FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

AND

STATEMENT OF APPROPRIATED EXPENDITURES
YEAR ENDED JUNE 30, 2011

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

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BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of the Bank of North Dakota, a department of the State of North Dakota, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Bank of North Dakota's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bank of North Dakota's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Bank of North Dakota are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2011 and 2010, and the changes in its financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of business-type activities of the Bank of North Dakota as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified balance sheet because current assets are not matched with current liabilities. Presentation of a classified balance sheet would give the false impression that there is a liquidity problem at the bank. Presentation of a classified balance sheet for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012, on our consideration of the Bank of North Dakota's internal control over financial reporting and our tests of its certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank of North Dakota's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 13, 2012

The discussion and analysis which follows provides an overview of the Bank of North Dakota's (Bank) financial performance for the calendar year ended December 31, 2011 and comparative data for 2010 and 2009. Please read it in conjunction with the financial statements of the Bank.

FINANCIAL HIGHLIGHTS:

On an aggregate basis, the loan portfolio grew by $174 million or 6.3% to $2.94 billion at December 31, 2011. In 2010 and 2009, the loan portfolio grew by $97 million or 3.6% and $89 million or 3.5%, respectively.

Total assets grew by $1.35 billion or 33.4% to $5.38 billion. The increase was attributable to continued growth in state deposits and liquidity of banks investing at the Bank.

The tier one leverage ratio is 7.70% compared to 7.95% and 7.17% the prior two years. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%.

REQUIRED FINANCIAL STATEMENTS:

The Bank is an enterprise fund and uses the accrual basis of accounting. The Bank's basic financial statements include the balance sheets, statements of revenues, expenses and changes in fund net assets, and statements of cash flows. The balance sheet provides the basis for computing rate of return, evaluating the net asset structure of the Bank and assessing the liquidity and financial flexibility of the Bank. The statements of revenues, expenses and changes in fund net assets identify the operating performance of the Bank for the calendar year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities. It also provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

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CONDENSED BALANCE SHEETS
DECEMBER 31, 2011, 2010 AND 2009

	(In Thousands)		
	2011	2010	2009
ASSETS			
Cash and cash equivalents	**$ 1,369,370**	$ 671,200	$ 841,239
Interest receivable	**39,479**	39,146	34,550
Securities	**1,008,051**	537,157	397,370
Loans, net	**2,942,271**	2,767,935	2,671,143
Other assets	**3,736**	2,195	2,450
Capital assets, net	**12,166**	12,294	12,917
Total assets	**$ 5,375,073**	$ 4,029,927	$ 3,959,669
LIABILITIES			
Federal funds purchased and repurchase agreements	**$ 318,325**	$ 240,725	$ 337,627
Non-interest bearing deposits	**649,922**	387,040	442,867
Interest bearing deposits	**3,529,915**	2,671,686	2,496,192
Interest payable	**1,840**	2,419	2,546
Transfers payable	**86**	44	-
Other liabilities	**3,660**	3,351	3,783
Short and long-term debt	**471,422**	397,365	405,005
Total liabilities	**4,975,170**	3,702,630	3,688,020
NET ASSETS			
Invested in capital assets	**12,166**	12,294	12,917
Restricted for pledging purposes	**183,430**	116,344	136,456
Unrestricted	**204,307**	198,659	122,276
Total net assets	**399,903**	327,297	271,649
Total liabilities and net assets	**$ 5,375,073**	$ 4,029,927	$ 3,959,669

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Securities

Securities total $1.01 billion at December 31, 2011 compared to $537.2 million at December 31, 2010 and $397.4 million at December 31, 2009. The increase is related to the bank's overall growth. The majority of the securities portfolio consists of AAA rated U.S. government/agency securities. The primary objective of the securities portfolio is to provide liquidity.

Loans

On an aggregate basis, the loan portfolio increased by $174 million, or 6.3%, to $2.94 billion at year-end 2011 from $2.77 billion at year-end 2010. There are four major categories of loans at the Bank.

Student loans increased by $18.1 million in 2011 compared to increases of $112.1 million in 2010 and $155.6 million in 2009. Starting July 1, 2010 the Bank no longer made loans through the Federal Family Education Loan Program. In 2011, new student loans totaled $92.5 million and new consolidation loans were $11.2 million. Decreases were from $85.6 million in loan payments including loans paid in full through consolidation. In 2010, new student loans totaled $180.4 million and new consolidation loans were $8.8 million. Decreases were from $33.6` million in loan payments including loans paid in full through consolidation. In 2009, new student loans totaled $211 million and new consolidation loans were $8.4 million. Decreases were from $64 million in loan payments including loans paid in full through consolidation.

Residential loans increased by $104 million in 2011 and decreased by $4 million in 2010 and $34 million in 2009. New and refinanced loans made in 2011, 2010 and 2009 totaled $194 million, $93 million and $68 million, respectively, while normal loan payments and refinancing payoffs were $90 million, $97 million and $102 million, respectively.

Commercial loans increased by $47 million in 2011 compared to decreasing $17 million in 2010 and $26 million in 2009.

Farm loans increased by $12 million in 2011 compared to an increase of $9 million in 2010 and experiencing no change in 2009.

Loan Delinquencies and Allowance for Loans Losses

When the collectability of any loan becomes uncertain due to delinquency, the financial condition of the borrower, or other factors which cause the Bank to deem itself unsecured, the loan is considered nonperforming and interest is no longer accrued on the loan.

Delinquent and nonaccrual loans for the periods indicated were as follows:

	(In Thousands)		
	2011	2010	2009
Accruing loans 90 days or more past due	**$ 40,252**	$ 47,254	$ 37,923
Nonaccrual loans	**12,900**	12,161	15,944

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Accruing loans 90 days or more past due include guaranteed student loans of $32.9 million, $37.6 million and $29.8 million as of December 31, 2011, 2010 and 2009, 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 $5.5 million, $4.4 million and $6.7 million as of December 31, 2011, 2010 and 2009, 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.

The allowance for loan losses are established by charges to income and are decreased by loans charged off, net of recoveries. Adequacy of the allowance is determined by the credit quality of outstanding loans, which are assigned specific ratings commensurate with risk on a case-by-case basis. Management currently reviews the allowance for loan losses for adequacy on a monthly basis. As of December 31, 2011, 52% of the overall loan portfolio is federally guaranteed compared to 53% at December 31, 2010 and 51% at December 31, 2009. The following sets forth certain information with respect to the Bank's loan loss experience:

	(In Thousands)		
	2011	2010	2009
Gross loans at end of year	**$ 2,995,154**	$ 2,814,548	$ 2,713,611
Allowance for loan losses			
Balance, beginning of year	**$ 46,613**	$ 42,468	$ 36,750
Provision charged to operations	**11,000**	12,100	10,300
Loans charged off	**(4,805)**	(8,166)	(4,907)
Recoveries	**75**	211	325
Balance, end of year	**$ 52,883**	$ 46,613	$ 42,468
Net loan charge-offs to total loans at the end of period	**0.16%**	0.28%	0.17%
Net loan charge-offs to non-guaranteed loans at the end of period	**0.33%**	0.60%	0.34%
Allowance at end of period to total loans at end of period	**1.77%**	1.66%	1.56%
Allowance at end of period to non-guaranteed loans at the end of period	**3.69%**	3.49%	3.09%

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Federal Funds Purchased and Repurchase Agreements

Short-term borrowings were $318 million at December 31, 2011 compared to $241 million at December 31, 2010 and $338 million at December 31, 2009. Short-term borrowings are from North Dakota financial institutions investing in overnight federal funds at the Bank and customer investments in repurchase agreements with the Bank.

