BND
Bank of North Dakota

OPEN DOORS

Annual Report 2012

BND

Bank *of* North Dakota

MISSION

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

VISION

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

CORE VALUES

Service: Excel and deliver
Teamwork: Together we accomplish more
Ethics: Do the right thing
People: Set us apart

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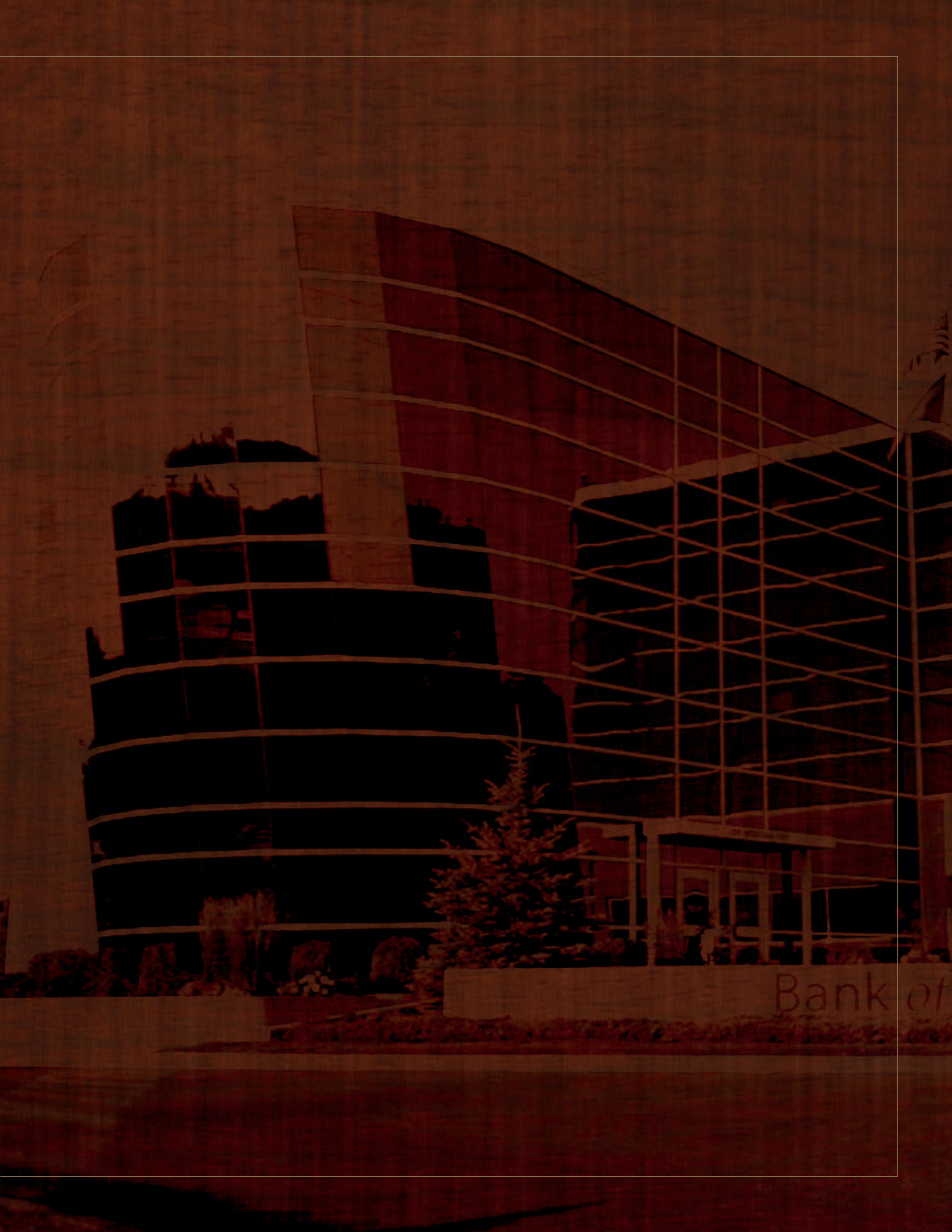

Bank

PRESIDENT'S MESSAGE

Throughout 2012, opportunity knocked frequently thanks to a strong agricultural economy and expanding oil industry in our state. North Dakotans recognized the potential, investing in business and infrastructure.

The increased activity led to a ninth successive year of growth at Bank of North Dakota (BND). The Bank earned profits of $81 million and grew its asset base to $6.1 billion.

The state's financial institutions experienced an influx of deposits and sought new investment opportunities. BND's Sub-Participation Initiative was created. Its concept is to provide loan purchase opportunities for North Dakota financial institutions, using BND as a loan conduit. This allows banks and credit unions the opportunity to diversify their loan portfolio by financing projects within the state.

Treasury Services provided liquidity to financial institutions through its Federal Funds Program, Letters of Credit for Public Deposits, safekeeping, and Repurchase Agreement program. They experienced a third consecutive year of $1 billion increases in securities safekept at BND, bringing the total to $7 billion.

North Dakotans opened doors on new and renovated homes as a result of the Rebuilder's Loan Program and the affordable housing feature of Flex PACE. The Rural Mortgage Loan Purchase Program was expanded to provide a secondary market for the home mortgages secured by rural financial institutions.

The Bank's commitment to higher education opened more doors through several initiatives. The College Planning Center unveiled a user-friendly website with a record number of visits. Student Loans kicked off the "You're the REAL DEAL" scholarship program for high school seniors. An expanded matching grant program and increased public awareness led to College SAVE experiencing unprecedented growth. The year ended with the announcement that the DEAL Consolidation Program expanded its parameters effective January 1, 2013.

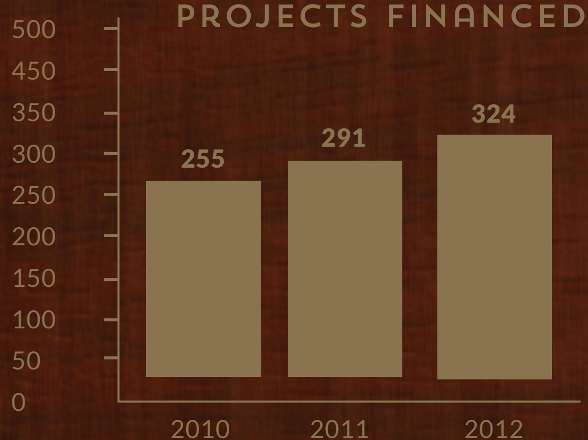
This year's annual report theme is "Open Doors" to reflect the growth and optimism that we are experiencing in our state. Clear vision and strategy are necessary to make decisions that capitalize on the opportunities before us, meeting today's needs while planning for the future. With this in mind, BND continues to fulfill its mission with integrity and dedication to our state's residents, supporting agriculture, commerce, and industry in North Dakota

Eric Hardmeyer

ANNUAL INCOME
INCOME (IN MILLIONS)

BND ASSETS
ASSETS (IN MILLIONS)

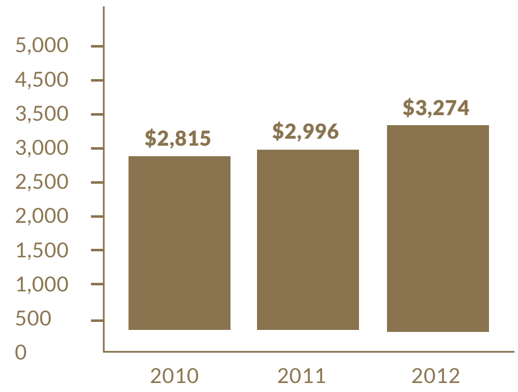
NEW BUSINESS AND INDUSTRIAL PROJECTS FINANCED



LENDING PORTFOLIO

The Lending Services Portfolio grew to $3.2 billion, an increase of $278 million from 2011. There were 324 new business and industrial projects financed.

TOTAL LOAN PORTFOLIO
LOANS (IN MILLIONS)



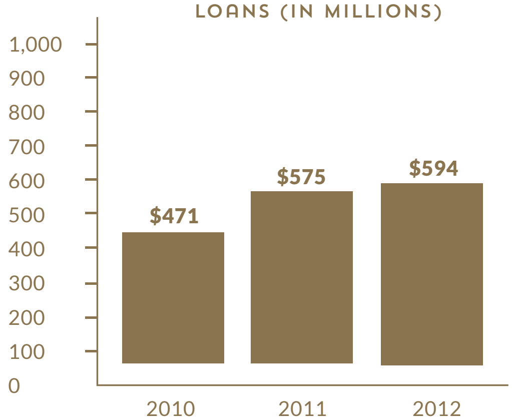
STUDENT LOANS

The increasing student loan debt was a popular conversation topic. Increasing tuition rates and the extended time required to obtain a degree are contributing factors.

The number of DEAL Loans funded in 2012 was nearly the same as those disbursed in 2011, but there was an increase in the dollars distributed, from $101.4 million to $117.6 million. Interest rates were low throughout the year, averaging 4.77% fixed and 1.965% variable. The DEAL Consolidation Program parameters were expanded to help more people take advantage of low interest rates when repaying their student loans.

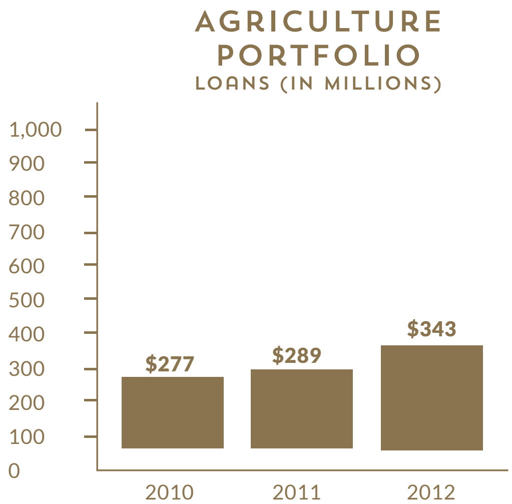
RESIDENTIAL

RESIDENTIAL PORTFOLIO
LOANS (IN MILLIONS)



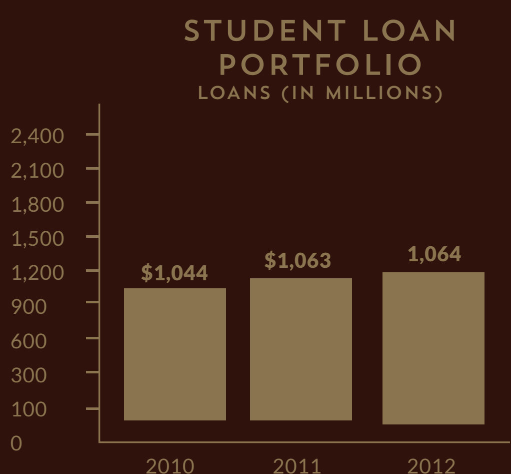
Increased federal regulation led to challenges in meeting home mortgage requirements for rural banks and credit unions. The Rural Mortgage Loan Program and the Mortgage Origination Program were developed for those unable to obtain FHA approval. There were 36 loans for $5,692,122 funded through the Rural Mortgage Loan Program and 12 loans for $1,311,900 funded through the Mortgage Origination Program.

