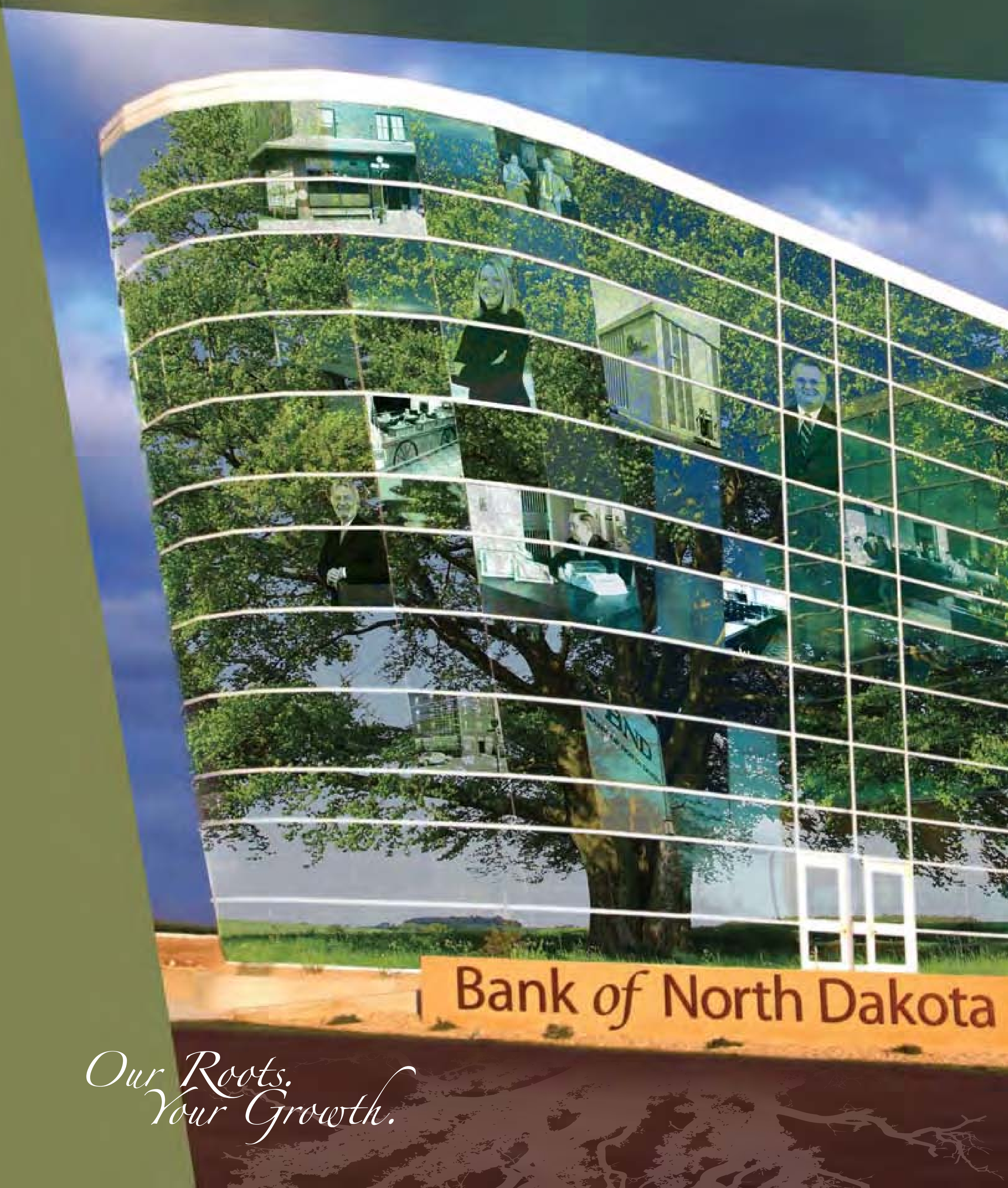
BND
Bank of North Dakota

2009 Annual Report
90 Years of Evolution



Our Roots.
Your Growth.

Our Roots. Your Growth.

ev·o·lu·tion (ev-uh-loo-shuhn) n.
1. A gradual process in which something changes into a different and usually more complex or better form.

-BND's first President, FW Cathro, with bank staff in 1920

During the early 1900's, North Dakota's economy was based on agriculture. Serious in-state problems prevented cohesive efforts in buying and selling crops and financing farm operations. Grain dealers outside the state suppressed grain prices; farm suppliers increased their prices; and interest rates on farm loans climbed.

By 1919, popular consensus wanted state ownership and control of marketing and credit agencies. Thus, the state legislature established Bank of North Dakota (BND) and the North Dakota Mill and Elevator Association.

BND was charged with the mission of "promoting agriculture, commerce and industry" in North Dakota. It was never intended for BND to compete with or replace existing banks.

Instead, Bank of North Dakota was created to partner with other financial institutions and assist them in meeting the needs of the citizens of North Dakota.

Over the years, our fiscal responsibilities to the state have increased dramatically. Today, the Bank operates with more than $270 million in capital. The State of North Dakota began using bank profits in 1945 when money was first transferred into the General Fund. Since that time, capital transfers have become the norm to augment state revenues.

Over the past 90 years, farm and secondary market real estate programs were established to benefit state residents and the local financial institutions who serve them. BND's federal funds program provides an alternative funding source for banks to access additional capital for consumer loans.

In 1967, Bank of North Dakota made the first federally insured student loan in the nation. The Bank continues to provide a variety of loans for students and their families wanting to pursue post-secondary education.

In partnership with more than 100 other North Dakota financial institutions, Bank of North Dakota continues to meet and expand its mission to promote the development of agriculture, commerce and industry in North Dakota.

2009 Year In Review

February 5 — BND hosts Bismarck-Mandan Chamber/Legislative Mixer

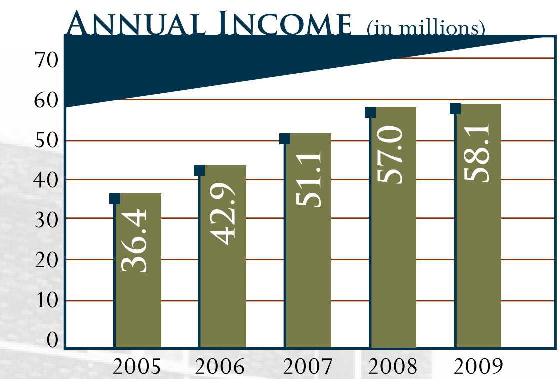
March 5 — BND 2008-09 Leadership Program concluded

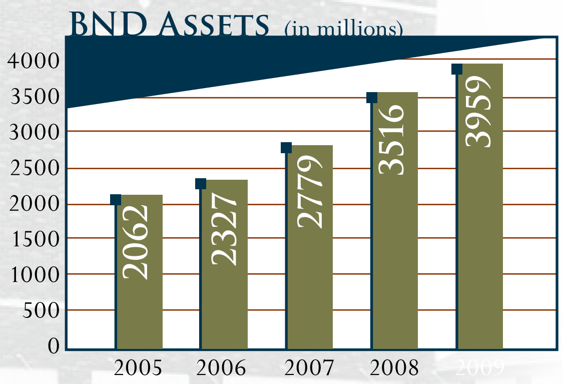
March 15 — Demolition ended on old BND building in mid-March

President's Message

We expected 2009 to bring continued challenges to the financial services industry. It provided many "teachable moments" and was a time to analyze our lending practices and return to a time when loan terms and pricing reflected the risk taken. We may look back on this as a time when we "rebooted."

We were disappointed by the proposal from President Obama's administration to eliminate the Federal Family Education Loan (FFEL) Program. This is the student loan program that Bank of North Dakota has administered for over 40 years. Congress ultimately concluded in early 2010 that a direct loan program through the federal government should be the only option for delivering federal student loans. We continue to support efforts for the private sector to have a role in servicing federal student loans. North Dakotans can be assured that the Bank remains committed to students and will continue to offer the Dakota Education Alternative Loan (DEAL) program to supplement funding beyond federal aid availability. We also responded to the challenges of financing residential properties in rural areas by creating a secondary market for North Dakota financial institutions facing limited markets.



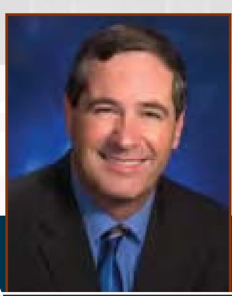


Despite the national financial challenges, BND had a successful year with earnings of $58 million, a seventh straight year of record profits. Loan activity was moderate with total growth of $95 million. Total assets grew by over $400 million as the State of North Dakota's economy proved to be resilient. Equity grew nearly $50 million to $272 million as most of 2009 income was retained.

Overall, 2009 taught us to take nothing for granted and to seek out even stronger ties to our partner financial institutions. We will continue to do business that makes us unique, supports our mission and allows the citizens of North Dakota to be proud of the only state-owned bank in the nation.

