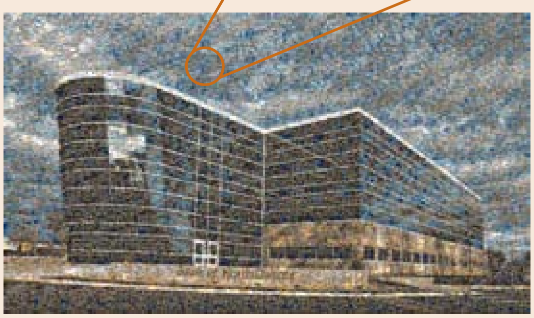
BANK OF NORTH DAKOTA

BUILDING SYNERGY

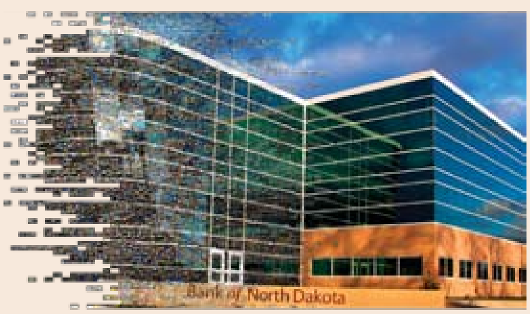
ANNUAL REPORT '07

Building Synergy

Synergy is built through cooperative interaction among groups, and it results in an outcome that is greater than the sum of the individual entities.



Over 1,100 photographs dating back to the early 1920's were used to create a remarkable mosaic by world-renowned artist Robert Silvers. The full-scale, seven-foot by four-foot, original artwork is on display at Bank of North Dakota.



The mosiac clearly demonstrates the use of synergy and brings to life each and every interaction among our employees, customers and partners, which ultimately led to the construction of our new home.

Exterior construction of Bank of North Dakota's new building was completed in 2007. After a seamless and smooth transition, the facility was occupied and fully operational on January 22, 2008.

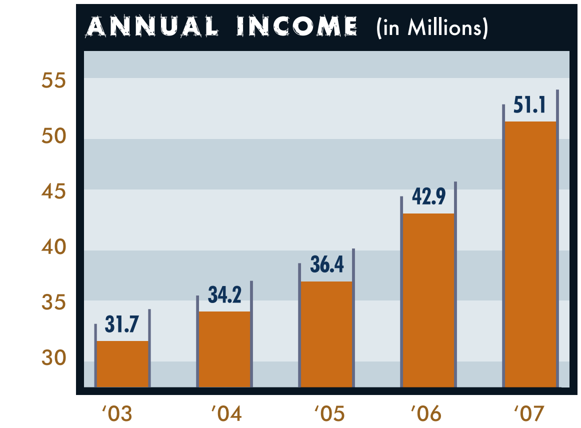
President's Message

Eric Hardmeyer,
President

In 2007, Bank of North Dakota accepted congratulations from friends across the state in preparation to move into our new home beside the Missouri River. The unique design of our facility draws comparisons to an early riverboat delivering goods to shoreline communities. While this comparison rings true architecturally, and as a metaphor for our steady financial growth, BND is more than a brick and mortar structure. We are an organization full of energy and leaders who create synergy among the agricultural, industrial and commercial entities of our state community.

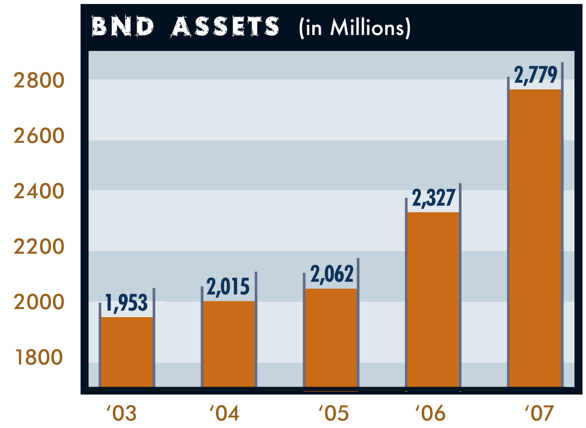
As demonstrated in the commissioned mosaic of our new home, BND's accomplishments are built upon the legacy of great people, organizations and state employees. In 2007, our success can be attributed to our hardworking employees, credited with foresight to spur economic development between our many financial partners and communities with whom we do business.

After a groundbreaking year in 2006, BND's performance for 2007 exceeded expectations. Net earnings increased $8.1 million to $51 million, 19 percent over 2006. Total assets grew to $2.779 billion, 19 percent over 2006. Loan volumes climbed over the $2 billion mark on the strength of a diverse loan portfolio. BND's return on average equity was 27.7 percent, which reflects the state's return on its investment in BND.



Among the highlights in 2007, legislative bills expanded the College SAVE program and our Lending Services programs, in addition to providing flexibility in setting student loan interest rates. These important changes afforded us an opportunity to improve our competitive programs and to make them more accessible. Our solid financial base made possible the largest loan in our history and will help supply dependable and accessible energy to southwestern North Dakota.

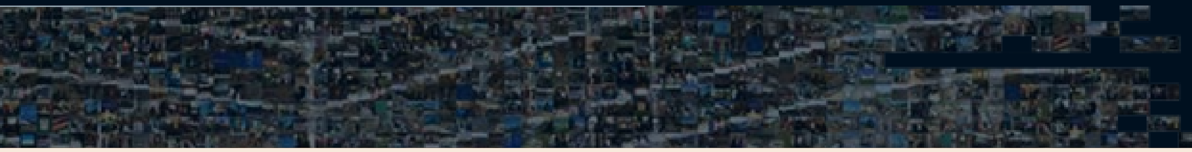
Implementation of our Core Banking system paid immediate dividends as we rolled out new initiatives and provided electronic transactions for North Dakota financial institutions and state agencies. Launching these new programs creates efficiencies among our customer base and our own banking services.



We will continue to build on our success with the development of new and innovative product lines, loan programs and joint ventures that will provide opportunities for years to come. The building blocks of the past and creative energy of our employees will build momentum and synergy all around this great state.

As we look to the future, we will continue to be true to our mission to *deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.*

Eric Hardmeyer
President



SUCCESS

Basin Electric Power Cooperative

An ever-increasing demand for power in western North Dakota has pushed the transmission grid past its optimal operating capacity. Basin Electric Power Cooperative, the North Dakota Transmission Authority and Bank of North Dakota are partnering to alleviate the energy strain.

Basin Electric is slated to begin construction in late summer of 2008 on a 67-mile, 230-kilovolt transmission line that will connect two major substations in western North Dakota.

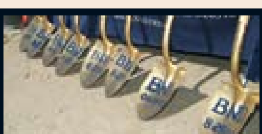
Energy development in the region has been a major factor in the growing demand for electricity. Ron Harper, Basin Electric CEO and general manager, said, "An increasing demand for electricity is the main reason for building this line."

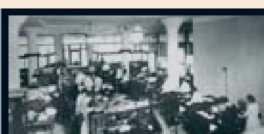
An expected $33 million is needed to complete the first phase of the project. Working with Wells Fargo, BND will finance $25 million through the MATCH Program, making this the largest single loan ever awarded by BND. This project also marks another milestone; it is the first time that Basin Electric and the Transmission Authority have worked together on a project.

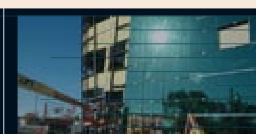
The MATCH Program offers low interest, long-term rates to qualified borrowers. BND offers a rate of interest equal to 0.25 percent over an equivalent term U.S. Treasury Note.