Deposits

Noninterest bearing deposits are $650 million at December 31, 2011 compared to $387 million at December 31, 2010 and $443 million at December 31, 2009. Noninterest bearing deposits are primarily related to the amount of check clearing activities of respondent banks. Interest-bearing deposits totaled $3.53 billion at December 31, 2011 compared to $2.67 billion at December 31, 2010 and $2.50 billion at December 31, 2009. This increase is from state deposits related to the growing economic base of the state.

Short and Long-Term Debt

There was no short-term Federal Home Loan Bank (FHLB) debt as of December 31, 2011, 2010 or 2009. FHLB long-term debt is $470.3 million at December 31, 2011 compared to $396.2 million at December 31, 2010 and $405 million at December 31, 2009. FHLB long-term debt is one funding source utilized to fund long-term fixed rate loans.

Net Assets

At December 31, 2011, tier one capital was $394.2 million, which provides a tier one leverage ratio of 7.70%. At December 31, 2010, tier one capital was $326.7 million, which provides a tier one leverage ratio of 7.95%. At December 31, 2009, tier one capital was $270 million, which provides a tier one leverage ratio of 7.17%. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%. The total net asset position of the Bank is affected by several factors, some of which are external to the Bank's operations. The State Legislature, representing the ownership interest in the Bank, makes transfers to the State's General Fund or other programs. By statute, however, in no event are the Bank's net assets to be reduced below $175 million.

Asset/Liability Management - Interest Rate Risk

The Bank's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements. Interest rate risk is measured and reported to the Bank's Funds Management Committee through the use of traditional gap analysis which measures the difference between assets and liabilities that reprice in a given time period and simulation modeling which produces projections of net interest income under various interest rate scenarios and balance sheet strategies.

It is the Bank's policy to maintain a low interest rate risk position by monitoring the amount of forecasted net interest income at risk over a 12-month period assuming several interest rate scenarios. Forecasted results are sensitive to many assumptions, including estimates of the timing of changes in rates which are determined by reference to market indices, such as prime or the Treasury market curve, relative to each other and relative to rates which are determined by the Bank subject to competitive factors.

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Liquidity Management

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers. The Bank's Funds Management Committee, within its Funds Management Policy, establishes contingency funding guidelines that seek to provide sufficient funding sources to meet these demands while achieving the Bank's financial objectives. The committee meets regularly to review the Bank's liquidity position, taking into consideration available funding sources, current and forecasted loan demand and projected investment balances.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	(In Thousands)		
	2011	2010	2009
INTEREST INCOME	**$ 138,386**	$ 133,930	$ 131,921
INTEREST EXPENSE	**39,541**	45,188	50,994
NET INTEREST INCOME	**98,845**	88,742	80,927
Provision for loan losses	**11,000**	12,100	10,300
NET INTEREST INCOME AFTER PROVISION	**87,845**	76,642	70,627
Noninterest income	**9,070**	4,468	11,206
Noninterest expense	**21,494**	20,374	19,106
INCOME BEFORE TRANSFERS	**75,421**	60,736	62,727
TRANSFERS OUT	**(2,815)**	(5,088)	(15,000)
CHANGE IN NET ASSETS	**72,606**	55,648	47,727
TOTAL NET ASSETS - BEGINNING	**327,297**	271,649	223,922
TOTAL NET ASSETS - ENDING	**$ 399,903**	$ 327,297	$ 271,649

Earnings Summary

The Bank's income before transfers was $75.4 million in 2011 compared to $60.7 million in 2010, an increase of 24.2%. This was mainly attributable to an increase in net interest income and a net increase in the fair value of securities.

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Net Interest Income

Results of operations are primarily dependent upon the level of net interest income, which is affected by the mix of earning assets (loans, securities, and federal funds sold) and the interest rates earned thereon; and the amount of interest-bearing liabilities (deposits, federal funds purchased and other funds borrowed) on which interest is paid and the rates of interest paid thereon. Average earning assets grew from $3.9 billion to $4.5 billion at December 31, 2011 with a decrease in interest margin**.**

The following table shows the average rates earned and paid for 2011, 2010 and 2009:

	Year Ended December 31,		
	2011	2010	2009
Annualized average interest rate earned			
Federal funds sold	**0.25%**	0.26%	0.27%
Securities	**1.81%**	2.11%	3.06%
Loans	**4.23%**	4.34%	4.52%
Weighted average interest rates earned	**3.01%**	3.35%	3.72%
Annualized average interest rate paid			
Deposits	**0.63%**	0.93%	1.35%
Federal funds purchased and repurchase agreements	**0.13%**	0.22%	0.25%
Short and long-term debt	**4.66%**	4.76%	4.77%
Weighted average interest rates paid	**1.03%**	1.31%	1.62%
Net interest spread	**1.98%**	2.04%	2.10%
Net interest margin	**2.14%**	2.21%	2.28%

Provision for Loan Losses

The provision for loan losses was $11 million in 2011, $12.1 million in 2010 and $10.3 million in 2009. One of the factors in determining the necessary provision for loan loss for the year is loan growth. The loan growth was $174 million in 2011 compared to $97 million in 2010 and $89 million in 2009.

Noninterest Income

Overall, noninterest income increased by $4.6 million in 2011. This increase was entirely a result in an increase in the fair value of securities.

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Noninterest Expense

Noninterest expense increased by $1.1 million, or 5.5%. The increase in noninterest expense is primarily related to two noninterest expense categories. Salaries and benefits were increased for approved legislative increases and other needed increases. Increases in other operating expenses related to marketing expenses for the North Dakota College Access Network.

BUDGETARY HIGHLIGHTS

Bank of North Dakota operates through a biennial appropriation provided by the State Legislature. The Bank prepares a biennial budget for noninterest expenses which is included in the Governor's budget that is presented to the Legislature at the beginning of each legislative session. The Legislature enacts the budgets of the various state departments through passage of specific appropriation bills. Once passed and signed, the appropriation becomes the Bank's noninterest expense operating budget for the next biennium. Changes to the appropriation are limited to Industrial Commission approval, Emergency Commission authorization, and initiative or referendum action. The Industrial Commission, as provided by Article 10, Section 12 of the North Dakota Constitution, may appropriate necessary funds required in the financial transactions of Bank of North Dakota. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items.

Bank of North Dakota also incurs noninterest expenditures which are not part of the biennial appropriation process. Examples of these expenditures include interest, provision for loan losses, loan collection costs, check processing fees, and depreciation and amortization. These expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority as provided by Article 10, Section 12 of the North Dakota Constitution.

The State of North Dakota does not formally budget revenues for enterprise funds. Thus, a Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual statement cannot be prepared. In its place a Statement of Appropriations is presented. The Statement of Appropriations is prepared on the accrual basis of accounting.

CAPITAL ASSETS

Bank of North Dakota has $12.2 million in bank premises, equipment, and software. Capital expenditures totaled $780,000 in 2011 compared to $507,000 in 2010 and $436,000 in 2009. This year's expenditures were related to the software purchases as well as the purchase of an adjacent property.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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.

CONTACTING BANK OF NORTH DAKOTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Bank's finances and to demonstrate the Bank's accountability for the money it receives. If you have any questions about this report or need additional financial information, you can contact Bank of North Dakota by mail at P.O. Box 5509, Bismarck, North Dakota 58506-5509. If you wish to visit the Bank for information, the physical address is 1200 Memorial Hwy, Bismarck, ND 58504.