Eric Hardmeyer,
BND President

Doug Goehring appointed Ag Commissioner



BND/SLND partnership began with NDCAN

Upromise/ BND LinkUp program to pay down student loans launched

Lori Sayler received BND Leadership Award

April 6 | May 1 | June 1 | June 25

BND: An Evolution in Time

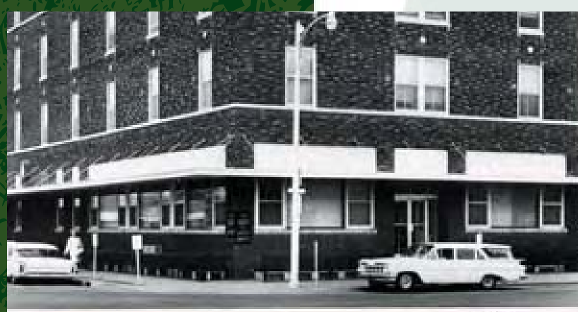
BND's 90-year evolution as the only state-owned bank in the nation had humble beginnings with a $2 million bond issuance in 1919, the rough equivalent of $25 million today. Since that time, BND's conservative fiscal approach and fiduciary responsibility to the citizens of our state has enabled the Bank to evolve into a $3.9 billion institution with capital of over $270 million.

A proactive partnership approach has allowed us to establish a working relationship with financial institutions across North Dakota. In fact, leveraging public sector funds with private sector initiatives has been the key to our success.

The varied loan sectors that consistently make up the loan portfolio are agriculture, commercial, residential and student loans. This diversity led to a modest 3.6 percent increase over 2008, bringing the loan portfolio to a record $2.7 billion.

In 2009 student loan volume climbed due to legislation that contributed to the reduction in the number of lenders willing to participate in student loans. Increases in loan limits and the Bank's payment of fees on behalf of students also played a role in increased volume. Strong demand for the Dakota Education Alternative Loan (DEAL) fueled by attractive interest rates led to a 38 percent increase in DEAL disbursements. All of these factors attributed to a 20 percent larger student loan portfolio in 2009.

The agriculture loan portfolio remained stable in 2009. Farm and Ranch Loans made up over half of the $268 million portfolio. The Beginning Farmer Real Estate Loan Program was also strong, tallying a $4



million increase over 2008. With a struggling national economy, the normally active PACE program was used less while Flex PACE program usage, which provides greater community flexibility, increased 80 percent in 2009.

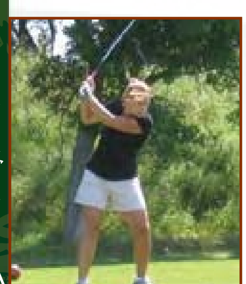
The housing market in North Dakota continued to be strong with many homeowners taking advantage of refinancing opportunities and a low interest rate environment. This, coupled with a challenge to fund the new loan opportunities, led to an overall reduction in the residential loan portfolio, decreasing 7 percent to $475 million. BND acts as a secondary market for

BND hosted 90 Year Anniversary Open House

July 28

BND supported first ND Jump$tart Golf Tournament

August 22

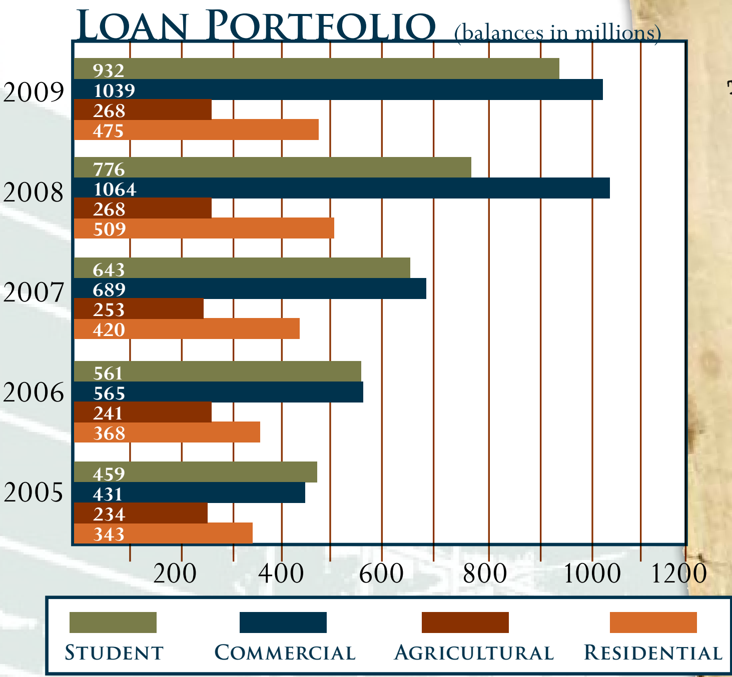


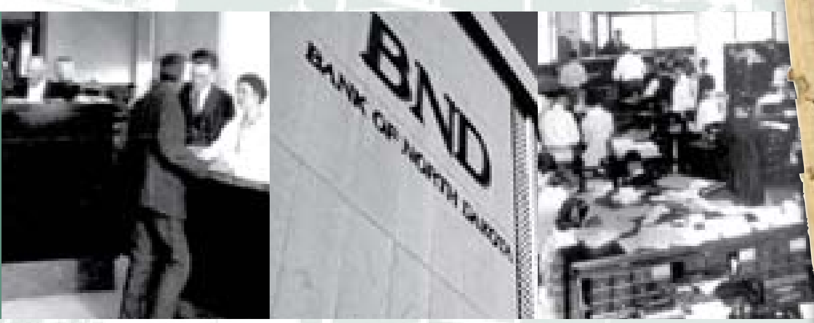
Four $529 College SAVE awards were distributed coordinating with summer events

