BANKING FOR A BRIGHTER FUTURE

BANK OF NORTH DAKOTA 2002 ANNUAL REPORT

Banking for a Brighter Future – Providing Value Today and Tomorrow

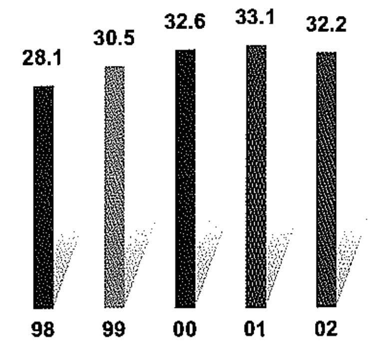
Clarity in our vision and focus on our mission allowed Bank of North Dakota (BND) to end the year financially sound. Creating and maintaining quality programs and services with the help of our employees and our financial partners ensures that we are "Banking for a Brighter Future – Providing Value Today and Tomorrow."

Despite economic doldrums and geopolitical uncertainty, BND turned in a solid performance with net income of $32.2 million. Even though BND battled shrinking net interest margins and our actual income was $900,000 less than reported in 2001, we exceeded our budgeted income target by over $1 million. We attribute this to increased fee income and tight expense control. We experienced a return on average assets of 1.64 percent and return on average equity of 18.7 percent, compared to 1.68 percent and 19.8 percent in 2001.

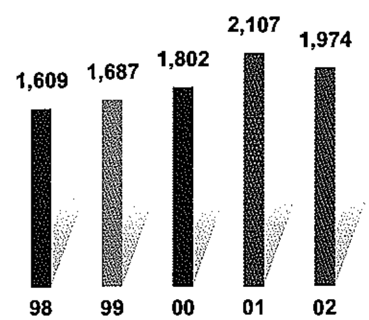
As we continue to navigate through this challenging economic climate, BND remains unwavering in our commitment to provide quality programs and services, while generating revenue for the state of North Dakota.

At the end of 2002, BND reduced equity by $22 million and established a liability account payable to the general fund. This reduction reflected the Office of Management and Budget's best estimate of the general fund shortfall to be provided by BND. All together for the 2001-2003 biennium, BND will transfer between $75-80 million to the general fund, again placing BND among the top five revenue generators for North Dakota's general fund.

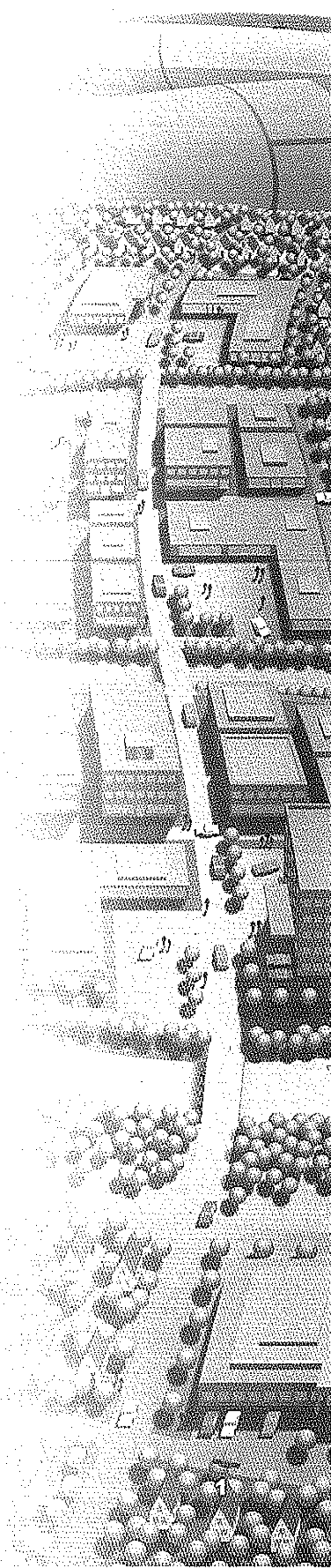
The effect of the transfer lowered BND capital from $170.2 million to $148.2 million. While this is a significant decrease in capital, BND remains a well-capitalized bank with a tier one leverage ratio of 7.82 percent and primary capital (capital plus loan loss reserve) of 8.78 percent. The State Banking Board's minimum threshold is 7.00 percent.



Annual Income in Millions of Dollars

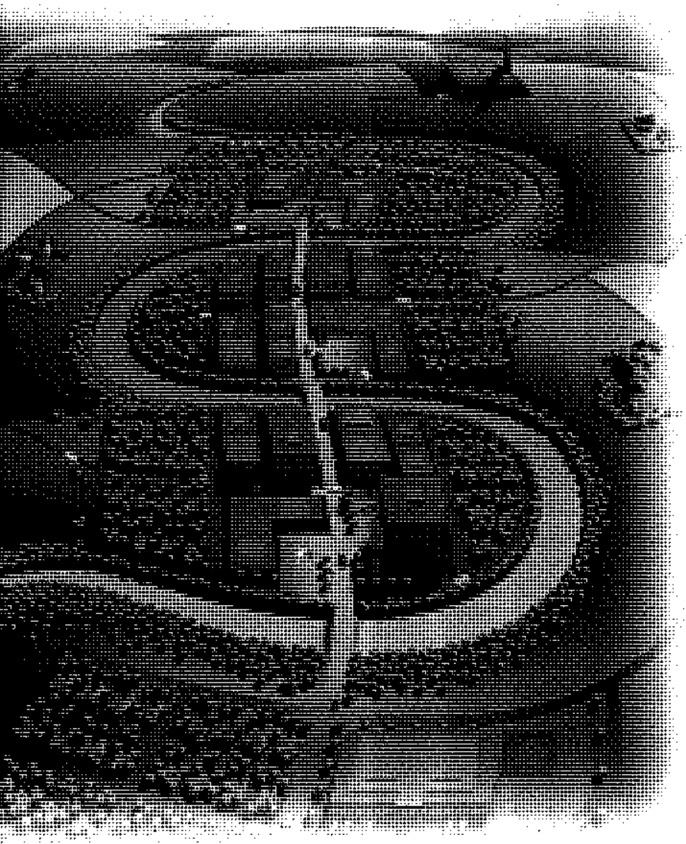


BND Assets in Millions of Dollars



Innovative Loan Programs Provide Value Today and Tomorrow

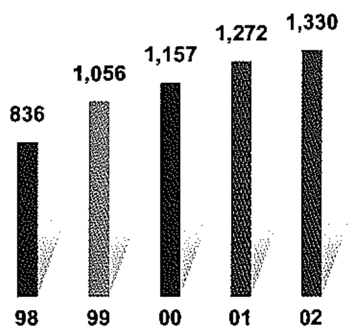
Bank of North Dakota designs and carries out loan programs that add value to the state and generate new wealth. In working with private financial institutions and business owners, BND implemented innovative programs that helped fund 213 business and industrial projects, assisting primary sectors around the state.