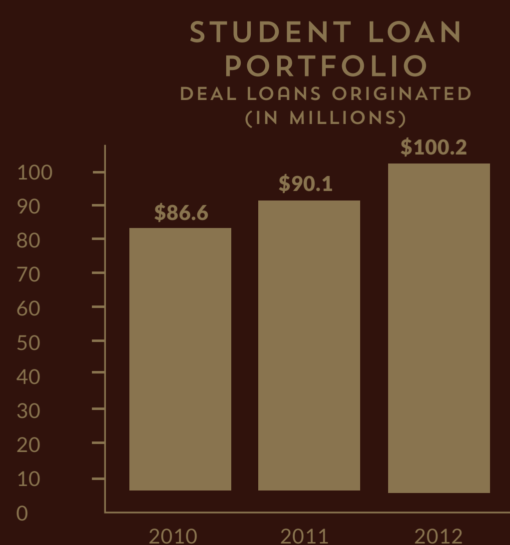
A total of 900 residential loans were funded in 2012; the Residential Portfolio increased to $594 million in 2012.



AGRICULTURE

Several strong agriculture years created a sense of optimism amongst farmers and ranchers across the state. Proposed capital gains taxes spurred a flurry of activity at the end of the year with land sales. The Agriculture Portfolio saw the greatest percentage of growth of the Lending Portfolios, with an increase of $26 million. The Agriculture Portfolio grew to $343 million.



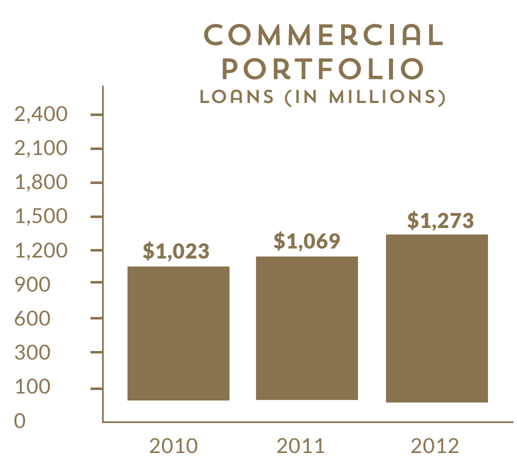


COMMERCIAL

Oil activity in western North Dakota spread into lending markets across the state. The adaptability of Flex PACE was demonstrated and proved valuable as it expanded to include less traditional purposes, such as the Affordable Housing feature.

There were 493 projects funded or renewed for $873 million. The portfolio grew to a record of nearly $1.3 billion.

Sub-participation loans were initiated to disperse loans from our financial institution partners who were approaching high concentration levels.




LUFKIN

OPEN DOORS FOR BUSINESSES

Bank of North Dakota partners with local financial institutions and development groups to open doors for businesses. Whether it's a loan for $10,000 or $10 million, the Bank's Lending Programs contribute to a thriving business community. This year's Annual Report highlights businesses that have responded to the needs of the oil industry, a growing elderly population, and a new farmer.

DIVERSIFYING TO INCREASE JOB OPPORTUNITIES

Western North Dakota is taking advantage of a historic increase in oilfield activity. From across the country, businesses are looking toward the Bakken formation for a chance to grab their piece of the action. For some, venturing outside of the oilfield to establish a business in another part of the state is the solution.

Diverse Energy Systems, LLC (Diverse) is a Houston-based company specializing in oilfield equipment and services. It manufactures equipment such as tanks, containment systems, jet pumps, steel walkways, and stairs to be used at oilfield drilling sites. However, it manufactures these products in Grafton, North Dakota, several hundred miles away from its target clientele.

When looking for an investment opportunity, executives at Diverse heard Lean Technologies, LLC was for sale. In early 2012, Diverse executives began the process of purchasing the business, and the General Manager of their new Grafton shop suggested they look to Bank of North Dakota (BND) for assistance.

“Duane Jonasson, the General Manager in Grafton, was familiar with BND’s programs from being on the Walsh County Economic Development Board and he suggested looking into the Partnership in Assisting

LACT units and storage tanks are manufactured in the Grafton plant

"THE STATE IS PUTTING ITS MONEY IN THE RIGHT PLACE; HELPING LOWER THE COST OF CAPITAL," SAID HASS.

Community Expansion (PACE) program," said Diverse Energy Systems CFO Todd Hass. "We wanted to do as much business in North Dakota as possible, and Alerus Financial (in Grand Forks) was more than happy to work with us on the PACE loan."

Despite Diverse being headquartered outside of North Dakota, Alerus quickly recognized the benefits Diverse presented and began securing financing through BND's PACE program. One of the requirements of a PACE loan, the community contribution to the interest buydown, posed a minor setback.

"The interest buydown was just too much for Grafton to swallow (on its own)," said Brooks Royal, Lead Credit Underwriter with Alerus Financial. "Fortunately, we were able to easily prove an indirect benefit for the city of Grand Forks and Walsh County so they agreed to participate in the loan as well. We are excited about Diverse's business; it's creating jobs in Grafton."

In the community of less than 4,300 people, Diverse Energy Systems employs more than 50 craftspeople and is continuing to increase production. Recently, the manufacturing shop was expanded by 35,000 square feet and their administration facility was expanded by 7,500 square feet. With currently more than 100,000 square feet of space in Grafton, Diverse purchased property in western North Dakota to continue its growth throughout the state – something company executives credit to BND and the rest of the state of North Dakota.

"In order to qualify for the PACE program, a business must create jobs," said Joel Erickson, BND Commercial Loan Officer. "Job creation and expansion go hand-in-hand. Because of that, we are seeing quite a bit of activity in the PACE program across the state."

BND programs support a business-friendly environment during these times of economic prosperity. By encouraging businesses and communities to access programs like the PACE program, BND is promoting success throughout North Dakota.

LEAVING A LEGACY

"Leading through innovation and partnership, Lutheran Social Services (LSS) of North Dakota will strengthen lives and communities with our spirit of service."

This vision statement motivated LSS to take a former hospital in Jamestown, N.D. and convert it to a senior living center, made possible by a partnership with Unison Bank of Jamestown and Bank of North Dakota (BND).

The former hospital was purchased by LSS with the intent of converting it to a 51-unit senior living facility known as Legacy Center. Of the 51 units, 20 are income-restricted and 31 are market-level units. Legacy Center allows tenants to remain in the community, close to family, friends, churches and other organizations. Not only does LSS enjoy keeping their tenants in their local community, it tries to conduct business locally.

The Legacy Center under development in Jamestown, N.D.

"The power of a BND partnership is it allows us to work with a local lender that may not otherwise have been able to participate in a project of this size," said Jessica Thomasson, Director of LSS Housing. "Our organization values its local lender relationships, and BND can really help make those relationships possible."

BND partners with financial institutions when a borrower's financing needs have outgrown the legal lending or exposure limits of the originating lender.

A clean and comfortable home awaits seniors in Jamestown, N.D. at the new Legacy Center

A Bank Participation Loan is designed to be a reflection of the current market place for loan conditions and interest rates. "There are no set guidelines in terms of loan amount, credit structure or special features. It isn't a program loan," said Tom Redmann, BND Commercial Loan Manager. "A Bank Participation Loan is BND's best tool to assist the local lender in spreading out credit risk and perhaps accommodating a borrower whose needs are beyond what the local lender might be able to do on its own."

A trusted partnership between Unison Bank in Jamestown and BND created the opportunity LSS needed for its financing.

"We needed another bank for lending limit reasons. Based upon our past experience with BND, we were confident they would be the perfect partner for this rehab project," said Kelly Rachel, Unison Bank President and CEO. "This was a complex, mixed-use project. We needed to work with a lender that understood the unique nature of the project and was flexible in terms of putting the credit facility together."

LSS began the process of creating Legacy Center in November 2011 and is scheduled to be open for tenants in 2013. Along with the 51 housing units, it will also be home to retail space, a wellness center and a daycare facility. The $10 million project not only breathes life into a familiar community building, but it is also something new for LSS.

"We have several projects in the works in communities across North Dakota," said Thomasson. "But Jamestown is our first senior-focused housing project, so we are very excited to open the doors to Legacy Center."

When the doors do open, LSS and Jamestown will have a beautiful new facility made possible through a partnership between a local lender and BND.

BURRITO BUSINESS BOOMING IN THE BAKKEN

In March 2011, 3 Amigos Southwest Grill (3 Amigos) in Williston, N.D. started churning out gourmet burritos, pasta bowls and cheese steaks. At first, it looked like their restaurant might not get a chance to open its doors. With a location and a concept lined up, the owners needed financing for the upstart restaurant. The community, in the heart of the Bakken oilfield, was in desperate need of more places for the growing population to dine out.

Bismarck native Cam Holt was working as a commercial real estate agent in Bozeman, Montana when he looked at a property in Williston. He knew immediately it was a prime location for a restaurant, so Holt contacted his friend and fellow Bismarck native, Aaron Parker, who already owned successful restaurants in Bozeman. Together they developed the concept for 3 Amigos.

"Aaron has a lot of restaurant experience and had already purchased two restaurants that were failing, and turned them around," said Holt. "I knew we would make a good team."

Store front of 3 Amigos in WIlliston, N.D.

The property, a former gas station built in 1934, was in need of a complete interior remodel. The property owner agreed to pay for the renovation, but

Employees pride themselves in preparing a high quality meal for their customers

Holt and Parker still needed to purchase equipment and cover other startup costs.

Financing the venture was their next challenge. The size of the loan and the risk associated with opening a new restaurant made acquiring funding difficult. First Western Bank and Trust of Minot suggested partnering with Bank of North Dakota (BND) to acquire a Business Development Loan. It proved to be the lead they needed. With the assistance of Dave Kuschel of First Western, they were on their way.