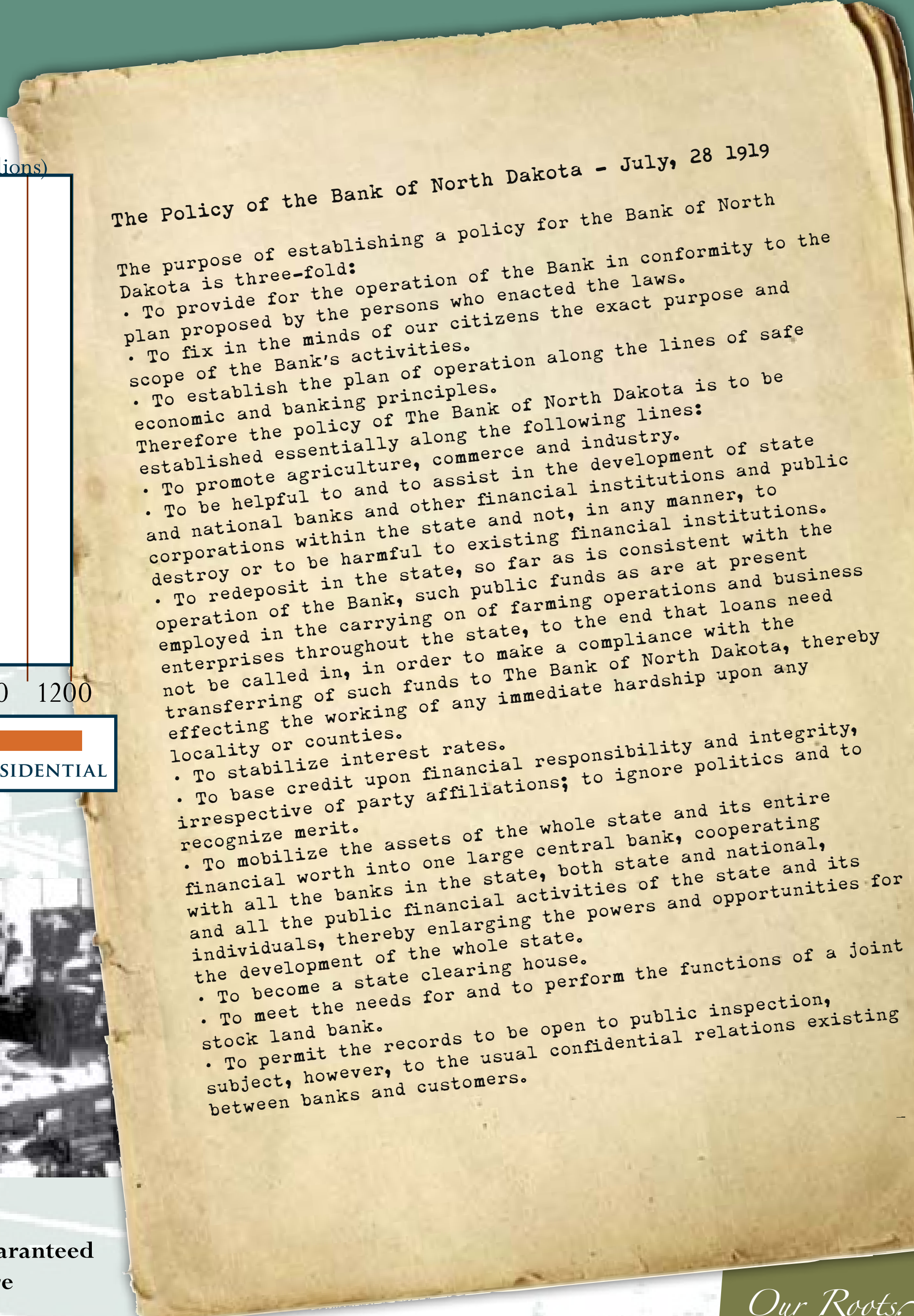
September 1

ND Dollars for Scholars hosted second Appreciation Luncheon

October 3







The Policy of the Bank of North Dakota - July, 28 1919

The purpose of establishing a policy for the Bank of North Dakota is three-fold:
• To provide for the operation of the Bank in conformity to the plan proposed by the persons who enacted the laws.
• To fix in the minds of our citizens the exact purpose and scope of the Bank's activities.
• To establish the plan of operation along the lines of safe economic and banking principles.
Therefore the policy of The Bank of North Dakota is to be established essentially along the following lines:
• To promote agriculture, commerce and industry.
• To be helpful to and to assist in the development of state and national banks and other financial institutions and public corporations within the state and not, in any manner, to destroy or to be harmful to existing financial institutions.
• To redeposit in the state, so far as is consistent with the operation of the Bank, such public funds as are at present employed in the carrying on of farming operations and business enterprises throughout the state, to the end that loans need not be called in, in order to make a compliance with the transferring of such funds to The Bank of North Dakota, thereby effecting the working of any immediate hardship upon any locality or counties.
• To stabilize interest rates.
• To base credit upon financial responsibility and integrity, irrespective of party affiliations; to ignore politics and to recognize merit.
• To mobilize the assets of the whole state and its entire financial worth into one large central bank, cooperating with all the banks in the state, both state and national, and all the public financial activities of the state and its individuals, thereby enlarging the powers and opportunities for the development of the whole state.
• To become a state clearing house.
• To meet the needs for and to perform the functions of a joint stock land bank.
• To permit the records to be open to public inspection, subject, however, to the usual confidential relations existing between banks and customers.

-Actual historical Bank Policy from 1919

financial institutions seeking to sell FHA and VA guaranteed loans. A total of 496 loans at $68 million in value were purchased in 2009.

BND spurred economic development by funding or renewing $472 million of commercial participations with our financial institution partners in the $1.039 billion commercial loan portfolio. BND financed 268 business and industrial projects in 2009. Despite this activity the commercial portfolio decreased as a result of loan repurchases and reduced need.

Overall, BND's entire loan portfolio provides reliable earnings and consists of a mix of 38 percent commercial/business loans, 34 percent student loans, 18 percent residential loans and 10 percent agriculture loans.

Our Roots. Your Growth.

BND mentorship program launched at BSC

OCTOBER 9

North Dakota tour for BND Regional Meetings concluded in Bismarck

NOVEMBER 1

BND and manager JoAnn Marsh received the "My Boss is a Patriot Award" from the ND National Guard

NOVEMBER 24

BND provided $20,000 to ND Dollars for Scholars

DECEMBER 1

Success Story: Northland Financial

Bank of North Dakota believes every North Dakotan should have the opportunity to reach financial and personal goals, no matter what kind or size of financial institution is located in their hometown. This is why BND is so passionate about creating strategic partnerships with an organization such as **Northland Financial.**

With locations in Steele, Bismarck and Medina, Northland Financial is a bank with big aspirations for its customers. **BND lending programs make it easier to provide needed service in all four of their locations.**

> "Our customers are successful using Bank of North Dakota programs because they are smartly devised and provide a real benefit which makes it easy for us to help our customers." -Paul Bakkum, Northland Financial President

"We want to do everything we can to encourage and promote people who have big goals – like buying into the family farm," said Paul Bakkum, President of Northland Financial. "Our customers are successful using Bank of North Dakota programs because they are smartly devised and provide a real benefit which makes it easy for us to help our customers."

BND loan officer Bruce Schumacher said, "Northland Financial uses a number of our programs for farm and commercial purposes that may not otherwise be offered in their region."

Bakkum adds that due to efficient and user-friendly features, Northland Financial benefits from using Bank of North Dakota at an operational level.

"We utilize BND's Image Exchange program daily to clear almost all of our transactions," he explained. "BND has worked hard to become a very high tech clearing facility and, with recent improvements to their Direct Cash Management System, they have added to the number of products at our disposal."

Northland Financial also sees and hears about the benefits of partnering with BND from its customers and they are excited to expand the role technology plays in their bank's day-to-day operation.

"Our goal is to be on the cutting edge of technology among North Dakota's banks so our customer can expect the most from our services," said Bakkum. "In this regard we look to BND as not only a partner but also a leader when it comes to progressive technology in our state. Plus, the staff at BND knows their customers, they are extremely knowledgeable, and are honestly there to help."

Success Story: Steffes Corporation

Joe Rothschiller has seen Steffes Corporation of Dickinson undergo five expansions and grow from 15 to 150 employees in the 22 years he's been with the company. Currently, Rothschiller serves as President and COO and is working to bring further success to the company.

Steffes Corporation started as Steffes ETS and Steffes & Sons Manufacturing before merging into one company in 1998. The company serves the oil industry in the Bakken Formation with almost any metal part or component an oil company may need, including oil tanks, walkovers, stairways, and platforms. Steffes also manufactures "off-peak" electric heating systems and provides metal parts and components to other companies across North America.

Steffes Corporation uses the **Flex PACE program** which provides a significant economic benefit to small businesses. Participation by North Dakota communities in the Flex PACE Fund allows local resources to be used to buy down the interest rate on a loan to that business. This model expands the economic base in the region by providing an efficient means to upgrading equipment and facilities.

"The interest buy down program allows our communities to provide companies with incentives to grow North Dakota at a grassroots level," said Rothschiller.

"BND had confidence in us to develop because they believe in North Dakota businesses and the economic benefits that come with local investments."
-Joe Rothschiller, Steffes Corp. President & COO

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The Flex PACE Program allows the borrower to receive the initial interest rate buy down without the job creation requirements of the PACE program.

"Being a manufacturing company, Steffes was a great fit for this program because in our tight job market for skilled laborers due to the oil boom in western North Dakota, they can still create efficiencies," said Daryl Tabor of Wells Fargo in Dickinson. **"Flex PACE is a wonderful program that everybody can benefit from."**

The success of Steffes can be credited in part to BND's competitive and flexible loan programs, Wells Fargo's recognition of the benefits of using the Flex PACE Program and their willingness to be the lead financial institution.

"Without our Flex PACE loan from BND, we would have used a conventional means of financing but it would have been at a higher rate and with less flexibility," explained Rothschiller. "BND is a significant player in North Dakota expansion and business development. Without BND, Steffes may be half the size it is today. "

Bank Focuses on Longevity

Strategic Imperatives

In order to ensure success, BND outlined strategies that will solidify our commitment to the Bank's mission while at the same time allow us to implement plans for an uncertain future.

With North Dakota's strong economy as our foundation, BND identified strategic imperatives for 2009-2011. First among our imperatives is a review of economic development efforts to ensure our financial strength and resources are leveraged for the betterment of all state citizens. Second is to become the best correspondent bank to our statewide partner financial institutions. To this end, we offer an array of bank services and continue to identify gaps in the marketplace where our services may best fit.

> The undercurrent of our strategic imperatives is to preserve the quality of BND's many programs and services while probing for new and innovative business solutions.

The undercurrent of our strategic imperatives is to preserve the quality of BND's many programs and services while probing for new and innovative business solutions. It is also important to cultivate leaders at the Bank. To this end, BND's Leadership Program allows a select number of BND employees to take workshops, learn from their peers in a group setting and complete a unique project.

The leadership group created a Mentorship Program entitled "Mentoring for the Future. Together We Grow," which pairs employees from different service areas to better foster a collaborative work environment and assist employees in reaching their full potential. Twelve employees graduated from the program in 2009, the fourth such class since 2003.

Legislative Mandates

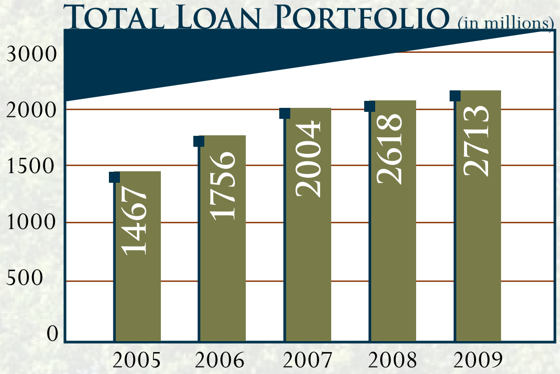
The 2009 legislative session was different from the one which created North Dakota's Bank and its Mill and Elevator Association with a measure that decreed, "This act is hereby declared to be an emergency measure and shall take effect and be in force from and after its passage and approval."

Unlike that early 1900's scenario, the 61st Legislative Assembly of North Dakota had over a $1 billion surplus as the rest of the nation slipped into the throes of a recession. Since North Dakota did not have the severe budget challenges that many in the nation had to contend with, legislators eliminated the Bank's traditional transfer of profits to the general fund from the 2009-2011 biennium.