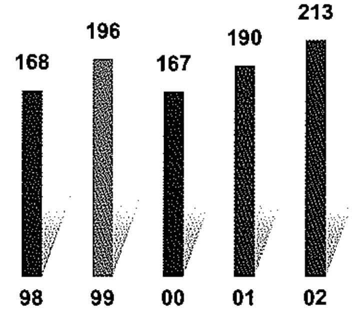
Lending is fundamental to BND's work as a development bank. The Bank's loan programs attract borrowers because we provide flexibility, low interest financing, long-term fixed rates and the sharing of risks with community banking partners. During the past five years, BND has injected more than $1.8 billion into the state's economy.

The various loan programs are designed to add value to the state and created to keep the customer in mind, by providing ease in accessibility, removing unnecessary paperwork and reaching out to existing financial communities. The BND PACE program is one example of a creative program for commercial applications, it provides funding for businesses to start up or grow. Some of the projects funded by the PACE program and other BND loan programs are featured in the annual report.

BND meets its mission: "Delivering quality sound financial services that promote agriculture, commerce and industry in North Dakota." This is evident by the growth of the loan portfolio, which is a reflection of our commitment to North Dakota.



Total Loan Portfolio in Millions of Dollars



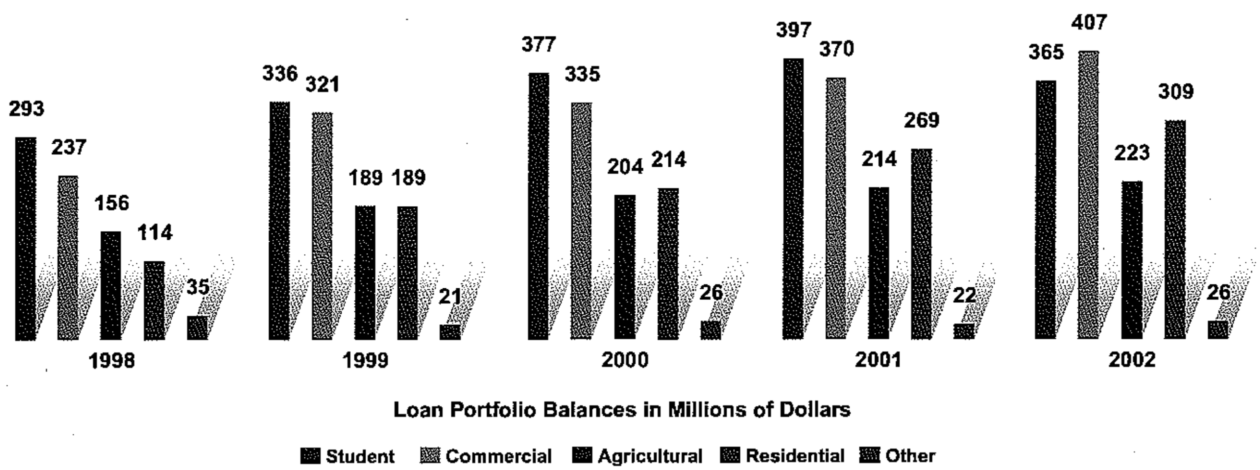
Business and Industrial Projects Financed

Overall, the loan portfolio grew by more than $58 million in 2002. This is significant given the fact that BND sold over $85 million in student loans to the Student Loan Trust. Growth came in major loan areas:

- Residential loans led the way with a $40 million increase, due to the strong housing market and low interest rates.
- The Bank's dedication to economic development is reflected by its $37 million growth in commercial and business loans. BND loan programs financed 213 business and industrial projects.
- Despite weather challenges across the state and refinancing due to decreased interest rates, the Bank saw an increase of over $9 million in agricultural loans.
- BND partnered with higher education to provide $125 million in new student loans. Due to the sale of loans to the Student Loan Trust, our student loan portfolio decreased by $32 million.

BND offers a complete well-rounded financial package designed to compliment and support lending by private financial institutions. We provide lending services in four major areas: business, agriculture, student and home lending. All of these areas provide diversity and a well-balanced loan portfolio for BND. Overall, the Bank's loan portfolio remains balanced with commercial loans accounting for 33 percent, student loans 27 percent, residential loans 23 percent and agricultural loans at 17 percent.

BND's loan loss reserve of just over $25 million calculates to a 1.89 percent reserve, which exceeds the North Dakota average of 1.78 percent. Because of the nature of the portfolio, the Bank uses federal guaranty programs to reduce risk. Nearly 53 percent of BND's loan portfolio is federally guaranteed.