BANK OF NORTH DAKOTA
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	(In Thousands)	
	2011	2010
ASSETS		
Cash and due from banks		
Restricted	**$ 64,512**	$ 40,518
Unrestricted	**1,286,543**	597,582
Federal funds sold	**18,315**	33,100
Cash and cash equivalents	**1,369,370**	671,200
Interest receivable		
Due from other funds	**70**	4
Other	**39,409**	39,142
	39,479	39,146
Securities		
Restricted	**29,735**	22,685
Unrestricted	**978,316**	514,472
	1,008,051	537,157
Loans		
Restricted	**559,510**	449,554
Unrestricted	**2,435,644**	2,364,994
Less allowance for loan losses	**(52,883)**	(46,613)
	2,942,271	2,767,935
Other assets		
Due from other funds	**636**	639
Other	**3,100**	1,556
	3,736	2,195
Capital assets		
Land	**1,445**	1,171
Building and equipment, net	**9,697**	10,203
Intangibles, net	**1,024**	920
	12,166	12,294
Total assets	**$ 5,375,073**	$ 4,029,927

	(In Thousands)	
	2011	2010
LIABILITIES		
Federal funds purchased	**$ 318,325**	$ 240,725
Deposits		
Non-interest bearing	**619,521**	356,039
Non-interest bearing - of other funds	**30,401**	31,001
Interest bearing	**170,671**	107,837
Interest bearing - of other funds	**3,359,244**	2,563,849
	4,179,837	3,058,726
Interest payable		
Due to other funds	**1,739**	2,280
Other	**101**	139
	1,840	2,419
Transfers payable	**86**	44
Other liabilities		
Due to other funds	**142**	209
Other	**3,518**	3,142
	3,660	3,351
Short and long-term debt		
Current portion	**3,170**	16,043
Long-term portion	**468,252**	381,322
	471,422	397,365
Total liabilities	**4,975,170**	3,702,630
NET ASSETS		
Invested in capital assets	**12,166**	12,294
Restricted for pledging purposes	**183,430**	116,344
Unrestricted	**204,307**	198,659
Total net assets	**399,903**	327,297
Total liabilities and net assets	**$ 5,375,073**	$ 4,029,927

BANK OF NORTH DAKOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	(In Thousands)	
	2011	2010
INTEREST INCOME		
Federal funds sold	**$ 65**	$ 96
Securities	**15,262**	11,862
Loans	**123,059**	121,972
Total interest income	**138,386**	133,930
INTEREST EXPENSE		
Deposits	**19,857**	24,443
Federal funds purchased and repurchase agreements	**337**	911
Short and long-term debt	**19,347**	19,834
Total interest expense	**39,541**	45,188
NET INTEREST INCOME	**98,845**	88,742
PROVISION FOR LOAN LOSSES	**11,000**	12,100
NET INTEREST AFTER PROVISION FOR LOAN LOSSES	**87,845**	76,642
NONINTEREST INCOME		
Service fees and other	**6,652**	6,113
Net increase/(decrease) in the fair value of securities	**2,418**	(1,645)
Total noninterest income	**9,070**	4,468
NONINTEREST EXPENSE		
Salaries and benefits	**11,693**	11,188
Data processing	**3,952**	4,084
Occupancy and equipment	**906**	823
Other operating expenses	**4,943**	4,279
Total noninterest expenses	**21,494**	20,374
INCOME BEFORE TRANSFERS	**75,421**	60,736
TRANSFERS OUT	**(2,815)**	(5,088)
CHANGE IN NET ASSETS	**72,606**	55,648
TOTAL NET ASSETS - BEGINNING OF YEAR	**327,297**	271,649
TOTAL NET ASSETS - END OF YEAR	**$ 399,903**	$ 327,297

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	(In Thousands) 2011	2010
OPERATING ACTIVITIES		
Receipt of service fees and other income from other funds	**$ 4,120**	$ 3,714
Receipt of service fees and other income from other entities	**2,515**	2,400
Payment of salaries and benefits	**(11,662)**	(11,198)
Payment of data processing expenses	**(3,015)**	(3,590)
Payment of occupancy and equipment	**(414)**	(311)
Payment of other operating expenses	**(5,905)**	(4,701)
NET CASH USED FOR OPERATING ACTIVITIES	**(14,361)**	(13,686)
NON-CAPITAL FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	**262,882**	(55,826)
Net increase in interest bearing deposits	**858,229**	175,493
Interest payments on deposits	**(20,436)**	(24,567)
Net increase (decrease) in federal fund purchased and repurchase agreements	**77,600**	(96,902)
Interest payments on federal funds purchased and repurchase agreements	**(336)**	(913)
Proceeds from issuance of short and long-term debt	**90,100**	15,131
Payment of short and long-term debt	**(16,043)**	(22,771)
Interest payments on short and long-term debt	**(19,348)**	(19,835)
Payment of transfers	**(2,773)**	(5,044)
NET CASH FROM (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	**1,229,875**	(35,234)
CAPITAL AND RELATED FINANCING ACTIVITY		
Purchases of capital assets	**(780)**	(507)
INVESTING ACTIVITIES		
Purchase of securities	**(593,502)**	(249,080)
Proceeds from sales, maturities, and principal repayments of securities	**125,026**	107,648
Investment income received	**14,551**	11,786
Proceeds from sales of loans	**1,995**	1,122
Net increase in loans	**(188,641)**	(110,454)
Loan income received	**123,503**	117,548
Proceeds from sale of other real estate and property owned	**504**	818
NET CASH USED FOR INVESTING ACTIVITIES	**(516,564)**	(120,612)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**698,170**	**(170,039)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**671,200**	841,239
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,369,370**	$ 671,200

See Notes to Financial Statements

	(In Thousands)	
	2011	2010
RECONCILIATION OF INCOME BEFORE OPERATING TRANSFERS TO NET CASH USED FOR OPERATING ACTIVITIES		
Income before operating transfers	**$ 75,421**	$ 60,736
Adjustments to reconcile income before operating transfers to net cash used for operating activities		
Depreciation and amortization	**899**	1,130
Provision for loan losses	**11,000**	12,100
Gain on sale of loans	**(43)**	(13)
Gain on sale of other real estate and property owned	**(7)**	(5)
Loss on retirement of fixed assets	**8**	-
Net (increase)/decrease in the fair value of securities	**(2,418)**	1,645
Reclassification of interest income and expense to other activities	**(98,845)**	(88,742)
(Increase)/decrease in other assets	**(688)**	(101)
(Increase)/decrease in due from other funds	**3**	(4)
Increase (decrease) in due to other funds	**(67)**	(55)
Increase/(decrease) in other liabilities	**376**	(377)
NET CASH USED FOR OPERATING ACTIVITIES	**$ (14,361)**	$ (13,686)
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS		
Transfers from net assets to transfers payable	**$ 2,815**	$ 5,088

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of North Dakota (Bank) 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. The Bank 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. The Bank is a participation lender; the vast majority of its loans are made in tandem with financial institutions throughout the State of North Dakota. The Bank's primary deposit products are interest-bearing accounts for state and political subdivisions.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 14, *The Financial Reporting Entity*, Bank of North Dakota should include all component units over which the Bank of North Dakota exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Bank.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Bank of North Dakota is included as part of the primary government of the State of North Dakota's reporting entity.

Accounting Standards

The Bank follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Bank follows all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) Accounting Standards Codification of authoritative generally accepted accounting principles to be applied by nongovernmental entities, including those issued after November 30, 1989, unless they conflict with the GASB pronouncements.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified balance sheet because current assets are not matched with current liabilities. Presentation of a classified balance sheet would give the false impression that there is a liquidity problem at the Bank. Presentation of a classified balance sheet for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the balance sheet of Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

Fund Accounting

The Bank is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net assets is segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statements of cash flows presents the cash flows for operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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, 2011 and 2010:

	2011	2010
Student loans, of which 97% and 97% are guaranteed	**36%**	37%
Commercial loans, of which 4% and 5% are federally guaranteed	**35%**	36%
Residential loans, of which 83% and 83% are federally guaranteed	**19%**	17%
Agricultural loans, of which 5% and 7% are federally guaranteed	**10%**	10%
	100%	100%

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. Securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost.