"It's great to partner with BND whenever possible, especially with a startup business," said Kuschel, Senior Vice President of Commercial Lending with First Western Bank and Trust. "With the Business Development Loan, BND helps take a lot of the risk off of the lead lender."

The Business Development Loan allows individuals to receive a loan when they might not qualify under another program.

"Banks like to use the Business Development Loan program to share credit risk when the loan request stands on its own without needing a Small Business Administration loan guarantee," said Chad Johnson, BND Commercial Loan Officer. "It is also used when a loan is too large or the applicant does not qualify for a Beginning Entrepreneur Loan Guarantee."

After securing the Business Development Loan, 3 Amigos became a reality just three months later. According to Holt, the restaurant got off to a great start and is popular for breakfast, lunch and dinner. They have already expanded from six to 16 employees and will add a frozen yogurt shop to the building in 2013.

YOUNG FARMER CARRIES ON FAMILY TRADITION

At 22 years old, Scott Jacob is establishing himself as a fourth-generation farmer near Kintyre, North Dakota. After graduating from Bismarck State College, Jacob considered starting a farm of his own.

He met with Crystal Jahner of BNC National Bank in Linton to discuss his financing options to purchase farm equipment and cattle, and to help cover operation expenses. Jahner suggested the Beginning Farmer Chattel Loan and the Farm Operating Loan from Bank of North Dakota (BND).

"Because Scott is a new farmer, I wanted to get him a loan with the best term and rate possible," said Jahner. "It is difficult to start farming, so these programs help make it a little easier."

Scott Jacob was able to purchase equipment with BND agriculture lending program funds

The Beginning Farmer Chattel Loan is fairly common for young farmers like Jacob. According to Jim Leier, Farm Loan Officer with BND, these loans benefit not only the farmer, but also the lead bank.

"Because of the favorable terms, the Beginning Farmer Chattel Loan Program helps the lead bank attract

young farmers," said Leier. "In turn, the program helps young farmers become successful business owners as they continue their operation."

After weighing the options, Jacob decided the BND loans would be the best for his situation. In the spring of 2011, he started farming a portion of his family's land.

"Crystal has been great. She has really helped get me into the best situation possible," said Jacob. "I worked with BND for student loans in the past and they were always good to me, so I was confident I would be happy with the service I would receive."

With two successful years behind him, Jacob continues to establish himself as the newest family member to carry on the farming tradition. He is setting a house on the family land and is looking forward to his July 2013 wedding. With the help of the Beginning Farm Chattel and the Farm Operating Loan, Jacob is on his way to accomplishing his dream of farming, ranching, and raising a family in rural North Dakota.

FLEX PACE HELPS RURAL COMMUNITY ATTRACT BUSINESSES

Many people across North Dakota dream of starting their own business. It's a dream that takes hard work and sacrifice. For many people in the state's rural communities, starting a business is only the first hurdle. Once a business opens its doors, getting established can be a major struggle. However, Bank of North Dakota (BND) created the Flex PACE loan program and partners with communities and local lenders to ease some of that struggle. One community benefiting from the Flex PACE program is Beulah, North Dakota.

KEEPING MAIN STREET ALIVE

The community of around 3,100 people has used Flex PACE to attract and retain businesses dating back to the program's inception in 2005. A major draw to the program is the reduced payments for the borrower during the first years of the loan through an interest buydown. The payment reduction decreases the burden of the startup costs associated with establishing a business. The amount and duration of the buydown is determined by the community.

J&M Hardware supplies many of the community's basic needs

J&M Hardware benefitted from the PACE Program

In Beulah, that decision is made by John Philips and eight other members of the Job Development Authority (JDA). Philips, the JDA Development Director, knows starting a business in a rural community isn't easy, but he believes Flex PACE can be the helping hand a business owner needs to flourish.

Coal Country Community Health Clinic serves more than 5,700 patients per year in Beulah

"Flex PACE is the best economic development plan North Dakota has created and it's the greatest benefit available to rural communities," said Philips. "It gives businesses the opportunity to be successful."

From health care to retail, Flex PACE has been used in a wide variety of industries to ensure Beulah has thriving businesses. Coal Country Community Health Clinic, D&G Laundry, Hydro HotShots, J&M Hardware, and The Beulah Theater Apartments are among the businesses in Beulah to participate in the program. Though each business provides a drastically different service, they share the goal of keeping as much commerce in the community as possible. Jerry Isaak, owner of J&M Hardware, feels Flex PACE can go a long way in helping accomplish this goal.

"I had been in contact with two people with a lot of banking experience, and when both of them independently recommended looking into Flex PACE, I knew it had to be the way to go," said Isaak. "This program helps keep small towns going. It keeps Main Street alive."

It's this metaphorical Main Street that is the heart of every rural community. When Isaak purchased the existing hardware store in March 2011 he wanted a successful business to remain a staple in their community.

On the other hand, when Beulah's lone laundry facility closed its doors, Gloria Olheiser saw the need to keep an important service in her town alive. To do so, she needed financial backing. Through her work on the JDA committee, she knew where to start.

D&G Laundry in downtown Beulah, N.D.

"We (the JDA committee) had suggested the Flex PACE to other businesses in the past, so I already was aware of the benefits," explained Olheiser. "It encourages new business owners because the first five years of payments are lower so it decreases overhead. We actually managed to save about $18,000 by using the Flex PACE."

Health care is another industry vital to the success of a community. Coal Country Community Health Clinic (CCCHC) was gaining a foothold in Beulah, but they were looking to expand. Their first order of business was to purchase the building they had been renting. This would allow CCCHC to increase the number of exam rooms to accommodate the steady increase in patient volume.


Clean, modern laundry facilities in Beulah, N.D. are appreciated

"Without the help of the interest buydown, we wouldn't have been able to expand. The payments would have been too high," said CCCHC Financial Director Dovie Borth. "Now, because of the expansion and the Flex PACE program, CCCHC has been able to become a permanent presence in the community."

ATTRACTING NEW BUSINESS

Philips states companies are reluctant to put down stakes in rural communities because they know the challenges of getting established in small towns. Through Flex PACE, the JDA has been able to provide incentives to startup businesses and draw them to Beulah.

HyrdroHotshots serves clients in a 150-mile radius from Beulah, ND

HydroHotShots provides power washing services for numerous industrial and commercial businesses and sells customized, biodegradable detergents. For owner Brad Oswald, the added benefits of the Flex PACE program was enough to convince him to start his business in Beulah instead of a larger community.

“We looked into building in the Bismarck-Mandan area, but it was too expensive,” explained Oswald. “The Flex PACE loan gave us our start. It helped cover some of the startup costs, which is the hardest part. Now, we have been able to franchise out the service part of our business and really grow.”

It is this type of growth that buoys the community’s confidence in the Flex PACE program and encourages expansion into more areas. Whether it is the service industry, health care or retail, Beulah is determined to give businesses every possible opportunity to succeed. Thanks to the partnerships between BND, a progressive economic development committee, and the local lender, Main Street is alive and well in Beulah.


NSCS
WELCOME
HORTON HALL
ESTABLISHED 1927

OPEN DOORS TO HIGHER EDUCATION

Bank of North Dakota opened education's doors through new scholarship programs and college planning tools. Record numbers of North Dakotans took advantage of the resources and began realizing their dream for a college education.

BND COLLEGE PLANNING CENTER

From cradle to career, North Dakotans can find trusted information to plan for college through BND's College Planning Center. People of all ages use this resource to navigate the college road, whether opening a College SAVE account for a newborn, guiding a middle-school or high-school student with tools for exploring careers, or researching college funding options.

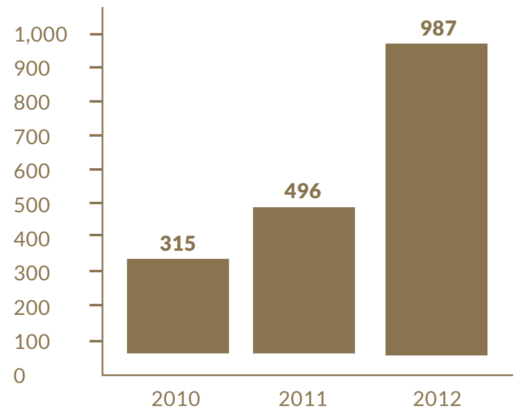
A new website was launched in August 2012, and more than 7,000 hits later, we know that many are finding it useful. People enjoy the convenience of accessing online information with a click or being able to pick up a phone to ask an experienced staff member for guidance on meeting their education goals.

The College Planning Center administers College SAVE, North Dakota Dollars for Scholars, Crash Courses, the Why Apply Native American initiative, GED funding assistance, Dual Credit assistance, and grants to non-profit organizations that promote financial literacy and college preparation. It is an active supporter of ND Jump$tart and RUReadyND.

COLLEGE SAVE

Bank of North Dakota expanded the matching grant opportunities for College SAVE this year. College SAVE investors who are North Dakota residents, and earn less than $30,000 annually ($60,000 if married, filing jointly), may qualify for a matching grant of up to $500 for three consecutive years. Residents who earn less than $60,000 annually ($100,000 if married, filing jointly) may qualify for a one-time matching grant of up to $500.

COLLEGE SAVE MATCHING GRANTS



Through the Children First program, BND contributes the first $100 for college through a grant into a College SAVE account. The program is open to North Dakota newborns, 12 months old or younger, and funds must be matched by the time the child turns four years old.

There was a 49 percent increase in the number of new College SAVE accounts opened by North Dakota residents this year for a total of 7,959 accounts. The matching grants distributed grew to 987 from 496 in 2011.

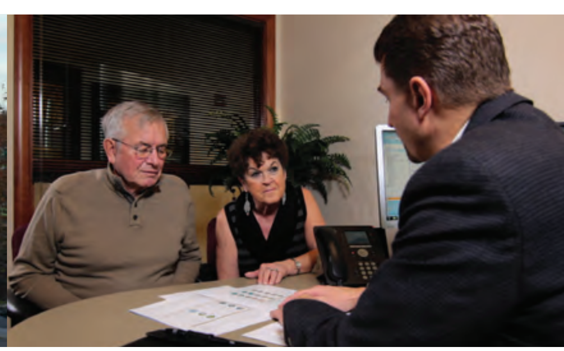
DUAL CREDIT ASSISTANCE

Dual Credit Courses allow students to receive college credits for courses taken during high school. High school sophomores, juniors, and seniors participating in the Free or Reduced Price Lunch Program can use this program to pay for two college courses per year. BND funded 632 classes in the program during 2012, an increase of 41 percent from last year.

