



Timothy J. Karsky
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CSBS ACCREDITED 1993
NASCUS ACCREDITED 2000

June 26, 2008

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

JUN 27 2008

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, 2008. 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 remains strong; management is guided by a comprehensive framework of policies, and has implemented effective risk control systems. Capital and asset quality are also strong. Earnings and liquidity levels are satisfactory, while sensitivity and market risk is adequately 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,


Timothy J. Karsky
Commissioner

TJK:sr

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REPORT OF EXAMINATION

Financial Institution	BANK OF NORTH DAKOTA	
Location	BISMARCK	BURLEIGH COUNTY
Examiner In Charge	MONTE L. WOLF	
Examination Commenced	MAY 5, 2008	
Examined Close of Business	MARCH 31, 2008	

This Report of Examination is furnished to the Industrial Commission and North Dakota Legislative Council for their information and consideration. It is desired that each Commission member review this Report in detail. In addition, it is desired that each Commission member in reviewing this Report be mindful that the Report does not represent an audit of the bank's books, but rather a balance sheet examination.

This copy of the Report is the property of the North Dakota Department of Financial Institutions and is furnished to the Industrial Commission, North Dakota Legislative Council, and the bank for their confidential use. Under no circumstances shall the Industrial Commission, North Dakota Legislative Council, bank or any of their officers or employees disclose or make public in any manner the Report or any portion thereof without first obtaining the permission of the Commissioner. The disclosure of this information is governed by North Dakota Century Code 6-09-35.

The information contained herein is based upon the records and books of the bank; upon statements made to the examiner by directors, officers, and employees; and upon information derived from other sources which are believed to be reliable.

TIMOTHY J. KARSKY, COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
STATE OF NORTH DAKOTA



State of North Dakota

DEPARTMENT
of FINANCIAL
INSTITUTIONS

COPY

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June 26, 2008

Governor John Hoeven, Chairman
North Dakota Industrial Commission
State Capitol
Bismarck ND 58505

Dear Members of the Board:

We enclose a copy of the Report of Examination of the Bank of North Dakota, Bismarck, North Dakota, which commenced on May 5, 2008, by Financial Institutions Examiner Monte L. Wolf. The results of a Bank Secrecy Assessment are also contained in the Report. We request that the Report be considered at the next convenient non-public Industrial Commission meeting.

The Report has been reviewed by this Department. As required by law, the Commissioner shall report the condition of all financial corporations together with any recommendations to the State Banking Board. Any recommendations or suggestions will be presented to the Board at its next nonpublic meeting.

The Report of Examination is the property of the Department of Financial Institutions, is strictly confidential, and cannot be released to any party except by the Commissioner as provided by Sections 6-01-07 and 6-01-07.1, North Dakota Century Code.

The scope of the 2008 examination included a random review of credits in the commercial and agricultural loan portfolio to assess management's procedures for risk rating loans and the methodology for determining the appropriateness of the Allowance for Loan and Lease Losses. Capital, management, earnings; liquidity, sensitivity to market risk, and the audit function were reviewed. In addition, compliance with the Bank Secrecy Act and Anti-Money Laundering was also reviewed.

The overall condition of the bank continues to be strong. Asset quality is considered strong in addition to management, earnings, liquidity, and sensitivity

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Governor John Hoeven, Chairman
North Dakota Industrial Commission
June 26, 2008
Page 2

to market risk. Capital is satisfactory but Capital ratios have continued to decline since the 2004 examination. As of March 31, 2008, the Tier 1 Leverage Capital/Average Total Assets ratio was 6.59 percent. This compares to 7.75 and 8.06 percent at the 2006 and 2004 examinations, respectively.

While we recognize the decline in the Capital ratios are in a large part due to the asset growth of the bank and legislative requirements for the earnings of the bank to be transferred to the State of North Dakota's general fund, consideration should be given to retain sufficient earnings to increase the Capital ratios of the bank to previous levels versus an aggregate capital amount as in Section 9 of House Bill 1014. Bank capital performs several very important functions. It absorbs losses and promotes public confidence. Increased capital levels would enable the bank to absorb loan losses should a downturn in the State's economy occur.

Examiner Wolf offers several recommendations and suggestions that we trust bank management will address satisfactorily.

At the conclusion of the examination, a meeting was held with President Eric Hardmeyer and the Executive Committee or representatives from their respective divisions. Representing the North Dakota Department of Financial Institutions was: Assistant Commissioner Robert J. Entringer, Chief Examiner-Banks Douglas D. Grenz, and Financial Institutions Examiner Monte L. Wolf.

Sincerely,


Timothy J. Karsky
Commissioner

TJK:DDG:sr

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

ABBREVIATIONS

The following are the principal abbreviations used in this Report of Examination.