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

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

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

Loans Held For Sale

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

Loans

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

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

Allowance for Loan Losses

The Bank uses the allowance method in providing for loan losses. Accordingly, the allowance is increased by the current year’s provision for loan losses charged to operations and reduced by net charge-offs. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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The adequacy of the allowance for loan losses and the provision for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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

Impairment is measured on a loan-by-loan basis for commercial, agricultural, farm real estate, state institution and bank stock loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual guaranteed student and residential loans for impairment disclosures, except for such loans that are placed on nonaccrual.

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 days 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.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit and financial standby letters of credit. Such financial instruments are recorded when they are funded.

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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.

Capital Assets

Capital assets, which include intangibles (software), are stated at cost less accumulated depreciation or amortization. Capital assets with a purchase price of $5,000 (for software that is internally developed, the threshold is $50,000) or more are capitalized and reported in the accompanying financial statements. 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 $981,000 as of December 31, 2011. There were no foreclosed assets as of December 31, 2010.

Compensated Absences Payable

Annual Leave: Bank employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 56-06-14 of the North Dakota Century Code. Accrued annual leave cannot exceed 30 days at December 31 of each year. Employees are paid for unused annual leave upon termination or retirement.

Sick Leave: Bank employees accrue sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the Bank is liable for 10 percent of the employee's accumulated unused sick leave.

The Bank's liability for accumulated unpaid annual leave and sick leave is reported in other liabilities and will be funded by the Bank's appropriation when the liability is to be liquidated. The net change in the liability is recorded in salaries and benefits.

Restricted Assets and Restricted Net Assets

Certain Bank assets and net assets carry a restricted classification because they are pledged on short and long-term debt, securities sold under agreements to repurchase and other required pledging purposes. If an expense is incurred that qualifies for use of either restricted or unrestricted resources, the Bank will first apply restricted resources.

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.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued amended accounting and disclosure guidance relating to a creditor's determination of whether a restructuring is a trouble debt restructuring. The amendments clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This guidance is effective for annual periods ending on or after December 15, 2012. The adoption of this guidance is not expected to have a material impact on the Bank's financial position, results of operations, or cash flows.

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. GAAP and International Financial Reporting Standards. This guidance includes amendments that clarify the application of existing fair value measurement requirements, in addition to other amendments that change principles or requirements for measuring fair value and for disclosing information about fair value measurements. This guidance is effective for annual periods beginning after December 15, 2011. This guidance will primarily impact the Bank's disclosures, but otherwise is not expected to have a material impact on the Bank's financial statements.

In June 2011, the FASB issued new accounting guidance related to the presentation of comprehensive income that eliminates the option to present components of other comprehensive income as part of the statement of equity. The amendments require that all nonowner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years beginning after December 15, 2012. The adoption of this guidance will not impact the Bank's financial position, results of operations, or cash flows and will only impact the presentation of other comprehensive income in the financial statements.

GASB Statement No. 61, The Financial Reporting Entity: Omnibus will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the requirements of Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average reserve balances maintained at the Federal Reserve Bank were approximately $56,628,000 in 2011 and $49,977,000 in 2010, respectively.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. On other significant depository relationships the Bank requires the depository financial institution to have a minimum short-term rating of A-1 or P-1 as established by the rating agency.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Bank will not be able to recover deposits that are in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for deposits. All of the Bank's deposits are insured up to $250,000 with the Federal Deposit Insurance Company except for deposits at the Federal Reserve Bank and the Federal Home Loan Bank. The remaining deposits with these financial institutions are uncollateralized.

The following summary presents the amount of the Bank's deposits as of December 31, 2011 and 2010:

	(In Thousands)	
	2011	2010
Covered by depository insurance		
Due from banks	**$ 851**	$ 792
Uncollateralized		
Due from banks	**1,072,703**	514,771
Federal funds sold	**18,315**	33,100
Total bank balances	**$ 1,091,869**	$ 548,663

Investments

The Bank's investment policy provides guidelines for security custody, approved security dealers, investment authority, variance from the approved investment selection and purchase process, required investment data to be obtained and maintained, investment guidelines, investment management parameters, investment intent, and federal funds management.

The Bank's investment policy indicates that the Bank is authorized to own the following types of securities: U.S. Treasury securities, Federal agency securities, mortgaged-backed securities, collateralized mortgage obligations, corporate securities, asset-backed securities, state and municipal securities, money market securities, capital stock of government sponsored agencies, and venture capital.

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The composition of the investment portfolio, related credit quality rating, custody, and duration as of December 31, 2011 and 2010, is provided below:

	Rating *	Custody	Duration (In Years)	(In Thousands) 2011	2010
Federal agency	AAA	(1)	1.98	**$ 479,972**	$ 143,761
Mortgage-backed	AAA	(1)	5.49	**367,094**	242,285
Corporate bonds	AAA	(1)	0.38	**114,605**	114,880
State and municipal	Not rated	(2)	7.20	**16,161**	8,868
Federal Home Loan Bank	Not rated	(3)	N/A	**25,776**	23,333
Other equity securities	Not rated	(2)	N/A	**4,443**	4,030
				$ 1,008,051	$ 537,157

* The credit quality rating indicated above is based on Moody's Investors Service.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Bank will not be able to recover the value of the investment that is in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for investments. The Bank is not exposed to any custodial credit risk for its investment portfolio. Custody of investments indicated above is as follows:

(1) These are fed-book entry securities.
(2) Registered in the name of the Bank and held in the Bank's vault.
(3) Not registered and held at FHLB.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policy provides for a duration range of one to five years which will serve to decrease interest rate risk. The duration for the Bank's investments is provided in the table provided above using the modified duration method. The average duration for the Bank's entire investment portfolio was 3.2 years as of December 31, 2011.

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Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of the Bank's investment in a single issuer. The Bank's investment policy provides the following minimum credit quality ratings for its investments and the following asset allocation range for investments as a percentage of the total portfolio:

	Minimum Credit Quality Ratings		Asset Allocation Range	
	Moody's (1)	S & P (2)	Minimum	Maximum
U.S. Treasury securities	Aaa	AAA	0%	100%
Federal agency securities	Aaa	AAA	0%	100%
Step-up agency securities	Aaa	AAA	0%	20%
Agency Mortgaged-backed securities	Aaa	AAA	0%	75%
Agency collateralized mortgage obligations	Aaa	AAA	0%	50%
Non-agency collateralized mortgage obligations	Aaa	AAA	0%	20%
Corporate securities	A2	A	0%	20%
Municipal obligations	None	None	0%	20%
Money market securities	P1	A1	0%	20%

Investments in any one issuer that represent 5% or more of total investments as of December 31, 2011, are as follows:

	Amount (In Thousands)	Percent
Federal agency		
Federal Home Loan Bank	$ 354,750	35.1%
Fannie Mae	125,222	12.4%
Mortgage-backed		
Fannie Mae	133,250	13.2%
Freddie Mac	77,953	7.7%
Federal Home Loan Bank stock	25,776	2.6%
Others less than 5%	291,100	28.9%
	$ 1,008,051	100.0%

Securities with a fair value of $3,758,000 at December 31, 2011, and $352,000 at December 31, 2010, were used to secure repurchase agreements and for other required pledging purposes. FHLB stock totaling $25,776,000 at December 31, 2011 and $23,333,000 at December 31, 2010 is pledged on the FHLB advances (Note 11).

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The maturity distribution of debt securities at December 31, 2011, 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. Federal Home Loan Bank stock and other equity securities are not included in the following maturity distribution.

	(In Thousands)
Within one year	$ 187,741
Over one year through five years	618,589
Over five years through ten years	134,426
Over ten years	37,076
	$ 977,832

For the year ended December 31, 2011, proceeds from the sales of securities available for sale amounted to $4,093,000. For the year ended December 31, 2010, proceeds from the sales of securities available for sale amounted to $1,157,000.