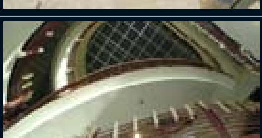
Harper explained that kind of break on the interest rate has a positive effect on Basin Electric's members. "It is a relatively cheap and very beneficial interest rate, and it affords us the opportunity to control rates to our members all the way down the line. Since we are a cooperative, one of our primary focuses is to control costs."

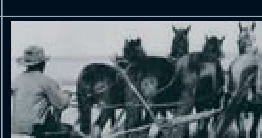
Lifestyles and livelihoods of people in the region depend on a reliable supply of electricity. The purpose of this line is to improve transmission system reliability. Harper said, "This project is a great example of what happens when organizations come together, use common sense and have a common vision to see a project through."

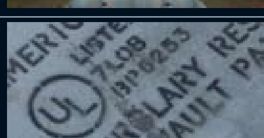


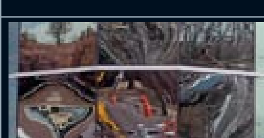


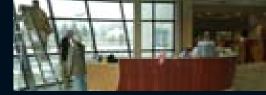


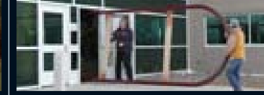












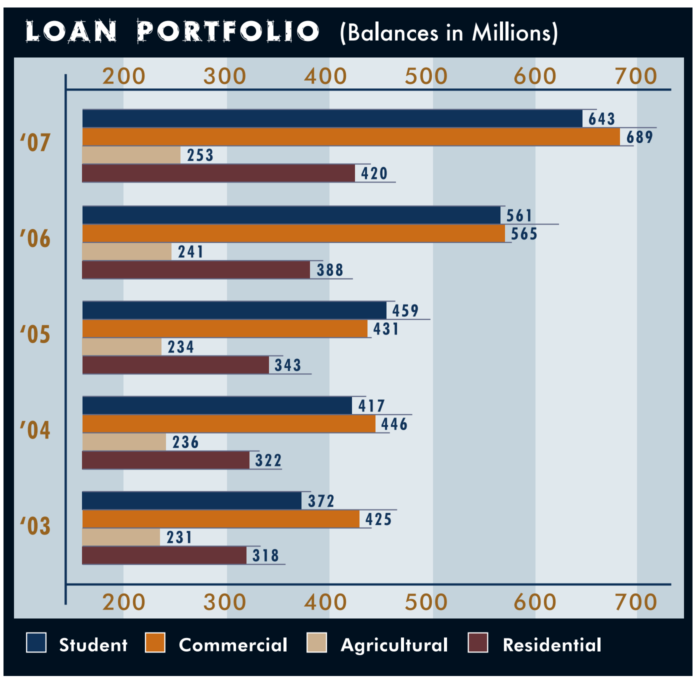
Growth Energizes Loan Portfolio

BND eclipsed the $2 billion mark in its loan portfolio for the first time in its nearly 90-year history. This clearly shows the strength of a diverse and balanced loan portfolio which consists of four main loan programs: agriculture, commercial, residential and student loans. Overall, loans totaled $2.005 billion on the strength of $249 million in new loan growth at the close of 2007.

The Bank's emphasis on loan program diversity is reflected in the double-digit growth of the loan portfolio. By staying true to our mission to foster and promote agriculture, commerce and industry through statewide economic development, our commercial loan portfolio increased 22 percent to $689 million in 2007. As an economic barometer of BND's impact on statewide growth we participated in 198 new North Dakota business and industrial projects.

Despite downward national trends, the real estate market in North Dakota remained firm in 2007. Steadfast growth contributed to a strong performance in the residential loan portfolio. Acting as a secondary market for financial institutions seeking to sell mortgages, BND booked $77 million in new residential loans resulting in net loan growth of $32 million. Overall, the residential loan portfolio grew 8 percent to $420 million.

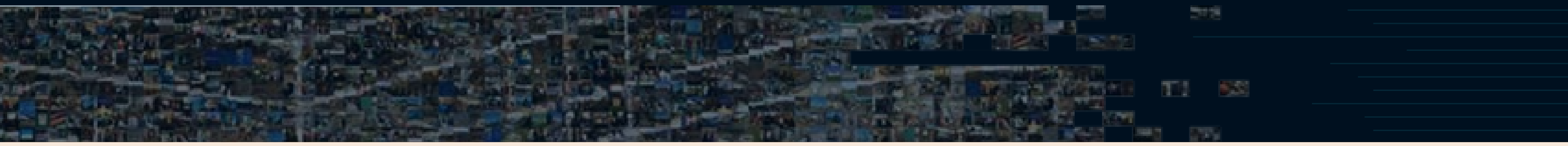
As enrollment in North Dakota's state and private universities reached all-time highs, BND's student loan portfolio has expanded due to creative and competitive loan programs, elimination of fees and lower interest rates. Student loan growth demand can be measured through our updated alternative loan program and new consolidation loan feature as the portfolio grew 14.6 percent to $643 million.



Agriculture is a mainstay of BND's loan portfolio with growth in 2007 coming through increased participation in two direct and eight participation loan programs and 73 low interest disaster relief loans designed to help farmers and business owners restructure debt. Overall, the portfolio grew 5 percent to $253 million.

Regional Meetings Highlight BND Programs

BND's three statewide regional meetings served as a forum to discuss broad changes to a variety of programs offered by BND. Over 200 people from North Dakota financial institutions accepted our invitation to discuss electronic banking through Banking Services' new BND Image Exchange product, and recent legislative changes and their impact on Lending Services' loan programs. Additionally, an update was provided on Treasury Service's Federal Funds program and how the College Cost Reduction and Access Act affects Student Loan Services as well as important changes to the Dakota Education Alternative Loan (DEAL).



SUCCESS

Western State Bank

A bank stock loan in 1994 paved the way for a valuable connection between Western State Bank in Devils Lake and BND. The loan made it possible for Western State Bank to build its local banking network and become a stronger correspondent partner with BND. The loan refinanced the balance of the holding company's existing bank stock debt and provided funds to acquire a bank location in a neighboring community.

Todd Heilman, chief financial officer at Western, said the relationship with BND has enhanced Western's ability to serve its customers. "We have a banker's bank right here in North Dakota through BND. The bank stock loan to our holding company provided the foundation for our relationship and the ancillary products fit our business needs."

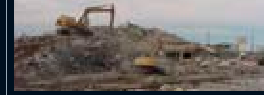
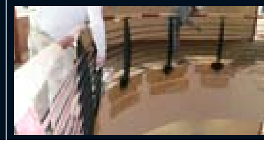
A portion of the services that have enhanced business functions at Western include unsecured federal funds line, letter of credit for public deposits, safekeeping services and electronic check clearing.

Karen Haugen, vice president of operations at Western, echoed Heilman's comments. "The new process of electronic check clearing provides better customer service, allows our customers quicker access to funds and is easy to use."

Additionally, unsecured federal funds line and letter of credit for public deposit services used by Western provide them funding and sources of liquidity to manage the organization's growth.

The most important theme surrounding BND and Western's relationship, said Heilman, is that "the services we've used through BND have allowed us to better meet the needs of our customers. BND has been there to help Western and our customers, and allowed our communities to grow."

The correspondent banking partnership between Western and BND is going strong and both look forward to working together for years to come. The combination of BND's banking services and customer-oriented attitude will play a significant role in Western State Bank's plans for the future.

Loan Programs Change with the Economy

The Sixtieth Legislative Assembly of North Dakota focused on incentives to support the biofuels industry which impact BND's loan programs. In total, $7.4 million was appropriated for interest buydown loan program funds to encourage investment in the biofuels industry and related infrastructure to provide feedstocks and utilize byproducts. These enhancements, along with a mix of other loan program changes, allow BND to work closely with economic developers and financial institutions across the state.