(Rev. 5-11-01)

et al	And Others	LNR	Lien Not Recorded
et ux	And Spouse	LOC	Line of Credit
a/k/a	Also Known As	LP	Limited Partner
AA	Average Assets	LS	Livestock
AFS	Available-For-Sale	M	Thousands
AGI	Adjusted Gross Income	M&E	Machinery & Equipment
ARM	Adjustable Rate Mortgage	Mdse	Merchandise
AL	Acres of Land	MH	Mobile Home
ALLL	Allowance for Loan and Lease Losses	MMDA	Money Market Deposit Account
AP	Accounts Payable	Mtge	Mortgage
APBO	Accounting Principles Board of Opinion	MV	Market Value
AR	Accounts Receivable	NDAC	North Dakota Administrative Code
AV	Appraised Value	NDCC	North Dakota Century Code
BHC	Bank Holding Company	NI	Net Income
BND	Bank of North Dakota	NIM	Net Interest Margin
BSA	Bank Secrecy Act	NOI	Net Operating Income
BV	Book Value	NOW	Negotiable Order of Withdrawal
CA	Current Assets	NP	Notes Payable
CD	Certificate of Deposit	NR	Notes Receivable
CF	Cash Flow	NSF	Non-sufficient Funds
C4D	Contract for Deed	NW	Net Worth
CL	Current Liabilities	OA	Other Assets
CLOC	Commercial Letter of Credit	OD	Overdraft
CMO	Collateralized Mortgage Obligation	OL	Other Liabilities
CPA	Certified Public Accountant	ORE	Other Real Estate
CRP	Conservation Reserve Program	OS	Operating Statement
CREM	Commercial Real Estate Mortgage	PL	Prior Lien
CSV	Cash Surrender Value	PLLL	Provision for Loan and Lease Losses
CT	Certificate of Title	P&L	Profit and Loss
d/b/a	Doing Business As	PORE	Potential Other Real Estate
DFI	Department of Financial Institutions	PPD	Prepaid
DPC	Debts Previously Contracted	PSA	Public Securities Association
End	Endorser or Endorsed	PV	Par Value
EV	Estimated Value	RBC	Risk-Based Capital
F&F	Furniture & Fixtures	RD	Register of Deeds
FA	Fixed Assets	RE	Real Estate
FASB	Financial Accounting Standards Board	REM	Real Estate Mortgage
FCS	Farm Credit Services	REMIC	Real Estate Mortgage Investment Conduit
FHA	Federal Housing Administration	RLOC	Revolving Line of Credit
FS	Financial Statement	ROAA	Return on Average Assets
FSA	Farm Service Agency	RSA	Rate-Sensitive Assets
FHLB	Federal Home Loan Bank	RSL	Rate-Sensitive Liabilities
FHLMC	Federal Home Loan Mortgage Corporation	SA	Security Agreement
FNMA	Federal National Mortgage Association	SAR	Suspicious Activity Report
f/k/a	Formerly Known As	SBA	Small Business Administration
GP	General Partner	SFAS	Statement of Financial Accounting Standards
Gty	Guarantor or Guaranteed	SLOC	Standby Letter of Credit
GNMA	Government National Mortgage Association	SM	Special Mention
HTM	Held-To-Maturity	TA	Total Assets
IENC	Income Earned Not Collected	TE	Tax Equivalent Basis
IT	Information Technology	TL	Total Liabilities
Invty.	Inventory	UBPR	Uniform Bank Performance Report
JM	Joint Maker	UCC	Uniform Commercial Code
JV	Joint Venture	WC	Working Capital
LLC	Limited Liability Company		

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SCOPE

The examination commenced on May 5, 2008, and concluded with an Executive Committee meeting on June 3, 2008. The asset review and financial data date was March 31, 2008. The focus of the examination was a random review of credits to assess management's procedures for risk rating loans and methodology for determining the appropriateness of the Allowance for Loan and Lease Losses (ALLL). Forty-six lines of credit were reviewed representing 20 percent of the dollar volume of the commercial and agricultural portfolio. Also reviewed were capital, management, earnings, liquidity, sensitivity to market risk, call report verification and the audit function. Compliance with the Bank Secrecy Act (BSA) was also reviewed.

SUMMARY

The bank's overall condition is strong. Asset quality is strong with internal adverse classifications representing a minimal five percent of capital and reserves. Earnings remain strong and management provides strong oversight. Liquidity and sensitivity to market risk are strong and well monitored. Capital ratios are adequate but have decreased due to rapid asset growth.

ASSET QUALITY

Asset quality is strong. The loan classifications assigned by examiners closely parallel internal risk ratings. Given our general agreement with internal risk ratings, the problem loan recap report prepared by Credit Standards and Review is a useful tool in assisting the Department in monitoring the strength of the loan portfolio. The March 31, 2008 problem loan report states internal substandard, doubtful and loss loans totaling \$9,536,000 and represents 4.11 percent of capital and reserves. The ratio has increased slightly since the previous State examination, but remains at a minimal level.