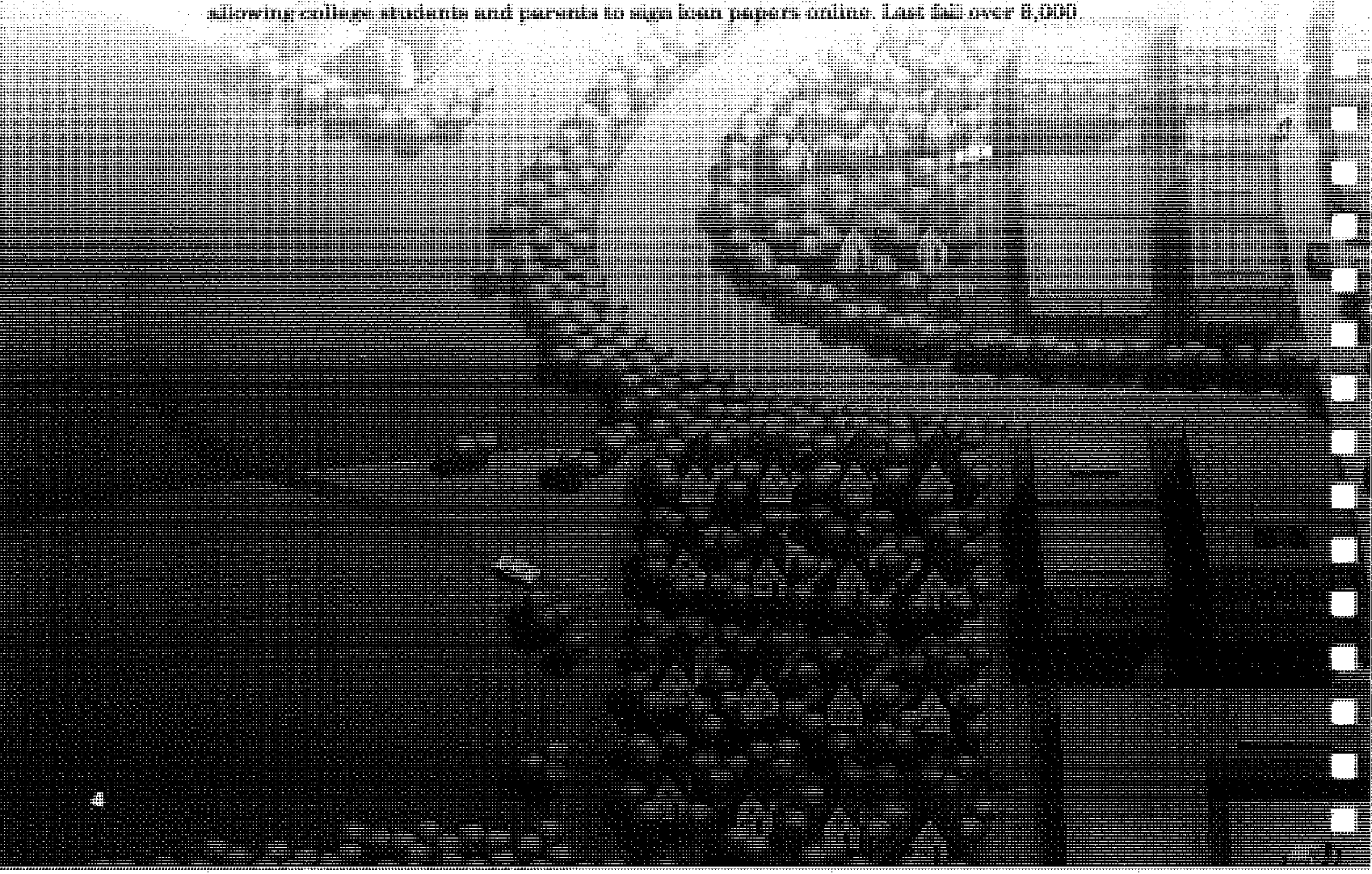


Partnerships are the cornerstones to Banking for a Brighter Future

Partnerships with financial institutions, guarantee agencies and customers are the cornerstones of our financial stability. BND also partners with the Industrial Commission, Business Information Center, community economic development organizations and other agencies to promote growth and provide opportunities across the state. With our partners and customers working side by side, BND focuses on "Banking for a Brighter Future – Providing Value Today and Tomorrow." Each of us has hopes and dreams for a bright future – a college education, running a family farm or starting a business. Whatever our dreams, BND develops programs to help people achieve their goals for the future.

With our customers in mind, BND continues to implement and improve new Web-based technology. Our activity to improve banking services occurred as the next phase of our E-Commerce project was completed last year. The new BND Direct WEB program allows financial institutions and colleges located throughout the state to quickly and easily access their important account information through the Internet. Currently 71 North Dakota banks, state colleges and other corporations are part of the BND Direct WEB program.

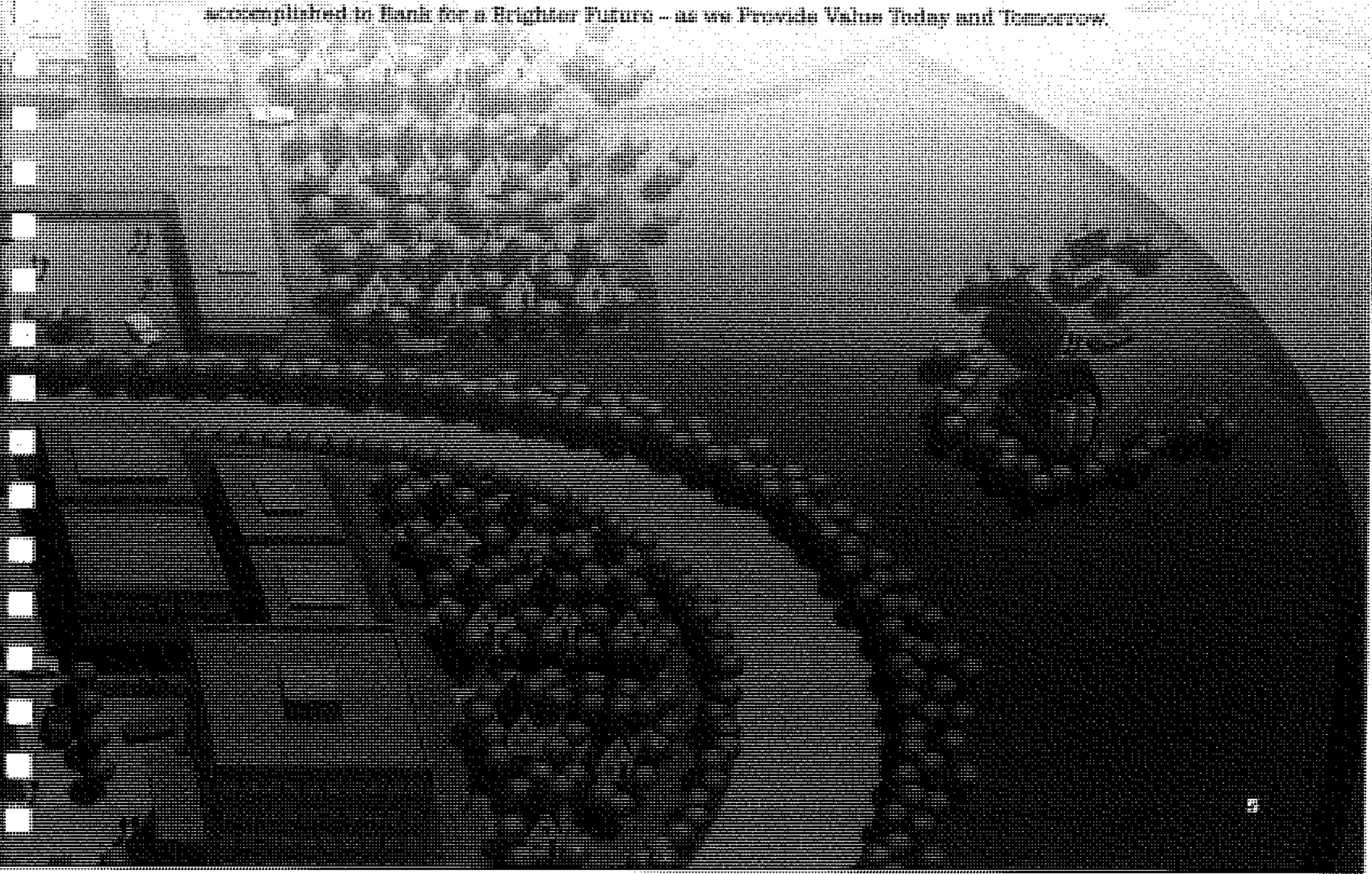
Technology also improved and expedited the student loan process with upgrades allowing college students and parents to sign loan papers online. Last fall over 8,000



students signed loan forms online at our student loan web site: mystudentloanonline.com. The new student loan technology promotes convenience and efficiency, as it assists financial aid offices in colleges and universities across the state in providing a college education.