Agriculture Loan Programs

Ag PACE

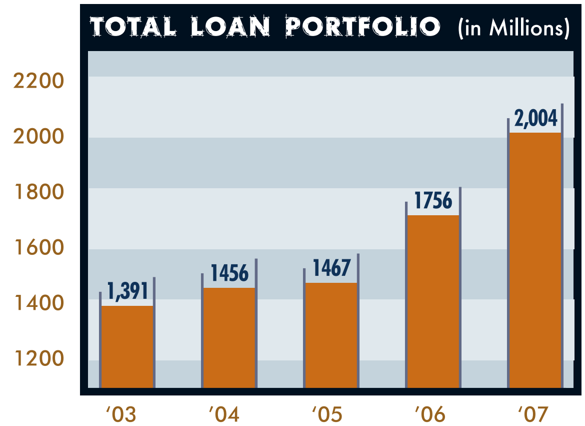
BND received a $1.4 million appropriation for the Ag PACE program which provides interest buydown on loans to farmers who are investing in nontraditional agriculture activities to supplement farm income. Additional flexibility was added to allow for financing equity shares in a processing business that is located outside of North Dakota if there is an overall economic benefit to the state.

Envest

Envest proceeds must be used to purchase equity shares in an ag processing plant intended to process North Dakota-grown products. In 2007, borrower ownership limitation increased to 25 percent and an interest buydown feature was added for purchases of equity shares in a North Dakota feedlot or dairy operation that utilizes byproducts of a North Dakota ethanol or biodiesel facility.

Livestock Loan Guarantee

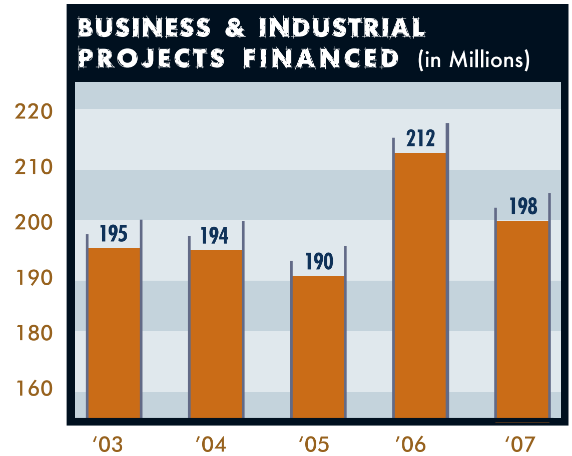
Livestock Loan Guarantee replaced Feedlot Loan Guarantee and now allows BND to issue guarantees to livestock feeding operations and new or expanding dairy operations for equipment purchases or facility construction.



Commercial Loan Programs

Beginning Entrepreneur Loan Guarantee

This program assists in business start-up financing. The total amount of loans that can be guaranteed doubled from $4 million to $8 million, which allows BND greater availability of funds and more opportunity to work with a broader number of financial institutions.



PACE

The Partnership in Assisting Community Expansion (PACE) Fund is designed to assist North Dakota communities in expanding their economic base by providing for new job development. PACE was used in 35 instances this past year. This fund received an $8 million appropriation with $2 million earmarked for Flex PACE.

BUILDING TIMELINE

2005

Money Appropriated for New Building

7/1/2005

Town Hall Meetings Held

8/18/2005

Photo courtesy of The Bismarck Tribune

Land Purchased

11/8/2005

Demolition of Former Palace Arms Hotel

12/7/2005

Groundbreaking Held

8/29/2006

Frame of Basement Constructed

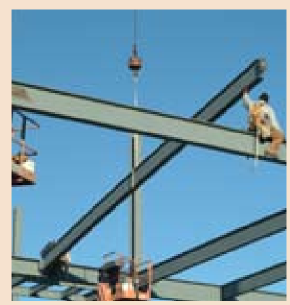
10/2/2006

Vault Installation Proceeded

10/26/2006

Steel Framework Positioned

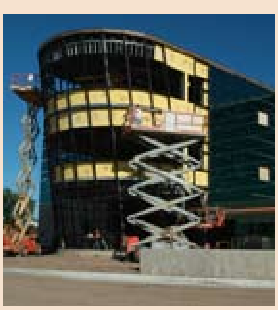
1/16/2007



2008

Glass Installation Neared Completion

9/28/07



3rd Floor Inspected

12/21/2007

Employee Farewell to Original Facility

1/14/2008

BND Took Possession of Building

1/17/2008

Transition to New Building Began

1/18/2008

2006

Building Plans Unveiled

6/28/2006

Interior Design Committee Met

7/11/2006

Contractors Announced

8/1/2006

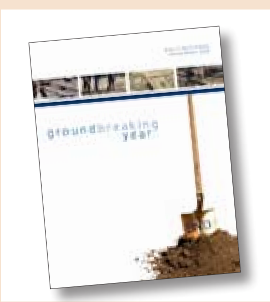
Construction Web Cam Went Live

8/3/2006

2007

Award-winning Annual Report Produced

4/5/2007



BND Building is Listed for Sale

5/4/2007

Floor Plans Approved

6/15/2007

Glass Installation Proceeded

8/1/2007

Move To New Building Finished

1/21/2008

First Transaction Completed

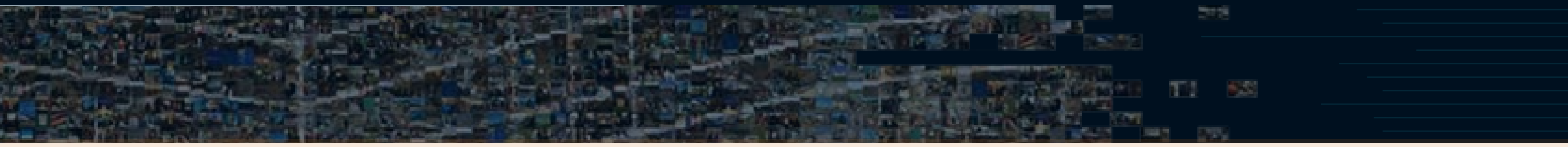
1/22/2008

Dedication Plaque Hung

2/11/2008

Grand Opening Held

3/7/2008



SUCCESS

TWISTED BAKERY

A young bakery in western North Dakota is putting a new twist on baked goods with the help of a couple secret ingredients: Bank of North Dakota and a Flex PACE loan. Mixing the ingredients together with originating lender Dakota Community Bank meant owners Pam and Ken Wanner could use Flex PACE to purchase new equipment for Twisted Bakery and send the popular business down the road to profitable national sales.

When Twisted Bakery in Dickinson opened its doors a little over five years ago, the owners had a dual purpose in mind: provide made-from-scratch goodies and offer gluten-free baked goods.