Past due and nonaccrual loans and leases represent a manageable 2.59 percent of gross loans and leases. Fifty percent of gross loans are government guaranteed through substantial student and residential portfolios. The investment portfolio was reviewed with all securities considered to be of investment quality. The above factors all contribute favorably to indicate strong asset quality.

Loan growth has been substantial, totaling over 42 percent since the last State examination. Commercial loan growth in particular, has grown over 75 percent. The commercial loan portfolio now totals \$813,000,000 representing 37 percent of gross loans. The growth of the commercial loan portfolio has changed the risk profile of the bank somewhat, as this type of lending can exhibit greater risk characteristics.

Risk Identification

Risk identification processes are strong. Well developed loan approval processes are in place, involving several different committees. The Credit Standards and Review Department reviews an extensive portion of the loan portfolio to ensure appropriate risk identification.

Credit Documentation

Credit administration procedures are adequate. All documentation exceptions noted by examiners were identified on the internal loan documentation exceptions report.

Concentrations

A concentrations report has been developed to monitor aggregate risk in the loan portfolio. The report compares concentrations greater than 15 and 25 percent of Tier 1 Capital. Significant categories of concentrations include related groups of borrowers, collateral type, loan programs, originating lender and industry. Industry concentrations of note include agriculture, renewable energy and hotels. Collateral concentrations include commercial real estate for both owner and non-owner occupied. The report is reviewed by various committees on a quarterly basis and is considered a useful tool to monitor loan portfolio risk.

Monitoring of High Loan to Value (LTV) Loans

Given the growth of the commercial real estate loan portfolio in recent years, additional monitoring reports could enhance risk management processes. Section 13-02-20 of the North Dakota Administrative Code (NDAC) states guidelines for loans secured by real estate including aggregate LTV limits. It is not recommended that the bank adopt this part of NDAC as policy. However, monitoring loans that exceed the LTV guidelines may provide the bank with a useful tool to enhance risk management processes, especially if growth in the commercial real estate loan portfolio continues.

The Executive Committee agreed to additional tools for monitoring this area.

Allowance for Loan and Lease Losses (ALLL)

The ALLL represents 1.54 percent of total loans and a substantial three percent of non-guaranteed loans. The method for determining the ALLL is considered appropriate. The method utilizes both Financial Accounting Standards (FAS) 5 (historical loss and qualitative analysis) as well as FAS 114 (impairment testing). Members of the Credit Standards and Review Department have attended various ALLL training seminars in order to develop new processes. It is recommended that management stay informed of any updates to ALLL guidance. Guidance in this area has been extensive in recent years.

Credit Department and Review Manager Stan Benson stated that management would keep informed of any new guidance issued concerning the ALLL.

CAPITAL

Capital is satisfactory with a Tier 1 Leverage Capital ratio of 6.59 percent. The Tier 1 Leverage Capital ratio has declined 116 basis points since the last State examination. The decline in the ratio is primarily due to significant asset growth that has outpaced retained earnings.

Substantial asset growth of 44 percent has occurred since the previous State examination. The growth of the balance sheet is primarily related to increased deposits associated with increased state tax revenues. Earnings retention has not kept pace with rapid asset growth due to required transfers to the general fund from retained earnings.

Section 14 of House Bill 1014 appropriates bank earnings (undivided profits) to be transferred to the State of North Dakota's general fund in the amount of \$60,000,000 for the biennium starting July 1, 2007 and ending June 30, 2009. Section 9 also states that transfers to the general fund from bank earnings may be made only to the extent the transfer does not reduce the capital structure below \$175,000,000. The current capital structure totals

Examination Conclusions and Comments

over \$198,000,000. Accounting for the recording of payments for transfers to the general fund has been changed in recent months as an attempt to improve capital ratios.

EARNINGS

Earnings are strong with a Return on Average Assets (ROAA) of 1.78 percent. Earnings remain strong due to a stable Net Interest Margin (NIM), minimal overhead expenses and manageable provisions to the ALLL. The NIM remains comparable to prior examinations at 2.38 percent but declined 41 basis points in the first quarter of 2008 as declining interest rates have compressed margins.

Net income for 2007 was a record \$51,086,000. Net income has increased in recent years due to significant asset growth. Earnings levels are sufficient to provide required transfers to the State general fund and maintain a fully funded ALLL. Given more moderate asset growth, earnings levels would be sufficient to improve capital ratios.