BND also unveiled the CD-ROM "College Connection Center" – a one-stop educational resource designed to inform high school students about North Dakota colleges and universities, and to help them understand the financial aid process. "College Connection Center" was mailed to the homes of high school juniors and seniors in North Dakota, in addition to high school seniors in select areas of Minnesota and South Dakota. It was also mailed to high school counselors throughout North Dakota and included in College SAVE information packets mailed to customers located out of state.

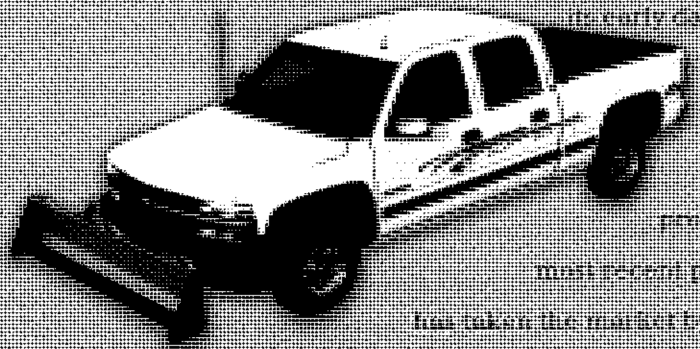
BND strives to help people with their goals by designing unique and strong programs, in addition to providing quality service. We believe strongly that our customers and the residents of North Dakota are the foundation for all we do. BND therefore shares a common vision with our employees and financial partners to continually meet the needs of the customers we serve. With that in mind, our sights are firmly fixed on the work that must be accomplished to Bank for a Brighter Future – as we Provide Value Today and Tomorrow.



Providing Value Today and Tomorrow

Agri-Cover, Inc.

Initially started as a manufacturer of roll tarps for commercial and agriculture trucks, Agri-Cover, Inc. has grown by leaps and bounds since its founding in 1981. Originally located in a former school building in Courtenay, N.D., the company moved to its current location in Jamestown in 1995. Agri-Cover, Inc. has expanded in this location twice and recently built an additional building that houses manufacturing, research and development, thanks to funding received through the BND PACE program and Stutsman County Bank in Jamestown.



The facility expansions and recent addition are the result of successful, progressive products. From its early days, the company has expanded its product line beyond the roll tarp covers. Agri-Cover, Inc. is the innovator of the soft, roll up tonneau cover, marketed as "Access Cover," which is currently the fastest growing product of its type on the market right now. The company's most recent product, a personal utility snow plow called "Snow Sport" has taken the market by storm. Agri-Cover, Inc. currently employs 80 people and distributes its products throughout the United States and Canada.

SEI Information Technology

Fargo and Grand Forks recently celebrated the expansion and establishment of SEI Information Technology in their respective communities. SEI, a Chicago-based computer software development and customer support company, provides clients throughout the country with expertise in solving various computer issues. Examples include trouble logging up orders, running sale totals for the day, or deciding if a problem is hardware or software related.

SEI chose to expand its presence in North Dakota following a comprehensive selection process. "Grand Forks shares the attributes that make our Fargo office so successful in delivering quality service – a well educated work force, a strong work ethic, and a commitment to the highest level of customer care," said SEI President & CEO John Deever.

The Fargo office currently employs approximately 270 people and handles over 100,000 service calls per month for 25 clients, including Bobcat, McDonald's, Scientific Learning and Sonic. The Grand Forks office is scheduled to open by year end with 75 employees, followed by approximately 225 more over the next two or three years.

Imation / Wahpeton CDC

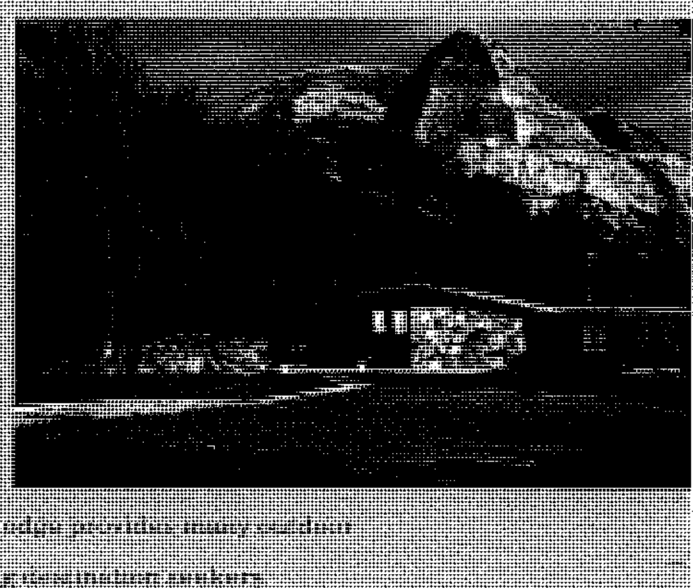
Pro-active community involvement by the Wahpeton Community Development Corporation (CDC) is what helped encourage Imation, a global manufacturer of data storage products to expand its existing facility in Wahpeton. Through the Match program at BND and a financial partnership with Wells Fargo of Wahpeton, Wahpeton CDC was able to secure funding to build a facility that is leased to Imation.

"Imation brings diversity to our (Wahpeton's) economy and a world-class distinction as one of the best manufacturing plants in North America and Europe as cited in Industry Magazine," says Red Geurts, president of Wahpeton CDC.

Headquartered in Oakdale, Minn., Imation, with annual sales of $1 billion, is a leader in the development and manufacturing of removable data storage media. Imation Wahpeton plays a key manufacturing role in several of these data storage products. In fact, the Wahpeton facility is the world's largest manufacturer of 3.5 inch micro floppy diskettes. Located in Wahpeton since 1977, Imation Wahpeton now has more than 700 employees.

Missouri River Lodge

Surrounded by scenic beauty and tranquility, Missouri River Lodge, located in Stanton, is the perfect destination for escaping the constant demands of modern life. Nestled in a valley surrounded by majestic badland formations, the 2,000 acre working ranch provides guests with sweeping vistas, miles of untamed river and numerous outdoor opportunities.