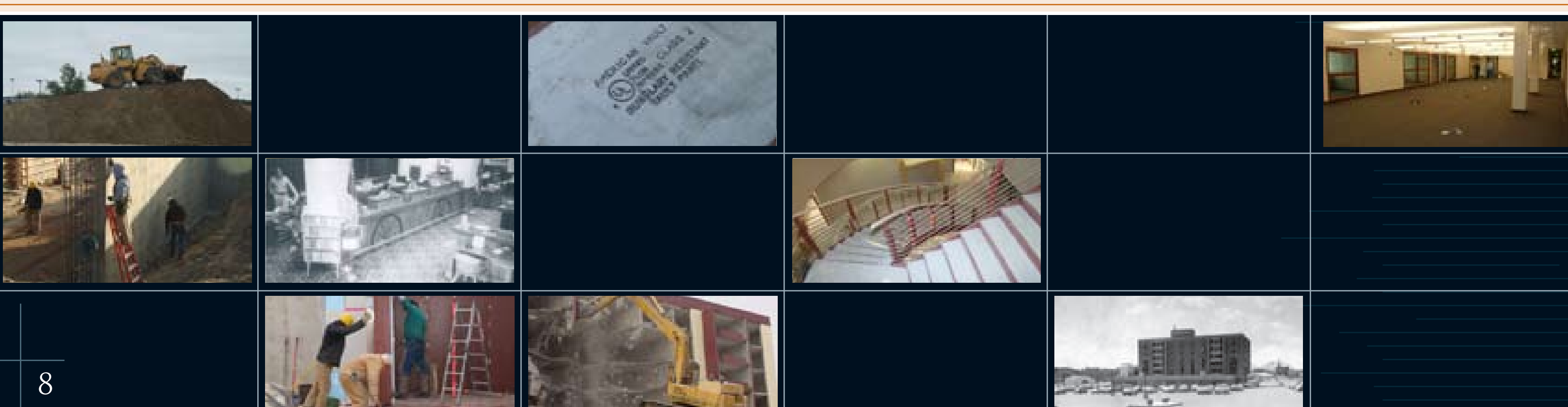
In addition to preparing pastries, Pam and Ken were encouraged by industry peers to take their gluten-free products to a new level by processing, selling and specially packaging gluten-free dry mixes.

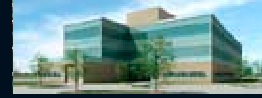
"It is very common for people with gluten allergies to also have allergies to other common ingredients in baked goods, such as eggs or dairy products," Pam Wanner explained. "The extra steps and care we take will allow consumers to mix and bake according to their specific allergy without fear of cross-contamination."

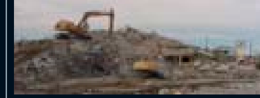
The extreme nature of preparing gluten-free products means environmental restrictions and high start-up costs. But, the payoff quickly came into view when stores in Arizona and New York agreed to sell the privately-labeled and specially packaged products.

"The expense of getting into this new area and the equipment was more than I could swallow. I knew that we were going to need some help," Pam Wanner said. "The whole process between BND and Dakota Community Bank made taking out the Flex PACE loan easy."

Since closing on the loan in the first part of December 2007, new equipment has been ordered and installed, and additional staff hired. Twisted Bakery is now preparing to begin their new adventure selling dry mixes with their goal of attaining national sales soon to be realized.







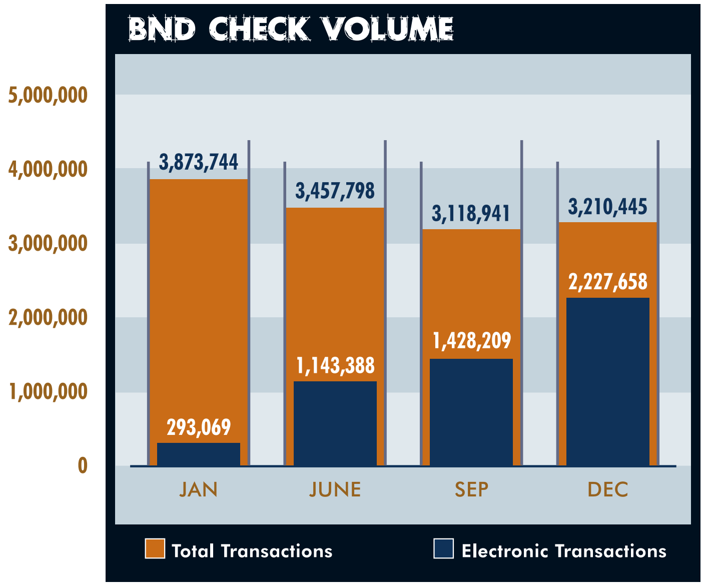
Biofuels PACE

Biofuels PACE replaced Biodiesel PACE, and with $5 million in earmarked funds, the program can be used to reduce the interest rate on loans to biodiesel and ethanol production facilities, livestock operations, biofuels retailers, and grain handling facilities.

Service Areas and Programs Create Synergy

Banking Services Goes Electronic

In 2007, Banking Services fully implemented BND's Image Exchange products in partnership with North Dakota's financial institutions and state agencies. By investing in state-of-the-art image exchange technology, BND quickly went from 100 percent paper transactions to 69 percent electronic transactions. By making a difficult transition seamless to customers, Banking Services was able to accommodate larger clients' volume while easing smaller institutions into this important and efficient new electronic era. BND can look toward the future launch of new products and growth opportunities in order to better serve the financial needs of our growing customer base.



Treasury Services

Investment Services had over $1.6 billion of securities in safe-keeping for North Dakota financial institutions at the end of 2007. Investment Services provide federal fund lines to 95 financial institutions with combined lines of over $330 million. During 2007, sales averaged over $39 million per day, exceeding $78 million in July. The Letter of Credit for Public Deposits Program provides $119 million in additional liquidity on a daily average. These two programs provided a daily average of over $158 million of liquidity to North Dakota financial institutions, topping out at over $193 million in July 2007.

A Better DEAL

This past year, the Bank celebrated 40 years of providing student loans and the 25th anniversary of Student Loans of North Dakota-Guarantor. More than 725,000 student loans totaling $2.4 billion have been guaranteed in the past two and a half decades. As a lender, BND has assisted 180,000 people pursuing higher education. During this year-long celebration we enhanced borrower options for the Dakota Education Alternative Loan (DEAL) by supplementing the long-time fixed interest rate option with a variable interest rate. By waiving the 4 percent fee for borrowers on loans first disbursed in 2007, DEAL has become one of the best supplemental loans in the nation. For the first time in 2007, a borrower could enter repayment with the option of consolidating alternative loan balances from BND and other lenders into one simple loan with up to a 25-year repayment term.

SUCCESS

Guenthner's SuperValu

The livelihood and prosperity of a small community like Northwood often depends upon the support and success of its local businesses. When it became apparent that the building they were in would no longer serve as a suitable location, Lonnie and Joan Guenthner, owners of Guenthner's SuperValu, knew that closing the doors to the grocery store was not an option. Thankfully, a Flex PACE loan through BND provided a fitting solution.

"The building we were in before was very old and falling apart, I knew we needed to get into another facility and make some improvements," said Lonnie Guenthner. Not only was the exterior and framework of the building not up to par, but the refrigeration and display equipment inside the building left quite a bit to be desired.

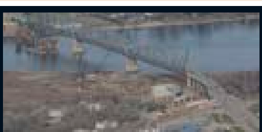
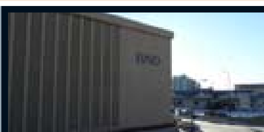
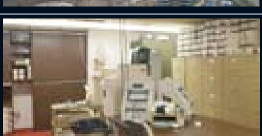
With the help of American Federal Bank and Bremer Bank, Guenthner's SuperValu decided to use a Flex PACE loan through BND to finance much of the costs for interior fixtures of the new location they were going to lease.

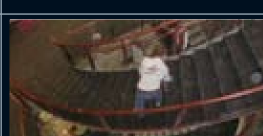
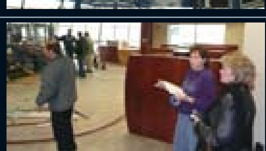
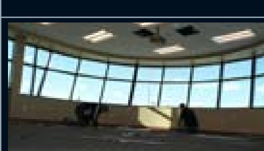
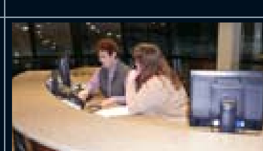
"BND was instrumental in us being able to do this project and continue on as we have for so many years. We used the money to purchase all new shelving, display coolers, walk-in coolers and freezers, and new frozen food doors. Most of the money went to refrigeration items," said Lonnie Guenthner. Everyone in town was pleased with the improvements, especially since this meant the Guenthners would be sticking around Northwood for many years to come, or so it seemed.