Budget

The budget is prepared by Senior Vice President and Chief Financial Officer Kirby Martz with input from various department managers. The Executive Committee and Advisory Board subsequently review the budget, and also review the projections to actual results on a monthly basis. The 2008 budget projects net income of over \$54,000,000. Actual net income was within three percent of budgeted net income of \$13,730,000 as of March 31, 2008. Net income and the NIM were negatively affected by the declining rate environment in the first quarter of 2008. The NIM is expected to improve in upcoming months as more rate sensitive liabilities will be repricing at a lower rate than rate sensitive assets.

MANAGEMENT

Management is strong. Section 6-09-02 of the North Dakota Century Code authorizes the Industrial Commission to operate the bank stating in part: The Industrial Commission shall operate, manage, and control the Bank of North Dakota and make and enforce orders, rules and regulations for the transaction of business.

Section 6-09-02.1 of the North Dakota Century Code establishes the Advisory Board of directors consisting of seven persons appointed by the Governor for a term of four years. The Advisory Board meets on a monthly basis to review operations and make recommendations to the Industrial Commission.

The Executive, Investment, and Funds Management Committees provide oversight in addition to the Industrial Commission and the Advisory Board. The committees provide strong oversight and have established adequate risk management practices.

President Eric Hardmeyer is responsible for the daily management of the bank and was appointed to his current position in August 2001. Various Senior Vice Presidents assist President Hardmeyer in daily operations. Management depth is strong as key personnel are tenured employees of the bank. Extensive policies have been developed to guide personnel and compliance is closely monitored at the committee level.

Audit Function

The audit function could be enhanced. Several areas planned for review were not completed in 2007 including various general ledger accounts, select student loan processes, check clearing and the imaging system. Insufficient time was available to review all planned areas as other projects required more time than expected. Further complicating the audit process is a new core Information Technology (IT) system and imaging system. The new IT system is complex due to the nature of the bank and requires a great deal of auditing expertise. Management plans to further develop the risk assessment process as a means of enhancing the audit function to address the above concerns.

President Hardmeyer stated that changes to the audit function are being considered.

LIQUIDITY

Liquidity sources are sufficient to meet expected needs. Short-term investments have increased due to an inflow of state deposits being invested in short-term assets such as Federal funds sold. Federal funds sold total a substantial \$431,000,000 and have increased over 60 percent since the previous State examination. The investment portfolio totals \$224,000,000 and is almost entirely unpledged. The large student and residential guaranteed loan portfolios could also be used as a liquidity source if needed.

Borrowing levels have decreased with the influx of state deposits. Federal Home Loan Bank (FHLB) borrowings total \$245,000,000 and have decreased over 38 percent since the last state examination. Sufficient borrowing sources are in place. Federal funds borrowing capacity is \$135,000,000. Remaining borrowing capacity from FHLB is \$599,000,000.

The Funds Management Committee is responsible for monitoring liquidity. The Funds Management Policy establishes parameters for liquidity needs. The policy was reviewed and compliance is noted for liquidity parameters.

SENSITIVITY TO MARKET RISK

Sensitivity to market risk is primarily limited to interest rate fluctuations. The NIM declined 26 basis points in the first quarter of 2008. The bank is asset sensitive in the one and two month time frames. As a result, declining interest rates in the first quarter of 2008 negatively impacted the NIM. The NIM should stabilize or improve in upcoming months as the bank is liability sensitive in time periods just after one and two months.

The Funds Management Committee is responsible for monitoring interest rate risk. The committee consists of long-tenured employees who specialize in market risk. The committee utilizes various reports to monitor interest rate risk including gap and yield curve analysis. The Funds Management Policy states guidelines for the interest rate risk reports. We reviewed the reports and noted compliance for interest rate risk parameters. The affect of possible interest rate changes on net income is projected. The projections state that possible changes in interest rates should not significantly affect the ability to achieve budgeted net income.

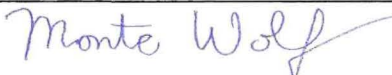

The Funds Management Policy has been updated to include off-balance sheet hedging guidelines. The policy lists scenarios in off-balance sheet hedging that could be used and what types of activities are permissible. Senior Vice President of Treasury Services Ed Sather stated that currently there are no plans to use off-balance sheet

Examination Conclusions and Comments	
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hedging. Instead, interest rate risk will continue to be controlled through balance sheet restructuring, such as changing the duration of the investment portfolio.

EXECUTIVE COMMITTEE MEETING

A meeting was held with Executive Committee members and other bank personnel on June 3, 2008 to discuss tentative findings of the examination. The entire Executive Committee was present with the exception of Senior Vice President Julie Kubisiak. Other bank personnel present included Credit Standards and Review Manager Stan Benson and Internal Audit Manager Julie McCabe. Assistant Commissioner Robert J. Entringer, Chief Examiner Douglas D. Grenz and Examiner Monte L. Wolf represented the Department of Financial Institutions. Examination finding were discussed and responses are noted where appropriate.