NOTE 4 - INTERFUND 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.

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program which is administered by the Bank.

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		(In Thousands)		
		2011		2010
LOANS AND INTEREST RECEIVABLE – DUE FROM OTHER FUNDS – See NOTE 5				
OTHER ASSETS - Due from other funds (trade accounts receivable - all current)				
North Dakota Guaranteed Student Loan Program	**$**	**225**	$	188
North Dakota Student Loan Trust		**190**		210
Beginning Farmer Revolving Loan Fund		**-**		11
Community Water Facility Loan Fund		**21**		22
Department of Human Services		**10**		10
Developmentally Disabled Facility Loan Program		**-**		1
Information Technology Department		**6**		2
Board of University and School Lands		**184**		195
	$	**636**	$	639
OTHER LIABILITIES - Due to other funds (trade accounts payable - all current)				
Information Technology Department	**$**	**135**	$	200
Attorney General		**7**		9
	$	**142**	$	209

		(In Thousands)		
		2011		2010
OPERATING TRANSFERS - Out				
Rebuilders Loan Program	**$**	**2,229**	$	-
Information Technology Department		**500**		5,000
Industrial Commission		**86**		88
	$	**2,815**	**$**	**5,088**
COMPONENT UNITS OF THE STATE OF NORTH DAKOTA				
SECURITIES				
ND Public Finance Authority (to fund required reserves established by various series resolutions - all noncurrent)	**$**	**1,095**	$	3,668
OTHER ASSETS (NDPFA - Trade accounts receivable - all current)	**$**	**11**	$	-

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NOTE 5 - LOANS

The composition of the loan portfolio at December 31, 2011 and 2010 is as follows:

	(In Thousands) 2011	2010
Student	**$ 1,068,598**	$ 1,044,442
Commercial	**1,062,534**	1,022,002
Residential loans	**575,020**	471,411
Agricultural	**289,002**	276,693
	2,995,154	2,814,548
Allowance for loan losses	**52,883**	46,613
	$ 2,942,271	$ 2,767,935
Current portion	**$ 518,700**	$ 412,362

Unamortized deferred student loan costs totaled $11,414,000 and $12,504,000 as of December 31, 2011 and 2010, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $4,658,000 and $3,100,000 as of December 31, 2011 and 2010, respectively.

The composition of State Institutions loans at December 31, 2011 and 2010 is as follows:

	(In Thousands) 2011		2010	
	Principal	**Interest**	Principal	Interest
Mill and Elevator (annual operating)	**$ 35,000**	**$ 64**	$ 20,100	$ -
Rough Rider Industries	**311**	**-**	400	1
ND State Fair Association	**2,601**	**1**	-	-
Job Service	**301**	**4**	-	-
Housing Finance Agency	**-**	**-**	1,799	3
	$ 38,213	**$ 69**	$ 22,299	$ 4
Current portion	**$ 35,301**	**$ 69**	$ 21,899	$ 4

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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.

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 $52,883,000 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2011. The following table represents by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

	(In Thousands)				
	Commercial Loans	Farm Loans	Residential RE Loans	Student Loans	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

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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.

The following table disaggregates our allowance for credit losses by impairment methodology.

(In Thousands)	Commercial Loans	Farm Loans	Residential RE Loans	Student Loans	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 table represents credit exposures by internally assigned risk ratings for the year ended December 31, 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.

(In Thousands)

Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
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	$ 224,154	$ 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 is a table which includes an aging analysis of the recorded investment of past due financing receivables as of December 31, 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.

	(In Thousands)						
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

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 table includes 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 and the related amount of interest recognized 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.

	(In Thousands)			
Loan Class	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment
With No Specific Allowance Recorded:				
Commercial Participations	$ -	$ -	$ -	$ -
Bank Stock	-	-	-	-
All other Business Loans (Including PACE)	61	3	-	25
Farm & Ranch	23	10	-	11
Farm Real Estate	-	-	-	-
All other Farm loans	-	-	-	-
Residential Real Estate	1,536	1,242	-	1,451
Student Loans	217	215	-	-
With an Allowance Recorded:				
Commercial Participations	$ 52,302	$ 41,287	$ 8,432	$ 42,715
Bank Stock	1,300	1,115	167	1,145
All other Business Loans (Including PACE)	4,100	2,573	749	2,842
Farm & Ranch	1,665	1,077	342	1,282
Farm Real Estate	431	383	49	389
All other Farm loans	116	81	6	89
Residential Real Estate	-	-	-	-
Student Loans	-	-	-	-
Totals:				
Commercial Participations	$ 52,302	$ 41,287	$ 8,432	$ 42,715
Bank Stock	1,300	1,115	167	1,145
All other Business Loans (Including PACE)	4,161	2,576	749	2,867
Farm & Ranch	1,688	1,087	342	1,293
Farm Real Estate	431	383	49	389
All other Farm loans	116	81	6	89
Residential Real Estate	1,536	1,242	-	1,451
Student Loans	217	215	-	-

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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 documented 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, 2011. The balances are presented by class of financing receivable.

	(In Thousands)
Commercial Participations	$ 10,996
Bank Stock	-
All Other Business Loans (Including PACE)	1,100
Farm & Ranch	-
Farm Real Estate	-
All Other Farm Loans	-
Residential Real Estate	589
Student	215
TOTAL	$ 12,900

Accruing loans 90 days or more past due include guaranteed student loans of $32,861,000 and $37,600,000 as of December 31, 2011 and 2010, 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 $5,511,000 and $4,433,000 as of December 31, 2011 and 2010, 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 tables include the recorded investment and number of modifications for modified loans. The Bank reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. Management has also disclosed the recorded investment and number of modifications for troubled debt restructurings within the last year where a concession has been made, that then defaulted in the current reporting period.

		(In Thousands)	
	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Commercial Participations	17	$ 43,203	$ 39,533
Bank Stock	1	1,155	1,115
All Other Business Loans (Including PACE)	9	1,984	1,687
Farm & Ranch	1	1,508	1,077
Farm Real Estate	3	416	383
All Other Farm Loans	3	129	91
Residential Real Estate	6	650	655
Student Loans	-	-	-
TOTAL	40	$ 49,045	$ 44,541

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2011 and 2010.

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NOTE 6 - LOAN SALES AND LOAN SERVICING

A summary of the Bank's loan sales during 2011 and 2010 follows:

	(In Thousands)	
	2011	2010
Residential loans sold on the secondary market	**$ 1,952**	$ 1,109

BND recognized gains on sale of loans of $43,000 in 2011 and $13,000 in 2010 which are included in noninterest income on the Statements of Revenue, Expenses and Changes in Fund Net Assets.

The Bank 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, 2011 and 2010 were as follows:

	(In Thousands)	
	2011	2010
Student loans		
North Dakota Student Loan Trust	**$ 41,233**	$ 47,160
Residential loans	**10,250**	11,025
Other state fund loans		
Board of University and School Lands	**55,806**	43,890
Community Water Facility Loan Fund	**16,143**	17,316
Beginning Farmer Revolving Loan Fund	**-**	8,572
Developmentally Disabled Facility Loan Program	**-**	648
Rebuilders Loan Program	**2,206**	-
Department of Human Services	**7,860**	8,271
Information Technology Department	**4,404**	2,758
Workforce Safety	**152**	86
	$ 138,054	$ 139,726

Under existing student loan servicing agreements, the Bank generally agrees to reimburse lenders for all principal, accrued interest and special allowance which the lender has been denied if the denial resulted from the actions or inactions of the Bank. Under existing residential loan servicing agreements, the Bank generally agrees to reimburse lenders for all losses, damages, judgments or legal expenses that resulted from the actions or inactions of the Bank. Any potential liability for claims under these agreements is not considered significant.