Owners Orville and Diane Oster state the unique lodge experience is growing in popularity among those seeking a natural, picturesque setting where adventure and discovery are possible. Last year over 400 reservations were scheduled ranging from groups of two to 20. The wide range of amenities provided make the lodge an ideal choice for families, business groups and reunions.

Partially funded by BND's Ag PACE program and working in partnership with Union State Bank of Hazen, the lodge provides many outdoor experiences as eco-tourism gains increased popularity among destination seekers.

Leading Us To A Brighter Future

North Dakota Industrial Commission



John Hoeven	**Roger Johnson**	**Wayne Stenehjem**
Governor	Agriculture Commissioner	Attorney General

BND Advisory Board

standing: Frank Larson, Gary Petersen, Bill Kingsbury, John Stewart
seated: Elaine Fremling, Marlys Brown, Shirley Montgomery

BND Executive Committee

back row: Boh Humann, Tim Atkinson, Phyllis Lasher, Kirby Martz, Ed Sather, Dale Eberle
front row: Julie Kubisiak, Eric Hardmeyer, Gayle Ciavarella

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR S REPORT .... PAGE 10

BALANCE SHEETS .... PAGE 11

STATEMENTS OF INCOME .... PAGE 12

STATEMENTS OF EQUITY .... PAGE 13

STATEMENTS OF CASH FLOWS .... PAGE 14

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES PAGE15-17

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS .... PAGE 17

NOTE 3 - DEBT AND EQUITY SECURITIES .... PAGE 17-19

NOTE 4 - LOANS .... PAGE 19-20

NOTE 5 - LOAN SALES AND LOAN SERVICING .... PAGE 20-21

NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE .... PAGE 22

NOTE 7 - DEPOSITS .... PAGE 22-23

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE .... PAGE 23

NOTE 9 - SHORT AND LONG-TERM DEBT .... PAGE 23-24

NOTE 10 - OTHER LIABILITIES .... PAGE 24

NOTE 11 - PENSION PLAN .... PAGE 24-25

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES .... PAGE 25-26

NOTE 13 - RELATED PARTY TRANSACTIONS .... PAGE 26

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES .... PAGE 26

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS .... PAGE 27-28

NOTE 16 - COMPREHENSIVE INCOME .... PAGE 29

NOTE 17 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS .... PAGE 29

TEN-YEAR SUMMARY .... PAGE 30-31

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, 2002 and 2001, 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 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.

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, 2002 and 2001, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Eide Bailly LLP

Fargo, North Dakota
January 24, 2003

BANK OF NORTH DAKOTA

BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

	(In Thousands)	
	2002	2001
ASSETS		
Cash and due from banks	$ **199,389**	$ 240,551
Federal funds sold	**209,205**	257,830
Cash and cash equivalents	**408,594**	498,381
Securities	**235,365**	329,632
Loans	**1,329,985**	1,276,334
Less allowance for loan losses	**(25,091)**	(23,958)
	1,304,894	1,252,376
Bank premises, equipment, and software, net	**5,141**	3,971
Interest receivable	**17,625**	20,545
Other assets	**2,829**	2,551
Total assets	$ **1,974,448**	$ 2,107,456
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	$ **209,112**	$ 193,354
Interest bearing	**861,741**	1,015,247
	1,070,853	1,208,601
Federal funds purchased and securities sold under agreements to repurchase	**296,688**	315,713
Short and long-term debt	**421,065**	399,553
Other liabilities	**36,729**	13,093
Total liabilities	**1,825,335**	1,936,960
Equity		
Capital	**2,000**	2,000
Capital surplus	**42,000**	42,000
Undivided profits	**104,237**	126,237
Unrealized gain on securities available for sale	**876**	259
Total equity	**149,113**	170,496
Total liabilities and equity	$ **1,974,448**	$ 2,107,456

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002 AND 2001

	(In Thousands)	
	2002	2001
INTEREST INCOME		
Federal funds sold	$ **4,361**	$ 16,112
Securities	**7,943**	10,884
Loans	**78,011**	87,494
Total interest income	**90,315**	114,490
INTEREST EXPENSE		
Deposits	**22,833**	43,065
Federal funds purchased and securities sold under agreements to repurchase	**3,653**	10,296
Short and long-term debt	**24,180**	19,479
Total interest expense	**50,666**	72,840
NET INTEREST INCOME	**39,649**	41,650
PROVISION FOR LOAN LOSSES	**2,200**	2,700
NET INTEREST AFTER PROVISION FOR LOAN LOSSES	**37,449**	38,950
NON-INTEREST INCOME		
Service fees and other	**9,764**	8,644
Net gain on sales of securities	**-**	2
Total non-interest income	**9,764**	8,646
NON-INTEREST EXPENSE		
Salaries	**5,689**	5,475
Pensions and other employee benefits	**1,877**	1,704
Data processing	**2,506**	2,543
Other operating expenses	**3,936**	3,984
Depreciation and amortization	**1,014**	831
Total non-interest expenses	**15,022**	14,537
NET INCOME	$ **32,191**	$ 33,059

See Notes to Financial Statements

BANK OF NORTH DAKOTA

STATEMENTS OF EQUITY

YEARS ENDED DECEMBER 31, 2002 AND 2001

	(In Thousands)				
	Capital	Capital Surplus	Undivided Profits	Unrealized Gain (Loss) on Securities Available for Sale	Total
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
Operating transfers to Industrial Commission			(85)		(85)
Reduction in operating transfers to Industrial Commission			12		12
Operating transfers to state general fund from current earnings			(15,456)		(15,456)
BALANCE, DECEMBER 31, 2001	2,000	42,000	126,237	259	170,496
Comprehensive income					
Net income			32,191		32,191
Unrealized gain on securities available for sale				617	617
Total comprehensive income					32,808
Operating transfers to state general fund from current earnings			(32,191)		(32,191)
Contingency operating transfers to state general fund from undivided profits			(22,000)		(22,000)
BALANCE, DECEMBER 31, 2002	$ 2,000	$ 42,000	$ 104,237	$ 876	$ 149,113

