry Farm Credit Services in Grand Forks, requested participation from Bank of North Dakota to enable Black Gold to continue to expand operations.

"In Black Gold's industry, the price per acre for potato production is costly," says Rick Kovar, AgCountry's vice president of agribusiness. "In addition, their loan needs are seasonal, and at times loan volume gets fairly high."

IGNITING SUCCESS

Black Gold Farms

Through its Farm and Ranch Participation Loan Program, BND has provided the capacity needed for AgCountry to meet the financing needs of Black Gold. In most instances, BND's participation under this program is needed to assist a financial institution with a borrower whose financing needs have outgrown the legal lending or exposure limits of the originating lender. BND has participated in both an operating line of credit and term loans that finance equipment for Black Gold.

With the help of Bank of North Dakota, Black Gold has been able to expand and diversify into the fresh table potato market and develop alliances nationwide for its products. As the nation's largest supplier of chip potatoes and second largest potato grower, Black Gold ships over 500 million pounds of potatoes within the U.S. and internationally each year, including seed and table-stock potatoes. Black Gold is now testing the sweet potato market for the processed french fry industry.

"As Black Gold continues to grow, its financial needs increase," said Rod Anheluk, farm loan manager at BND. "For the 2010 production year, BND participated in about half of AgCountry's loan volume to Black Gold."

Gregg Halverson, president and owner of Black Gold Farms, appreciates not only BND's cost structure and low interest rates, but also that it is state-owned. "It's nice to deal with an in-state financial institution. We know they'll be there when the need is the greatest."



A Year of Change in Student Loans *(continued)*

Stimulating Progress with New Lending System

Bank of North Dakota's student loan staff spent 2010 working with 5280 Solutions to develop and launch a new lending system. This new technology gives BND more control, more functionality, increased efficiencies and incorporates new regulatory requirements with an online application process. Colleges and students gained enhanced security options, real-time processing for online data, and more.

The conversion impacted nearly 70,000 borrowers, with more than 250,000 loans with balances that exceed \$1 billion.

The new system was ready for use on January 3, 2011, and the conversion impacted nearly 70,000 borrowers, with more than 250,000 loans with balances that exceed \$1 billion.

BND Launched Econnect

BND implemented a new communication tool to allow borrowers, schools, banks and other outside users to have access to reports and documents. This development eliminates the need to fax reports or send statements to customers upon their agreement. This development offers the opportunity for students to receive electronic correspondence from BND as well.

NDCAN

Charged With A New Commitment to Education

In the fall of 2010, Bank of North Dakota began administering a \$1.5 million College Access Challenge Grant from the U.S. Department of Education to promote college access initiatives to students throughout North Dakota. The grant can be renewed each year through 2015. Some services focus on lower income students who traditionally have been underrepresented on college campuses, while other services provide information and resources that assist all students in their efforts to succeed in college.

BND administers the College Access Challenge Grant under the name North Dakota College Access Network (NDCAN). NDCAN replaces College Information Service (CIS), which helped educate students about the financial aid process and going to college for the previous 17 years. Student Loans of North Dakota, the guarantee agency, directs the program.

BND quickly implemented new programs through NDCAN including Dual Credit Assistance for low income junior and senior high school students, sub-grants for nonprofit organizations who work to improve college access, and Crash Course programs for students grades 7 through 12 and their families to learn about careers, financial aid, scholarships and more.

NDCAN replaces College Information Service (CIS), which helped educate students about the financial aid process and going to college for the previous 17 years.

2010 YEAR IN REVIEW

SEPTEMBER

Five \$529 College SAVE awards were distributed in coordination with summer events.

OCTOBER



BND donated \$75,000 in scholarships at the North Dakota Dollars for Scholars appreciation event.

BND was designated to administer NDCAN.

NEW USE FOR PROGRAM ENERGIZES ECONOMIC DEVELOPMENT

Dickinson and surrounding areas had been enjoying an ideal economic development scenario – the strong, steady economic growth of a diversified economy – when the oil industry began its boom in western North Dakota. As the initial impact of the energy sector hit the community, the biggest problem for employers was a shortage of employees to fill jobs. A lack of housing, particularly multi-family housing, was the primary obstacle to workforce growth.

Stark Development Corporation, the economic development organization for Stark County and Dickinson, soon developed a program utilizing Flex PACE financing through Bank of North Dakota to incentivize private developers to develop multiple housing units in Stark County. “As an economic development organization, our job is to adapt to the community’s needs,” said Gaylon Baker, executive vice president of Stark Development Corporation. “That meant addressing the housing shortage.” The board of directors approved the concept, and Baker sent the program details to BND for review to assure that their proposal met the intent of the Flex PACE program.