All of the new equipment was purchased and installed before a devastating tornado hit the town in August 2007. The building was hit hard and the Guenthners knew most of the store would have to be rebuilt. Once again, Joan and Lonnie decided they had invested so much into their store and community that closing the doors was not an option.

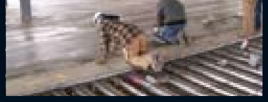
Insurance and other forms of assistance helped them uninstall and reinstall the equipment they'd bought with the loan so they could begin operating after the tornado.

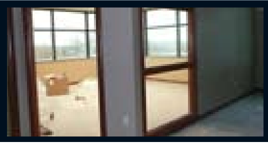
Northwood and its residents are grateful their local grocery store is still going strong; the Guenthners are thankful for help and support from the community. They are especially appreciative of the opportunity to continue giving back to the community, an opportunity they credit largely to BND and its partner financial institutions.

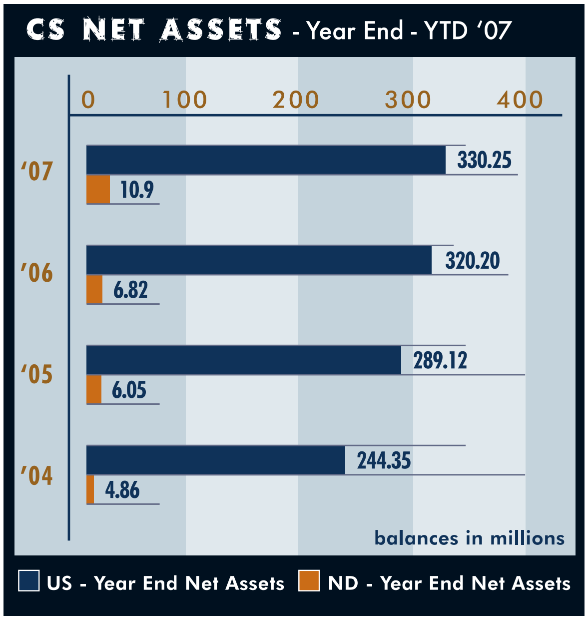





BND Bank of North Dakota





College SAVE gets a facelift
After reorganizing College SAVE, the state's 529 plan, in 2006, BND quickly sought to add incentives to the popular college savings vehicle in 2007. Gov. John Hoeven signed House Bill 1091 into law which provides a state income tax deduction of up to $5,000 for single filers and $10,000 for couples filing jointly on all new contributions to a College SAVE account. In addition, BND instituted a matching grant program of up to $300 for College SAVE investors who earn less than $20,000 annually or $40,000 for couples filing jointly, making saving for middle class families a more viable option. By year's end, nearly 11,000 families nationwide had saved $330 million through College SAVE accounts.



New Logo Reflects Change
With movement to a new location came incentive to reshape our image by adopting a new logo. Settling on the traditional capital letters of BND, but with a nod to our new home's bow-shaped front, we adopted a sleek logo with bars demonstrating our upward growth. Colors in the logo reflect our ever-changing glass façade, which symbolizes our willingness as an organization to adopt and thrive in an ever-changing environment.

Building Synergy

Employees of Bank of North Dakota remain committed to forming important partnerships with communities, businesses and financial institutions to assist with economic development in our great state.

We will continue to embrace change so that we may better our banking services during this time of unprecedented economic growth. We will seek new opportunities, as demonstrated in 2007, to provide competitive interest rates, new programs and consistent returns to the state. Overall, BND increased net income 19 percent to $51 million. BND's strong financial statement allows us to maintain synergy with the state through distribution of $60 million to the general fund in the 2005 - 2007 biennium, making BND the sixth largest source of revenue in the state.

Thank you for joining us in our quest to form lasting business relationships while seeking to broaden the scope of our popular agricultural, commercial, residential, and student loan programs. We may have a new home, but our mission remains the same; *to deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.*

ND Industrial Commission

John Hoeven
Governor

Roger Johnson
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: Bob Humann, Kirby Martz, Julie Kubisiak, Eric Hardmeyer, Ed Sather, Lori Leingang, Dale Eberle

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying balance sheet of the Bank of North Dakota as of December 31, 2007 and 2006, and the related statements of income, equity, and cash flows for the year 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 audit provides 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, 2007 and 2006 and the results of its operations and its cash flows for the year then ended on the basis of accounting described in Note 1.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.
January 18, 2007

BANK OF NORTH DAKOTA
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	(In Thousands)	
	2007	2006
ASSETS		
Cash and due from banks	**$ 245,092**	$ 212,962
Federal funds sold	**277,565**	129,135
Cash and cash equivalents	**522,657**	342,097
Securities	**235,551**	219,412
Loans	**2,004,999**	1,755,562
Less allowance for loan losses	**(32,863)**	(30,136)
	1,972,136	1,725,426
Interest receivable	**34,196**	30,199
Bank premises, equipment, and software, net	**12,328**	6,358
Other assets	**2,492**	3,201
Total assets	**$ 2,779,360**	$ 2,326,693
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	**$ 317,949**	$ 230,993
Interest bearing	**1,553,818**	1,386,143
	1,871,767	1,617,136
Federal funds purchased and repurchase agreements	**434,061**	249,145
Short and long-term debt	**245,070**	257,209
Other liabilities	**35,991**	39,661
Total liabilities	**2,586,889**	2,163,151
Equity		
Capital	**2,000**	2,000
Capital surplus	**42,000**	42,000
Undivided profits	**145,843**	119,894
Accumulated other comprehensive income (loss)	**2,628**	(352)
Total equity	**192,471**	163,542
Total liabilities and equity	**$ 2,779,360**	$ 2,326,693

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006

	(In Thousands)	
	2007	2006
INTEREST INCOME		
Federal funds sold	**$ 12,690**	$ 9,368
Securities	**11,472**	7,830
Loans, including fees	**128,254**	109,400
Total interest income	**152,416**	126,598
INTEREST EXPENSE		
Deposits	**56,931**	44,461
Federal funds purchased and repurchase agreements	**15,114**	9,819
Short and long-term debt	**15,045**	17,004
Total interest expense	**87,090**	71,284
NET INTEREST INCOME	**65,326**	55,314
PROVISION FOR LOAN LOSSES	**3,100**	3,400
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**62,226**	51,914
NONINTEREST INCOME		
Service fees and other	**6,765**	8,257
Gain (loss) on available-for-sale securities	**(92)**	(509)
Total noninterest income	**6,673**	7,748
NONINTEREST EXPENSE		
Salaries and benefits	**9,035**	8,611
Data processing	**3,445**	2,885
Occupancy and equipment	**754**	619
Other operating expenses	**4,579**	4,693
Total noninterest expenses	**17,813**	16,808
NET INCOME	**$ 51,086**	$ 42,854

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2007 AND 2006

	(In Thousands)				
	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2005	$ 2,000	$ 42,000	$ 119,894	$ (2,070)	$ 161,824
Comprehensive income					
Net income			42,854		42,854
Unrealized gain on securities available for sale				1,718	1,718
Total comprehensive income					44,572
Transfers to state general fund			(42,854)		(42,854)
BALANCE, DECEMBER 31, 2006	2,000	42,000	119,894	(352)	163,542
Comprehensive income					
Net income			51,086		51,086
Unrealized loss on securities available for sale				2,980	2,980
Total comprehensive income					54,066
Transfers to state general fund			(25,045)		(25,045)
Transfers to Industrial Commission			(92)		(92)
BALANCE, DECEMBER 31, 2007	$ 2,000	$ 42,000	$ 145,843	$ 2,628	$ 192,471