GED FUNDING ASSISTANCE

Every year, 1,700 students obtain their General Educational Development Diploma (GED) in North Dakota. The average age of a GED student is 23 years old and their income level is typically just above the state's poverty rate.

The GED is the equivalent to a high school diploma for those who do not receive their diploma through the traditional route. It involves taking classes and passing five exams which cost $30-$50 each. The GED Funding Assistance Program pays for the first and fifth tests. So far, 344 students have taken advantage of this assistance program since it started in July 2012.

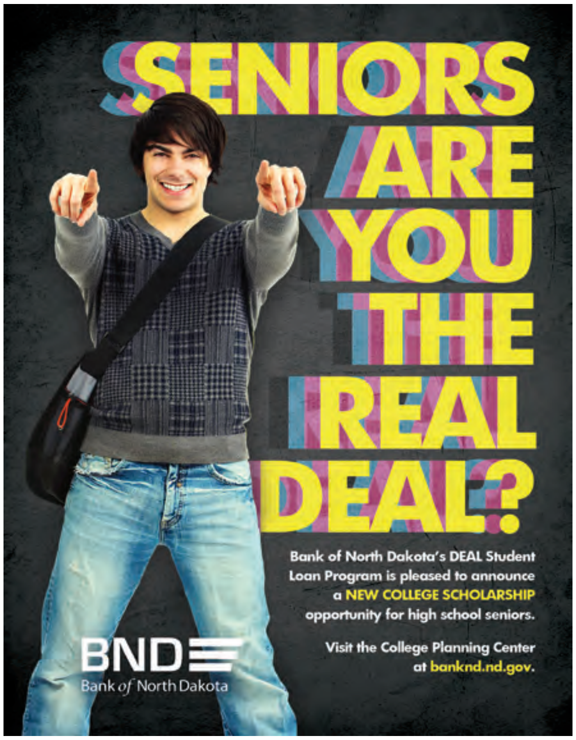


NORTH DAKOTA DOLLARS FOR SCHOLARS

The success of North Dakota Dollars for Scholars (NDDFS) is based on strong partnerships with community-based nonprofits that raise local funds for scholarships. NDDFS is administered by BND and raises money to be distributed in statewide scholarships while providing training and support to the community chapters.

In October 2012, 54 chapters attended training to become a part of the national Dollars for Scholars database and simplify the scholarship application procedures for students. Each chapter received $1,000 to be used for scholarships by attending this training.

A record number of 987 students applied for this year's scholarships; NDDFS awarded $150,500 in scholarships to 175 students.



"YOU'RE THE REAL DEAL" SCHOLARSHIP

Bank of North Dakota recognized 48 high school students with a REAL DEAL Scholarship during the 2012-2013 academic year. These students received a $500 scholarship to the North Dakota college of their choice. Eight students were selected monthly from seven regions over a six-month period from across the state. Criteria included school and/or community involvement, a 2.5 grade point average, and being an upstanding citizen in the community.

Each student is recognized for being the REAL DEAL in the local newspaper. The REAL DEAL recipients will compete for one $3,000 scholarship in May 2013.

DEAL CONSOLIDATION PROGRAM

Just as 2012 was coming to a close, the DEAL Consolidation Program announced that it was expanding its parameters to include student loans from other financial institutions and parents who had taken Federal PLUS Loans. These individuals, and those with a current DEAL Consolidation Loan, are able to consolidate with no fees if they are a North Dakota applicant. The new program was launched January 1, 2013.

OPEN DOORS TO HOME

"There's no place like home" has a special meaning for North Dakotans. The spring flooding in 2011 and increased regulation of the mortgage industry made coming home more challenging than ever. BND plays a key role in resolving these issues in North Dakota.

REBUILDERS LOAN PROGRAM

The 2011 Special Session of the North Dakota Legislature held in the fall of 2011 designated $50 million from BND and the state's General Fund to help those driven from their homes because of spring flooding. Within days of the Special Session's closing, BND staff began processing loan requests.

Through December 31, 2012, 1,349 families took advantage of the program which provided home loans at a 1% interest rate. More than $35 million was funded with 95 percent of the loans made in the Minot area, and the balance in Bismarck and Mandan.

FLEX PACE PROGRAM

Along with the Rebuilders Loan, the 2011 special session of the North Dakota Legislature directed BND to address the need for affordable housing in oil country. The Affordable Housing feature expanded the use of Flex PACE funds to include affordable multi-family housing units in oil-impacted counties.

The Flex PACE Fund provides an interest buydown and is matched by a community share of the buydown. The decision regarding the definition for affordable housing is made at the local level.

In 2012, BND committed $1.8 million in interest buydown on $18.9 million in loans to seven projects and a total of 164 affordable rental units.

RURAL MORTGAGE LOAN PURCHASE PROGRAM

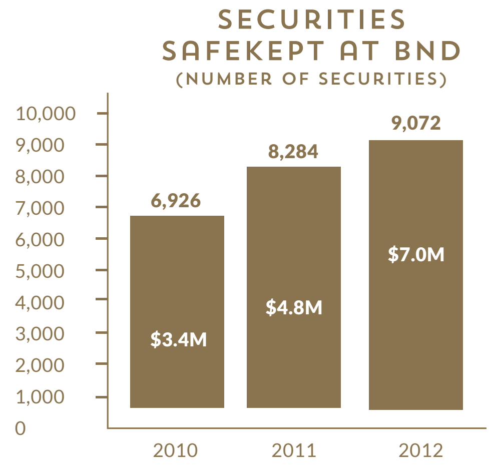
Established in 2010, the Rural Mortgage Loan Purchase Program was extended in 2012 with BND dedicating another $10 million to fund additional requests. This allows rural financial institutions to sell their home mortgages to BND when the loan is not eligible for the secondary market.


City Bank
Totally
Free
Checking
and a Free Gift Too!
Visit Us Today!

OPEN DOORS TO OUR FINANCIAL INSTITUTION PARTNERS

The foundation of BND's success is based on its 'open door' relationships with community financial institutions. We stand beside our bank and credit union partners, supporting their needs for portfolio diversification, managing today's regulatory environment, and leveraging their ability to invest in their community.

TREASURY SERVICES



Treasury Services assists financial institutions and state agencies to manage their money through safekeeping, Federal Funds, bond accounting, and investments. This year's activity reflected the state's growing economy with an increase of $1.1 billion to the investment portfolio. Careful management was necessary with the US Treasury markets experiencing record low rates resulting from the volatile European markets and concerns of a pending fiscal cliff in the United States.

BND serves as a correspondent bank for more than 100 financial institutions. Secured and unsecured federal fund lines were provided to 112 financial institutions for almost $500 million. Federal fund sales averaged more than $28 million per day, an increase of $18 million from last year.

Securities income finished $2.4 million more than last year as a result of additional liquidity being invested in higher-earning assets. The Letter of Credit for Public Deposits Program provided $200 million in liquidity along with public deposit pledging of $1.5 billion and Repurchase Agreements for $27 million.

SUB-PARTICIPATION INITIATIVE

Oil industry infrastructure and related projects increased the need for large credit facilities and created a potential concentration risk for community lenders. The Sub-Participation Initiative allows North Dakota lenders to grow their loan portfolio outside of their immediate marketing area, while allowing local lenders to originate a loan beyond their capacity. If a community financial institution receives a larger-than-normal loan request, BND facilitates the sub-participation with a list approved by the community lender.

A $6.0 million sub-participation loan for a Minot hotel was completed in 2012. BND committed to a second sub-participation of $35 million for an apartment complex in Williston. In each case, BND participated in a large dollar portion of the loan, with the remaining balance shared with other lending institutions.

CORRESPONDENT BANKING

Being the correspondent bank of choice is a commitment we take seriously. It's a top priority for us to embrace opportunities that strengthen and support financial institutions across the state.

This year, nearly 700 banking and economic development professionals enjoyed our new monthly e-newsletter that shared relevant industry changes and provided timely updates on BND programs. A number of Financial Institutions also participated in "Your Direct Line" monthly phone calls led by an expert from BND.

In February 2012, Regional Meetings were held in six communities across the state. A nationally-recognized speaker on workplace security shared observations and recommendations to meet today's security challenges.

North Dakotans have always been resilient and resourceful, and that continued to be demonstrated in 2012. The impact of the Bakken was felt statewide and life-changing ideas were proposed. An abundance of ideas became reality because enduring partnerships and new players united for the best interest of the state.

"IDEAS CAN BE LIFE-CHANGING. SOMETIMES ALL YOU NEED TO OPEN THE DOOR IS JUST ONE MORE GOOD IDEA."

-JIM ROHN, AUTHOR

The partnerships Bank of North Dakota enjoys with banks, credit unions, and state agencies will continue to open doors that support agriculture, commerce, and industry. These are the keys to a stable, bright future for generations to come.

NORTH DAKOTA INDUSTRIAL COMMISSION

Jack Dalrymple
Governor

Doug Goehring
Agriculture Commissioner

Wayne Stenehjem
Attorney General

BND ADVISORY BOARD

Standing: Pat Mahar, Karl Bollingberg, Frank Larson, Gary Petersen

Seated: Sue Morton, John Stewart, Pat Clement

BND EXECUTIVE COMMITTEE

Standing: Joe Herslip, Bob Humann, Wally Erhardt, Eric Hardmeyer

Seated: Lori Leingang, Tim Porter

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Steffanie Boeckel, John Borge, Matt Fern, Cam Holt, Justine Wiedrich, Diverse Energy Systems


FRANKLIN
Secretary of the Treasury

FINANCIALS

Bank of North Dakota produced record earnings for the ninth consecutive year. The Bank's continued success is especially meaningful when contrasted with the economic difficulties and slow recovery that is experienced nationally and internationally. These results are important for all North Dakotans because they are truly our stakeholders, and the people for whom we open our doors.

FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

BND

Bank of North Dakota

FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

BND

Bank *of* North Dakota

BANK OF NORTH DAKOTA

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EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the Bank of North Dakota, which comprise the balance sheet as of December 31, 2012, and the related statements of income, comprehensive income, equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The financial statements of the Bank of North Dakota as of and for the year ended December 31, 2011, were audited by other auditors whose report dated February 28, 2012, expressed an unqualified opinion on those statements.