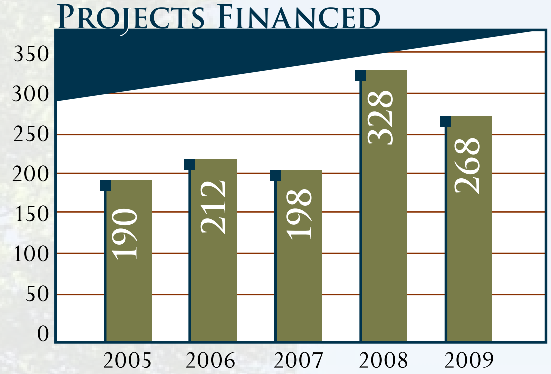
By retaining profits we ensure sufficient capital to sustain the unprecedented growth the Bank has seen over the past seven years. BND's capital reserves are $270 million, a 7.18 percent tier one capital to asset ratio. BND has contributed over $340 million in profit back to the State since 1996.

The North Dakota Legislature passed several bills in 2009 that directly impact BND loan programs. To reduce interest rates on program loans, $11.1 million was appropriated in interest buy down funds. In addition, $13 million was appropriated to two Health Information Technology Loan Funds. The loans made from these funds will assist health care providers in improving health information technology infrastructure.

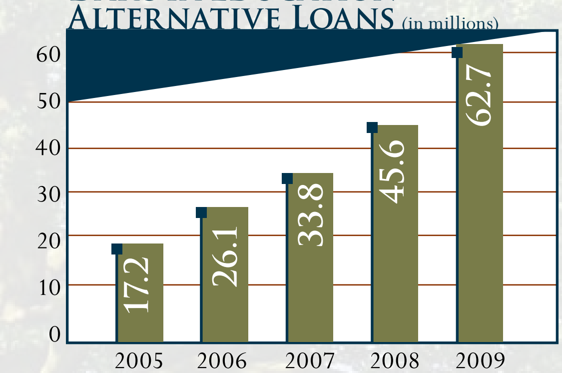
Total Loan Portfolio (in millions)



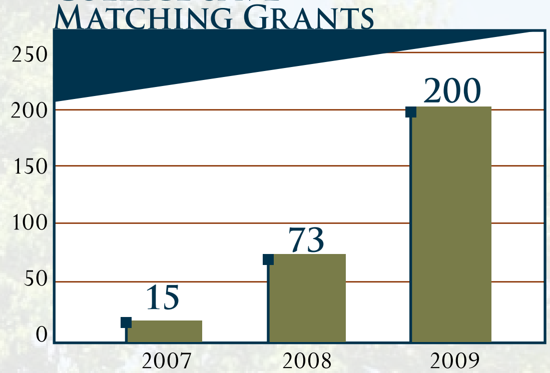
Business & Industrial Projects Financed



Dakota Education Alternative Loans (in millions)



College SAVE Matching Grants



Some legislative highlights include:

• AgPACE Loan Program was expanded to include $1 million in interest buy down funds to assist farmers and ranchers who have been impacted by weather related events.

• First Time Farmer Finance, Family Farm, and Farm Operating Loan Programs were expanded with new eligibility requirements and maximum loan amount provisions.

• The New Venture Capital Program legislative sunset date was removed and an addition was made to include entrepreneurship awards totaling $1 million.

• The Beginning Entrepreneur Guarantee Loan Program was amended to ensure on-going availability of guarantee dollars.

Success Story: Mark Jochim Farms

To outsiders, an old pole barn may just seem like part of a typical scene from North Dakota. Surrounded by fields and livestock, old barns are beautiful, rustic and make lovely postcard images. But to so many hard-working North Dakota farmers and ranchers, a pole barn is more than just a piece of scenery – it is an integral part of the farm.

> “After Mark’s old barn was pretty much totaled, the Ag PACE Loan from BND gave us access to funds to rebuild the barn and corral system”
> -John Schmid, Grant County State Bank Executive Vice President

When a winter storm destroyed Mark Jochim’s pole barn he knew he had to find a solution to replace it in order to keep things moving smoothly on the fourth generation farm. That’s when the **Ag PACE Loan** from BND became the welcome solution. Mark and his wife, Stephanie, live on the farm with Mark’s brother, Mike, his wife, Jolene, and their parents, John and Kathleen. Together they run a 50/50 cow-calf and grain farming operation near Flasher, which was homesteaded in 1913.

“The barn was originally built as a place to milk cows and we used it as a calving barn,” explained Mark. “Its old age combined with heavy snow caused it to collapse and also ruin some corrals near the barn.”

The Jochims qualified for the **Farm Disaster Ag PACE loan from BND,** which provides funds to assist farmers and ranchers who have been negatively impacted by weather-related events. Ag PACE Loans can be used to replace livestock, equipment, structural elements or facilities damaged by weather-related events.

“After Mark’s old barn was pretty much totaled, the Ag PACE Loan from BND gave us access to funds to rebuild the barn and corral system,” said John Schmid, Executive Vice President at Grant County State Bank in Carson, N.D. “With an interest buy down of 5%, Mark found it much more affordable to rebuild in a timely manner. “

Fortunately, no cattle were lost in the barn accident, so Mark was able to use all the funds to replace equipment and build a new structure. He believes that without the Ag PACE loan from BND he would not have been able to rebuild the structure he needed.

“Within five months we were able to build a new barn that’s bigger than the last. We turned it into a calving barn that can accommodate about 200 cows,” said Mark. “Plus, we rebuilt the corrals that were destroyed. We were able to make a huge improvement to the whole system. Bank of North Dakota made it really easy to make this decision.“

Success Story:
Van Bedaf Dairy

On a dairy farm near Carrington you'll find a Dutch family with an intriguing story. Corne and Conny Van Bedaf are the two halves of Van Bedaf L.L.P., the first large-scale dairy farm to be built in North Dakota in the past 10 years. The Van Bedafs and their three children – Piet, Dries, and Maartje – moved to North Dakota in 2008 to realize their dream of owning and operating a successful dairy farm. During the transition, BND was there to support the Van Bedaf family and make those dreams possible.

> "We saw that we could have the kind of farm we'd always dreamed about in North Dakota, and [BND] made it easy for us to finance those dreams and turn them into a reality." -Conny Van Bedaf, Van Bedaf Dairy

The Van Bedafs managed their first dairy farm in the Netherlands in 1989 and moved to Alberta, Canada, in 2001.

"Corne and I grew up on dairy farms in the Netherlands and knew that we wanted to continue in the dairy business after we got married," explained Conny. "We saw that we could have the kind of farm we'd always dreamed about in North Dakota, and Bank of North Dakota made it easy for us to finance those dreams and turn them into a reality."

The Van Bedafs chose to move to North Dakota because of low fuel costs related to the state's booming bio-fuels industry. Low feed costs combined with BND's Bio-PACE Fuels loan have allowed the Van Bedafs to spend less time worrying about interest rates and feeding costs and more time concentrating on other things – like raising healthy cattle.

"**The PACE Bio-Fuels Program** buys down interest rates by 5 percent in return for the use of bio-fuel byproducts. The Van Bedafs use these byproducts as feed for their livestock," said Tom Erdmann, a lender at Farm Credit Services of North Dakota in Carrington. "It's a really good deal for them because dairy cows usually require better rations with higher protein content. Bio-fuel byproducts can meet this need and usually come at a better price, too."

With 950 dairy Holsteins on their farm and an additional 400 replacement heifers being raised on another farm, the Van Bedafs will focus less on growth and more on refining their processes in 2010.

"Bank of North Dakota helped make the decision to move into the state an easy one," she said. "Without their help we could have been forced to go somewhere else."

Service Area Highlights

BND's well trained and experienced staff of 168 state employees works to deliver creative and innovative business solutions while providing a high level of customer service to better serve North Dakota's nearly 650,000 citizens.

Treasury Services Nears $2 Billion in Safekeeping for ND Financial Institutions

Treasury Services had over $1.9 billion of securities in safekeeping for North Dakota financial institutions at the end of 2009. The service area provided Secured and Unsecured Federal Fund Lines to 97 financial institutions with combined lines of over $324 million for 2009. Federal Fund sales averaged over $37 million per day, peaking at $68 million per day in July. The Letter of Credit for Public Deposits program provided an average of nearly $230 million in additional liquidity daily, resulting in the availability of additional securities in order to increase financial institutions' funding sources. Both programs provided a daily average of over $267 million of liquidity to North Dakota financial institutions, topping out at over $335 million in July.

BND Saves Borrowers Millions

The Bank took extraordinary steps to ensure student loan borrowers were receiving the best deal when it came to student loans in 2009. The variable interest rate on our DEAL loans fell to historic lows of 1.79 percent. Interest rates on many existing fixed interest DEAL loans for North Dakota residents were lowered to 6 percent, which positively impacted 8,800 residents and more than 15,000 loans. Fixed interest rates on new loans were lowered to 5.99 percent for the entire year, to the benefit of both resident borrowers and students from out-of-state attending North Dakota's colleges and universities. Overall, BND saved borrowers millions of dollars by lowering interest rates, paying origination and default fees and further reducing interest rates on loan payments made electronically.