Examiner (Signature) 	Commissioner (Signature) 
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Examination Data and Ratios

ASSET QUALITY		ADVERSELY CLASSIFIED			
		Substandard	Doubtful	Loss	Total
Loans and Leases		2,824	7,758		10,582
Securities					
Other Real Estate Owned					
Other Assets					
Other Transfer Risk					
Subtotal		2,824	7,758		10,582
Contingent Liabilities					
Totals at Exam Date	03/31/2008 / S	2,824	7,758		10,582
Totals at Prior Exam	03/31/2006 / S	1,411	272	56	1,739
Totals at Prior Exam	03/31/2004 / S	10,564	21	2,159	12,744

	Exam Date 03/31/2008 / S	Prior Exam 03/31/2006 / S	Prior Exam 03/31/2004 / S
Total Special Mention			
Adversely Classified Items Coverage Ratio	4.57	0.91	7.04
Total Adversely Classified Assets/Total Assets	0.45	0.08	0.67
Past Due and Nonaccrual Loans and Leases/Gross Loans and Leases	2.59	2.76	2.31
Adversely Classified Loans and Leases/Total Loans	0.48	0.09	0.83
ALLL/Total Loans and Leases	1.54	1.82	1.86

CAPITAL	Exam Date 03/31/2008 / S	Prior Exam 03/31/2006	Prior Exam 03/31/2004
	Tier 1 Leverage Capital/Average Total Assets	6.59	7.75
Tier 1 Risk-Based Capital/Risk-Weighted Assets	10.83	13.17	14.10
Total Risk-Based Capital/Risk-Weighted Assets	12.09	14.43	15.36
Adjusted Total Capital/Adjusted Average Assets	7.50	8.94	9.19
	Period Ended 03/31/2008	Period Ended 12/31/2007	Period Ended 12/31/2006
Retained Earnings/Average Total Equity	17.20	14.67	0.00
Asset Growth Rate	22.81	19.46	12.82
Cash Dividends/Net Income			

EARNINGS	Period Ended 03/31/2008	Period Ended 12/31/2007	Period Ended 12/31/2006
	Net Income (After Tax)/Average Assets	1.78	2.04
Net Interest Income (TE)/Average Earning Assets	2.38	2.79	2.79
Total Noninterest Expense/Average Assets	0.60	0.71	0.78

LIQUIDITY	Period Ended 03/31/2008	Period Ended 12/31/2007	Period Ended 12/31/2006
	Net Non-Core Funding Dependence	69.97	69.16
Net Loans and Leases/Assets	69.32	70.96	74.16

BANK SECRECY ACT (BSA) AND ANTI-MONEY LAUNDERING (AML) SUMMARY

Overall policies and procedures relating to the BSA/AML compliance program are satisfactory and meet regulatory requirements. The BSA program includes a Customer Identification Program, which is considered adequate given the nature of business activities conducted by the bank. Procedures for wire transfers, Office of Foreign Assets Control (OFAC) compliance, and handling of law enforcement requests, including 314(a) of the USA PATRIOT Act, meet regulatory requirements. Employee training is satisfactory and is completed on an annual basis. The BSA Program has shown improvement since the previous examination, however, several improperly filed Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs) were noted.

Currency Transaction and Suspicious Activity Reports

Section 103.27(d) of the Treasury Department's financial recordkeeping regulations requires a financial institution to furnish all information called for in CTRs filed. Incorrect information or general inconsistencies were noted on 29 of 57 CTRs reviewed by the examiners. In most instances, the CTRs were originally filled out correctly, with errors occurring during electronic filing procedures. Similar weaknesses were noted at the two prior State examinations. Processes for electronic filing of CTRs should be reviewed to ensure proper procedures. Aggregation of multiple transactions cannot be performed on the current system, but a new software upgrade is planned that should improve tracking ability.

The examiners reviewed all SARs since the previous State Examination. One SAR was missing the date of the suspicious activity. Documentation on decisions not to file a SAR should be maintained. BSA Officer Jessi Hauck has developed a log for documenting these decisions, but it is not currently being utilized.

Retail & Customer Service Manager Valarie Timm said the review of CTRs and SARs would be enhanced, and that a log containing decisions for not filing SARs would be maintained.

Independent Testing

Independent testing is conducted annually by the internal audit department. The last independent test was performed May 15, 2007, and another internal audit is scheduled for this year. A BSA risk assessment process is in place. However, parameters should be re-evaluated regularly to ensure high risk areas are being identified and tested.

Senior Vice President and Chief Financial Officer Kirby Martz and Internal Audit Manager Julie McCabe stated that management is considering outsourcing independent testing in the future to ensure a timely and thorough testing.