Eide Bailly LLP

Bismarck, North Dakota
February 26, 2013

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands)

	2012	2011
ASSETS		
Cash and due from banks	$ 673,570	$ 1,351,055
Federal funds sold	24,050	18,315
Cash and cash equivalents	697,620	1,369,370
Securities	2,171,546	1,008,051
Loans	3,279,778	2,995,154
Less allowance for loan losses	(52,280)	(52,883)
	3,227,498	2,942,271
Interest receivable	40,102	39,479
Bank premises, equipment, and software, net	11,637	12,166
Other assets	6,798	3,736
Total assets	$ 6,155,201	$ 5,375,073
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	$ 891,197	$ 649,922
Interest bearing	4,112,365	3,529,915
	5,003,562	4,179,837
Federal funds purchased and repurchase agreements	275,960	318,325
Short and long-term debt	406,252	471,422
Other liabilities	5,765	5,586
Total liabilities	5,691,539	4,975,170
Equity		
Capital	2,000	2,000
Capital surplus	42,000	42,000
Undivided profits	402,846	350,249
Accumulated other comprehensive income	16,816	5,654
Total equity	463,662	399,903
Total liabilities and equity	$ 6,155,201	$ 5,375,073

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands)

	2012	2011
INTEREST INCOME		
Federal funds sold	$ 178	$ 65
Securities	16,735	14,335
Loans, including fees	128,957	123,059
Total interest income	145,870	137,459
INTEREST EXPENSE		
Deposits	16,572	19,857
Federal funds purchased and repurchase agreements	287	337
Short and long-term debt	27,452	19,347
Total interest expense	44,311	39,541
NET INTEREST INCOME	101,559	97,918
PROVISION FOR LOAN LOSSES	2,000	11,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	99,559	86,918
NONINTEREST INCOME		
Service fees and other	7,932	6,652
Net loss on available-for-sale securities	(3,273)	(1,741)
Total noninterest income	4,659	4,911
NONINTEREST EXPENSE		
Salaries and benefits	12,060	11,693
Data processing	4,001	3,952
Occupancy and equipment	874	906
Other operating expenses	5,689	4,943
Total noninterest expenses	22,624	21,494
NET INCOME	$ 81,594	$ 70,335

See Notes to Financial Statements

BANK OF NORTH DAKOTA

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands)

	2012	2011
Net income	$ 81,594	$ 70,335
Other comprehensive income		
Unrealized gain on securities available for sale	8,727	3,345
Other-than-temporary impairment losses realized in net income	-	1,800
Reclassification adjustment for (gains) losses realized in net income	2,435	(59)
Other comprehensive income	11,162	5,086
Comprehensive income	$ 92,756	$ 75,421

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2010	$ 2,000	$ 42,000	$ 282,729	$ 568	$ 327,297
Net income			70,335		70,335
Unrealized gain on securities available for sale				3,345	3,345
Other-than-temporary impairment losses realized in net income				1,800	1,800
Reclassification adjustment for (gains) losses realized in net income				(59)	(59)
Transfers to other state funds			(2,815)		(2,815)
BALANCE, DECEMBER 31, 2011	2,000	42,000	350,249	5,654	399,903
Net income			81,594		81,594
Unrealized gain on securities available for sale				8,727	8,727
Reclassification adjustment for (gains) losses realized in net income				2,435	2,435
Transfers to other state funds			(28,997)		(28,997)
BALANCE, DECEMBER 31, 2012	$ 2,000	$ 42,000	$ 402,846	$ 16,816	$ 463,662

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands)

	2012	2011
OPERATING ACTIVITIES		
Net income	$ 81,594	$ 70,335
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	883	900
Provision for loan losses	2,000	11,000
Net amortization (accretion) of securities	7,278	927
Loss on available-for-sale securities	2,436	1,741
Impairment of other equity securities	836	-
Gain on sale of residential loans	(214)	(43)
Loss on retirement of equipment	14	8
Gain on sale of foreclosed assets	(35)	(7)
Increase in interest receivable	(623)	(333)
Increase in other assets	(1,336)	(685)
Increase/(decrease) in other liabilities	223	(270)
NET CASH FROM OPERATING ACTIVITIES	93,056	83,573
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	(1,552,783)	(589,061)
Proceeds from sales, maturities, and principal repayments	389,165	123,441
Purchase of Federal Home Loan Bank stock	(3,951)	(3,954)
Sale of Federal Home Loan Bank stock	5,239	1,510
Purchase of other equity securities	(929)	(487)
Sale of other equity securities	375	75
Proceeds from sales of loans	17,311	1,995
Net increase in loans	(306,447)	(188,641)
Purchases of premises and equipment	(368)	(780)
Proceeds from sale of foreclosed assets	432	504
NET CASH USED FOR INVESTING ACTIVITIES	(1,451,956)	(655,398)
FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	241,275	262,882
Net increase in interest bearing deposits	582,449	858,229
Net increase/(decrease) in federal funds purchased and repurchase agreements	(42,365)	77,600
Proceeds from issuance of short and long-term debt	53,000	90,100
Payment of short and long-term debt	(118,169)	(16,043)
Payment of transfers	(29,040)	(2,773)
NET CASH FROM FINANCING ACTIVITIES	687,150	1,269,995
NET CHANGE IN CASH AND CASH EQUIVALENTS	(671,750)	698,170
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,369,370	671,200
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 697,620	$ 1,369,370

See Notes to Financial Statements

(In Thousands)

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.

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.

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, 2012 and 2011:

	2012	2011
Commercial loans, of which 4% and 4% are federally guaranteed	**40%**	36%
Student loans, of which 97% and 97% are guaranteed	**32%**	35%
Residential loans, of which 83% and 83% are federally guaranteed	**18%**	19%
Agricultural loans, of which 5% and 5% are federally guaranteed	**10%**	10%
	100%	100%

Continued on next page

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 changes 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 trade 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.

Continued on next page

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

Allowance for Credit Losses

The Bank uses the allowance method in providing for credit losses. Accordingly, the allowance is increased by the current year's provision for credit losses charged to operations and reduced by net charge-offs. Credit 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 credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit 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.

Continued on next page

Loan Charge-Offs

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- An unsecured loan that has principal or interest 120 or more days past due.
- A loan secured by a commercial real estate mortgage, farm real estate mortgage, conventional real estate mortgage, or by other than real property that has principal or interest 120 or more day past due.
- A loan classified as a “loss” by the North Dakota Department of Banking and Financial Institutions.
- A loan where there is a recognized loss in conjunction with the acquisition of real estate by the Bank.
- A loan where the Bank deems itself insecure due to the financial condition of the borrower.
- A loan or portion of a loan has been forgiven.

Transfers of Financial Assets

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

Bank Premises, Equipment, and Software

Bank premises, equipment, hardware and software are stated at cost less accumulated depreciation or amortization. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

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 $2,582 and $981 as of December 31, 2012 and 2011, 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.

Continued on next page

NOTE 2 - RESTRICTION AND CONCENTRATION 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 $62,835 in 2012 and $56,628 in 2011.

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. Deposits at these institutions are insured up to $250,000 with the Federal Deposit Insurance Company except for deposits with the Federal Reserve Bank and the Federal Home Loan Bank. The amount of cash deposits not covered by FDIC insurance was $304,798 and $1,072,703 as of December 31, 2012 and 2011, respectively. Of these amounts, $225,660 and $1,021,732 were deposited at the Federal Reserve Bank.

NOTE 3 - DEBT AND EQUITY SECURITIES

Debt and equity securities have been classified in the financial statements according to management's intent. The carrying value of securities as of December 31, 2012 and 2011 consists of the following:

	2012	2011
Securities available for sale, at fair value	**$ 2,142,899**	$ 977,833
Federal Home Loan Bank stock, at cost	**24,488**	25,776
Other equity securities, at cost	**4,159**	4,442
	$ 2,171,546	$ 1,008,051

Continued on next page

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2012				
Securities available for sale				
Federal agency	**$ 1,512,848**	**$ 7,160**	**$ 121**	**$ 1,519,887**
Mortgage-backed	**589,603**	**9,886**	**114**	**599,375**
State and municipal	**23,633**	**7**	**3**	**23,637**
	$ 2,126,084	**$ 17,053**	**$ 238**	**$ 2,142,899**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2011				
Securities available for sale				
Federal agency	$ 476,946	$ 3,312	$ 285	$ 479,973
Mortgage-backed	479,071	6,096	3,468	481,699
State and municipal	16,161	-	-	16,161
	$ 972,178	$ 9,408	$ 3,753	$ 977,833

Securities carried at $3,758 at December 31, 2011 were used to secure repurchase agreements and for other required pledging purposes. There were no securities pledged as of December 31, 2012 for these purposes. FHLB stock totaling $24,488 and $25,776 at December 31, 2012 and 2011, respectively are pledged on the FHLB advances (Note 9).

Continued on next page

The maturity distribution of debt securities at December 31, 2012, 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.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 107,004	$ 107,452
Over one year through five years	1,872,627	1,886,499
Over five years through ten years	127,027	129,224
Over ten years	19,426	19,725
	$ 2,126,084	$ 2,142,900

For the year ended December 31, 2012, proceeds from the sale of securities available for sale were $7,678. Gross realized losses were $2,435 on these sales. For the year ended December 31, 2011, proceeds from the sale of securities available for sale were $4,093. Gross realized gains were $59 on these sales.

Information pertaining to securities with gross unrealized losses at December 31, 2012 and 2011 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
DECEMBER 31, 2012	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	**$ 121**	**$ 28,833**	**$ -**	**$ -**
Mortgage-backed	**114**	**33,282**	**-**	**-**
State and municipal	**3**	**3,357**	**-**	**-**
	$ 238	**$ 65,472**	**$ -**	**$ -**

	Less Than Twelve Months		Over Twelve Months	
DECEMBER 31, 2011	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Mortgage-backed	$ 1,819	$ 264,213	$ 1,934	$ 3,246

Continued on next page

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, 2012, there were no securities that had unrealized losses with aggregate depreciation greater than 1% from the amortized cost basis.

At December 31, 2012, four venture capital securities were written down as other-than-temporary impairments. At December 31, 2011, privatized collateralized mortgage obligation was written down as an other-than-temporary impairment. The following roll forward reflects the amount related to credit losses recognized in earnings:

	Available for Sale	
	2012	2011
Beginning balance*	$ 1,800	$ -
Add: Amount related to the credit loss for which an other-than-temporary impairment was not previously recognized	-	1,800
Add: Increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	-	-
Less: Realized losses for securities sold	(1,800)	-
Less: Securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis	-	-
Less: Increases in cash flows expected to be collected that are recognized over the remaining life of the security	-	-
Ending balance	$ -	$ 1,800

*The beginning balance represents the amount related to credit losses on debt securities held by the Bank at the beginning of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.