New Technology in Our Service Areas

By using a focused planning process our strategic imperatives consistently identify new business needs. In 2009, technology was identified to create new opportunities in two service areas which will allow for a competitive edge in a constantly changing marketplace.

Cash Management for the 21st Century

Banking Services improved its BND Direct Cash Management System to provide enhanced customer functionality. By converting to a new system, financial institutions and other eligible corporate and state institutions now have improved access to better manage their BND account information.

Highlights of the new system include online wire transfer options, transfers between multiple accounts, intra-day account balance information and customized reports to increase account accuracy. Customers can also view loan participation balances and activity, and partake in an improved currency and coin ordering process.

The new Cash Management System continues to use rigid multi-factor token security measures that were deemed important to corporate customers. With the new system installed, BND will be able to provide additional enhancements and grow correspondent banking services.

A Student Loan System to Better Serve Borrowers

Despite the Federal government's desire to abolish participation by lenders in the Federal Family Education Loan Program in 2009, BND started down the path to implementing a new student loan system. This system will better service our nearly $1 billion Student Loan Portfolio with enhancements to manage efficiently the tens-of-thousands of loans that will remain with us regardless of the outcome of federal legislation.

In 2009 BND disbursed over 95,000 federal and supplemental loans. With new technology from 5280 Solutions, an award-winning leader in the student loan industry, BND will be able to provide a high level of customer service that our partners and customers have come to expect. The system will also incorporate new regulatory requirements that are necessary for the continuation of the Dakota Education Alternative Loan (DEAL) program. We remain steadfast in our desire to increase market share of our nationally recognized DEAL program and to continue our positive relationships with private and public post-secondary institutions across the region.

www.banknd.nd.gov

Effective Disaster Relief Programs

Weather in 2009 provided the backdrop for the utilization of BND's Farm Disaster Relief Programs by farmers and ranchers across the plains. Twelve loans totaling more than $1.6 million were used in conjunction with partner financial institutions to assist families needing to recover from damage and restructure debt with low interest rates. Farmers and ranchers needing further assistance could use the Farm Disaster Ag Pace Loan. The program extends into 2010 to continue to assist those in need. Students in repayment were also granted temporary relief if they were affected by weather related events.

Matching Grant Program Gets Better with Age

The College SAVE program, administered by BND, is now eight years old and with expanded Matching Grant options it is more popular than ever. Beginning in 2009, investors in the 529 college savings plan with beneficiaries 12 years of age and younger, who earn less than $40,000 annually (or $80,000 for couples who file jointly) can receive up to a $300 match on contributions. New requirements allow investors earning less than $20,000 (or $40,000 for couples filing jointly)to receive a $300 match for three consecutive years, or a total of $900.

BND Web Sites Get Facelift

After a two year conversion process, BND's Web sites re-launched near the end of 2009. A fresh new look and more organized information can be found at the Bank's site, **banknd.nd.gov** and BND Student Loan Services, **mystudentloanonline.nd.gov.**

For the first time you can find a separate Student Loans of North Dakota (SLND) site located at **starthere4loans.nd.gov** and we partnered with the North Dakota College Access Network to launch **nd-can.com** for those wishing to plan for college.

This partnership was enhanced by our willingness to share the knowledge and plentiful resources that SLND-sponsored College Information Service (CIS) has acquired since its inception in 1992.

We also delved into social media for the first time with a CIS page at **facebook.com/ collegeinformationservice.**

Keeping in mind the partnership approach that makes BND so successful, we launched a new Web site for the BND administered North Dakota Dollars for Scholars program. The site has generated nearly 3,000 unique visitors and provided an opportunity for 82 Dollars for Scholars chapters to have their own Web page. We also assisted the North Dakota Jump$tart Coalition to create its own North Dakota based Web site which includes a searchable resource section.

90 Years of Evolution.

Our Roots. Your Growth.

Prior to his death in 1919, Theodore Roosevelt said, **"Do what you can, with what you have, where you are."** This standard is what makes North Dakota one of the few states to prosper in today's uncertain economic times. Combined with our mission "To Deliver Quality, Sound Financial Services that Promote Agriculture, Commerce and Industry in North Dakota" we have a driving force to succeed.

The roots of our history compel us to do what we can as an agency of the state to assist with economic development efforts and generate positive returns for the citizens of North Dakota.

Success Story: Vibeto Orthodontics

It may seem counterintuitive to open a new business at a time when the hot topic is the failing economy and that dreaded word – *recession.* But BND is confident in the financial institutions it partners with and the strong local economies that support owners of small businesses across the state. It is what makes North Dakota such a great place to live and one of BND's secrets to being a successful institution.

After Dr. Bryan Vibeto earned his degree at the University of Minnesota and completed his residency at the Mayo Clinic, he wanted to open up his own orthodontics practice. In 2008, he saw an opportunity to achieve this dream by returning to his hometown of Minot to raise a family and carve out his future.

"Bank of North Dakota has a passion to aid small businesses by providing accessible and flexible small businesses loans," said Dr. Vibeto. "Without that passion and incentive, I doubt I would have been able to realize my goals and open my own practice."

"Bank of North Dakota has a passion to aid small businesses by providing accessible and flexible small businesses loans," said Dr. Vibeto. "Without that passion and incentive, I doubt I would have been able to realize my goals and open my own practice." -Dr. Bryan Vibeto, Vibeto Orthodontics

He used **BND's Beginning Entrepreneur Loan Guarantee Program** which assists start-up businesses by providing a partner financial institution with an 85 percent guarantee of a loan not to exceed $100,000. This loan can be used as working capital as a business finds its footing in the community. In Dr. Vibeto's case, he worked with United Community Bank of North Dakota in Minot, a financial institution he knows and trusts.

"We have an excellent relationship with Bank of North Dakota," said Randy Conway, Vice President at United Community Bank. "When we have a project that is too big or doesn't quite fit into our model, we think of BND."

United Community Bank recognized Dr. Vibeto's potential and was pleased to partner with BND on the Business Development Loan which was used for equipment purchases to establish his practice.

"Vibeto Orthodontics is a great addition to our community," said Conway, "and we're happy to play a small role in bringing Dr. Vibeto back to Minot."

Dr. Vibeto is looking forward to a prosperous 2010 as he continues to expand and provide a quality service and product. "I couldn't be happier with the process," he said. "With BND and United Community Bank's assistance, financing my new business was the least of my concerns."

ND Industrial Commission

John Hoeven,
Governor of North Dakota

Wayne Stenehjem,
Attorney General

Doug Goehring,
Agriculture Commissioner

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

Financials
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Independent Auditor's Report

Brady Martz & Associates, P.C.

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, 2009 and 2008, 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 audit.

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 audits 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 Accounting Standards Codification of authoritative generally accepted accounting principles to be applied by non governmental entities. This basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

February 5, 2010

Bank of North Dakota
Balance Sheets
December 31, 2009 and 2008

	(In Thousands)	
	2009	2008
ASSETS		
Cash and due from banks	**$ 817,049**	$ 477,048
Federal funds sold	**24,190**	75,675
Cash and cash equivalents	**841,239**	552,723
Securities	**397,370**	331,416
Loans	**2,713,611**	2,618,402
Less allowance for loan losses	**(42,468)**	(36,750)
	2,671,143	2,581,652
Interest receivable	**34,550**	35,260
Bank premises, equipment, and software, net	**12,917**	13,581
Other assets	**2,450**	2,333
Total assets	**$ 3,959,669**	$ 3,516,965
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	**$ 442,867**	$ 313,900
Interest bearing	**2,496,192**	2,331,456
	2,939,059	2,645,356
Federal funds purchased and repurchase agreements	**337,627**	304,020
Short and long-term debt	**405,005**	315,604
Other liabilities	**6,329**	28,063
Total liabilities	**3,688,020**	3,293,043
Equity		
Capital	**2,000**	2,000
Capital surplus	**42,000**	42,000
Undivided profits	**225,966**	182,883
Accumulated other comprehensive income (loss)	**1,683**	(2,961)
Total equity	**271,649**	223,922
Total liabilities and equity	**$ 3,959,669**	$ 3,516,965

-See Notes To Financial Statements

Bank of North Dakota
Statements of Income
Years ended December 31, 2009 and 2008

	(In Thousands)	
	2009	2008
INTEREST INCOME		
Federal funds sold	**$ 256**	$ 7,046
Securities	**11,967**	12,427
Loans, including fees	**120,054**	129,140
Total interest income	**132,277**	148,613
INTEREST EXPENSE		
Deposits	**33,346**	48,139
Federal funds purchased and repurchase agreements	**843**	9,190
Short and long-term debt	**16,805**	14,472
Total interest expense	**50,994**	71,801
NET INTEREST INCOME	**81,283**	76,812
PROVISION FOR LOAN LOSSES	**10,300**	8,900
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**70,983**	67,912
NONINTEREST INCOME		
Service fees and other	**6,160**	7,475
Gain on available-for-sale securities	**46**	142
Total noninterest income	**6,206**	7,617
NONINTEREST EXPENSE		
Salaries and benefits	**10,474**	9,595
Data processing	**3,631**	3,375
Occupancy and equipment	**951**	1,194
Other operating expenses	**4,050**	4,321
Total noninterest expenses	**19,106**	18,485
NET INCOME	**$ 58,083**	$ 57,044