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	(In Thousands)	
	2007	2006
OPERATING ACTIVITIES		
Net income	**$ 51,086**	$ 42,854
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	**820**	962
Provision for loan losses	**3,100**	3,400
Net amortization (accretion) of securities	**(188)**	988
Loss on sale of securities	**92**	509
Gain on sale of residential loans	**(20)**	(20)
Loss on retirement of fixed assets	**-**	9
Gain on sale of other real estate and property owned	**(17)**	(3)
Increase in interest receivable	**(3,997)**	(9,836)
Decrease in other assets	**423**	851
Increase in other liabilities	**1,239**	3,801
NET CASH FROM OPERATING ACTIVITIES	**52,538**	43,515
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	**(81,817)**	(130,688)
Proceeds from sales, maturities, and principal repayments	**68,620**	70,312
Purchase of Federal Home Loan Bank stock	**(3,605)**	(6,677)
Sale of Federal Home Loan Bank stock	**4,289**	7,025
Purchase of other equity securities	**(550)**	(1,540)
Proceeds from sales of loans	**2,049**	7,075
Net increase in loans	**(252,169)**	(296,127)
Purchases of equipment and software	**(6,790)**	(2,830)
Proceeds from sale of other real estate and property owned	**633**	15
NET CASH USED FOR INVESTING ACTIVITIES	**(269,340)**	(353,435)
FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	**86,956**	25,139
Net increase in interest bearing deposits	**167,675**	239,481
Net increase in federal funds purchased and repurchase agreements	**184,916**	213
Proceeds from issuance of short and long-term debt	**275,528**	930,408
Payment of short and long-term debt	**(287,667)**	(949,125)
Payment of transfers	**(30,046)**	(30,043)
NET CASH FROM FINANCING ACTIVITIES	**397,362**	216,073
NET CHANGE IN CASH AND CASH EQUIVALENTS	**180,560**	(93,847)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**342,097**	435,944
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 522,657**	$ 342,097

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 are generally accepted accounting principles for financial institutions. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles applicable to governmental units.

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, 2007 and 2006:

	2007	2006
Student loans, of which 98% are federally guaranteed	**32%**	32%
Commercial loans, of which 6% and 9% are federally guaranteed	**34%**	32%
Residential loans, of which 80% are federally guaranteed	**21%**	22%
Agricultural loans, of which 14% and 15% are federally guaranteed	**13%**	14%
	100%	100%

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Cash and Cash Equivalents

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

Securities

Securities that may be sold before maturity in response to changes in interest rates or prepayment risk, or due to liquidity needs or changes in funding sources or terms, are classified as available for sale. These securities are recorded at fair value, with unrealized gains and losses, reported in equity. The change in unrealized 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 held to maturity and recorded at amortized cost.

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

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4.45% of total FHLB advances. Since ownership of this stock is restricted, these securities are carried at cost and evaluated periodically for impairment.

Nonmarketable equity securities represent venture capital equity securities that are not publicly traded. The Bank reviews these assets at least annually for possible other-than-temporary impairment. These securities do not have a readily determinable fair value and are stated at cost. The Bank reduces the asset value when it considers declines in value to be other than temporary. We recognize the estimated loss as a loss from equity securities in noninterest income.

Loans Held For Sale

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

Loans

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

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

Allowance for 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. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance for 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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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

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, except for such loans that are placed on nonaccrual.

(continued on next page)

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, hardware 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 and Property Owned

Other real estate and property owned, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Other real estate and property owned are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to other real estate and property owned is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Other real estate and property owned totaled $330,000 and $617,000 as of December 31, 2007 and 2006.

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.

Financial Statement Presentation

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

Recent Accounting Pronoucements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for the Bank beginning January 1, 2008. The Bank does not expect this guidance to have a material effect on its financial statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", effective for the Bank beginning January 1, 2008. This statement provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Bank does not expect this guidance to have a material effect on its financial statements.

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NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average reserve balances maintained at the Federal Reserve Bank were approximately $8,400,000 in 2007 and $5,400,000 in 2006.

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, 2007 and 2006, consists of the following:

	(In Thousands)	
	2007	2006
Securities available for sale, at fair value	**$ 219,047**	$ 202,724
Federal Home Loan Bank stock, at cost	**13,705**	14,389
Nonmarketable equity securities	**2,799**	2,299
	$ 235,551	$ 219,412

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, 2007				
Securities available for sale				
Federal agency	**$ 87,547**	**$ 2,290**	**$ -**	**$ 89,837**
Mortgage-backed	**113,405**	**793**	**455**	**113,743**
State and municipal	**15,467**	**-**	**-**	**15,467**
	$ 216,419	**$ 3,083**	**$ 455**	**$ 219,047**

(continued on next page)

	(In Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2006				
Securities available for sale				
Federal agency	$ 76,041	$ 171	$ 197	$ 76,015
Mortgage-backed	99,952	214	540	99,626
State and municipal	27,083	-	-	27,083
	$ 203,076	$ 385	$ 737	$ 202,724

Securities carried at $101,285,000 at December 31, 2007, and $27,651,000 at December 31, 2006, were used to secure repurchase agreements and for other required pledging purposes. FHLB stock totaling $13,704,500 at December 31, 2007 and $14,388,000 at December 31, 2006 is pledged on the FHLB advances (Note 9).

The maturity distribution of debt securities at December 31, 2007, 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	
	Amortized Cost	Fair Value
Within one year	$ 18,931	$ 18,990
Over one year through five years	128,146	130,489
Over five years through ten years	54,494	54,680
Over ten years	14,848	14,888
	$ 216,419	$ 219,047

For the year ended December 31, 2007, proceeds from the sale of securities available for sale were $26,089,000. Gross realized gains were $62,000 and gross realized losses were $154,000. For the year ended December 31, 2006, proceeds from the sale of securities available for sale were $18,303,000. Gross realized losses were $509,000 in 2006.

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Information pertaining to securities with gross unrealized losses at December 31, 2007, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	(In Thousands)			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	$ -	$ -	$ -	$ -
Mortgage-backed	438	27,629	16	2,959
	$ 438	$ 27,629	$ 16	$ 2,959

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

At December 31, 2007, there are no securities with aggregate depreciation of 5% from the Bank's amortized cost basis.

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2007 and 2006 is as follows:

	(In Thousands)	
	2007	2006
Student	**$ 643,297**	$ 561,178
Commercial	**689,150**	564,946
Residential	**419,700**	388,043
Agricultural	**252,852**	241,395
	2,004,999	1,755,562
Allowance for loan losses	**32,863**	30,136
	$ 1,972,136	$ 1,725,426

Student loans held for sale totaled $0 and $5,138,000 as of December 31, 2007 and 2006. Unamortized deferred student loan costs totaled $6,689,000 and $4,263,000 as of December 31, 2007 and 2006. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $4,262,000 and $2,084,000 as of December 31, 2007 and 2006.

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The composition of the allowance for loan losses for the years ended December 31, 2007 and 2006 is as follows:

	(In Thousands)	
	2007	2006
Balance - beginning of year	**$ 30,136**	$ 27,123
Provision for loan losses	**3,100**	3,400
Loans charged off	**(440)**	(680)
Recoveries	**67**	293
Balance - end of year	**$ 32,863**	$ 30,136

The following is a summary of information pertaining to impaired, non-accrual and restructured loans:

	(In Thousands)	
	December 31,	
	2007	2006
Impaired loans with a valuation allowance	**$ 2,614**	$ 1,109
Valuation allowance related to impaired loans	**$ 854**	$ 345
Average investment in impaired loans	**1,463**	2,304
Total non-accrual loans	**2,614**	1,109
Total loans past-due ninety days or more and still accruing	**27,909**	16,978
Restructured loans	**10,888**	13,842

The interest income recorded on impaired loans is not significant.