Continued on next page

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2012 and 2011 is as follows:

	2012	2011
Commercial	$ 1,278,405	$ 1,068,598
Student	1,064,041	1,062,534
Residential	594,508	575,020
Agricultural	342,824	289,002
	3,279,778	2,995,154
Allowance for loan losses	52,280	52,883
	$ 3,227,498	$ 2,942,271

Unamortized deferred student loan costs totaled $10,368 and $11,414 as of December 31, 2012 and 2011, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $8,145 and $4,658 as of December 31, 2012 and 2011, respectively.

Overdrafts of deposit accounts at December 31, 2012 and 2011 in the amounts of $1,217 and $22, respectively, have been reclassified as loans.

Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, agricultural, residential real estate, and student loans. The Bank also sub-segments the commercial and agricultural segments into classes based on the associated risks within those segments. Commercial loans are divided into three classes: commercial participations, bank stock, and all other business loans (including PACE). Agricultural loans are also divided into three classes: farm & ranch, farm real estate, and all other farm loans. Each class of loan exercises significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit 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. Changes in the allowance for credit loss and the related provision expense can materially affect net income.

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.

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The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for credit losses of $52,280 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2012. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

2012	**Commercial**	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 40,118**	**$ 9,478**	**$ 2,000**	**$ 1,287**	**$ 52,883**
Charge-offs	**(2,418)**	**(12)**	**(362)**	**(188)**	**(2,980)**
Recoveries	**253**	**24**	**98**	**2**	**377**
Provision	**4,159**	**(2,388)**	**(289)**	**518**	**2,000**
Ending Balance	**$ 42,112**	**$ 7,102**	**$ 1,447**	**$ 1,619**	**$ 52,280**

2011	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 36,210	$ 8,803	$ 483	$ 1,117	$ 46,613
Charge-offs	(4,613)	(63)	-	(129)	(4,805)
Recoveries	42	26	-	7	75
Provision	8,479	712	1,517	292	11,000
Ending Balance	$ 40,118	$ 9,478	$ 2,000	$ 1,287	$ 52,883

The following tables disaggregate our allowance for credit losses by impairment methodology.

2012	**Commercial**	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$ 33,866**	**$ 6,817**	**$ 1,277**	**$ 1,619**	**$ 43,579**
Individually evaluated	**8,246**	**285**	**170**	**-**	**8,701**
Total	**$ 42,112**	**$ 7,102**	**$ 1,447**	**$ 1,619**	**$ 52,280**

2011	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 30,770	$ 9,081	$ 2,000	$ 1,287	$ 43,138
Individually evaluated	9,348	397	-	-	9,745
Total	$ 40,118	$ 9,478	$ 2,000	$ 1,287	$ 52,883

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The following tables disaggregate our loan portfolio by impairment methodology.

2012	**Commercial**	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$1,092,501**	**$ 325,140**	**$ 593,853**	**$ 617,665**	**$2,629,159**
Individually evaluated	**39,471**	**1,068**	**538**	**-**	**41,077**
Loan types excluded from allowance	**146,431**	**16,618**	**117**	**446,376**	**609,542**
Total	**$1,278,403**	**$ 342,826**	**$ 594,508**	**$1,064,041**	**$3,279,778**

2011	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 1,012,566	$ 272,882	$ 573,640	$ 707,218	$ 2,566,306
Individually evaluated	44,978	2,006	1,242	-	48,226
Loan types excluded from allowance	11,053	14,115	138	355,316	380,622
Total	$ 1,068,597	$ 289,003	$ 575,020	$ 1,062,534	$ 2,995,154

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The Bank's internally assigned ratings are as follows:

	Risk Code	Description
Exceptional	1	Loan considered prime on the basis of very substantial financial capacity with minimal risk of non payment.
Excellent	2	Loan considered sound on the basis of strong financial capacity with little or no apparent weakness and very limited risk of non payment. The probability of serious financial deterioration is highly unlikely.
Good	3	Loan may reveal weaknesses in some areas, however, not of a serious nature and the debt remains collectible in its entirety. The collateral may be characterized as being less marketable than that of a higher rated borrower.
Acceptable	4	Bank feels that the credit risk is acceptable, but may require above average officer attention. Credit in this class exhibit the earliest signs of potential problems. A greater reliance will be placed on the quality and marketability of the underlying collateral as the cash flow may be unproven or somewhat erratic.
Special Mention	5	May be bankable based on certain types of loan programs which fall within the Bank's mission. This type of loan may be currently protected, but has potential unrealized weaknesses. The loan will require close monitoring as deterioration remains a strong possibility. The potential problems must remain manageable and must not pose a serious threat to repayment.
Substandard	6	Well defined weaknesses jeopardize orderly repayment. The loan is no longer protected by sound net worth or repayment capacity of the borrower. Even though elements of loss are present, the borrower can potentially repay if deficiencies are corrected. Close monitoring of this type of loan is extremely important to prevent loss to the Bank.
Doubtful	7	Loan had deteriorated to the point where collection or liquidation in full on the basis of current information, conditions and values is highly questionable and improbable. A doubtful classification is warranted during this period of quantifying/defining the amount of exposure or loss. A well defined corrective action or liquidation plan should be developed and implemented as soon as possible to limit further loss potential for the bank.
Loss	8	Loan is considered uncollectible and of such value that it should be charged-off. This classification does not mean that the asset has no recovery or salvage value.

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The following table represents credit exposures by internally assigned risk ratings for the years ended December 31, 2012 and 2011. The rating analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk rating is based on experiences with similarly rated loans. Credit risk ratings are refreshed periodically as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance.

	2012				
Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	2,685	-	-	-	-
2	11,389	-	83,812	6,425	104
3	318,585	79,087	35,531	73,373	42,675
4	365,187	54,493	71,340	67,239	70,750
5	35,585	2,028	5,749	3,136	28,142
6	45,825	12,339	834	873	80
7	5,885	-	1,621	-	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	146,431	-	-
Total	$ 785,141	$ 147,947	$ 345,318	$ 151,046	$ 141,751

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 594,391	$ 617,665	$ 1,212,056
1	-	-	-	2,685
2	404	-	-	102,134
3	5,429	-	-	554,680
4	19,084	-	-	648,093
5	8,491	-	-	83,131
6	-	-	-	59,951
7	-	-	-	7,506
8	-	-	-	-
Loan types excluded from allowance	16,618	117	446,376	609,542
Total	$ 50,026	$ 594,508	$ 1,064,041	$ 3,279,778

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Risk Rating	Commercial Participations (2011)	Bank Stock (2011)	All Other Business Loans (Including PACE) (2011)	Farm & Ranch (2011)	Farm Real Estate (2011)
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	39,747	-	-
2	25,591	-	78,006	2,929	-
3	251,004	53,704	26,105	55,996	43,018
4	304,385	84,326	71,809	59,944	53,167
5	51,066	649	6,242	703	23,662
6	39,850	15,298	1,602	4,902	279
7	7,517	-	643	-	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	11,053	-	-
Total	$ 679,413	$ 153,977	$ 235,207	$ 124,474	$ 120,126

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 574,882	$ 707,218	$ 1,282,100
1	-	-	-	39,747
2	66	-	-	106,592
3	3,208	-	-	433,035
4	20,536	-	-	594,167
5	6,478	-	-	88,800
6	-	-	-	61,931
7	-	-	-	8,160
8	-	-	-	-
Loan types excluded from allowance	14,115	138	355,316	380,622
Total	$ 44,403	$ 575,020	$ 1,062,534	$ 2,995,154

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Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2012 and 2011. Also included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (1) well-secured and in the process of collection, (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual or (3) student loans where accrued interest is guaranteed.

	2012						
Loan Class	**31-60 days past due**	**61 - 90 days past due**	**Greater than 90 days**	**Total Past Due**	**Current**	**Total Loans**	**Investment >90 days and accruing**
Commercial Participations	**$ 349**	**$ 4,202**	**$ 3,577**	**$ 8,128**	**$ 777,013**	**$ 785,141**	**$ 1,753**
Bank Stock	**-**	**-**	**-**	**-**	**147,947**	**147,947**	**-**
All other Business Loans (Including PACE)	**335**	**887**	**1,386**	**2,608**	**342,709**	**345,317**	**15**
Farm & Ranch	**873**	**-**	**253**	**1,126**	**149,920**	**151,046**	**253**
Farm Real Estate	**454**	**-**	**-**	**454**	**141,297**	**141,751**	**-**
All other Farm loans	**389**	**-**	**-**	**389**	**49,638**	**50,027**	**-**
Residential Real Estate	**11,358**	**1,706**	**4,825**	**17,889**	**576,619**	**594,508**	**4,664**
Student Loans	**22,169**	**8,519**	**45,676**	**76,364**	**987,677**	**1,064,041**	**45,445**
Totals	**$ 35,927**	**$ 15,314**	**$ 55,717**	**$ 106,958**	**$3,172,820**	**$3,279,778**	**$ 52,130**

	2011						
Loan Class	31-60 days past due	61 - 90 days past due	Greater than 90 days	Total Past Due	Current	Total Loans	Investment >90 days and accruing
Commercial Participations	$ 142	$ 178	$ 6,442	$ 6,762	$ 672,651	$ 679,413	$ 562
Bank Stock	-	-	-	-	153,977	153,977	-
All other Business Loans (Including PACE)	708	958	1,044	2,710	232,498	235,208	122
Farm & Ranch	1,077	1,851	952	3,880	120,594	124,474	952
Farm Real Estate	823	-	243	1,066	119,061	120,127	243
All other Farm loans	427	-	-	427	43,974	44,401	-
Residential Real Estate	10,829	2,456	5,963	19,248	555,772	575,020	5,511
Student Loans	16,648	10,835	33,076	60,559	1,001,975	1,062,534	32,861
Totals	$ 30,654	$ 16,278	$ 47,720	$ 94,652	$ 2,900,502	$ 2,995,154	$ 40,251

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Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The following tables include the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

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Also presented are the average recorded investments in the impaired loans during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