-See Notes To Financial Statements

Bank of North Dakota
Statements of Equity
Years ended December 31, 2009 and 2008

	In Thousands				
	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2007	$ 2,000	$ 42,000	$ 145,843	$ 2,628	$ 192,471
Comprehensive income					
Net income			57,044		57,044
Unrealized loss on securities available for sale				(5,589)	(5,589)
Total comprehensive income					51,455
Transfer to state general fund			(20,004)		(20,004)
BALANCE, DECEMBER 31, 2008	2,000	42,000	182,883	(2,961)	223,922
Comprehensive income					
Net income			58,083		58,083
Unrealized loss on securities available for sale				4,644	4,644
Total comprehensive income					62,727
Transfer to state general fund			(15,000)		(15,000)
BALANCE, DECEMBER 31, 2009	$ 2,000	$ 42,000	$ 225,966	$ 1,683	$ 271,649

-See Notes To Financial Statements

Bank of North Dakota
Statements of Cash Flows
Years ended December 31, 2009 and 2008

	(In Thousands)	
	2009	2008
OPERATING ACTIVITIES		
Net income	**$ 58,083**	$ 57,044
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	**1,100**	983
Provision for loan losses	**10,300**	8,900
Net amortization of securities	**(358)**	(136)
Gain on sale of securities	**(46)**	(142)
Gain on sale of residential loans	**-**	(1)
(Gain)/loss on retirement of premises and equipment	**1**	(627)
(Gain)/loss on sale of foreclosed assets	**(21)**	28
(Increase)/Decrease in interest receivable	**710**	(1,064)
(Increase)/Decrease in other assets	**76**	2
Increase/(Decrease) in other liabilities	**(6,733)**	2,114
NET CASH FROM OPERATING ACTIVITIES	**63,112**	67,101
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	**(214,790)**	(222,517)
Proceeds from sales, maturities, and principal repayments	**159,311**	125,493
Purchase of Federal Home Loan Bank stock	**(4,808)**	(8,625)
Sale of Federal Home Loan Bank stock	**-**	4,945
Purchase of other equity securities	**(873)**	(1,522)
Sale of other equity securities	**250**	1,050
Proceeds from sales of loans	**-**	35
Net increase in loans	**(100,197)**	(618,450)
Purchases of premises and equipment	**(438)**	(3,731)
Proceeds from sale of premises and equipment	**-**	2,122
Proceeds from sale of foreclosed assets	**238**	129
NET CASH USED FOR INVESTING ACTIVITIES	**(161,307)**	(721,071)
FINANCING ACTIVITIES		
Net increase/(decrease) in non-interest bearing deposits	**128,967**	(4,049)
Net increase in interest bearing deposits	**164,736**	777,638
Net increase/(decrease) in federal funds purchased and repurchase agreements	**33,607**	(130,041)
Proceeds from issuance of short and long-term debt	**105,387**	360,200
Payment of short and long-term debt	**(15,986)**	(289,666)
Payment of transfers	**(30,000)**	(30,046)
NET CASH FROM FINANCING ACTIVITIES	**386,711**	684,036
NET CHANGE IN CASH AND CASH EQUIVALENTS	**288,516**	30,066
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**552,723**	522,657
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 841,239**	$ 552,723

-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) Accounting Standards Codification of authoritative generally accepted accounting principles to be applied by non governmental entities, 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 Accounting Standards Codification, 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, 2009 and 2008:

	2009	2008
Student loans, of which 97% and 98% are guaranteed	**34%**	30%
Commercial loans, of which 5% and 4% are federally guaranteed	**38%**	41%
Residential loans, of which 83% and 81% are federally guaranteed	**18%**	19%
Agricultural loans, of which 8% and 10% are federally guaranteed	**10%**	10%
	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 aggregate cost or market value. Gains or losses on sale of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

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

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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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 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.

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.

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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.

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $360,000 and $173,000 as of December 31, 2009 and 2008, respectively.

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 2008 financial statements have been reclassified to conform to the 2009 presentation.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued professional standards concerning the accounting for transfers of financial assets. This standard is intended to improve the relevance and comparability of the information that a reporting entity provides in its financial statements concerning a transfer of financial assets. It also provides guidance on the effects of a transfer on its financial position, financial performance, and cash flows and a transferor's continuing involvement, if any, in transferred financial assets. This standard must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Bank does not expect the adoption of this standard to have a significant impact on the Bank's results of operations, financial condition or cash flows.

In June 2009, the Financial Accounting Standards Board issued professional standards to address (1) the effect on certain provisions of a previously issued standard on the consolidation of variable interest entities, as a result of the elimination of the qualifying special-purpose entity concept, and (2) concerns about the application of certain key provisions of a previously issued standard, including those in which the accounting and disclosures under the previous standard do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This standard must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Bank does not expect the adoption of this standard to have an impact on the Bank's results of operations, financial condition or cash flows.

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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 required reserve balances maintained at the Federal Reserve Bank were approximately $40,000,000 in 2009 and $7,000,000 in 2008.

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, 2009 and 2008 consists of the following:

	(In Thousands)	
	2009	2008
Securities available for sale, at fair value	**$ 371,382**	$ 310,760
Federal Home Loan Bank stock, at cost	**22,193**	17,385
Other equity securities, at cost	**3,795**	3,271
	$ 397,370	$ 331,416

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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, 2009				
Securities available for sale				
Federal agency	**$ 74,678**	**$ 2,469**	**$ 17**	**$ 77,130**
Mortgage-backed	**284,153**	**4,885**	**5,654**	**283,384**
State and municipal	**10,868**	**-**	**-**	**10,868**
	$ 369,699	**$ 7,354**	**$ 5,671**	**$ 371,382**

	(In Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2008				
Securities available for sale				
Federal agency	$ 166,881	$ 4,047	$ -	$ 170,928
Mortgage-backed	134,972	2,454	9,462	127,964
State and municipal	11,868	-	-	11,868
	$ 313,721	$ 6,501	$ 9,462	$ 310,760

Securities carried at $8,511,000 and $3,527,000 at December 31, 2009 and 2008, respectively were used to secure repurchase agreements and for other required pledging purposes. FHLB stock totaling $22,193,000 and $17,385,000 at December 31, 2009 and 2008, respectively are pledged on the FHLB advances (Note 9).

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The maturity distribution of debt securities at December 31, 2009, 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	$ 153,462	$ 154,403
Over one year through five years	143,329	147,686
Over five years through ten years	41,711	40,167
Over ten years	31,197	29,126
	$ 369,699	$ 371,382

For the year ended December 31, 2009, proceeds from the sale of securities available for sale were $5,250,000. Gross realized gains were $151,000 and gross realized losses were $99,000. For the year ended December 31, 2008, proceeds from the sale of securities available for sale were $5,835,000. Gross realized gains were $216,000 and gross realized losses were $75,000.

Information pertaining to securities with gross unrealized losses at December 31, 2009, 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				
Mortgage-backed	$ 115	$ 51,660	$ 5,556	$ 19,097

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, 2009, four privatized collateralized mortgage obligation securities have unrealized losses with aggregate depreciation of 28% from the amortized cost basis. At December 31, 2008, four privatized collateralized mortgage obligation securities have unrealized losses with aggregate depreciation of 36% from the amortized cost basis. In analyzing these obligations, management reviews payment performance, defaults, credit support and credit coverage status. As the Bank does not intend to sell these securities and it is more likely than not that management will not be required to sell prior to recovery, the decline is not deemed to be other than temporary.

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NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2009 and 2008 is as follows:

	(In Thousands)	
	2009	2008
Student	**$ 932,323**	$ 776,473
Commercial	**1,038,589**	1,064,811
Residential	**475,124**	509,052
Agricultural	**267,575**	268,066
	2,713,611	2,618,402
Allowance for loan losses	**42,468**	36,750
	$ 2,671,143	$ 2,581,652

Unamortized deferred student loan costs totaled $11,770,000 and $9,247,000 as of December 31, 2009 and 2008, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $1,860,000 and $1,983,000 as of December 31, 2009 and 2008, respectively.

The composition of the allowance for loan losses for the years ended December 31, 2009 and 2008 is as follows:

	(In Thousands)	
	2009	2008
Balance - beginning of year	**$ 36,750**	$ 32,863
Provision for loan losses	**10,300**	8,900
Loans charged off	**(4,907)**	(5,328)
Recoveries	**325**	315
Balance - end of year	**$ 42,468**	$ 36,750

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

	(In Thousands)	
	December 31,	
	2009	2008
Impaired loans with a valuation allowance	**$ 15,944**	$ 3,365
Valuation allowance related to impaired loans	**$ 3,128**	$ 886
Average investment in impaired loans	**16,604**	8,310
Total non-accrual loans	**15,944**	3,365
Total loans past-due ninety days or more and still accruing	**37,923**	25,620
Restructured loans	**50,090**	10,407

The interest income recorded on impaired loans is not significant.