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NOTE 7 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 is as follows:

(In Thousands)

	Balance 2010	Additions	Retirements	Balance 2011
Capital assets not being depreciated:				
Land	$ 1,171	$ 274	$ -	$ 1,445
Capital assets being depreciated:				
Building	$ 10,212	$ -	$ -	$ 10,212
Equipment	756	76	169	663
Furniture	679	-	-	679
Hardware	627	11	64	574
Intangibles - software	5,513	419	1,019	4,913
	17,787	506	1,252	17,041
Less accumulated depreciation for				
Building	868	300	-	1,168
Equipment	510	126	169	467
Furniture	184	67	-	251
Hardware	509	92	64	537
Intangibles - software	4,593	315	1,019	3,889
Total accumulated depreciation	6,664	900	1,252	6,312
Capital assets, net	$ 11,123	$ (394)	$ -	$ 10,729

(In Thousands)

	Balance 2009	Additions	Retirements	Balance 2010
Capital assets not being depreciated:				
Land	$ 1,171	$ -	$ -	$ 1,171
Capital assets being depreciated:				
Building	$ 10,212	$ -	$ -	$ 10,212
Equipment	987	26	257	756
Furniture	679	-	-	679
Hardware	1,267	41	681	627
Intangibles - software	6,564	440	1,491	5,513
	19,709	507	2,429	17,787
Less accumulated depreciation for				
Building	568	300	-	868
Equipment	622	145	257	510
Furniture	117	67	-	184
Hardware	885	305	681	509
Intangibles - software	5,771	313	1,491	4,593
Total accumulated depreciation	7,963	1,130	2,429	6,664
Capital assets, net	$ 11,746	$ (623)	$ -	$ 11,123

Depreciation and amortization expense on the above assets amounted to $900,000 and $1,130,000 in 2011 and 2010, respectively.

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NOTE 8 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $2,526,984,000 and $2,030,887,000 as of December 31, 2011 and 2010, respectively.

At December 31, 2011, the scheduled maturities of certificates of deposits are as follows:

	(In Thousands)
One year or less	$ 2,284,659
One to three years	248,410
Over three years	18,178
	$ 2,551,247

NOTE 9 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

	(In Thousands)	
	Federal Funds Purchased	Repurchase Agreements
2011		
Ending balance	**$ 318,325**	**$ -**
Highest month-end balance	**426,160**	**-**
Average daily balance	**305,372**	**-**
Weighted average interest rate		
As of year-end	**0.13%**	**0.00%**
Paid during year	**0.11%**	**0.00%**
2010		
Ending balance	$ 240,725	$ -
Highest month-end balance	525,005	8,127
Average daily balance	399,169	5,829
Weighted average interest rate		
As of year-end	0.13%	0.25%
Paid during year	0.22%	0.25%

The purpose of federal funds purchased and repurchase agreements is to provide continuous short-term investments for the Bank's customers. A schedule disclosing the increases and decreases of federal funds purchased and repurchase agreements have not been provided since this information would not provide any useful information to the users of the financial statements.

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Federal funds purchased generally mature the day following the date of purchase. The Bank enters into repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying agreements to repurchase normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the Bank or provide securities or cash of equal value, the Bank would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There was no credit exposure as of December 31, 2011 and 2010, because the dealer did not take control of the securities. The Bank had not incurred any losses on these agreements in 2011 and 2010. All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of agreements to repurchase, the Bank policy is for the term to maturity of the investment to be the same as the term of the agreement to repurchase. Such matching existed at year-end.

NOTE 10 - SHORT AND LONG-TERM LIBILITIES

Activity for short and long-term liabilities for the years ended December 31, 2011 and 2010 was as follows:

(In Thousands)

	Balance 2010	Additions	Reductions	Balance 2011	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	$ 396,199	$ 90,000	$ 15,872	$ 470,327	$ 2,989
ND Public Finance Authority	1,165	100	170	1,095	181
Compensated absences	930	796	760	966	821
Total long-term liabilities	$ 398,294	$ 90,896	$ 16,802	$ 472,388	$ 3,991

	Balance 2009	Additions	Reductions	Balance 2010	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	$ 403,779	$ 15,000	$ 22,580	$ 396,199	$ 15,872
ND Public Finance Authority	1,226	100	161	1,165	171
Compensated absences	945	758	773	930	791
Total long-term liabilities	$ 405,950	$ 15,858	$ 23,514	$ 398,294	$ 16,834

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

	(In Thousands)		
	Principal	Interest	Total
2012	$ 3,170	$ 20,284	$ 23,454
2013	65,291	18,584	83,875
2014	18,417	16,852	35,269
2015	13,541	16,444	29,985
2016	38,650	14,652	53,302
2017-2021	309,616	40,133	349,749
2022-2025	22,737	1,631	24,368
Totals	$ 471,422	$ 128,580	$ 600,002

The FHLB long-term advances outstanding at December 31, 2011, mature from January 2013 through March 2025. The FHLB long-term advances have fixed rate interest, ranging from 3.01% to 7.35%. The advances must be secured by minimum qualifying collateral maintenance levels by pledging residential loans totaling $559,510,000 and $449,554,000 at December 31, 2011 and 2010, respectively, are currently being used as security to meet these minimum levels.

The ND Public Finance Authority long-term borrowing is unsecured. Proceeds from the long-term borrowings are used to make irrigation loans at Bank of North Dakota.

NOTE 11 - TRANSFERS PAYABLE

Transfers have been made out of unrestricted net assets to transfers payable. The Bank has the following transfers payable as of December 31, 2011 and 2010:

	(In Thousands)	
	2011	2010
Industrial Commission	**$ 86**	$ 44

NOTE 12 - 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.

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Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 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 has implemented a salary reduction agreement and is currently contributing the employees share. 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, 2011, 2010 and 2009 were approximately $754,000, $710,000 and $677,000.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 13 - 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 $1,725,000 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 $500,000, 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 – The Department of Transportation may borrow up to $200,000,000 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 $1,100,000 for the purpose of defraying the expenses of the penitentiary expansion project.

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H.B. 1021, Sections 4 & 6 – The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $8,000,000 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 shall request fund transfers from the Bank only as necessary to comply with federal requirements and to meet cash flow needs of the funds. The Health Information Technology Office Director may request the Bank of North Dakota to transfer up to $5,000,000 to the Health Information Technology Planning Loan Fund. The Health Information Technology Office Director shall request transfers from the Bank only as necessary to meet cash flow needs of the fund. For the year ended December 31, 2011, the Bank had transferred $500,000 to this fund.

H.B. 1206, Section 2 – The Bank shall provide a loan of $50,000,000 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.
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 $2,560,000 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 $30,000,000 from its current earnings and undivided profits to the Rebuilders Loan Program. For the year ended December 31, 2011, the Bank had transferred $2,229,000 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 $6,500,000 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the trustee to the fund established for paying principal and interest on the bonds under a trust indenture. If the bank has to provide a transfer to the state water commission to make principal and interest payments on these bonds, the state water commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank.

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Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400,000. The Bank may have no more than $8,000,000 in outstanding loan guarantees under this program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2011 and 2010, the Bank has guarantees outstanding totaling $273,000 and $1,116,000, respectively. The Bank had no guarantee commitments outstanding as of December 31, 2011 and December 31, 2010 included in commitments to extend credit.

Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The program includes an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, the Bank shall pay the lender the amount agreed upon up to 85 percent of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed 5% of the Bank's tier one capital as defined by the Department of Financial Institutions. A lender my apply to the Bank for a loan guarantee for a loan up to $200,000. The term of the guarantee may not exceed five years. As of December 31, 2011 and 2010, the Bank has guarantees outstanding totaling $4,963,000 and $4,045,000, respectively, and had guarantee commitments outstanding of $248,000 and $38,000, respectively, included in commitments to extend credit.