	2012				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ -	$ -	$ -	$ -	$ -
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	2	2	-	2	-
Farm & Ranch	-	-	-	-	-
Farm Real Estate	-	-	-	-	-
All other Farm loans	-	-	-	-	-
Residential Real Estate	300	300	-	302	15
With an Allowance Recorded:					
Commercial Participations	$ 35,527	$ 35,527	$ 7,106	$ 39,034	$ 1,337
Bank Stock	1,929	1,929	290	2,006	80
All other Business Loans (Including PACE)	2,013	2,113	850	2,148	21
Farm & Ranch	873	873	265	928	66
Farm Real Estate	178	178	19	241	8
All other Farm loans	17	17	1	17	-
Residential Real Estate	238	238	170	238	5
Totals:					
Commercial Participations	$ 35,527	$ 35,527	$ 7,106	$ 39,034	$ 1,337
Bank Stock	1,929	1,929	290	2,006	80
All other Business Loans (Including PACE)	2,015	2,115	850	2,150	21
Farm & Ranch	873	873	265	928	66
Farm Real Estate	178	178	19	241	8
All other Farm loans	17	17	1	17	-
Residential Real Estate	538	538	170	540	20

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Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
	2011				
With No Specific Allowance Recorded:					
Commercial Participations	$ -	$ -	$ -	$ -	$ -
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	3	3	-	25	-
Farm & Ranch	10	10	-	11	-
Farm Real Estate	-	-	-	-	-
All other Farm loans	-	-	-	-	-
Residential Real Estate	1,242	1,242	-	1,451	64
With an Allowance Recorded:					
Commercial Participations	$ 41,287	$ 41,287	$ 8,432	$ 42,715	$ 1,258
Bank Stock	1,115	1,115	167	1,145	51
All other Business Loans (Including PACE)	2,573	2,673	749	2,842	122
Farm & Ranch	1,077	1,077	342	1,282	91
Farm Real Estate	838	838	49	389	13
All other Farm loans	81	81	6	89	2
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 41,287	$ 41,287	$ 8,432	$ 42,715	$ 1,258
Bank Stock	1,115	1,115	167	1,145	51
All other Business Loans (Including PACE)	2,576	2,676	749	2,867	122
Farm & Ranch	1,087	1,087	342	1,293	91
Farm Real Estate	838	838	49	389	13
All other Farm loans	81	81	6	89	2
Residential Real Estate	1,242	1,242	-	1,451	64

(1) Represents the borrower’s loan obligation, gross of any previously charged-off amounts.

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A loan which meets any of the following criteria must be placed in a non-accrual status:

- The following loans on which the principal and interest is 90 or more days past due: Unsecured loans, loans secured by other than real property, loans secured by a mortgage on commercial real estate, loans secured by a farm real estate mortgage, loans secured by a conventional residential real estate mortgage.
- A loan where the borrower has filed for bankruptcy or where the lead bank or the Bank deems itself insecure due to the financial condition of the borrower.
- A loan which the North Dakota Department of Financial Institutions recommends to be placed in a non-accrual status.

A loan which meets the criteria for non-accrual status may be retained in accrual status if it is (1) guaranteed or insured by the state or federal government or secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest and (2) in the process of collection supported by a document source of collection.

A loan which has been placed in a non-accrual status may be returned to an accrual status only if principal and interest are no longer due and unpaid and if current principal and interest appear to be collectable. In addition, the loan must either be secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest or the borrower must demonstrate through a documented repayment plan the ability to discharge the outstanding principal and interest.

On the following table are the financing receivables on nonaccrual status as of December 31, 2012 and 2011. The balances are presented by class of financing receivable.

	2012	2011
Commercial Participations	**$ 6,329**	$ 10,996
Bank Stock	**-**	-
All Other Business Loans (Including PACE)	**1,923**	1,100
Farm & Ranch	**-**	-
Farm Real Estate	**-**	-
All Other Farm Loans	**-**	-
Residential Real Estate	**161**	589
Student	**231**	215
TOTAL	**$ 8,644**	$ 12,900

Accruing loans 90 days or more past due include guaranteed student loans of $45,445 and $32,861 as of December 31, 2012 and 2011, 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 $4,664 and $5,511 as of December 31, 2012 and 2011, 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 Administration will be paid in full and the property title is transferred to them with the exception of flooded properties. 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 full and title is transferred to them.

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The Bank's loan portfolio also includes certain loans that have been modified in a Trouble Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

When the Bank modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

The following table presents information related to loans modified in a troubled debt restructuring during the year ended December 31, 2012. None of these loans subsequently defaulted after modification.

	Number of Modifications	Recorded Investment
Commercial Participations	7	$ 3,708
Bank Stock	-	-
All Other Business Loans (Including PACE)	1	352
Farm & Ranch	-	-
Farm Real Estate	-	-
All Other Farm Loans	-	-
Residential Real Estate	-	-
Student Loans	-	-
TOTAL	8	$ 4,060

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The following table presents the unpaid principal of loans modified in a troubled debt restructuring during the year ended December 31, 2012, by type of modification.

	To Interest Only	Below Market Rate	Other (1)	Total
Commercial Participations	$ 867	$ 2,312	$ 529	$ 3,708
Bank Stock	-	-	-	-
All Other Business Loans (Including PACE)	-	-	352	352
Farm & Ranch	-	-	-	-
Farm Real Estate	-	-	-	-
All Other Farm Loans	-	-	-	-
Residential Real Estate	-	-	-	-
Student Loans	-	-	-	-
TOTAL	$ 867	$ 2,312	$ 881	$ 4,060

(1) Other modifications include reamortization of payments, extended maturity and reduction of interest rate.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2012 and 2011.

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND loan sales during 2012 and 2011 follows:

	2012	2011
Residential loans sold on the secondary market	**$ 17,097**	$ 1,952

BND recognized gains on sale of loans of $214 in 2012 and $43 in 2011 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, 2012 and 2011 were as follows:

	2012	2011
Student loans		
North Dakota Student Loan Trust	**$ 35,339**	$ 41,233
Residential loans		
Fannie Mae	**13,655**	10,250
Other state fund loans		
Rebuilders Loan Program	**36,616**	2,206
Western Area Water	**32,390**	-
Board of University and School Lands	**30,751**	55,806
Community Water Facility Loan Fund	**16,048**	16,143
Department of Human Services	**7,433**	7,860
Information Technology Department	**6,268**	4,404
Workforce Safety	**162**	152
	$ 178,662	$ 138,054

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, 2012 and 2011 is as follows:

	Balance 2011	Additions	Retirements	Balance 2012
Land	$ 1,445	$ 243	$ -	$ 1,688
Building	10,212	-	-	10,212
Equipment	663	27	8	682
Furniture	679	-	1	678
Hardware	574	-	322	252
Software	4,913	98	176	4,835
	18,486	368	507	18,347
Less accumulated depreciation	6,320	883	493	6,710
	$ 12,166	$ (515)	$ 14	$ 11,637

	Balance 2010	Additions	Retirements	Balance 2011
Land	$ 1,171	$ 274	$ -	$ 1,445
Building	10,212	-	-	10,212
Equipment	756	76	169	663
Furniture	679	-	-	679
Hardware	627	11	64	574
Software	5,513	419	1,019	4,913
	18,958	780	1,252	18,486
Less accumulated depreciation	6,664	900	1,244	6,320
	$ 12,294	$ (120)	$ 8	$ 12,166

Depreciation and amortization expense on the above assets amounted to $883 and $900 in 2012 and 2011.

NOTE 7 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $3,136,633 and $2,526,984 as of December 31, 2012 and 2011, respectively.

At December 31, 2012, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 2,847,596
One to three years	232,368
Over three years	83,570
	$ 3,163,534

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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. There were no repurchase agreements as of December 31, 2012 and 2011.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2012	2011
Federal Home Loan Bank advances - long-term	**$ 405,339**	$ 470,327
ND Public Finance Authority, 3%, matures from September 2014 through September 2021	**914**	1,095
	$ 406,253	$ 471,422

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

	Principal	Interest	Total
2013	$ 3,291	$ 16,296	$ 19,587
2014	3,417	16,163	19,580
2015	3,540	16,024	19,564
2016	10,650	15,633	26,283
2017	3,763	15,320	19,083
Later years	381,592	33,278	414,870
Totals	$ 406,253	$ 112,714	$ 518,967

The FHLB long-term advances outstanding at December 31, 2012, mature from August 2016 through March 2025. The FHLB long-term advances have fixed rate interest, ranging from 2.20% to 7.35%. The advances must be secured by minimum qualifying collateral maintenance levels. Residential loans and student loans with carrying values of $537,031 and $559,510 at December 31, 2012 and 2011, 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.

Continued on next page

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

	2012	2011
Interest payable	$ 1,156	$ 1,839
Salary and benefits payable	1,058	999
Student loan related payables	217	195
Transfers payable	43	86
Accounts payable, accrued expenses and other liabilities	3,291	2,467
	$ 5,765	$ 5,586

The Bank does not have to transfer any funds to the State's General Fund for the biennium beginning July 1, 2011 and ending June 30, 2013.

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.

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Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% 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 is required to contribute 5.12% of each participant's salary as the employer's share. In addition to the 5.12% 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, 2012 and 2011 were approximately $868 and $754, 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.

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, 2011 and ending June 30, 2013 and in one case create a loan fund to provide low cost loans to individuals to repair their flood damaged homes. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1003, Section 4 – Williston State College may borrow up to $1,725 for the workforce training building project.

H.B. 1004, Section 5 – The Department of Health, contingent on litigation and administrative proceedings, may borrow up to $500, the proceeds of which is appropriated for the purpose of defraying the expenses associated with possible litigation and other administrative proceedings involving the United States Environmental Protection Agency.

H.B. 1012, Section 4 & S.B 2371, Section 5 – The Department of Transportation may borrow up to $200,000 for the purpose of providing funding for emergency relief projects on the state highway system. Any federal funding received for projects receiving funding under this section must be used to repay the loan.

H.B. 1015, Section 3 – The Department of Corrections and Rehabilitation may borrow up to $1,100 for the purpose of defraying the expenses of the penitentiary expansion project.

H.B. 1021, Sections 4 & 6 – The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $8,000 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 for ongoing operating expenditures of the Health Information Exchange or as directed, a portion to both funds to meet any required match for federal funds. The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $5,000 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. For the years ended December 31, 2012 and 2011, the Bank had transferred $1,224 and $500, respectively, to these funds.

H.B. 1206, Section 2 – The Bank shall provide a loan of $50,000 to the Western Area Water Supply Authority for construction of a large water project in the western part of the state. The terms and conditions of the loan must be negotiated between the Bank and the Western Area Water Supply Authority, however, the term of the loan may not exceed seven years after June 30, 2014.

Continued on next page

S.B. 2150, Section1 – The Department of Public Instruction may borrow the necessary funds to reimburse school districts for the excess cost 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 ensuing legislative assembly to return any amount transferred under this bill.

