



**Bank of
North Dakota**

1974 Annual Report



This year's Bank of North Dakota "Annual Report" is dedicated to our leading industry, agriculture. Every department in the Bank is connected with this industry, either by direct farm loans, subordinate operating loans, bond issues for local elevator or financing the education of farm young people.

The Bank is proud of the part it has played in helping agriculture remain this states leading industry.

FINANCIAL HIGHLIGHTS

FOR THE YEAR:	1974	1973		Increase	% Increase
RESOURCES	\$316,508,149	\$266,700,666	+	49,807,483	+18.68%
Deposits	253,630,029	200,857,236	+	52,772,793	+26.27%
Student Loans	26,836,456	24,360,273	+	2,476,183	+10.16%
Real Estate Loans	37,785,822	34,204,963	+	3,580,859	+10.47%
All Other Loans	51,122,620	34,559,917	+	16,562,703	+47.92%
FOR THE YEAR:					
Total Income	23,023,880	16,522,508	+	6,501,372	+39.35%
Interest Paid	12,718,223	7,578,873	+	5,139,350	+67.81%
Expenses Paid	1,039,816	862,830	+	176,986	+20.51%
NET INCOME	9,268,771	8,066,384	+	1,202,387	+14.91%
EARNINGS (DIVIDEND)					
Paid to State of N. D.	5,000,000	4,125,000	+	875,000	+21.21%
No. of Checks Processed	20,091,298	18,008,564	+	2,082,734	+11.57%
Total Fed. Fds. Purchased	7,133,899,000	4,287,000,000	+	2,846,899,000	+66.41%
Total Fed. Fds. Sold	14,822,588,000	7,355,000,000	+	7,467,588,000	+101.53%

THE BANK OF NORTH DAKOTA PHILOSOPHY

- I To encourage and promote agriculture, commerce and industry in North Dakota.
- II To provide the most efficient and economical financial service to the state, its agencies, and instrumentalities.
- III To provide professional assistance whenever possible and wherever it will encourage and promote the well being and advancement of North Dakota and its citizens.

The Bank of North Dakota is owned, operated and controlled by the State of North Dakota under the supervision of the Industrial Commission.