Accruing loans 90 days or more past due include guaranteed student loans of $29,792,000 and $23,489,000 as of December 31, 2009 and 2008, respectively. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

Residential loans of $6,662,000 and $1,613,000 as of December 31, 2009 and 2008, respectively, are also included in accruing loans 90 days or more past due. In the event of a foreclosure a residential loan guaranteed by the Federal Housing Administrative will be paid in full and the property title is transferred to them. The Department of Veterans Affairs has the option of paying their guaranty percentage and the Bank keeps the foreclosed property as well as any gain or loss from the sale or they can pay the loan in fill and title is transferred to them.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2009 and 2008.

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND loan sales during 2009 and 2008 follows:

	(In Thousands)	
	2009	2008
Commercial loans participated	**$ -**	$ 20,000
Residential loans sold on the secondary market	**-**	34

BND recognized gains on sale of loans of $1,000 in 2008 which is included in non-interest income on the Statements of Income.

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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, 2009 and 2008 were as follows:

	(In Thousands)	
	2009	2008
Student loans		
North Dakota Student Loan Trust	**$ 53,185**	$ 59,920
Others	**6,013**	4,367
Residential loans		
Fannie Mae	**12,734**	18,063
Other state fund loans		
Board of University and School Lands	**63,386**	56,599
Community Water Facility Loan Fund	**17,724**	16,422
Beginning Farmer Revolving Loan Fund	**9,008**	8,461
Developmentally Disabled Facility Loan Program	**840**	1,153
Department of Human Services	**8,680**	9,110
Workforce Safety	**29**	18
	$ 171,599	$ 174,113

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

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NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, furniture, and software at December 31, 2009 and 2008 is as follows:

	(In Thousands)			
	Balance 2008	Additions	Retirements	Balance 2009
Land	$ 1,171	$ -	$ -	$ 1,171
Building	10,212	-	-	10,212
Equipment	985	42	40	987
Furniture	679	-	-	679
Hardware	1,288	22	43	1,267
Software	6,192	372	-	6,564
	20,527	436	83	20,880
Less accumulated depreciation	6,946	1,100	83	7,963
	$ 13,581	$ (664)	$ -	$ 12,917

	(In Thousands)			
	Balance 2007	Additions	Retirements	Balance 2008
Land	$ 1,843	$ -	$ 672	$ 1,171
Building	4,285	10,212	4,285	10,212
Equipment	790	301	106	985
Furniture	511	662	494	679
Hardware	925	389	26	1,288
Software	6,026	425	259	6,192
Construction in progress	8,258	1,954	10,212	-
	22,638	13,943	16,054	20,527
Less accumulated depreciation	10,310	983	4,347	6,946
	$ 12,328	$ 12,960	$ 11,707	$ 13,581

Depreciation and amortization expense on the above assets amounted to $1,100,000 and $983,000 in 2009 and 2008.

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. The building construction project began in the fall of 2006 and was completed in 2008. Bank personnel began occupying/utilizing the new facility in the middle of January 2008. Total costs associated with the new facility included land on which the new bank facility is constructed costing $1,171,000. Land acquired that is not occupied by the new facility totals $761,000 and is included in other assets. Building construction cost totaled $10,212,000. The old bank facility was sold in 2008 at a net sales price of $2,123,000. A gain on the sale of the old facility of $649,000 is included in noninterest income in 2008.

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NOTE 7 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $1,711,836,000 and $1,755,057,000 as of December 31, 2009 and 2008, respectively.

At December 31, 2009, the scheduled maturities of certificates of deposits are as follows:

	(In Thousands)
One year or less	$ 1,508,795
One to three years	113,691
Over three years	114,241
	$ 1,736,727

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. The aggregate amount of repurchase agreements was $8,117,000 and $3,075,000 as of December 31, 2009 and 2008, respectively.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	(In Thousands)	
	2009	2008
Federal Home Loan Bank advances - long-term	**$ 403,779**	$ 314,600
ND Public Finance Authority, 3%, matures from September 2010 through September 2019	**1,226**	1,004
	$ 405,005	$ 315,604

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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
2010	$ 161	$ 18,903	$ 19,064
2011	33,161	18,141	51,302
2012	161	16,965	17,126
2013	62,161	15,395	77,556
2014	15,161	13,792	28,953
Later years	294,200	59,335	353,535
Totals	$ 405,005	$ 142,531	$ 547,536

The FHLB long-term advances outstanding at December 31, 2009, mature from January 2011 through December 2024. The FHLB long-term advances have fixed rate interest, ranging from 3.01% to 7.35%. The advances must be secured by minimum qualifying collateral maintenance levels. Residential loans with carrying values of $467,699,000 and $481,729,000 at December 31, 2009 and 2008, respectively, 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)	
	2009	2008
Transfers payable	**$ -**	$ 15,000
Interest payable	**2,546**	9,190
Salary and benefits payable	**978**	911
Student loan related payables	**569**	544
Accounts payable, accrued expenses and other liabilities	**2,236**	2,418
	$ 6,329	$ 28,063

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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. The Bank transferred $30,000,000 to the State's General Fund in 2009 and 2008. The Sixty-first North Dakota Legislature did not pass legislation requiring the Bank to transfer any funds to the State's General Fund for the biennium beginning July 1, 2009 and ending June 30, 2011.

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, 2009 and 2008 were approximately $677,000 and $617,000, respectively.

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.

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NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action- Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2009 and ending June 30, 2011 and in one case provide a source of payment of principal and interest payable on bonds issued. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1002, Section 3 – Subject to budget section approval, the secretary of state may borrow up to $3,400,698 from the Bank of North Dakota, which is appropriated to the secretary of state for the purpose of implementing the North Dakota business development engine computer project, during the biennium beginning July 1, 2009, and ending June 30, 2011. The secretary of state may request budget section approval only if the revenues projected by the secretary of state and the office of management and budget to be generated as a result of provisions of chapter 102 of the 2007 Session Laws over the term of the proposed loan based on the trend of actual corporate charters granted are anticipated to be sufficient to repay the proposed loan, including interest over the term of the loan.

H.B. 1012, Section 4 – If the caseload/utilization of medical services, long-term care, and developmental disabilities services is more than anticipated by the sixty-first legislative assembly, the Department of Human Services, subject to budget section approval, may borrow the sum of $8,500,000, or so much of the sum as may be necessary, from the Bank of North Dakota, which is appropriated for the purpose of providing the state matching share of additional medical assistance grants for medical services, long-term care, and developmental disabilities services, for the biennium beginning July 1, 2009, and ending June 30, 2011. The Department of Human Services shall request funding from the sixty-second legislative assembly to repay any loan obtained pursuant to provisions of this section, including accrued interest.

H.B. 1013, Section 20 – The School for the Deaf may borrow the sum of $835,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for the purpose of remodeling the trades building on the campus of the School for the Deaf.

H.B. 1400, Section 60 – The Department of Public Instruction may borrow the necessary funds to reimburse school districts for the excess costs of serving the one percent of special education students statewide who require the greatest school district expenditures in order to be provided with special education and related services. No borrowing limit was established. The Superintendant of Public Instruction shall file for introduction legislation requesting the legislative assembly to return any amount transferred under this bill.

S.B. 2012, Section 16 – The Department of Transportation, subject to the approval of the emergency commission, may borrow moneys from the Bank of North Dakota to advance and match federal emergency relief funds. No borrowing limit was established.

S.B 2332, Sections 8 and 9 – The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $8,000,000 to the Health Information Technology Loan Fund to meet any required match for federal funds or to the Electronic Health Information Exchange Fund to meet any required match for federal funds or as directed, a portion to both funds to meet any required match for federal funds. The Health Information Technology Office Director shall request fund transfers from the Bank only as necessary to comply with federal requirements and to meet cash flow needs of the funds. The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $5,000,000 to the Health Information Technology Planning Loan Fund. The Health Information Technology Office Director shall request transfers from the Bank only as necessary to meet cash flow needs of the fund.

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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. If the bank has to provide a transfer to the state water commission to make principal and interest payments on these bonds, the state water commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank.

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, 2009 and 2008, the Bank has guarantees outstanding totaling $1,342,000 and $1,648,000, respectively. The Bank had no guarantee commitments outstanding as of December 31, 2009 and $169,000 as of December 31, 2008 included in commitments to extend credit.

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 5% of the Bank's tier one capital as defined by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan of up to $100,000. The term of the guarantee may not exceed five years. As of December 31, 2009 and 2008, the Bank has guarantees outstanding totaling $4,223,000 and $4,555,000, respectively, and had guarantee commitments outstanding of $202,000 and $66,000, respectively, included in commitments to extend credit.

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 was effective through June 30, 2009.

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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, 2009 and 2008, the Bank has guarantees outstanding totaling $1,466,000 and $789,000, respectively. The Bank had no guarantee commitments outstanding as of December 31, 2009 and $850,000 as of December 31, 2008 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 other state funds and/or loans serviced for other state funds, including the North Dakota Student Loan Trust.