BSA Officer

BSA Officer Hauck was responsible for monitoring daily BSA compliance, OFAC searches, FinCEN requests, and training of bank employees. BSA Officer Hauck resigned her position effective May 15, 2008.

Senior Vice President and Chief Financial Officer Martz stated that Business Services Officer Sue Seminary is being considered for the vacant BSA Officer position. She has prior experience with the BSA program and has managed Customer Support and Services.

Comparative Statements of Financial Condition

ASSETS

	03/31/2008	03/31/2006
Total Loans and Leases	2,183,118	1,532,667
Less: Allowance for Loan & Lease Losses	33,586	27,904
Loans and Leases (net)	2,149,532	1,504,763
Interest-Bearing Balances	13	51
Federal Funds Sold and Securities Purchased Under Agreements to Resell	430,575	267,310
Trading Account Assets		
Securities: Held-to-Maturity (at Amortized Cost)		
Available-for-Sale (at Fair Value)	223,788	165,649
Total Earning Assets	2,803,908	1,937,773
Cash and Noninterest-Bearing Balances	74,267	56,365
Balances with Out-of-State Correspondent Banks	158,629	107,619
Premises and Fixed Assets	11,990	4,606
Other Real Estate Owned		444
NDSLTV Serv., Admin., & Credit Enhancement Fees	382	1,076
Equity Securities w/o Readily Determinable FV's	16,773	16,370
Intangible Assets		
Accrued Interest Receivable	30,685	20,185
Other Assets	4,162	3,358
TOTAL ASSETS	3,100,796	2,147,796

LIABILITIES

Total Deposits	2,014,752	1,399,375
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	597,915	269,308
Other Borrowed Money	246,169	283,249
Long-Term Bonds		
Appropriations to General Fund	30,000	27,178
Accrued Liabilities	10,134	5,891
Other Liabilities	2,078	1,369
Total Liabilities	2,901,048	1,986,370

EQUITY CAPITAL

Perpetual Preferred Stock		
Common Equity Capital	199,748	161,426
<i>Includes net unrealized holding gains (losses) on available-for-sale securities.</i>		
Other Equity Capital		
Total Equity Capital	199,748	161,426

TOTAL LIABILITIES, MINORITY INTERESTS, AND EQUITY CAPITAL

	3,100,796	2,147,796
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OFF-BALANCE SHEET ITEMS

Unused Commitments	496,292	362,479
Letters of Credit	283,928	198,388
Other Off-Balance Sheet Items	8,244	4,335
Other Derivative Contracts		
Appreciation (Depreciation) in Held-to-Maturity Securities		

Loans and Lease Financing Receivables

Date: 03/31/2008

Category:

Real Estate Loans
 Installment Loans
 Credit Card and Related Plans
 Commercial Loans
 All Other Loans and Leases
 Gross Loans and Leases

Amount	Percent
889,065	40.72
689,317	31.57
284,782	13.04
319,954	14.67
2,183,118	100.00

PAST DUE AND NONACCRUAL LOANS AND LEASES

Date: 03/31/2008

Category

	Past Due 30 through 89 Days and Accruing	Past Due 90 Days or More and Accruing	Total Past Due and Accruing	Percent of Category	Nonaccrual	Nonaccrual Percent of Category
Real Estate Loans	11,596	1,480	13,076	1.47	252	0.03
Installment Loans	12,945	16,291	29,236	4.24	86	0.01
Credit Card and Related Plans						
Commercial and All Other Loans and Leases	2,640	1,273	3,913	0.65	9,871	1.63
Totals	27,181	19,044	46,225	2.12	10,209	0.47
Memorandum Restructured Loans and Leases Included in the Above Totals						

Footnotes:

Recapitulation of Securities

Description	HELD-TO-MATURITY		AVAILABLE-FOR-SALE	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury Securities				
U.S. Government Agency Obligations				
Issued by U.S. Gov't Agencies			82,446	86,306
Issued by U.S. Gov't-sponsored Agencies				
Issued by States & Political Subdivisions			13,968	13,968
Mortgage-backed Securities (MBS)				
Pass-through Securities:				
Guaranteed by GNMA			1,593	1,598
Issued by FNMA and FHLMC				
Other pass-through securities			42,712	43,329
Other MBS (include CMOs & REMICs):				
Issued or Gtd. by FNMA, FHLMC, or GNMA			54,393	55,151
Collateralized by MBS Issued or Gtd. by FNMA, FHLMC, or GNMA				
All Other Mortgage-Backed Securities			27,114	23,436
Asset-backed Securities (ABS)				
Credit Card Receivables				
Home Equity Lines				
Automobile Loans				
Other Consumer Loans				
Commercial and Industrial Loans				
Other				
Other Debt Securities				
Other Domestic Debt Securities				
Foreign Debt Securities				
Equity Securities				
Investments in Mutual Funds and Other Equity Securities with Readily Determinable Fair Values				
Totals:			222,226	223,788