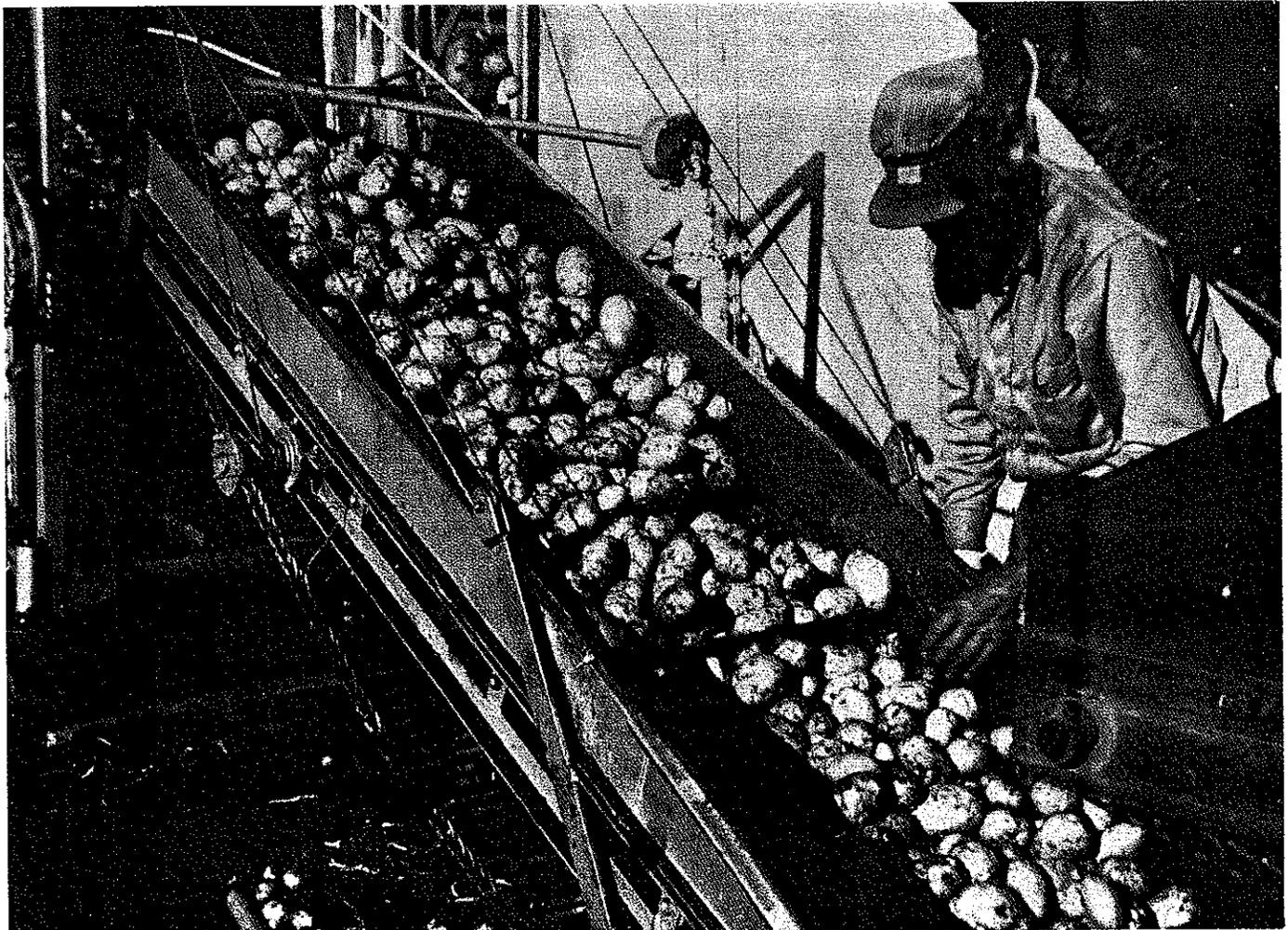
1974 INDUSTRIAL COMMISSION

Arthur A. Link
Governor, Chairman

Allen I. Olson
Attorney General

Myron Just
Commissioner of Agriculture

H. L. Thorndal
President and Manager



To the Citizens of North Dakota:

The Bank of North Dakota had another outstanding year of service to the citizens of North Dakota during 1974. The Industrial Commission has set lending priorities for the management of the Bank during the past year. Student loans continue to head that list, and we are pleased that North Dakota continues to lead the nation in making financial aid available to young people seeking higher education and vocational training.

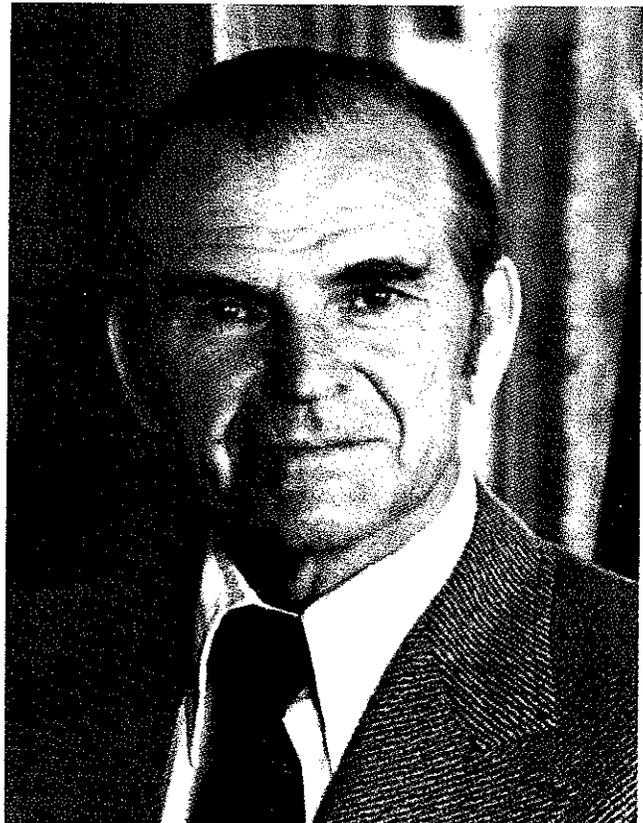
Farm ownership loans is our second priority, and this number has increased to 229 loans, for a total of \$4,129,056. The Industrial Commission expects this category of loans to increase substantially during the next few years. Bank participation loans increased to \$50,899,017, which indicated the Bank of North Dakota is being used as a "partner in progress" by other banks throughout the state.