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, 2009 and 2008, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount (In Thousands)	
	2009	2008
Commitments to extend credit	**$ 585,960**	$ 653,632
Financial standby letters of credit	**396,951**	295,808

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.

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Financial standby letters of credit include letters of credit pledged for public deposits by North Dakota banks for $275,550,000 and $182,975,000 at December 31, 2009 and 2008, respectively. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Effective January 1, 2008, the Bank adopted Statement of Financial Accounting Standards Accounting Standards Codification (ASC) 820-10, *Fair Value* Measurements. ASC 820-10 defines fair value and establishes a consistent framework for measuring fair value under generally accepted accounting principles and expands disclosure requirements for fair value measurements.

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

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

Determination of Fair Value

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

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

Cash and Cash Equivalents

Cash and cash equivalents, include cash and due from banks, items out for collection, and federal funds sold. These assets are carried at historical cost. 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 Available for Sale

Securities available for sale, consist primarily of Federal agencies and mortgage backed securities. Securities available for sale are recorded at fair value on a recurring basis. Fair value is based upon quoted prices, if available. If quoted market prices are not available, fair values are measured using observable market prices from independent pricing models, or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss

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assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include privatized collateralized mortgage obligations and state and political subdivision securities. Securities classified as Level 3 are FHLB stock and equity securities that are not publicly traded and do not have a readily determinable fair value.

Loans

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

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

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

Interest Receivable

The carrying amount of interest receivable 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.

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Interest payable

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

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.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2009.

	(In Thousands)			
	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 397,370	$ 346,211	$ 25,171	$ 25,988

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis, at December 31, 2009, are summarized as follows:

	Securities available for sale
Balance, beginning of year	$ 20,656
Purchases	5,681
Sales and maturities	(349)
Balance, end of year	$ 25,988

ASC 825-10, Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates as of December 31, 2009 and 2008, for financial instruments, as defined by ASC 825-10. The carrying amounts in the following table are recorded in the balance sheet under the indicated captions. In accordance with ASC 825-10, we have not included assets and liabilities that are not financial instruments in our disclosure, such as our premises and equipment and other assets. Additionally, the amounts in the table have not been updated since year end, therefore the valuations may have changed significantly since that point in time. For these reasons, the total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying 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, 2009 and 2008 were as follows:

(In Thousands)

2009

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 841,239	$ 841,239	$ 841,239	$ -	$ -
Securities available for sale	397,370	397,370	346,211	25,171	25,988
Interest receivable	34,550	34,550	-	34,550	-
Loans, net	2,671,143	2,816,318	-	2,816,318	-
Financial liabilities					
Non-maturity deposits	$ 1,202,332	$ 1,202,332	$ -	$ 1,202,332	$ -
Deposits with stated maturities	1,736,727	1,777,422	-	1,777,422	-
Federal funds purchased and repurchase agreements	337,627	337,627	-	337,627	-
Short and long-term debt	405,005	416,150	-	416,150	-
Other liabilities	6,329	6,329	-	6,329	-

2008

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 552,723	$ 552,723	$ 552,723	$ -	$ -
Securities available for sale	331,416	331,416	282,802	27,958	20,656
Interest receivable	35,260	35,260	-	35,260	-
Loans, net	2,581,652	2,758,060	-	2,758,060	-
Financial liabilities					
Non-maturity deposits	$ 866,299	$ 866,299	$ -	$ 866,299	$ -
Deposits with stated maturities	1,779,057	1,809,918	-	1,809,918	-
Federal funds purchased and repurchase agreements	304,020	304,020	-	304,020	-
Short and long-term debt	315,604	331,231	-	331,231	-
Other liabilities	28,063	28,063	-	28,063	-

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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	
	2009	2008
Balance, beginning of year	**$ (2,961)**	$ 2,628
Unrealized holding gains (losses) arising during the period	**4,690**	(5,447)
Reclassification adjustment for gains realized in net income	**(46)**	(142)
Other comprehensive income	**4,644**	(5,589)
Balance, end of year	**$ 1,683**	$ (2,961)

NOTE 17 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	(In Thousands)	
	2009	2008
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 39,993**	$ 46,233
Interest paid on federal funds purchased and securities sold under repurchase agreements	**843**	9,226
Interest paid on short and long-term debt	**16,803**	14,468
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**15,000**	20,004
Net change in unrealized gain (loss) on securities available for sale	**4,644**	(5,589)
Other real estate and property owned acquired in exchange for loans	**404**	-

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NOTE 18- SUBSEQUENT EVENTS

No significant events occurred subsequent to the Bank's year end. Subsequent events have been evaluated through February 5, 2010, which is the date these financial statements were available to be issued.

TEN YEAR SUMMARY	2009	2008	2007	2006
OPERATING RESULTS (in thousands)				
Interest income	$132,277	$148,613	$152,416	$ 126,598
Interest expense	50,994	71,801	87,090	71,284
Net interest income	81,283	76,812	65,326	55,314
Provision for loan losses	10,300	8,900	3,100	3,400
Net interest income after provision for loan losses	70,983	67,912	62,226	51,914
Non-interest income	6,206	7,617	6,673	7,748
Non-interest expense	19,106	18,485	17,813	16,808
Net income	**58,083**	**57,044**	**51,086**	**42,854**
Payments to general fund	30,000	30,000	30,000	30,000
Payments to other funds	0	46	46	43
BALANCE SHEET - YEAR END (in thousands)				
TOTAL ASSETS	**3,959,669**	**3,516,965**	**2,779,360**	**2,326,693**
FEDERAL FUNDS SOLD AND RESELL AGREEMENTS	24,190	75,675	277,565	129,135
SECURITIES	397,370	331,416	235,551	219,412
LOANS	**2,713,611**	**2,618,402**	**2,004,999**	**1,755,562**
Student	932,323	776,473	643,297	561,178
Commercial	1,038,589	1,064,811	689,150	564,946
Residential	475,124	509,052	419,700	388,043
Agriculture	267,575	268,066	252,852	241,395
DEPOSITS	**2,939,059**	**2,645,356**	**1,871,767**	**1,617,136**
Non-interest bearing	442,867	313,900	317,949	230,993
Interest bearing	2,496,192	2,331,456	1,553,818	1,386,143
FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS	337,627	304,020	434,061	249,145
SHORT AND LONG-TERM DEBT	405,005	315,604	245,070	257,209
EQUITY	**271,649**	**223,922**	**192,471**	**163,542**
Capital	2,000	2,000	2,000	2,000
Capital surplus	42,000	42,000	42,000	42,000
Undivided profits	225,966	182,883	145,843	119,894
Accumulated other comprehensive income (loss)	1,683	(2,961)	2,628	(352)

Bank of North Dakota
Ten Year Summary

2005	2004	2003	2002	2001	2000	1999
$ 98,086	$ 80,133	$ 79,463	$ 90,315	$ 114,490	$ 117,163	$ 99,350
51,623	38,392	41,755	50,666	82,840	75,774	62,487
46,463	41,741	37,708	39,649	41,650	41,389	36,863
2,400	2,400	2,000	2,200	2,700	2,700	1,600
44,063	39,341	35,708	37,449	38,950	38,689	35,263
9,332	11,248	11,474	9,764	8,646	7,224	7,838
17,038	16,373	15,488	15,022	14,537	13,331	12,642
36,357	**34,216**	**31,694**	**32,191**	**33,059**	**32,582**	**30,459**
30,000	30,000	34,000	30,000	50,000	-	15,000
43	37	37	36	36	35	35
2,062,247	**2,014,525**	**1,953,178**	**1,974,448**	**2,107,456**	**1,806,517**	**1,687,167**
195,370	122,230	89,915	209,205	257,830	271,510	249,565
157,623	253,186	284,272	235,365	329,632	192,093	235,007
1,467,061	**1,456,256**	**1,391,583**	**1,329,985**	**1,276,334**	**1,156,614**	**1,056,232**
459,287	417,356	372,362	364,816	399,002	376,535	335,687
431,068	480,870	469,912	432,940	392,206	362,940	342,860
342,786	322,044	318,067	309,267	271,385	213,009	188,474
233,920	235,986	231,242	222,962	213,741	204,130	189,211
1,352,516	**1,198,586**	**1,057,386**	**1,070,853**	**1,208,601**	**1,135,731**	**910,652**
205,854	208,277	214,275	209,112	193,354	130,470	83,798
1,146,662	990,309	843,111	861,741	1,015,247	1,005,261	826,854
248,932	201,959	190,597	296,688	315,713	215,072	250,985
275,926	436,593	525,795	421,065	399,553	254,439	363,076
161,824	**152,776**	**153,744**	**149,113**	**170,496**	**153,045**	**139,275**
2,000	2,000	2,000	2,000	2,000	2,000	2,000
42,000	42,000	42,000	42,000	42,000	42,000	42,000
119,894	110,947	110,947	104,237	126,237	108,707	96,703
(2,070)	(2,171)	(1,203)	876	259	338	(1,428)

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