Accruing loans 90 days or more past due include guaranteed student loans of $19,552,000 and $15,935,000 as of December 31, 2007 and 2006. 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.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2007 and 2006.

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NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND's loan sales during 2007 and 2006 follows:

	(In Thousands)	
	2007	2006
Student loans sold to North Dakota Student Loan Trust	**$ -**	$ 5,138
Residential loans sold on the secondary market	**2,029**	1,917

BND recognized gains on sale of loans of $20,000 in both 2007 and 2006, which is included in non-interest income on the Statements of Income.

BND has contracts to provide servicing of loans for others. These loans are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others as of December 31, 2007 and 2006 were as follows:

	(In Thousands)	
	2007	2006
Student loans		
North Dakota Student Loan Trust	**$ 83,925**	$ 98,028
Others	**3,558**	3,382
Residential loans		
Fannie Mae	**21,969**	23,895
Other state fund loans		
Board of University and School Lands	**30,614**	28,232
Community Water Facility Loan Fund	**15,921**	17,756
Beginning Farmer Revolving Loan Fund	**8,647**	8,347
Developmentally Disabled Facility Loan Program	**1,544**	1,939
Department of Human Services	**9,520**	9,970
	$ 175,698	$ 191,549

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.

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NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, and software at December 31, 2007 and 2006 is as follows:

	(In Thousands)			
	Balance 2006	Additions	Retirements	Balance 2007
Land	$ 1,843	$ -	$ -	$ 1,843
Building	4,285	-	-	4,285
Equipment	737	160	107	790
Furniture	536	-	25	511
Hardware	1,039	37	151	925
Software	6,000	26	-	6,026
Construction in progress	1,691	6,567	-	8,258
	16,131	6,790	283	22,638
Less accumulated depreciation	9,773	820	283	10,310
	$ 6,358	$ 5,970	$ -	$ 12,328

	(In Thousands)			
	Balance 2005	Additions	Retirements	Balance 2006
Land	$ 672	$ 1,171	$ -	$ 1,843
Building	4,285	-	-	4,285
Equipment	806	29	98	737
Furniture	537	-	1	536
Hardware	1,039			1,039
Software	6,061	34	95	6,000
Construction in progress	-	1,691		1,691
	13,400	2,925	194	16,131
Less accumulated depreciation	8,901	962	90	9,773
	$ 4,499	$ 1,963	$ 104	$ 6,358

Depreciation and amortization expense on the above assets amounted to $820,000 and $962,000 in 2007 and 2006.

The 2005 North Dakota Legislature Senate Bill 2014 provided for the construction of a new building for the Bank. In November 2005, the Bank entered into a Purchase Agreement to purchase land for the new building site. Total costs associated with the land utilized for the new bank facility is $1,171,000. The building construction project contracted dollar amount as of December 31, 2007 is $10,093,000. The amount of these contracts paid as of December 31, 2007 is $8,538,000. The balance remaining on these contracts is $1,555,000.

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NOTE 7 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $1,116,376,000 and $970,869,000 as of December 31, 2007 and 2006.

At December 31, 2007, the scheduled maturities of certificates of deposits are as follows:

	(In Thousands)
One year or less	$ 969,706
One to three years	61,381
Over three years	108,385
	$ 1,139,472

NOTE 8 - REPURCHASE AGREEMENTS

The Bank enters into agreements to repurchase the same securities that it previously sold. These agreements may have a fixed maturity or be open-ended, callable at any time. 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)	
	2007	2006
Federal Home Loan Bank advances - long-term	**$ 244,100**	$ 256,600
ND Public Finance Authority, 3%, matures from September 2008 through September 2017	**970**	609
	$ 245,070	$ 257,209

(continued on next page)

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
2008	$ 89,645	$ 9,929	$ 99,574
2009	5,117	8,724	13,841
2010	102	8,579	8,681
2011	33,102	7,819	40,921
2012	102	6,645	6,747
Later years	117,002	31,105	148,107
Totals	$ 245,070	$ 72,801	$ 317,871

The FHLB long-term advances outstanding at December 31, 2007, mature from January 2008 through April 2022. The FHLB long-term advances have fixed rate interest, ranging from 2.98% to 7.35%. The advances must be secured by minimum qualifying collateral maintenance levels. Residential loans with carrying values of $402,539,000 in 2007 and $376,323,000 in 2006 are currently being used as security to meet these minimum levels.

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

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

	(In Thousands)	
	2007	2006
Transfers payable	**$ 25,042**	$ 29,951
Interest payable	**7,316**	6,212
Salary and benefits payable	**865**	919
Student loan related payables	**619**	597
Accounts payable, accrued expenses and other liabilities	**2,149**	1,982
	$ 35,991	$ 39,661

The Sixtieth North Dakota Legislature passed House Bill 1014 which provides for transfers during the biennium beginning July 1, 2007, and ending June 30, 2009, totaling $60,000,000 from the current earnings and the accumulated undivided profits of the Bank. The moneys must be transferred in the amounts and at the times requested by the director of the Office of Management and Budget.

Any transfer authorized by the sixtieth legislative assembly may only be made to the extent the transfer does not reduce the Bank's capital structure below $175,000,000.

The Bank paid the previous bienniums, July 1, 2005, and ending June 30, 2007, authorized transfer of $60,000,000 in two equal installments of $30,000,000 in December 2006 and June 2007.

(continued on next page)

NOTE 11 - PENSION PLAN

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

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Bank of North Dakota. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a 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, 2007 and 2006, were approximately $591,000 and $562,000.

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

Legislative Action

The legislative assembly enacts various legislation that provides state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2007, and ending June 30, 2009, for specific purposes identified in the legislative bills. The legislation also requires that those state agencies that do obtain financing from the Bank request an appropriation from the next legislative assembly to repay the bank for the amount borrowed.

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The following table identifies the state agencies that received the authority to borrow from the bank during the biennium July 1, 2007, and ending June 30, 2009, along with the legislative bill authorizing the borrowing, and the borrowing limits:

State Agency	Bill No.	Borrowing Limit
Office of Management and Budget	HB 1018	$ 5,000,000
Secretary of State	HB 1018	2,920,000
North Dakota Information Technology	HB 1021	*TBD
ND Industrial Commission	HB 1127	6,000,000
Department of Human Services	SB 2012	3,500,000
State Water Commission	SB 2020	25,000,000
Department of Public Instruction	SB 2200	*TBD

*TBD – To be determined

State Water Commission - Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the water development trust fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the resources trust fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500,000 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the trustee to the fund established for paying principal and interest on the bonds under a trust indenture.

Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400,000. The Bank may have no more than $8,000,000 in outstanding loan guarantees under this program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2007 and 2006, the Bank has guarantees outstanding totaling $1,970,000 and $1,391,000 and guarantee commitments outstanding of $122,000 at December 31, 2007.

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Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed $8,000,000. With an 85% guarantee maximum, the Bank may provide guarantees not exceeding $6,800,000. A lender may apply to the Bank for a loan guarantee for a loan of up to $100,000. The term of the guarantee may not exceed five years. As of December 31, 2007 and 2006, the Bank has guarantees outstanding totaling $3,758,000 and $2,970,000, and had guarantee commitments outstanding of $237,000 and $174,000.