With the prospects of coal development in western North Dakota, the Industrial Commission believes the Bank will play an important role by helping smaller political subdivisions, provide facilities for the expanding population. The anticipated passage of the North Dakota Bond Bank, by the 1975 Legislature, will be a great assistance to the Bank of North Dakota in assisting political subdivisions finance their capital needs, at reasonable costs.

I urge you to read this report. North Dakota can be proud of the Bank of North Dakota in 1974, and in its 55 year history of service to the citizens of North Dakota.

Arthur A. Link

ARTHUR A. LINK, Governor
Chairman of the Industrial Commission



TO THE NORTH DAKOTA INDUSTRIAL COMMISSION

Nineteen hundred seventy-four set new records for the Bank of North Dakota's fifty-five year history. Resources reached an all time high of \$33,834,228 on December 5, 1974, and totaled \$316,508,149 at year end. This is an increase of \$49,807,483 or 18.7 percent over 1973. The Bank of North Dakota has reached one-third of a billion dollars in resources and is expected to pass four hundred million dollars in 1975.

Net income for 1974 totaled \$9,268,771 and increase of \$1,202,387, or 14.9 percent over 1973. Operating expenses totaled \$1,039,816, which is an increase of \$176,986, or 20.5 percent. Interest on time money totaled \$12,718,223, up 67.8 percent. This increase was due primarily to the large transfer to Certificates of Deposit by the State Treasurer and to the increased activity in Federal Funds. Approximately one-third of the banks in the state of North Dakota are selling Federal Funds, or Excess Reserves, to the Bank of North Dakota. We anticipate interest expense to remain the same in 1975. We also anticipate net operating income to be down in 1975, due to the sharp decline in short term interest rates.

During 1974, the Bank maintained the policy of not charging a fee on demand accounts. All Bank of North Dakota accounts are "free accounts."

The Bank of North Dakota is becoming desperate for additional space. It is hoped the 1975 Legislature will allow the State Laboratories Department to issue revenue bonds, in an amount sufficient for them to secure a new building. The Bank would then remodel the third and fourth floors, with the Student Loan Department and the Mineral Leasing Department anticipated to occupy the third floor; the fourth floor would then be leased to other state agencies. As of this writing, the Bank has one vacant desk in the entire building, and we anticipate the need to expand personnel in each department during the coming year.

The Bank transferred \$1,000,000 to its capital account, from Undivided Profits, during 1974 and transferred \$2,000,000 to surplus. The Bank of North Dakota now has a legal lending limit of \$4,000,000 to any one borrower, (25 percent of combined capital and surplus).

I refer you to the Comparative Balance Sheet, Statement of Income, Statement of Changes in Capital Accounts, and the department's narratives in this Report. We, again, point with pride to the comparative graphs and charts at the bank of the Report, which reflect the progress and expansion that has taken place during the past few years.

We are sorry to report the passing of Harold C. Bowers, who was the manager of the Bank from 1945 to 1957. His passing reminds us of the contributions of all the men and women who have given many years of devoted service to build our organization.

In December, the Industrial Commission named nine new officers. John W. Fay was appointed Vice President in charge of the Securities Department, Carl C. Arndt was appointed Vice President in charge of the Operations Department, Edward B. Sather and Gene Hetler were named Assistant Vice Presidents. Named Assistant Cashiers were Duane Wagner, Al Jahner, Deiores James, Dave Klemmer and Donald Anderson.

The Bank of North Dakota had some unfortunate experiences during 1974. Although these experiences received considerable publicity, they were relatively small in relationship to the entire operation of the Bank. The money involved was recovered under our bond, and changes in external and internal security were made to reduce the possibility of these unfortunate experiences reoccurring.

The Advisory Board of the Bank was reactivated during the year and has recommended (to the Industrial Commission) a restructuring of the senior management of the Bank. The Industrial Commission is presently reviewing the recommendations and anticipates some changes in 1975.