IGNITING SUCCESS

Stark Development Corporation

The Bank had never been approached about using Flex PACE for building housing units, but decided that it met its requirements. “BND was very responsive to our request to step outside the box, so to speak,” said Baker. Flex PACE partners local lenders and BND through a participatory lending arrangement in which half of the loan amount is provided by the local bank and half is provided by Bank of North Dakota. Furthermore, dedicated funds from BND and Stark Development Corporation are used to reduce the interest costs to borrowers by up to five percent below the local bank lending rate.

“If developers are willing to build housing, Stark Development Corporation provides the Flex PACE program for the interest buy-down incentive,” said Bob Humann, BND sr. vice president of Lending. “Stark Development Corporation monitors where its money goes and approves the borrower before they come to us. Together, we make it easier and more cost-effective for builders to construct housing facilities.” A number of other communities have since asked for information about the Flex PACE program, and at least two communities implemented it.

The program has proved extremely successful. After 30 years without significant construction of apartment buildings, Dickinson permitted over 315 housing units in 2010 – the highest number in the city’s history. “As fast as we build them, the need continues to grow,” said Baker. “And with continued drilling plans in western Stark County, we expect 2011 to be even stronger.”

As communities like Dickinson experience growing pains, BND is committed to generating opportunities and solutions.



COLLEGE SAVE

Sparking In-State Program Growth

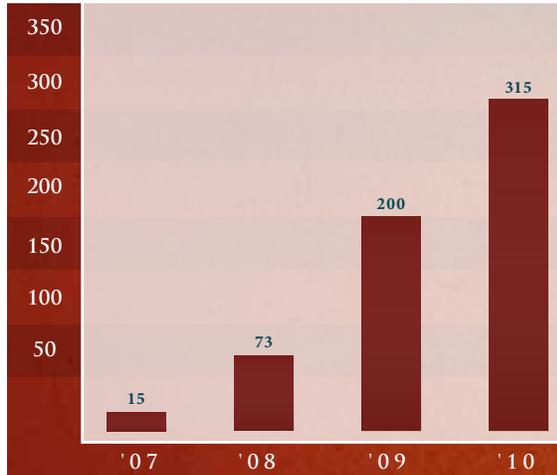
North Dakota's 529 college savings plan, College SAVE, grew in several ways in 2010. The number of in-state accounts grew 27 percent during the year to 3,902, total matching grant accounts grew by 56 percent, and net assets grew to \$305 million.

Bank of North Dakota also expanded the program to the financial advisor community. The expansion offers families who work with financial advisors a flexible, smart way to make saving for college part of North Dakota families' overall financial strategy.

Families who choose to work with a financial advisor to invest in College SAVE are not charged any additional fees by the plan. Advisors will now receive a 0.30 percent annual servicing fee borne by the program manager.

At the close of 2010, more than 200 advisors in multiple firms across the state were available to North Dakota families interested in College SAVE.

MATCHING GRANTS



BND LEADERSHIP PROGRAM

Lighting the Way

To incite our goal to "Be the Correspondent Bank of Choice," the 2010 BND Leadership group completed important legwork in assessing customer satisfaction and identifying program opportunities. The group completed their mission to create an action plan for the Bank. During the six-month program, the team surveyed North Dakota financial institutions, held focus groups and completed research. The insight they garnered provides a solid outline in establishing our focus to meet our goal.

BND: IGNITING SUCCESS SINCE 1919

BND's mission is "To Deliver Quality, Sound Financial Services that Promote Agriculture, Commerce and Industry in North Dakota." True to this mission, we have a steadfast history of sparking partnerships and growth across the state. Through these partnerships, along with our ability to find opportunity among change and challenge, we continue to stoke progress and ignite success.

2010 YEAR IN REVIEW

NOVEMBER



Six mentoring pairs began the second year of BND's Mentoring Program.

DECEMBER

BND announced the College SAVE expansion to financial advisors.



The Dual Credit Assistance program for low-income students launched through NDCAN.

“A GREAT FLAME FOLLOWS A LITTLE SPARK.”

– DANTE ALIGHIERI





Jack Dalrymple
Governor



Doug Goehring
Agriculture Commissioner



Wayne Stenehjem
Attorney General

BND ADVISORY BOARD



Standing: Pat Mahar, Frank Larson,
Karl Bollingberg

Seated: Gary Petersen, Elaine Fremling,
Pat Clement, John Stewart

BND EXECUTIVE COMMITTEE



L to R: Tim Porter, Joe Herslip, Eric Hardmeyer,
Lori Leingang, Bob Humann