SECURITIES APPRECIATION (DEPRECIATION)

Description	Held-to-Maturity	Available-for-Sale	Total
Securities Appreciation (Depreciation)		1,562	1,562
As a Percent of Amortized Cost		0.70	0.70

Footnotes:

Items Subject to Adverse Classification

Includes assets and off-balance sheet items which are detailed in the following categories:

Substandard Assets - A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Assets - An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss Assets - An asset classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

AMOUNT, DESCRIPTION AND COMMENTS	CATEGORY		
	Substandard	Doubtful	Loss

LOANS AND LEASES

COMMERCIAL PARTICIPATIONS - TYPE 13

1,178	1,178		
Customer #1403052000			

7,758		7,758	
Customer #1403143000			

BANK STOCK/TOPS - TYPE 14

1,380	1,380		
Customer #1500103000			

BUSINESS DEVELOPMENT - TYPE 16

266	266		
Customer #2000338000			

TOTAL ADVERSELY CLASSIFIED LOANS AND LEASES

	<u>2,824</u>	<u>7,758</u>	<u> </u>
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TOTAL ADVERSELY CLASSIFIED ITEMS

	<u>2,824</u>	<u>7,758</u>	
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Capital Calculations

Tier 1 Capital

Perpetual Preferred Stock and Related Surplus	
Common Stock	2,000
Surplus	42,000
Retained Earnings	154,186
Accumulated Other Comprehensive Income and Other Equity Capital Components	1,562
Total Equity Capital	199,748
Net Unrealized Gains (Losses) on Available-For-Sale Securities (if a gain, deduct from Total Equity Capital in the calculation of Tier 1 Capital, if a loss, add it to Total Equity Capital)	1,562
Less: Net Unrealized Losses on Available-For-Sale Equity Securities	
Accumulated Net Gains (Losses) on Cash Flow Hedges (if a gain, deduct from Total Equity Capital in the calculation of Tier 1 Capital, if a loss, add it to Total Equity Capital)	
Less: Nonqualifying Perpetual Preferred Stock	
Qualifying Minority Interest in Consolidated Subsidiaries	
Less: Disallowed Goodwill and Other Disallowed Intangible Assets	
Less: Disallowed Servicing Assets and Purchased Credit Card Relationships	
Less: Disallowed Deferred Tax Assets	
Other Additions to (Deductions from) Tier 1 Capital	
Subtotal: Tier 1 Capital Elements	198,186
Less: Assets Other Than Loans & Leases Classified Loss	
Less: Additional Amount to be Transferred to Tier 2 for Inadequate Allowance for Loan and Lease Losses	
Other Adjustments to (from) Tier 1 Capital (1)	
Tier 1 Capital	198,186

Tier 2 Capital

Qualifying Subordinated Debt and Redeemable Preferred Stock	
Cumulative Perpetual Preferred Stock Includible in Tier 2 Capital	
Allowance for Loan & Lease Losses	33,586
Less: Loans & Leases Classified Loss	
Add: Amount Transferred from Tier 1 Capital	
Adjusted Allowance for Loan & Lease Losses	33,586
Less: Ineligible Portion of Allowance (If Applicable)	10,578
Allowance for Loan and Lease Losses Includible in Tier 2 Capital	23,008
Unrealized Gains on Available-For-Sale Equity Securities Includible in Tier 2 Capital	
Other Tier 2 Capital Components	
Other Adjustments to (from) Tier 2 Capital	
Tier 2 Capital (Not to Exceed 100% of Tier 1 Capital)	23,008
Tier 3 Capital Allocated for Market Risk (Tier 3 Plus Tier 2 Not to Exceed 100% of Tier 1 Capital)	
Less: Deductions for Total Risk-Based Capital (1)	
Total Capital	221,194

Risk-Weighted Assets and Average Total Assets Calculations

Risk-Weighted Balance Sheet Items	1,507,417
Risk-Weighted Off-balance Sheet Items	333,187
Market Risk Equivalent Assets	
Less: Risk-Weighted Amounts Deducted from Capital	
Gross Risk-Weighted Assets	1,840,604
Less: Ineligible Portion of ALLL & ATRR (1)	10,578
Total Risk-Weighted Assets	1,830,026
Average Total Assets (From 03/31/08 Call Report Schedule RC-K)	3,006,999
Less: Amounts Deducted from Tier 1 Capital (1)	
Adjusted Average Total Assets	3,006,999

MEMORANDA

Securities Appreciation (Depreciation)	1,562
Contingent Liabilities/Potential Loss	

Footnotes:

(1) Includes adjustment for financial subsidiaries as defined by the Gramm-Leach-Bliley Act of 1999, if applicable.