The Bank of North Dakota is looking forward to a continuing modest growth in 1975, and will continue its dedication to be of service to North Dakota and its citizens.

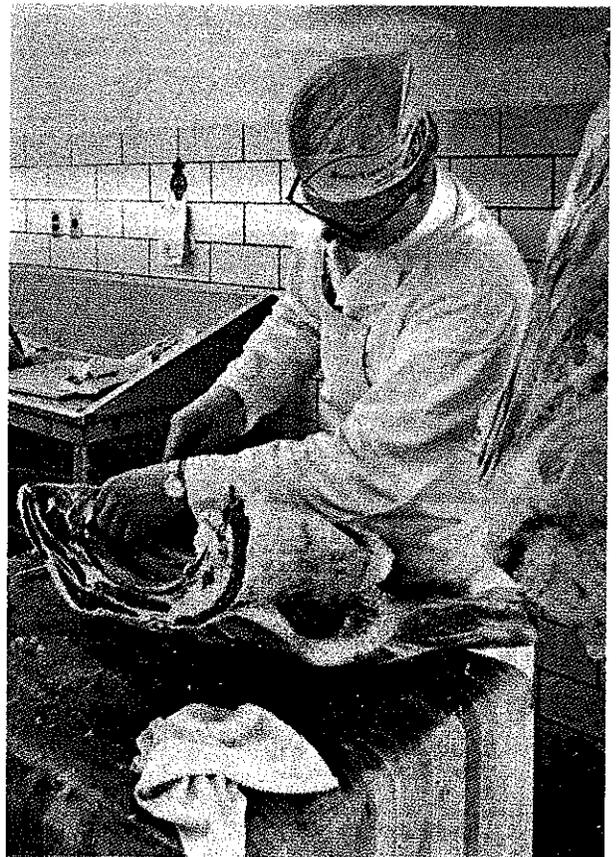


H. L. THORNDAL
President and Manager
Bank of North Dakota



AGRICULTURE

Total funds devoted directly to agriculture by the Bank of North Dakota increased approximately \$7,000,000 in nineteen seventy-four with \$2,000,000 going directly to farm ownership loans and another \$5,000,000 extended for use in operating and working capital loans for farmers and ranchers. The Bank also advanced \$500,000 to supply money for irrigation and has expectations of being called upon to invest another \$2,000,000 in this area over the next two years. As the need for money for agriculture increases in North Dakota's expanding economy, the Bank will continue to be an important source of funds to meet these needs.





STUDENT LOANS

The Federally Insured Student Loan Program is almost eight years old. The first loan of this type made in the United States was completed by the Bank of North Dakota in August of 1967. Since that time, 186 lenders in North Dakota have made available \$71,200,000 to 75,300 North Dakota students.

The Bank of North Dakota, through its direct loan program and its secondary market program, has provided \$36,000,000 to 42,000 students. Eighteen thousand seven hundred loans have reached the repayment status. To date, \$9,300,000 has been repaid, with \$4,026,940 being repaid during the past twelve months. Fourteen hundred loans were paid-in-full and another 3,408 entered the monthly repayment status. The default rate is continually maintained in the 1% area, which is among the lowest in the nation.

One of the most important concerns to the student lending community has been the assurance of the availability of funds to finance guaranteed loans. The continued support of this program by the Bank of North Dakota, through its secondary market, provides this assurance to North Dakota lenders; and has encouraged and made possible the continued growth of this most valuable program in North Dakota. During 1975, your Bank intends to continue to offer the leadership and participation necessary to insure that all North Dakota students are afforded equal educational opportunities.