See Notes to Financial Statements

BANK OF NORTH DAKOTA

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	(In Thousands)	
	2002	2001
OPERATING ACTIVITIES		
Net income	**$ 32,191**	$ 33,059
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	**1,014**	831
Provision for loan losses	**2,200**	2,700
Net amortization (accretion) of securities	**1,822**	(249)
Gain on sale of student loans	**(465)**	(194)
Loss on retirement of equipment and software	**11**	1
Net gain on sales of securities	**-**	(2)
Decrease in interest receivable	**2,920**	4,629
(Increase) decrease in other assets	**(278)**	1,211
Decrease in other liabilities	**(519)**	(630)
NET CASH FROM OPERATING ACTIVITIES	**38,896**	41,356
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	**(642,021)**	(631,939)
Proceeds from sales, maturities, and principal repayments	**717,085**	505,595
Securities held to maturity transactions		
Purchase of securities	**(11,669)**	(30,926)
Proceeds from sales, maturities, and principal repayments	**30,730**	24,296
Purchase of Federal Home Loan Bank stock	**(1,063)**	(4,393)
Proceeds from sales of loans	**91,871**	21,817
Net increase in loans	**(146,124)**	(138,961)
Purchases of equipment and software	**(2,195)**	(1,158)
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	**36,614**	(255,669)
FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	**15,758**	62,884
Net (decrease) increase in interest bearing deposits	**(153,506)**	9,986
Net (decrease) increase in federal funds purchased and securities sold under repurchase agreements	**(19,025)**	100,641
Proceeds from issuance of short and long-term debt	**48,000**	151,141
Payment of short and long-term debt	**(26,488)**	(6,027)
Payment of operating transfers	**(30,036)**	(50,036)
NET CASH (USED FOR) FROM FINANCING ACTIVITIES	**(165,297)**	268,589
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(89,787)**	54,276
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**498,381**	444,105
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 408,594**	$ 498,381

See Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of North Dakota (BND) is owned and operated by the State of North Dakota under the supervision of the Industrial Commission as provided by Chapter 6-09 of the North Dakota Century Code. BND is a unique institution combining elements of banking, fiduciary, investment management services, and other financial services, and state government with a primary role in financing economic development. BND is a participation lender; the vast majority of its loans are 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, BND is required to follow the pronouncements of the Government Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, BND 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.

BND also prepares financial statements in accordance with GASB pronouncements.

Use of Estimates

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

Significant Group Concentrations of Credit Risk

Most of the Bank s lending activities are with customers within the State of North Dakota. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture. The Bank s loan portfolio is comprised of the following concentrations as of December 31, 2002, and 2001:

	2002	2001
Student loans, of which 98% are guaranteed	**27%**	31%
Commercial loans, of which 8% and 10% are guaranteed	**33%**	31%
Residential loans, of which 84% are guaranteed	**23%**	21%
Agricultural loans, of which 25% are guaranteed	**17%**	17%
	100%	100%

Cash and Cash Equivalents

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

(continued on next page)

Securities

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 equity. The change in unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income. Securities that management has the positive intent and ability to hold to maturity are classified as securities held to maturity and recorded at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

Because of its borrowing arrangement with the Federal Home Loan Bank, the Bank is required to hold Federal Home Loan Bank stock. Since ownership of this stock is restricted, these securities are carried at cost and evaluated periodically for impairment.

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 provision 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. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower s prior payment record, and amount of the shortfall in relation to the principal and interest owed.

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

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

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.

(continued on next page)

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.

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 expenses.

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

Income Taxes

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

NOTE 2 - RESTRICTION 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 minimum balance of $4 million with the Federal Reserve Bank.

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, 2002, and 2001, consists of the following:

	(In Thousands)	
	2002	2001
Securities available for sale, at fair value	**$ 163,136**	$ 239,268
Securities held to maturity, at amortized cost	**51,204**	70,402
Federal Home Loan Bank stock, at cost	**21,025**	19,962
	$ 235,365	$ 329,632

(continued on next page)

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, 2002				
Securities available for sale				
Federal agency	$ 126,300	$ 693	$ 1	$ 126,992
Mortgage-backed	35,960	313	129	36,144
	$ 162,260	$ 1,006	$ 130	$ 163,136
Securities held to maturity				
Mortgage-backed	$ 34,863	$ 319	$ 29	$ 35,153
State and municipal	16,341	-	-	16,341
	$ 51,204	$ 319	$ 29	$ 51,494

	(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
	$ 239,009	$ 437	$ 178	$ 239,268
Securities held to maturity				
Mortgage-backed	$ 61,416	$ 238	$ 247	$ 61,407
State and municipal	8,986	-	-	8,986
	$ 70,402	$ 238	$ 247	$ 70,393

Securities carried at $48,347,000 at December 31, 2002, and $57,483,000 at December 31, 2001, were used for securities sold under agreements to repurchase and for other required pledging purposes.

(continued on next page)

The maturity distribution of debt securities at December 31, 2002, 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	$ 19,795	$ 19,735	$ 13,858	$ 13,917
Over one year through five years	137,419	138,354	20,761	20,979
Over five years through ten years	5,046	5,047	9,741	9,741
Over ten years	-	-	6,844	6,857
	$ 162,260	$ 163,136	$ 51,204	$ 51,494

Proceeds from sales of securities available for sale for the year ended December 31, 2001, were $6,500,000. There were no sales of securities during 2002. Gross realized gains on sales for the year ended December 31, 2001, were $2,000. There were no gross realized losses on sales for the year ended December 31, 2001.

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2002, and 2001, is as follows:

	(In Thousands)	
	2002	2001
Guaranteed student loans	**$ 364,816**	$ 399,002
Bank participation loans:		
Commercial	**379,976**	356,848
Agricultural	**146,378**	150,042
Residential loans	**309,267**	271,385
Farm real estate loans	**76,584**	63,699
State institutions	**25,954**	21,808
Bank stock	**27,010**	13,550
	1,329,985	1,276,334
Allowance for loan losses	**25,091**	23,958
	$ 1,304,894	$ 1,252,376

Unamortized deferred student loan costs totaled $1,713,000 and $1,683,000 as of December 31, 2002, and 2001. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $2,168,000 and $2,067,000 as of December 31, 2002, and 2001.

(continued on next page)

The composition of the allowance for loan losses for the years ended December 31, 2002, and 2001, is as follows:

	(In Thousands)	
	2002	2001
Balance - beginning of year	**$ 23,958**	$ 22,424
Provision for loan losses	**2,200**	2,700
Loans charged off	**(1,113)**	(1,264)
Recoveries	**46**	98
Balance - end of year	**$ 25,091**	$ 23,958

At December 31, 2002, and 2001, the Bank had loans amounting to $8,854,000 and $2,655,000 that were specifically classified as impaired, of which $8,167,000 and $1,456,000 have a valuation allowance. As of December 31, 2002, and 2001, the allowance for loan losses related to these impaired loans was $1,992,000 and $262,000. At December 31, 2002, and 2001, impaired loans of $687,000 and $1,199,000 did not have a valuation allowance since these impaired loans have adequate collateral and/or guarantees. The average balance of impaired loans was $7,531,000 and $3,473,000 during 2002 and 2001. The interest income recorded on impaired loans is not significant.