Livestock Loan Guarantee Program

Chapter 6-09-41 of the North Dakota Century Code provides that the Bank of North Dakota establish and administer a loan guarantee program that is designed to expand livestock feeding and dairy farming in this state. This program is effective through June 30, 2009. The Bank may guarantee loans made by the bank, credit union, a savings and loan association, or any other lending institution in this state to the owner of a commercial livestock feeding operation or to the owner of a new or expanding dairy operation. In the event of a default, the Bank shall pay to the lender the amount agreed upon, provided that the amount may not exceed 85% of the principal due the lender at the time the claim is approved. As of December 31, 2007 and 2006, the Bank has guarantees outstanding totaling $1,416,000 and $1,258,000, and has guarantee commitments outstanding of $789,000 as of December 31, 2007.

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.

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At December 31, 2007 and 2006, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount (In Thousands)	
	2007	2006
Commitments to extend credit	**$ 403,065**	$ 367,026
Financial standby letters of credit	**238,763**	189,337

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

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The likelihood of funding any of these letters of credit is considered to be remote. The Bank generally holds collateral supporting those commitments if deemed necessary.

NOTE 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 the 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 non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

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The carrying amounts and estimated fair values of the Bank's financial instruments as of December 31, 2007 and 2006 were as follows:

	(In Thousands)			
	2007		2006	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 522,657**	**$ 522,657**	$ 342,097	$ 342,097
Securities	**235,551**	**235,551**	219,412	219,412
Interest receivable	**34,196**	**34,196**	30,199	30,199
Loans				
Student loans	**643,297**	**643,297**	561,178	561,178
Residential loans	**419,700**	**428,418**	388,043	399,409
Other loans	**942,002**	**938,965**	806,341	786,194
Allowance for loan losses	**(32,863)**	**-**	(30,136)	-
Total loans	**1,972,136**	**2,010,680**	1,725,426	1,746,781
Total financial assets	**$ 2,764,540**	**$ 2,803,084**	$ 2,317,134	$ 2,338,489
Financial liabilities				
Non-maturity deposits	**$ 732,295**	**$ 732,295**	$ 630,418	$ 630,418
Deposits with stated maturities	**1,139,472**	**1,147,148**	986,718	986,848
Federal funds purchased and repurchase agreements	**434,061**	**434,061**	249,145	249,145
Short and long-term debt	**245,070**	**253,429**	257,209	262,599
Other liabilities	**35,991**	**35,991**	39,661	39,661
Total financial liabilities	**$ 2,586,889**	**$ 2,602,924**	$ 2,163,151	$ 2,168,671

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 approximate fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Securities

The fair value for securities 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. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

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Student Loans

The fair value for student loans is based on market values as established by the secondary market.

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, are disclosed as the amount payable upon demand.

Deposits With Stated Maturities

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

Federal Funds Purchased and Repurchase Agreements

The carrying amount of federal funds purchased and repurchase agreements 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 Credit-Related 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 credit-related instruments are not significant.

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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 (loss) is as follows:

	(In Thousands)	
	Unrealized Gain (Loss) on Securities Available for Sale	
	2007	2006
Balance, beginning of year	**$ (352)**	$ (2,070)
Unrealized holding gains arising during the period	**2,888**	1,209
Reclassification adjustment for losses realized in net income	**92**	509
Other comprehensive income	**2,980**	1,718
Balance, end of year	**$ 2,628**	$ (352)

NOTE 17 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	(In Thousands)	
	2007	2006
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 55,762**	$ 41,646
Interest paid on federal funds purchased and securities sold under repurchase agreements	**15,180**	9,769
Interest paid on short and long-term debt	**15,044**	17,002
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**25,137**	42,854
Net change in unrealized gain on securities available for sale	**2,980**	1,718
Other real estate and property owned acquired in exchange for loans	**330**	184

BANK OF NORTH DAKOTA
TEN-YEAR SUMMARY

TEN YEAR SUMMARY	2007	2006	2005
OPERATING RESULTS (in thousands)			
Interest income	$152,416	$ 126,598	$ 98,086
Interest expense	87,090	71,284	51,623
Net interest income	65,326	55,314	46,463
Provision for loan losses	3,100	3,400	2,400
Net interest income after provision for loan losses	62,226	51,914	44,063
Noninterest income	6,673	7,748	9,332
Noninterest expense	17,813	16,808	17,038
Net income	**51,086**	**42,854**	**36,357**
Payments to general fund	30,000	30,000	30,000
Payments to other funds	46	43	43
BALANCE SHEET - YEAR END (in thousands)			
TOTAL ASSETS	**2,779,360**	**2,326,693**	**2,062,247**
FEDERAL FUNDS SOLD AND RESELL AGREEMENTS	277,565	129,135	195,370
SECURITIES	235,551	219,412	157,623
LOANS	**2,004,999**	**1,755,562**	**1,467,061**
Student	643,297	561,178	459,287
Commercial	689,150	564,946	431,068
Residential	419,700	388,043	342,786
Agriculture	252,852	241,395	233,920
DEPOSITS	**1,871,767**	**1,617,136**	**1,352,516**
Non-interest bearing	317,949	230,993	205,854
Interest bearing	1,553,818	1,386,143	1,146,662
FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS	434,061	249,145	248,932
SHORT AND LONG-TERM DEBT	245,070	257,209	275,926
EQUITY	**192,471**	**163,542**	**161,824**
Capital	2,000	2,000	2,000
Capital surplus	42,000	42,000	42,000
Undivided profits	145,843	119,894	119,894
Accumulated other comprehensive income (loss)	2,628	(352)	(2,070)

2004	2003	2002	2001	2000	1999	1998
$ 80,133	$ 79,463	$ 90,315	$ 114,490	$ 117,163	$ 99,350	$ 87,788
38,392	41,755	50,666	82,840	75,774	62,487	53,852
41,741	37,708	39,649	41,650	41,389	36,863	33,936
2,400	2,000	2,200	2,700	2,700	1,600	1,700
39,341	35,708	37,449	38,950	38,689	35,263	32,236
11,248	11,474	9,764	8,646	7,224	7,838	8,651
16,373	15,488	15,022	14,537	13,331	12,642	12,750
34,216	**31,694**	**32,191**	**33,059**	**32,582**	**30,459**	**28,137**
30,000	34,000	30,000	50,000	-	15,000	29,600
37	37	36	36	35	35	40
2,014,525	**1,953,178**	**1,974,448**	**2,107,456**	**1,806,517**	**1,687,167**	**1,609,039**
122,230	89,915	209,205	257,830	271,510	249,565	206,095
253,186	284,272	235,365	329,632	192,093	235,007	427,842
1,456,256	**1,391,583**	**1,329,985**	**1,276,334**	**1,156,614**	**1,056,232**	**835,654**
417,356	372,362	364,816	399,002	376,535	335,687	292,896
480,870	469,912	432,940	392,206	362,940	342,860	272,648
322,044	318,067	309,267	271,385	213,009	188,474	113,934
235,986	231,242	222,962	213,741	204,130	189,211	156,176
1,198,586	**1,057,386**	**1,070,853**	**1,208,601**	**1,135,731**	**910,652**	**943,537**
208,277	214,275	209,112	193,354	130,470	83,798	133,307
990,309	843,111	861,741	1,015,247	1,005,261	826,854	810,230
201,959	190,597	296,688	315,713	215,072	250,985	309,496
436,593	525,795	421,065	399,553	254,439	363,076	203,779
152,776	**153,744**	**149,113**	**170,496**	**153,045**	**139,275**	**139,931**
2,000	2,000	2,000	2,000	2,000	2,000	22,000
42,000	42,000	42,000	42,000	42,000	42,000	22,000
110,947	110,947	104,237	126,237	108,707	96,703	95,736
(2,171)	(1,203)	876	259	338	(1,428)	195

Mission

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

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.

Core Values

SERVICE: Excel and Deliver
TEAMWORK: Together We Accomplish More
ETHICS: Do The Right Thing
PEOPLE: Set Us Apart

BUILDING SYNERGY