Contingent Liabilities

Description	Amount Extended
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LETTERS OF CREDIT

Ag Country Farm Credit Services	25,000
Alerus Financial	817
American Crystal Sugar Company (11)	26,500
BNC National Bank (19)	50,000
Cloverdale Foods Company	3,617
First National Bank & Trust (2)	700
ND Building Authority	2,000
ND Public Finance Authority (13)	3,839
ND Fitness, LLC	20
United Energy Corporation (30)	25,000
Letters of Credit Pledged for Public Deposits to North Dakota Banks (134)	<u>146,435</u>

SUBTOTAL LETTERS OF CREDIT	283,928
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COMMITMENTS TO EXTEND CREDIT BY LOAN PRODUCT TYPE

Business	70,808
Commercial Bank Participations	273,329
Farm	49,883
Federal Government Guaranteed – Business/Farm	369
Federal Government Guaranteed – Student Loans	7,059
New Venture Capital Fund	250
Residential Real Estate	29,809
State Government Guaranteed – Student Loans	3,583
State Institution	<u>61,202</u>

SUBTOTAL LOAN COMMITMENTS	496,292
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GUARANTEES PROVIDED BY BANK OF NORTH DAKOTA

Beginning Entrepreneur Loan Guarantee	4,250
Farm Real Estate Loan Guarantee	1,789
Livestock Loan Guarantee	<u>2,205</u>

SUBTOTAL GUARANTEES	8,244
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Contingent Liabilities (Continued)

LEGISLATIVE CONTINGENCY

The Sixtieth North Dakota Legislature passed House Bill 1014, which appropriates monies from the Bank of North Dakota to the State's general fund for the biennium beginning July 1, 2007, and ending June 30, 2009. The \$60 million is to be paid from current earnings and accumulated undivided profits as requested by the Director of the Office of Management and Budget. As of March 31, 2008, appropriations to the general fund total \$30 million.

SUBTOTAL LEGISLATIVE CONTINGENCY	<u>30,000</u>
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TOTAL OFF-BALANCE SHEET RISK	818,464
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Analysis of Earnings

Comparative Statement of Income

	Period Ended 03/31/2008	Period Ended 12/31/2007	Period Ended 12/31/2006
Interest Income	38,217	152,414	126,598
Interest Expense	21,437	87,089	71,284
Net Interest Income	16,780	65,325	55,314
Noninterest Income	1,728	6,765	8,257
Total Noninterest Expense	4,478	17,812	16,808
Provision for Loan and Lease Losses	700	3,100	3,400
Securities Gains (Losses)	18	(92)	(509)
Net Operating Income (Pre-Tax)	13,348	51,086	42,854
Applicable Income Taxes			
Net Operating Income (After-Tax)	13,348	51,086	42,854
Extraordinary Credits (Charges), Net			
Net Income	13,348	51,086	42,854
Other Increases/Decreases	(1,066)	2,980	1,718
<i>Includes changes in the net unrealized holding gains (losses) on Available-For-Sale Securities</i>			
Transfers to Industrial Commission		92	
Transfers to General Fund	5,005	25,045	42,854
Net Change in Equity Accounts	7,277	28,929	1,718

Reconciliation of Allowance for Loan and Lease Losses

	Period Ended 03/31/2008	Period Ended 12/31/2007	Period Ended 12/31/2006
Beginning Balance	32,874	30,136	27,123
Gross Loan and Lease Losses	4	429	680
Recoveries	16	67	293
Provision for Loan and Lease Losses	700	3,100	3,400
Other Increases (Decreases)			
Ending Balance	33,586	32,874	30,136

Other Component Ratios and Trends

<u>Ratio</u>	Period Ended 03/31/2008	Period Ended 12/31/2007	Period Ended 12/31/2006
Net Interest Income (TE)/Average Earning Assets	2.38	2.79	2.79
Total Noninterest Expense/Average Assets	0.60	0.71	0.78
Net Income/Average Total Equity	27.52	28.88	26.15
Net Losses/Average Total Loans and Leases	N/A	0.02	0.02
Earnings Coverage of Net Losses (X)	N/A		N/A
ALLL/Total Loans and Leases	1.54	1.64	1.72
Noncurrent Loans and Leases/ALLL	87.10	92.88	60.02

Footnotes:

Signatures of Directors/Trustees

We the undersigned members of the Industrial Commission have personally reviewed the contents of the Report of Examination dated March 31, 2008.

Signatures of Commissioners**Date**

JOHN HOEVEN

ROGER JOHNSON

WAYNE STENEHJEM

NOTE: A copy of this form should remain attached to the Report of Examination and be retained in the institution's file for review during subsequent examinations. A copy of the signed form should be submitted to the Department of Financial Institutions. The signatures of committee members will suffice only if the committee includes outside directors and a resolution has been passed by the full board delegating the review to such committee.