At December 31, 2002, and 2001, the Bank had loans amounting to $8,854,000 and $2,655,000 on nonaccrual status. Loans 90 days or more past due and still accruing interest totaled $22,368,000 and $17,532,000 as of December 31, 2002, and 2001. Accruing loans 90 days or more past due include guaranteed student loans of $16,311,000 and $14,456,000 as of December 31, 2002, and 2001. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

The total amount of restructured loans was $13,987,000 and $17,465,000 at December 31, 2002, and 2001.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2002.

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND s loan sales during 2002 and 2001 follows:

	(In Thousands)	
	2002	2001
Student loans sold to North Dakota Student Loan Trust	**$ 85,882**	$ 17,114
Residential loans sold on the secondary market	**5,524**	4,509

BND recognized a gain on sale of loans of $465,000 and $191,000 in 2002 and 2001, which is included in non-interest income on the Statements of Income.

A servicing asset or liability was not recognized in the student loan sales since BND receives adequate compensation relative to current market servicing prices to service the student loans sold. Servicing assets were recognized on the sale of residential loans.

(continued on next page)

BND has contracts to provide servicing of loans for others. These loans are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others as of December 31, 2002, and 2001 were as follows:

	(In Thousands)	
	2002	2001
Student loans		
North Dakota Student Loan Trust	**$ 136,305**	$ 76,390
Others	**5,601**	4,047
Residential loans	**35,368**	43,089
Other state fund loans		
Board of University and School Lands	**41,302**	52,041
Community Water Facility Loan Fund	**16,254**	15,659
Beginning Farmer Revolving Loan Fund	**9,705**	9,750
Developmentally Disabled Facility Loan Program	**6,472**	7,364
Department of Human Services	**5,148**	1,682
Credit Review Board	**4**	6

Under existing student loan servicing agreements, the Bank generally agrees to reimburse lenders for all principal, accrued interest and special allowance which the lender has been denied if the denial resulted from the actions or inactions of the Bank. Under existing residential loan servicing agreements, the Bank generally agrees to reimburse lenders for all losses, damages, judgments or legal expenses that resulted from the actions or inactions of the Bank. Any potential liability for claims under these agreements is not considered significant.

The balance of capitalized servicing rights, net of valuation allowances, included in other assets at December 31, 2002, and 2001, was $248,000 and $327,000. The fair value of these rights was $408,000 and $597,000 at December 31, 2002, and 2001.

The following table summarizes the changes in capitalized servicing rights for the years ended December 31, 2002, and 2001:

	(In Thousands)	
	2002	2001
Balance - beginning of year	**$ 327**	$ 396
Purchases	**58**	63
Amortization	**(137)**	(132)
	248	327
Less valuation allowance	**-**	-
Balance - end of year	**$ 248**	$ 327

(continued on next page)

NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, furniture, and software at December 31, 2002, and 2001, is as follows:

	(In Thousands)			
	Balance 2001	Additions	Retirements	Balance 2002
Land	$ 672	$ -	$ -	$ 672
Building	4,285	-	-	4,285
Equipment	1,608	53	115	1,546
Furniture	502	23	7	518
Software	4,049	2,119	-	6,168
	11,116	2,195	122	13,189
Less accumulated depreciation	7,145	1,014	111	8,048
	$ 3,971	$ 1,181	$ 11	$ 5,141

	(In Thousands)			
	Balance 2000	Additions	Retirements	Balance 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
	$ 3,645	$ 327	$ 1	$ 3,971

Depreciation and amortization expense on the above assets amounted to $1,014,000 and $831,000 in 2002 and 2001.

NOTE 7 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $454,027,000 and $583,558,000 as of December 31, 2002, and 2001. Certificates of deposit sold on the national market were $65,000,000 as of December 31, 2002, and 2001, and all are in denominations of $10,000,000 or more.

(continued on next page)

At December 31, 2002, the scheduled maturities of certificates of deposits are as follows:

	(In Thousands)	
	Sold Locally	Sold on the National Market
2003	$ 372,140	$ 65,000
2004	30,369	-
2005	15,706	-
2006	7,090	-
2007	9,511	-
Later years	35,129	-
	$ 469,945	$ 65,000

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)	
	2002	2001
Federal Home Loan Bank advances	**$ 420,499**	$ 398,885
North Dakota Municipal Bond Bank, 3%, matures from September 2007 through September 2009	**566**	668
	$ 421,065	$ 399,553

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
2003	$ 60,271	$ 21,814	$ 82,085
2004	16,071	21,335	37,406
2005	64,591	20,494	85,085
2006	24,219	18,216	42,435
2007	15,609	17,891	33,500
Later years	240,304	116,571	356,875
Totals	$ 421,065	$ 216,321	$ 637,386

(continued on next page)

The Federal Home Loan Bank (FHLB) advances outstanding at December 31, 2002, mature from January 2003 through April 2022. 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. FHLB short and long-term advances are secured by an assignment of the FHLB stock owned by BND totaling $21,025,000 in 2002 and $19,962,000 in 2001. In addition, advances must also be secured by minimum qualifying collateral maintenance levels by pledging guaranteed student loans totaling $191,096,000 in 2002 and $216,394,000 in 2001 and residential loans totaling $303,628,000 in 2002 and $253,930,000 in 2001.

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)	
	2002	2001
Transfers payable	**$ 24,647**	$ 492
Buydown interest	**3,213**	2,243
Escrow balances	**2,107**	2,175
ACH clearing account	**826**	1,094
Interest payable	**2,718**	4,279
Student loan origination fee payable	**162**	178
Official checks	**797**	589
Accrued expenses	**1,461**	1,165
Other	**798**	878
	$ 36,729	$ 13,093

The 2001 North Dakota Legislature passed House Bill 1015 that provides for an operating transfer from Bank of North Dakota to the state general fund. An operating transfer 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. $30,000,000 was transferred in 2002 and $15,000,000 was transferred in 2001.

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 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, 2002, the most recent projections indicate the projected revenue will not meet the March 2001 legislative forecast for projected revenues. Therefore the Bank recorded a transfer payable to the state general fund of $22,000,000 as of December 31, 2002.

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.

(continued on next page)

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 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, 2002, and 2001, were approximately $510,000 and $492,000.

NDPERS issues a publicly available financial 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 - COMMITMENTS AND CONTINGENT LIABILITIES

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 then 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 are 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, 2002, Bank of North Dakota has not funded and has not committed to fund any amount under the line of credit.

(continued on next page)

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, 2002, the Bank has provided guarantees totaling $1,122,000 and has guarantee commitments outstanding of $17,000 included in commitments to extend credit.

NOTE 13 - RELATED PARTY TRANSACTIONS

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

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

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit 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.

At December 31, 2002, and 2001, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount *(In Thousands)*	
	2002	2001
Commitments to extend credit	**$ 236,364**	$ 241,481
Financial standby letters of credit	**88,509**	99,595

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.