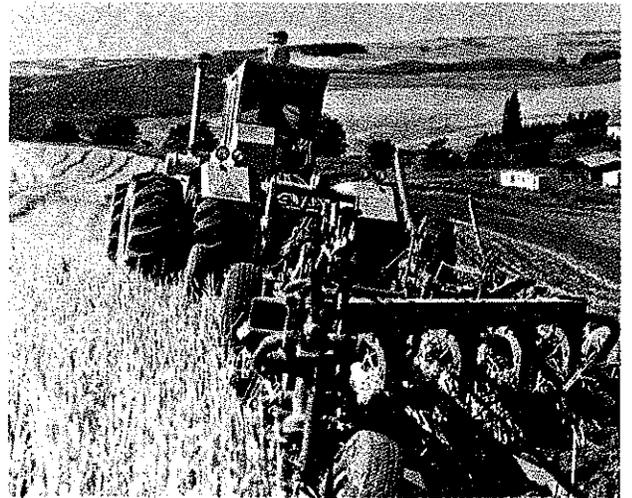


OTHER LENDING ACTIVITIES

North Dakota's agricultural economy is supported by many agricultural related businesses such as whey processing, tractor manufacturing, elevators, bean processing, potato storage and warehousing, cheese plants, farm equipment manufacturing, sugar beet plants and sunflower seed processing.

To meet the Bank of North Dakota's philosophy "encouraging and promoting agriculture, commerce and industry in North Dakota", the Bank disbursed \$15,700,000 to the agra-business industry in North Dakota.

The Bank of North Dakota also has millions of dollars invested in housing, student loans and business and industry loans in North Dakota; either directly or by participation. The Bank will continue to help meet these capital needs as it is called upon and it is hoped that through and by the efforts of the people at the Bank of North Dakota, it will truly be a Bank "owned by the People of North Dakota and used for all the People of North Dakota."





MINERAL LEASING DEPARTMENT

REAL ESTATE AND MINERAL TRUST

Four oil and gas leasing auctions were held in 1974. Bonuses in the amount of \$467,489.77 were received on 131,373.13 mineral acres, making an overall average of \$3.55 per mineral acre. In addition, we received \$52,324.08 in first year and delay rentals during the year.

Oil and gas royalties in the amount of \$465,397.27 were received. Income from these sources total \$985,211.12 for the year.

BANK OWNED REAL ESTATE

Four contracts for deed were paid in full the past year leaving 22 contracts in force. The Bank owns four living units and two large parcels of land along the DesLacs and Souris rivers near Burlington in Ward County.

OTHER ACTIVITY

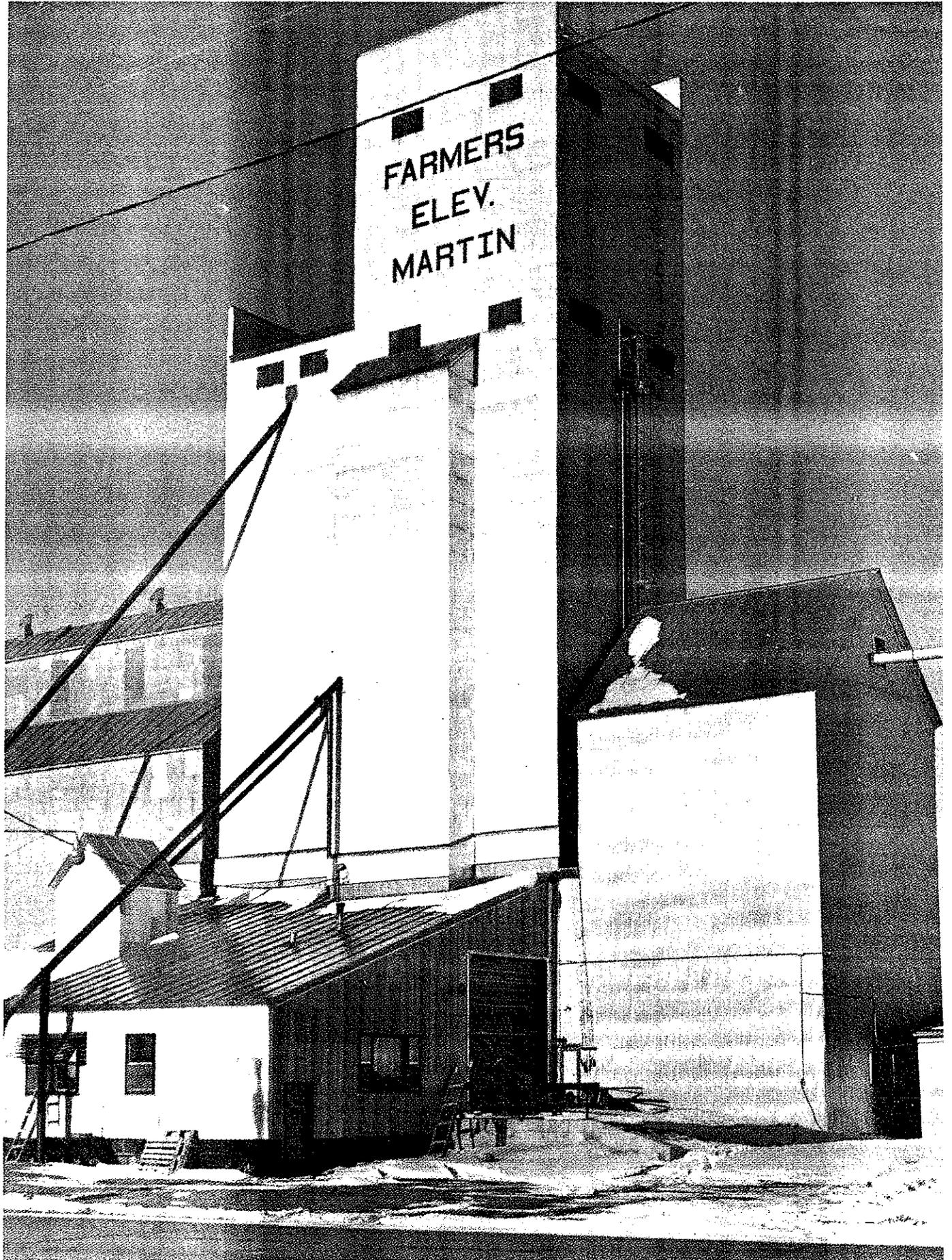
The department services 15 loans with an outstanding year end principal balance of \$1,144,209.84 in the Nursing and Home for Aged Revolving Loan Fund.

