



Aaron K. Webb
Assistant Commissioner

I. Lise Kruse
Chief Examiner - Banks

Corey J. Krebs
Chief Examiner - Credit Unions

CSBS ACCREDITED 1993
NASCUS ACCREDITED 2000

June 1, 2012

Governor Jack Dalrymple, Chairman
North Dakota Industrial Commission
State Capitol
Bismarck ND 58505

Members of the Commission:

A copy of the Report of Examination of Bank of North Dakota, Bismarck, North Dakota, which commenced on April 16, 2012, by Chief Examiner-Banks I. Lise Kruse is enclosed. The findings of a concurrent specialty examination of compliance with Bank Secrecy Act and Anti-Money Laundering procedures are also contained in the Report. We request that the Report be considered at your next convenient non-public Industrial Commission meeting.

The Report has been reviewed by this Department. As required by law, the Commissioner shall report the examination results to the Industrial Commission as soon as practicable and to the Legislative Assembly.

The Report of Examination is strictly confidential, and cannot be released to any party except as provided by Sections 6-01-07, 6-01-07.1, and 6-09-35, North Dakota Century Code.

The overall financial condition of the bank is strong. Asset quality has improved and is strong. Earnings, liquidity, sensitivity to market risk, and management performance are strong. Capital is adequate and due to significant growth, the Tier 1 Capital ratio remains below management's goal of 8 percent. Examiner Kruse offers several recommendations and suggestions that we anticipate bank management will address.

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At the conclusion of the examination, a meeting was held with President/Chief Executive Officer Eric Hardmeyer and members of the management team. A meeting will be held with the Executive Committee and the Advisory Board on June 14, 2012. Representing the North Dakota Department of Financial Institutions at both meetings are Commissioner Robert J. Entringer and Chief Examiner-Banks I. Lise Kruse.

Sincerely,

A handwritten signature in black ink, reading "Robert J. Entringer". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robert J. Entringer
Commissioner

RJE:LK:sr
Enclosure

cc: Legislative Council
Bank of North Dakota President Hardmeyer
Attorney General Stenehjem
Agriculture Commissioner Goehring
Examiner



State of North Dakota
**DEPARTMENT
of FINANCIAL
INSTITUTIONS**

JUN 01 2012

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June 1, 2012

Legislative Council
State Capitol
600 E Blvd 2nd Fl
Bismarck ND 58505-0360

RE: Bank of North Dakota
Report of Examination

Gentlemen:

The Department of Financial Institutions is required under North Dakota Century Code Section 6-09-29 to examine the Bank of North Dakota at least once each 24 months. This is to inform you that we have completed our examination of the Bank of North Dakota as of the close of business March 31, 2012. Also, the above-referenced Section requires that the Commissioner shall report the results to the Legislative Assembly.

The findings of the examination indicate that the overall condition of the Bank is strong. Management is sound and effectively identifies, measures, monitors, and controls risk. Capital is adequate in relation to the overall risk profile of the Bank. Asset quality and earnings are strong, liquidity is solid, and sensitivity to market risk is well-controlled.

We believe we have met our statutory requirements as listed under the above-referenced Section.

If you have any questions regarding the findings of the examination, please do not hesitate to contact me.

Sincerely,

Robert J. Entringer
Commissioner

RJE:sr

Any instrument executed prior to July 11, 1989, by the president, an attorney for the Bank, or an officer or employee of the Bank, and otherwise proper, is valid and effective.

6-09-26.1. Execution of instruments.

Repealed by S.L. 1989, ch. 110, § 11.

6-09-27. Civil actions on Bank transactions - Name of parties - Service - Venue.

1. Civil actions may be brought against the state of North Dakota on account of claims for relief claimed to have arisen out of transactions connected with the operation of the Bank of North Dakota upon condition that the provisions of this section are complied with. In such actions, the state must be designated as "The State of North Dakota, doing business as The Bank of North Dakota". The actions may be brought in the same manner and are subject to the same provisions of law as other civil actions. The action must be brought in Burleigh County except as provided in section 28-04-01 or except as provided in subsection 2.
2. If the Bank seeks to participate in a loan that involves multiple banks and if the loan documents require the Bank to agree that civil actions will be commenced in a state outside of North Dakota, the Bank may agree to venue outside of North Dakota if approved by the attorney general.

6-09-28. Surety on appeal, attachment, claim and delivery, and other cases in which undertaking required, not required of Bank of North Dakota.

Provisions of law requiring that a surety or sureties be given on undertakings in actions on appeal, attachment, claim and delivery, and other cases in which an undertaking is required, are not applicable to the state of North Dakota, doing business as the Bank of North Dakota, as the party seeking such relief. It is required to give its own undertaking without surety and to reimburse the adverse party when required by law.

6-09-29. Examinations and audit reports.

The state auditor shall contract with an independent certified public accounting firm for an annual audit of the Bank of North Dakota in accordance with generally accepted government auditing standards. The state auditor shall audit annually or contract for an annual audit of the separate programs and funds administered by the Bank of North Dakota. On request of the state auditor, the industrial commission shall assist the state auditor in the auditing firm selection process, but the selection of the auditing firm is the state auditor's responsibility. The auditor selected shall prepare an audit report that includes financial statements presented in accordance with the audit and accounting guide for banks and savings institutions issued by the American institute of certified public accountants. The auditor also shall prepare audited financial statements for inclusion in the comprehensive annual financial report for the state. The state auditor may conduct performance audits of the Bank of North Dakota, including the separate programs and funds administered by the Bank. The auditor shall report the results of the audit to the industrial commission and to the legislative assembly. The Bank of North Dakota or its separate programs and funds shall pay the costs of the audit. The department of financial institutions, through the commissioner, shall examine the Bank of North Dakota at least once each twenty-four months and conduct any investigation of the Bank which may be necessary. The commissioner shall report the examination results, and the results of any necessary investigation, to the industrial commission as soon as practicable and to the legislative assembly. The department of financial institutions shall charge a fee for any examination or investigation at an hourly rate to be set by the commissioner, sufficient to cover all reasonable expenses of the department associated with the examinations and investigations provided for by this section.

6-09-30. Repayment of moneys appropriated for Bank to state.

Repealed by S.L. 1967, ch. 91, § 2.