(continued on next page)

NOTE 15 - 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, 2002, and 2001, were as follows:

(In Thousands)

	2002		2001	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 408,594**	**$ 408,594**	$ 498,381	$ 498,381
Securities	**235,365**	**235,655**	329,632	329,623
Interest receivable	**17,625**	**17,625**	20,545	20,545
Loans				
Guaranteed student loans	**364,816**	**370,044**	399,002	406,981
Residential loans	**309,267**	**348,394**	271,385	279,491
Other loans	**655,902**	**653,390**	605,947	585,382
Allowance for loan losses	**(25,091)**	**-**	(23,958)	-
Total loans	**1,304,894**	**1,371,828**	1,252,376	1,271,854
Total financial assets	**$ 1,966,478**	**$ 2,033,702**	$ 2,100,934	$ 2,120,403
Financial liabilities				
Non-maturity deposits	**$ 535,908**	**$ 535,908**	$ 542,977	$ 542,977
Deposits with stated maturities	**534,945**	**543,456**	665,624	670,341
Federal funds purchased and securities sold under agreements to repurchase	**296,688**	**296,688**	315,713	315,713
Short and long-term debt	**421,065**	**447,755**	399,553	403,510
Other liabilities	**36,729**	**36,729**	13,093	13,093
Total financial liabilities	**$ 1,825,335**	**$ 1,860,536**	$ 1,936,960	$ 1,945,634

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.

(continued on next page)

Securities

The fair value for securities is 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.

Guaranteed Student Loans

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

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.

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, is 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.

(continued on next page)

NOTE 16 - 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 equity 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	
	2002	2001
Balance, beginning of year	**$ 259**	$ 338
Unrealized holding gains (losses) arising during the period	**617**	(77)
Reclassification adjustment for (gains) losses realized in net income	**-**	(2)
Other comprehensive income	**617**	(79)
Balance, end of year	**$ 876**	$ 259

NOTE 17 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	(In Thousands)	
	2002	2001
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 24,388**	$ 45,674
Interest paid on federal funds purchased and securities sold under repurchase agreements	**3,658**	10,396
Interest paid on short and long-term debt	**24,181**	19,479
Supplemental schedule of noncash investing and financing activities		
Reduction in transfers payable	**-**	12
Operating transfers from undivided profits to other liabilities	**32,191**	15,541
Contingency operating transfers from undivided profit to other liabilities	**22,000**	-
Net change in unrealized gain (loss) on securities available for sale	**617**	(79)

BANK OF NORTH DAKOTA
TEN-YEAR SUMMARY

	2002	2001	2000
OPERATING RESULTS (in thousands)			
Interest income	$ 90,315	$ 114,490	$ 117,163
Interest expense	50,666	82,840	75,774
Net interest income	39,649	41,650	41,389
Provision for loan losses	2,200	2,700	2,700
Net interest income after provision for loan losses	37,449	38,950	38,689
Non-interest Income	9,764	8,646	7,224
Non-interest Expense	15,022	14,537	1,331
Net income	32,191	33,059	32,582
Payments to general fund	30,000	50,000	-
Payments to other funds	36	36	35
BALANCE SHEET - YEAR END (in thousands)			
TOTAL ASSETS	1,974,448	2,107,456	1,806,517
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	209,205	257,830	271,510
SECURITIES	235,365	329,632	192,093
LOANS	1,329,985	1,272,786	1,156,614
Loans held for sale	-	-	-
Residential loans	309,267	267,837	213,009
Guaranteed student loans	364,816	399,002	376,535
Bank participation loans			
Commercial	379,976	356,848	328,205
Agriculture	146,378	150,042	138,753
Farm real estate loans	76,584	63,699	65,377
State institutions	25,954	21,808	25,487
Bank stock	27,010	13,550	9,248
DEPOSITS	1,070,853	1,208,601	1,135,731
Non-interest bearing	209,112	193,354	130,470
Interest bearing	861,741	1,015,247	1,005,261
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	296,688	315,713	215,072
SHORT AND LONG-TERM DEBT	421,065	399,553	254,439
EQUITY	149,113	170,496	153,045
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	876	259	338
Undivided profits	104,237	126,237	108,707

1999	1998	1997	1996	1995	1994	1993
$ 99,350	$ 87,788	$ 70,891	$ 67,377	$ 62,742	$ 51,273	$ 46,985
62,487	53,852	40,768	39,865	37,595	28,564	23,456
36,863	33,936	30,123	27,512	25,147	22,709	23,529
1,600	1,700	600	600	1,700	2,500	600
35,263	32,236	29,523	26,912	23,447	20,209	22,929
7,838	8,651	8,189	7,812	9,514	9,597	6,373
12,642	12,750	12,168	11,533	11,322	11,775	11,772
30,459	28,137	25,544	23,191	21,639	18,031	17,530
15,000	29,600	12,715	37,500	-	10,000	11,100
35	40	41	38	25,195	37	16
1,687,167	1,609,039	1,162,415	1,068,082	1,033,816	935,070	872,220
249,565	206,095	128,180	86,470	67,045	79,810	62,680
235,007	427,842	269,860	284,491	347,180	358,399	428,333
1,056,232	835,654	623,532	554,001	487,297	393,756	305,552
-	-	-	-	-	203	14,996
188,474	113,934	38,089	29,595	27,808	32,913	42,322
335,687	292,896	244,154	205,787	168,755	122,714	75,026
311,787	228,723	190,088	181,179	155,654	120,918	78,697
127,131	94,971	75,528	82,253	83,217	68,514	53,405
62,080	61,205	45,217	40,035	33,314	31,255	25,638
21,037	34,678	20,561	5,947	11,271	10,459	12,264
10,036	9,247	9,895	9,205	7,278	6,780	3,204
910,652	943,537	719,508	728,122	676,798	587,837	573,317
83,798	133,307	117,708	106,120	117,579	98,337	87,916
826,854	810,230	601,800	622,002	559,219	489,500	485,401
250,985	309,496	234,114	198,108	164,956	155,527	121,112
363,076	203,779	54,087	14,500	57,000	53,455	49,908
139,275	139,931	128,888	98,477	76,000	100,206	100,000
2,000	22,000	22,000	22,000	22,000	22,000	22,000
42,000	22,000	22,000	22,000	22,000	22,000	22,000
-	-	-	-	-	1,394	1,394
(1,428)	195	102	(61)	508	206	-
96,703	95,736	84,786	54,538	31,492	54,606	54,606

BND

BANK OF NORTH DAKOTA
2002 ANNUAL REPORT

For additional information visit our
web site at www.banknd.com