Three GI farm loans were paid in full leaving 15 loans outstanding and in current status with a principal balance of \$34,661.83.

Our Agency for the North Dakota Rural Rehabilitation Corporation made 13 (FHA subordinated) farm operating loans in a total principal amount of \$130,250.



FARMERS
ELEV.
MARTIN



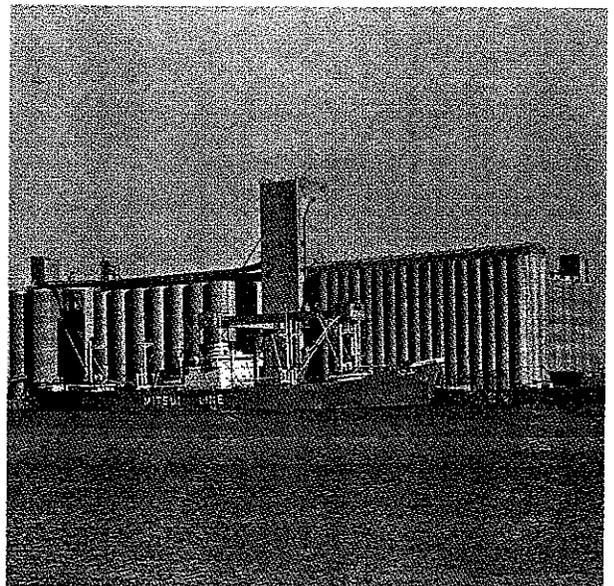
SECURITIES

Frankly, 1973 was not a year of outstanding features but next to 1974 it was a year of real charm and tranquility.

The Securities Department has continued to grow in size and scope. The total financial transactions for the year is \$21,000,956,487.00. This was constituted primarily of Fed Funds. Our largest single sale day in Fed Funds was \$60,860,000.00 and the largest single purchase days was \$36,000,000.00. A little over one-third of the banks in the state are currently utilizing our Fed Funds program. Our portfolio of municipal bonds was reduced by approximately \$800,000.00 with sales and purchases of approximately \$10,000,000.00 each and maturities accounting for difference. Year-end total of the bank security portfolio was \$148,732,519.00, an increase of about fifteen percent (15%) that should add to earnings for the future and to provide liquidity for the expected draw-downs by the state for the ensuing year.