Livestock Loan Guarantee Program

Chapter 6-09-41 of the North Dakota Century Code provides that the Bank of North Dakota establish and administer a loan guarantee program that is designed to expand livestock feeding and dairy farming in this state. This program was effective through June 30, 2009.

The Bank may guarantee loans made by a 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 and 2010, the Bank has guarantees outstanding totaling $743,000 and $850,000, respectively. The Bank had no guarantee commitments outstanding as of December 31, 2011 and December 31, 2010 included in commitments to extend credit.

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.

(continued on next page)

At December 31, 2011 and 2010, the following financial instruments were outstanding where contract amounts represent credit risk:

	Contract Amount (In Thousands) 2011	2010
Commitments to extend credit	**$ 708,282**	$ 497,044
Financial standby letters of credit	**323,703**	360,878

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 $210,086,000 and $257,270,000 at December 31, 2011 and 2010, 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.

(continued on next page)

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 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 private collateralized mortgage obligations and state and political securities. Securities classified as Level 3 are FHLB stock and equity securities that are not publicly traded and do not have a readily determinable fair value.

Loans

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

(continued on next page)

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 calculated by discounting contractual cash flows, adjusted for prepayment and credit loss estimates, using discount rates based on current industry pricing or our own estimate of an appropriate risk-adjusted discount rate for loans of similar size, type, remaining maturity and re-pricing characteristics.
- The fair value of all other loans is calculated by discounting contractual cash flows using discount rates that reflect our current pricing for loans with similar characteristics and remaining maturity.
- Off-Balance Sheet Credit-Related Instruments include loans commitments, standby letters of credit, and guarantees. These instruments generate ongoing fees at our current pricing levels, which are recognized over the term of the commitment period. The fair value of these instruments is estimated based upon fees charged for similar agreements. The carrying value of the deferred fees is a reasonable estimate of the fair value of the commitments.

Interest Receivable

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

Non-Maturity Deposits

The fair value for deposits with no stated maturity, such as demand deposits, savings, NOW, and money market accounts, are disclosed as the amount payable upon demand.

Deposits with Stated Maturities

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

Federal Funds Purchased and Repurchase Agreements

The carrying amount of federal funds purchased and repurchase agreements approximates fair value due to the relatively short period of time between the origination of the instruments and their expected payments.

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.

(continued on next page)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	(In Thousands)			
	Total	Level 1	Level 2	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	-
	977,833	953,781	24,052	-
FHLB stock	25,776	-	-	25,776
Nonmarketable equity securities	4,442	-	-	4,442
Total	$ 1,008,051	$ 953,781	$ 24,052	$ 30,218

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

	Securities
Balance, beginning of year	$ 27,363
Purchases	4,440
Sales and maturities	(1,585)
Balance, end of year	$ 30,218

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

The table on the next page is a summary of fair value estimates as of December 31, 2011 and 2010, 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.

(continued on next page)

The carrying amounts and estimated fair values of the Bank's financial instruments as of December 31, 2011 and 2010 were as follows:

(In Thousands)

2011

	Carrying Amount	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Cash and cash equivalents	**$ 1,369,370**	**$1,369,370**	**$ 1,369,370**	**$ -**	**$ -**
Securities available for sale	**1,008,051**	**1,008,051**	**953,781**	**24,052**	**30,218**
Interest receivable	**39,479**	**39,479**	**-**	**39,479**	**-**
Loans, net	**2,942,271**	**3,021,256**	**-**	**3,021,256**	**-**
Financial liabilities					
Non-maturity deposits	**$ 1,539,270**	**$1,539,270**	**$ -**	**$ 1,539,270**	**$ -**
Deposits with stated maturities	**2,640,567**	**2,564,873**	**-**	**2,564,873**	**-**
Federal funds purchased and repurchase agreements	**318,325**	**318,325**	**-**	**318,325**	**-**
Short and long-term debt	**471,422**	**526,017**	**-**	**526,017**	**-**
Other liabilities	**5,586**	**5,586**	**-**	**5,586**	**-**

2010

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 671,200	$ 671,200	$ 671,200	$ -	$ -
Securities available for sale	537,157	537,157	489,223	20,571	27,363
Interest receivable	39,146	39,146	-	39,146	-
Loans, net	2,767,935	2,843,766	-	2,843,766	-
Financial liabilities					
Non-maturity deposits	$ 1,003,054	$ 1,003,054	$ -	$ 1,003,054	$ -
Deposits with stated maturities	2,055,672	2,071,554	-	2,071,554	-
Federal funds purchased and repurchase agreements	240,725	240,725	-	240,725	-
Short and long-term debt	397,365	420,601	-	420,601	-
Other liabilities	5,814	5,814	-	5,814	-

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NOTE 16 - RISK MANAGEMENT

The Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Bank also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Bank pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reimbursed by a third party insurance carrier for losses in excess of $1 million per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket employee fidelity bond coverage in the amount of $2,000,000. The State Bonding Fund does not currently charge any premium for this coverage. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

BANK OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **EXHIBIT A-1**
YEAR ENDED DECEMBER 31, 2011

Federal Grantor/Program Title	Federal CFDA Number		Expenditures
DEPARTMENT OF EDUCATION			
Direct Program:			
Federal Family Education Loan Program	84.032		
Interest subsidy		$	6,671,842
Special allowance			113,347
Excess interest			(19,924,886)
Net special allowance received/(paid)			(19,811,539)
Guaranteed Student Loans:			
Previous year balance of loans on which there are continuing compliance requirements			754,853,757
Total guaranteed student loans (Note 2)			754,853,757
Total Department of Education			741,714,060
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Federal Housing Administration (FHA) Loan Program	14.117		
Interest subsidy			2,437
Guaranteed Loans:			
Previous year balance of loans on which there are continuing compliance requirements			362,863,622
FHA loan principal disbursed during the fiscal year			127,223,854
Total guaranteed loans (Note 3)			490,087,476
Total Department of Housing and Urban Development			490,089,913
DEPARTMENT OF DEFENSE			
Direct Program:			
Veteran's Benefits Administration (VA) Loan Program	64.114		
Guaranteed Loans:			
Previous year balance of loans from on which there are continuing compliance requirements			100,878,267
VA loan principal disbursed during the fiscal year			49,055,188
Total guaranteed loans			149,933,455
Total Department of Defense			149,933,455
DEPARTMENT OF JUSTICE			
Direct Program:			
John R. Justice Prosecutors and Defenders Incetive Act	16.816		
Grant for loan forgiveness			100,000
Department of Juctice			100,000
TOTAL FEDERAL AWARDS		$	1,381,837,428

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NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the Bank of North Dakota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - The outstanding balance of guaranteed student loans on which there are continuing compliance requirements under the student loan program totaled $695,748,378 as of December 31, 2011.

NOTE 3 - There were no guaranteed FHA loans receiving interest subsidies under the FHA program as of December 31, 2011.

None.

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

EXHIBIT A-3

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of the Bank of North Dakota, a department of the State of North Dakota, as of and for the year ended December 31, 2011, which collectively comprise the Bank of North Dakota's basic financial statements and have issued our report thereon dated March 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bank of North Dakota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank of North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 13, 2012

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

EXHIBIT A-4

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Compliance

We have audited the compliance of the Bank of North Dakota, a department of the State of North Dakota, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Bank of North Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Bank of North Dakota's management. Our responsibility is to express an opinion on the Bank of North Dakota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bank of North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Bank of North Dakota's compliance with those requirements.