S.B. 2308, Section 3 – A line of credit not exceeding $2,560 shall be extended to the Highway Patrol to establish an online electronic permit system.

S.B. 2371, Section 7 – The Bank shall transfer up to $30,000 from its current earnings and undivided profits to the Rebuilders Loan Program Fund. As of December 30, 2012, the Bank had transferred the entire $30,000 to this fund.

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 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. The Bank may have no more than $8,000 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, 2012 and 2011, the Bank has guarantees outstanding totaling $106 and $273, respectively. The Bank had no guarantee commitments outstanding as of December 31, 2012 and 2011 included in commitments to extend credit.

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Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85% 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 up to $200. The term of the guarantee may not exceed five years. As of December 31, 2012 and 2011, the Bank has guarantees outstanding totaling $4,516 and $4,963, respectively, and had guarantee commitments outstanding of $558 and $248, 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.

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, 2011, the Bank had guarantees outstanding totaling $743. As of December 31, 2012, there were no guarantees outstanding. The Bank had no guarantee commitments outstanding as of December 31, 2012 and 2011 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.

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $443,413 and $355,316 at December 31 2012 and 2011, respectively.

In the ordinary course of business, the Bank holds loans and deposits of principal officers and directors and their affiliates. Outstanding principal balances of these loans were held by the Bank at December 31, 2012 and 2011 amounted to $7,994 and 7,739, respectively. Deposits and short term borrowings held by the Bank were $52,860 and $42,115, respectively.

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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, 2012 and 2011, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2012	2011
Commitments to extend credit	**$ 780,001**	$ 708,282
Financial standby letters of credit	**260,731**	323,703
Guarantees provided	**5,180**	6,227

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 holds collateral supporting those commitments.

Financial standby letters of credit include letters of credit pledged for public deposits by North Dakota banks for $191,935 and $212,286 at December 31, 2012 and 2011, 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.

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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 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. FHLB stock and nonmarketable securities are not publicly traded and management has determined fair value approximate cost.

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.

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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 loan 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.

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.

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2012 and 2011.

	2012			
	Total	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	**$ 277,762**	**$ 277,762**	**$ -**	**$ -**
Collateralized mortgage obligations				
Agency	**320,914**	**320,914**	**-**	**-**
Non-agency	**701**	**-**	**701**	**-**
Agency bonds	**1,519,885**	**1,519,885**	**-**	**-**
Municipal bonds	**23,637**	**-**	**23,637**	**-**
Totals	**$ 2,142,899**	**$2,118,561**	**$ 24,338**	**$ -**

	2011			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 124,189	$ 124,189	$ -	$ -
Collateralized mortgage obligations				
Agency	235,014	235,014	-	-
Non-agency	7,891	-	7,891	-
Agency bonds	479,973	479,973	-	-
Corporate bonds	114,605	114,605	-	-
Municipal bonds	16,161	-	16,161	-
Totals	$ 977,833	$ 953,781	$ 24,052	$ -

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Assets Measured at Fair Value on a Nonrecurring Basis

The tables below presents the Bank's balances of financial instruments measured at fair value on a nonrecurring basis at December 31, 2012 and 2011.

	2012		
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	**$ -**	**$ -**	**$ 32,376**
Totals	**$ -**	**$ -**	**$ 32,376**

	2011		
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ -	$ -	$ 38,481
Totals	$ -	$ -	$ 38,481

The significant unobservable inputs used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to customized discounting criteria applied to the customer's reported amount of collateral. The amount of the collateral discount depends upon the marketability of the underlying collateral. The Bank's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, in which collateral with lesser marketability characteristics would receive a larger discount.

The valuations are reviewed at least quarterly by the internal Problem Loan Committee and are considered in the overall calculation of the allowance for credit losses. Unobservable inputs are monitored and adjusted if market conditions change.

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

The table below is a summary of fair value estimates as of December 31, 2012 and 2011, 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, 2012 and 2011 were as follows:

	2012		2011	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 725,231**	**$ 725,231**	$ 1,369,370	$ 1,369,370
Securities	**2,171,546**	**2,171,546**	1,008,051	1,008,051
Interest receivable	**40,102**	**40,102**	39,479	39,479
Loans, net	**3,227,498**	**3,311,568**	2,942,271	3,021,256
Financial liabilities				
Non-maturity deposits	**$ 1,840,028**	**$1,840,028**	$ 1,539,270	$ 1,539,270
Deposits with stated maturities	**3,163,534**	**3,189,792**	2,640,567	2,564,873
Federal funds purchased and repurchase agreements	**275,960**	**275,960**	318,325	318,325
Short and long-term debt	**406,252**	**461,798**	471,422	526,017
Other liabilities	**5,765**	**5,765**	5,586	5,586
Unrecognized financial instruments				
Commitments to extend credit	**$ 780,001**	**$ 780,001**	$ 708,282	$ 708,282
Financial standby letters of credit	**260,731**	**260,731**	323,703	323,703
Guarantees provided	**5,180**	**5,180**	6,227	6,227

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NOTE 16 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2012	2011
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 17,252**	$ 20,436
Interest paid on federal funds purchased and securities sold under repurchase agreements	**288**	336
Interest paid on short and long-term debt	**27,454**	19,349
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**28,997**	2,815
Net change in unrealized gain (loss) on securities available for sale	**11,162**	5,086
Other real estate and property owned acquired in exchange for loans	**2,123**	1,353

NOTE 17- CONTINGENCY

The Bank manages a portion of the investment portfolio for the State Investment Board (SIB). During 2012, SIB requested that the Bank transition a portion of that investment portfolio. SIB contends it provided instructions to the Bank regarding the transition, to include the date upon which the transition was to have been completed by the Bank. SIB contends that because the Bank did not complete the transition by the requested date, SIB suffered investment losses for which the Bank is responsible. The Bank's management acknowledges that the Bank did not complete the transition by the requested date and anticipates correcting any underperformance in SIB's investment portfolio that may have occurred between the date SIB requested the transition be completed and the date the Bank actually completed the transition. Because the Bank has not yet determined the amount of any resulting underperformance experienced by SIB, it has not recorded such an amount in the Bank's financial statements.

NOTE 18- SUBSEQUENT EVENTS

In January 2013, the Bank transferred $7,500 from Undivided Profits to the Health Information Exchange in accordance with H.B. 1021. Subsequent events have been evaluated through February 26, 2013, which is the date these financial statements were available to be issued.

BANK OF NORTH DAKOTA
TEN YEAR SUMMARY

TEN YEAR SUMMARY	2012	2011	2010	2009
OPERATING RESULTS (in thousands)				
Interest income	$145,870	$137,459	$133,400	$132,277
Interest expense	44,311	39,541	45,188	50,994
Net interest income	101,559	97,918	88,212	81,283
Provision for loan losses	2,000	11,000	12,100	10,300
Net interest income after provision for loan losses	99,559	86,918	76,112	70,983
Non-interest income	4,659	4,911	6,113	6,206
Non-interest expense	22,624	21,494	20,374	19,106
Net income	**81,594**	**70,335**	**61,851**	**58,083**
Payments to general fund	-	-	-	30,000
Payments to other funds	28,997	2,815	5,088	-
BALANCE SHEET - YEAR END (in thousands)				
TOTAL ASSETS	**6,155,201**	**5,375,073**	**4,029,927**	**3,959,669**
FEDERAL FUNDS SOLD AND RESELL AGREEMENTS	24,050	18,315	33,100	24,190
SECURITIES	2,171,546	1,008,051	537,157	397,370
LOANS	**3,279,778**	**2,995,154**	**2,814,548**	**2,713,611**
Student	1,064,041	1,062,534	1,044,442	932,323
Commercial	1,278,403	1,068,598	1,022,002	1,038,589
Residential	594,508	575,020	471,411	475,124
Agriculture	342,826	289,002	276,693	267,575
DEPOSITS	**5,003,562**	**4,179,837**	**3,058,726**	**2,939,059**
Non-interest bearing	891,197	649,922	387,040	442,867
Interest bearing	4,112,365	3,529,915	2,671,686	2,496,192
FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS	275,960	318,325	240,725	337,627
SHORT AND LONG-TERM DEBT	406,252	471,422	397,365	405,005
EQUITY	**463,662**	**399,903**	**327,297**	**271,649**
Capital	2,000	2,000	2,000	2,000
Capital surplus	42,000	42,000	42,000	42,000
Undivided profits	402,846	350,249	282,729	225,966
Accumulated other comprehensive income (loss)	16,816	5,654	568	1,683

BANK OF NORTH DAKOTA
TEN YEAR SUMMARY

2008	2007	2006	2005	2004	2003
$148,613	$152,416	$126,598	$98,086	$80,133	$79,463
71,801	87,090	71,284	51,623	38,392	41,755
76,812	65,326	55,314	46,463	41,741	37,708
8,900	3,100	3,400	2,400	2,400	2,000
67,912	62,226	51,914	44,063	39,341	35,708
7,617	6,673	7,748	9,332	11,248	11,474
18,485	17,813	16,808	17,038	16,373	15,488
57,044	**51,086**	**42,854**	**36,357**	**34,216**	**31,694**
30,000	30,000	30,000	30,000	30,000	34,000
46	46	43	43	37	37
3,516,965	**2,779,360**	**2,326,693**	**2,062,247**	**2,014,525**	**1,953,178**
75,675	277,565	129,135	195,370	122,230	89,915
331,416	235,551	219,412	157,623	253,186	284,272
2,618,402	**2,004,999**	**1,755,562**	**1,467,061**	**1,456,256**	**1,391,583**
776,473	643,297	561,178	459,287	417,356	372,362
1,064,811	689,150	564,946	431,068	480,870	469,912
509,052	419,700	388,043	342,786	322,044	318,067
268,066	252,852	241,395	233,920	235,986	231,242
2,645,356	**1,871,767**	**1,617,136**	**1,352,516**	**1,198,586**	**1,057,386**
313,900	317,949	230,993	205,854	208,277	214,275
2,331,456	1,553,818	1,386,143	1,146,662	990,309	843,111
304,020	434,061	249,145	248,932	201,959	190,597
315,604	245,070	257,209	275,926	436,593	525,795
223,922	**192,471**	**163,542**	**161,824**	**152,776**	**153,744**
2,000	2,000	2,000	2,000	2,000	2,000
42,000	42,000	42,000	42,000	42,000	42,000
182,883	145,843	119,894	119,894	110,947	110,947
(2,961)	2,628	(352)	(2,070)	(2,171)	(1,203)

Bank of North Dakota

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