The Securities Department under new administration has been departmentalized into three units, municipal funding, departmental auditor, and trading and investments. This was effected with an eye towards better service to the municipalities and other customers and to provide departmental checks and balances to avoid errors.

Five trust funds under management of the Bank are showing a current yield of approximately 7.60%, about 65% "AA" or better, and an average maturity of 16+ years. Safekeeping receipts have been computerized and are running concurrently for the first quarter to stabilize the operation.





OPERATIONS DEPARTMENT

The number of checks being cleared through the Operations Department of the Bank of North Dakota has substantially increased during the past year. Twenty million, ninety one thousand, two hundred ninety eight (20,091,298) checks were processed in the proof, transit and bookkeeping divisions of the department, during 1974. This compares to 18,008,564 in 1973, which is an increase of 11.6%, or 2,082,734 items. On March 19, 1974, we reached an all-time high in checks processed for a one day period, at which time 127,756 checks were processed.

The Bank of North Dakota continues to process a collection letter to all North Dakota banks each working day, and ten out-of state correspondent banks located in Washington, D.C., New York, Chicago, Minneapolis and St. Paul.

At year end, the Bank had 5,337 checking accounts. This is an increase of 12%, or 583 accounts over 1974. The 5,337 checking accounts consist of counties, cities, townships, schools, institutions, State Treasurer checking accounts, banks and individual checking accounts.





Left to right: Allen N. ...
Loans; Martin E. ...
Fay, Vice-President Securities; Ernest Pederson, Vice-President Minerals & Energy

INDUSTRIAL COMMISSION

Arthur A. Link, Chairman
Governor

Allen I. Olson, Member
Attorney General

Myron Just
Commissioner of Agriculture

OFFICIAL STAFF

H. L. Thorndal, *President & Manager*
R. E. Sailer, *Vice President & Cashier*
LeRoy Gilbertson, *Vice President*
John W. Fay, *Vice President*
Martin E. Stenehjem, *Vice President*
Ernest Pederson, *Vice President*
Carl Arndt, *Vice President*
Maurice Cook, *Attorney**
Allan Nosbusch, *Auditor*
I. Jeannine Christy, *Asst. Vice President*
Gene Hetler, *Asst. Vice President*
Shirley Homuth, *Asst. Vice President*
Edward B. Sather, *Asst. Vice President*
Donald Anderson, *Assistant Cashier*
Ila Eckroth, *Assistant Cashier*
Allen Jahner, *Assistant Cashier*
Delores James, *Assistant Cashier*
Dave Klemmer, *Assistant Cashier*
Gwen Larson, *Assistant Cashier*
Gail Vetter, *Assistant Cashier*
Duane Wagner, *Assistant Cashier*
Betty Zeeb, *Assistant Cashier*
Evelyn Zelmer, *Assistant Cashier*

MANAGEMENT COMMITTEE

H. L. Thorndal, *Chairman*
R. E. Sailer
LeRoy Gilbertson
John W. Fay
Martin E. Stenehjem
Ernest Pederson
Carl Arndt
Allan Nosbusch
Ila Eckroth

INVESTMENT COMMITTEE

H. L. Thorndal, *Chairman*
R. E. Sailer
LeRoy Gilbertson
John W. Fay
Maurice Cook*
Shirley Homuth
Edward B. Sather

MINERAL LEASING

Ernest Pederson, *Vice President*
Teresa Martin, *Accountant*

ADVISORY BOARD

Eugene Rich, *Chairman*
Exec. V. President, St. Bk. of Fargo
Lloyd Everson, *Vice Chairman*
President, Northern Nat. Life Ins. Co., Bismarck
John H. O'Keefe, *Secretary*
Owner, McDonald's Restaurant, Grd. Fks.
Richard T. Carley, *Member*
President, Casselton State Bank
Dan J. O'Day, *Member*
President, O'Day Equipment, Inc., Fargo

AUDIT DEPARTMENT

Allan Nosbusch, *Auditor*

LOAN DEPARTMENT

LeRoy Gilbertson, *Vice President*
Gene Hetler, *Asst. Vice President*
Donald Anderson, *Assistant Cashier*
Gail Vetter, *Assistant Cashier*
Duane Wagner, *Assistant Cashier*