In our opinion, the Bank of North Dakota, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

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We have also audited the Bank's compliance with the following compliance requirements:

- LaRS Report,
- Loan Records,
- Interest Benefits,
- Special Allowance Payments,
- Loan Sales, Purchases and Transfers,
- Enrollment Reports,
- Payment Processing,
- Due Diligence in the Collection of Delinquent Loans,
- Timely Claim Filings,
- Curing Due Diligence and Timely Filing Violations, and
- Holding Loans as a Trustee for an Institution of Higher Education or an Affiliated Organization

listed in Section 3 of the *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* relative to the Bank's administration of the Federal Family Education Loan Program on behalf of its lender clients during the year ended December 31, 2011 and have tested the effectiveness of the Bank's internal control over compliance with the aforementioned compliance requirements as of December 31, 2011. Management is responsible for the Bank's compliance with and the effectiveness of the Bank's internal control over compliance with those requirements. Our responsibility is to express an opinion on the Bank's compliance with and the effectiveness of the Bank's internal control over compliance with the specified compliance requirements based on our audit.

Our audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and the 2011 Audit Guide, *Lender Servicer Financial Statement Audit and Compliance Attestation Guide,* issued by the U.S. Department of Education, Office of Inspector General; and, accordingly, included obtaining an understanding of the internal control over compliance with the specified requirements; testing and evaluating the design and operating effectiveness of internal control over compliance; and examining, on a test basis, evidence about the Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

In our opinion, the Bank maintained effective internal control over compliance with the aforementioned compliance requirements as of December 31, 2011, are fairly stated, in all material respects, based upon the criteria for internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

<u>Internal Control Over Compliance</u>

Management of the Bank of North Dakota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Bank of North Dakota's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 13, 2012

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	____	yes	x	no
Significant deficiency(ies) identified?	____	yes	x	none reported
Noncompliance material to financial statements noted?	____	yes	x	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	____	yes	x	no
Significant deficiency(ies) identified?	____	yes	x	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are Required to be reported in accordance with Circular A-133, Section .510(a)?	____	yes	x	no

CFDA Number(s)	Name of Federal Program or Cluster
84.032	Federal Family Education Loan Program
14.117	Federal Housing Administration Loan Program
64.114	Veteran's Benefits Administration Loan Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
Auditee qualified as a low-risk auditee?	x	yes	____	no

PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS

There are no findings or questioned costs, relating to the federal award programs, which is required to be reported in accordance with Section 510(a) of OMB Circular A-133.

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS-

There are no findings or questioned costs, relating to the federal award programs, which is required to be reported in accordance with Section 510(a) of OMB Circular A-133.

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

EXHIBIT A-6

BANK OF NORTH DAKOTA
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED DECEMBER 31, 2011

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

1. **What type of opinion was issued on the financial statements?**

   An unqualified opinion was issued on the 2011 financial statements.

2. **Was there compliance with statues, laws, rules, regulations under which the agency was created and is functioning?**

   Yes - A review was made of Chapter 6.09 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created, except for the following exception. The Bank did not file a "State Surplus Property Disposal" form in accordance with Chapter 54-44-04.6 of the North Dakota Century Code for one of ten disposed assets tested.

3. **Was internal control adequate and functioning effectively?**

   Yes

4. **Were there any indications of lack of efficiency in financial operations and management of the agency?**

   No

5. **Has action been taken on findings and recommendations included in prior year audit reports?**

   N/A – no prior year findings or recommendations.

6. **Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

   No

Audit Committee Communications:

1. **Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   None

2. **Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

   Significant accounting estimates include the following:

   Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

   Management's estimate of the fair value of investments is based upon quoted market prices and investment information obtained from a third party financial institution. We evaluated the key factors and assumptions used to determine the fair value of investments in determining that they are reasonable in relation to the financial statements taken as a whole.

3. **Identify any significant audit adjustments.**

   None

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

   None

5. **Identify any significant difficulties encountered in performing the audit.**

   None

6. **Identify any major issues discussed with management prior to retention.**

   None

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

   None

8. **Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.**

   Based on the audit procedures performed, the Bank of North Dakota's critical information technology system is the HELMS system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 13, 2012

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT B-1

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of the Bank of North Dakota, a department of the State of North Dakota, as of and for the year ended December 31, 2011, and have issued our report dated March 13, 2012. These financial statements are the responsibility of the Bank of North Dakota's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank of North Dakota's financial statements as a whole. The accompanying schedules on Exhibits B-2 and B-3 are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

March 13, 2012

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BANK OF NORTH DAKOTA
SCHEDULE OF APPROPRIATED EXPENDITURES — EXHIBIT B-2
BIENNIUM ENDED JUNE 30, 2011
(In Thousands)

	Original & Final Biennium Appropriation July 1, 2009 to June 30, 2011	Expenditures for Year Ended June 30, 2011	2010	Unexpended Appropriations
APPROPRIATED EXPENDITURES:				
Salaries and wages	$ 23,863	$ 11,466	$ 11,060	$ 1,337
Operating expenses	14,049	6,538	5,968	1,543
Capital assets	1,455	186	133	1,136
Contingency	4,000	1,170	618	2,212
	$ 43,367	$ 19,360	$ 17,779	$ 6,228

* **Expenditures Reconciliation:**	2011	2010
Total expenses per financial statements-		
Interest expense	$ 39,541	$ 45,188
Provision for loan losses	11,000	12,100
Operating expenses	21,494	20,374
	72,035	77,662
Non-appropriated expenditures:		
Interest expense	39,541	45,188
Provision for loan losses	11,000	12,100
Correspondent fees	750	786
Depreciation and amortization	969	1,122
Other real estate expense	-	25
Loan collection expenses	214	127
Loan servicing fee expense	316	364
Other expenses	23	20
Nonappropriated expenditures	52,813	59,732
Equipment capitalized	102	23
Software capitalized	519	544
Salaries capitalized	56	54
	677	621
Timing differences for appropriated expenditures:		
July 1, 2011 to December 31, 2011	(9,907)	-
July 1, 2010 to December 31, 2010	9,368	(9,368)
July 1, 2009 to December 31, 2009	-	8,595
	(539)	(773)
Appropriated Expenditures for the fiscal year	$ 19,360	$ 17,778

The continuing appropriation for non-appropriated expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority a provided by Article 10, Section 12 of the North Dakota Constitution.

BANK OF NORTH DAKOTA
DETAILED SCHEDULE OF APPROPRIATED EXPENDITURES **EXHIBIT B-3**
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010	Total
Operating			
Salaries and wages	$ 8,383	$ 7,959	$ 16,342
Social security	644	606	1,250
Hospital insurance	1,610	1,654	3,264
State retirement contribution	727	708	1,435
Vacation and sick leave benefits	85	99	184
Unemployment insurance and worker's compensation premium	18	37	55
Building expenses	248	216	464
Furniture and equipment expenses	172	128	300
Processing and development expenses	1,659	1,857	3,516
Software/IT supplies	163	128	291
Contractual services/repairs	896	854	1,750
IT equipment < $5,000	267	123	390
Telephone	301	278	579
Marketing	541	453	994
Professional services	855	622	1,477
Travel	151	165	316
Dues and publications	186	163	349
Supplies	185	176	361
Postage	600	546	1,146
Other operating expenses	314	258	572
Contingency	1,170	618	1,788
	19,175	17,648	36,823
Capital assets	186	133	319
	$ 19,361	$ 17,781	$ 37,142

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

EXHIBIT C-1

INDEPENDENT AUDITOR'S COMMUNICATION
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA

March 13, 2012

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of Bank of North Dakota for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September . Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Bank of North Dakota are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

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> Management's estimate of the fair value of investments is based upon quoted market prices and investment information obtained from a third party financial institution. We evaluated the key factors and assumptions used to determine the fair value of investments in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. One passed adjustment was noted during our audit and is as follows:

> Total assets and revenues are understated by $180,000 for the accrued analysis charges for the fourth quarter recorded on the cash basis.

Management has determined that the effects of the above entry are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 13, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Advisory Board, Industrial Commission, Legislative Audit and Fiscal Review and management of Bank of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.