LEGAL DEPARTMENT

Maurice Cook, *Attorney*

CASHIER'S DEPARTMENT

Ruben E. Sailer, *Vice President & Cashier*
Ila Eckroth, *Assistant Cashier*

OPERATIONS DEPARTMENT

Carl Arndt, *Vice President*
Evelyn Zelmer, *Assistant Cashier*
Alyce Starck, *Chief Clerk*

SECURITIES DEPARTMENT

John W. Fay, *Vice President*
Shirley Homuth, *Asst. Vice President*
Edward B. Sather, *Asst. Vice President*
Allen Jahner, *Assistant Cashier*
Dave Klemmer, *Assistant Cashier*

STUDENT LOAN DEPARTMENT

Martin E. Stenehjem, *Vice President*
I. Jeannine Christy, *Asst. Vice President*
Delores James, *Assistant Cashier*
Gwen Larson, *Assistant Cashier*
Betty Zeeb, *Assistant Cashier*

*Appointed January 2, 1975

STATEMENTS OF CONDITION
December 31, 1974 and 1973

ASSETS	<u>1974</u>	<u>1973</u>
CASH AND DUE FROM BANKS	\$ 23,011,329	\$ 20,214,906
INVESTMENT SECURITIES (Notes 1 & 2):		
U. S. Government Obligations	\$ 18,541,971	\$ 20,795,751
Federal Agencies Obligations	62,914,403	64,511,339
State and Municipal Obligations	15,487,855	16,322,308
Money Market Investments	51,788,290	14,862,008
Total Investment Securities	<u>\$148,732,519</u>	<u>\$116,501,406</u>
FEDERAL FUNDS SOLD	\$ 17,190,000	\$ 18,250,000
LOANS:		
FHA and GI Home Loans	\$ 33,500,847	\$ 31,713,717
Bank Participation Loans	44,404,493	27,745,899
Federally Insured Student Loans	26,836,456	24,360,273
SBA Participation Loans	6,494,524	5,174,461
Farmers Home Administration Loans	6,408,000	13,266,383
Farm Real Estate Loans	4,284,975	2,491,246
State Institution Loans	223,603	1,639,557
Total Loans	<u>\$122,152,898</u>	<u>\$106,391,536</u>
BANK PREMISES AND EQUIPMENT (Note 1)	\$ 924,906	\$ 944,500
ACCURED INTEREST RECEIVABLE	\$ 4,496,497	\$ 4,398,318
Total Assets	<u>\$316,508,149</u>	<u>\$266,700,666</u>
LIABILITIES		
DEMAND DEPOSITS:		
State Treasurer	\$ 34,994,008	\$ 66,766,931
Political Subdivisions	34,610,828	30,181,278
Deposits of Banks	8,976,889	9,764,776
Individuals, Partnerships & Corporations	7,376,751	9,363,364
U. S. Government	59,323	37,895
Official Checks	458,354	1,322,680
Total Demand Deposits	<u>\$ 86,476,153</u>	<u>\$117,436,924</u>
TIME AND SAVINGS DEPOSITS:		
State Treasurer	\$140,829,022	\$ 54,943,242
Political Subdivisions	13,396,935	14,382,217
Individuals, Partnerships & Corporations	12,927,919	14,094,853
Total Time and Savings Deposits	<u>\$167,153,876</u>	<u>\$ 83,420,312</u>
Total Deposits	<u>\$253,630,029</u>	<u>\$200,857,236</u>
OTHER LIABILITIES:		
Federal Funds Purchased	\$ 10,400,000	\$ 14,804,000
Securities Sold Under Agreement to Repurchase (Note 2)	<u>15,028,000</u>	<u>18,614,170</u>
	\$ 25,428,000	\$ 33,418,170
Accrued Expenses	1,857,312	1,167,332
Appropriation Due State General Fund (Note 4)	<u>2,500,000</u>	<u>7,500,000</u>
Total Other Liabilities	<u>\$ 29,785,312</u>	<u>\$ 42,085,502</u>
RESERVE FOR LOAN AND INVESTMENT LOSSES (Note 1)	\$ 2,040,130	\$ 1,974,021
CAPITAL FUNDS:		
Capital (Note 5)	\$ 6,000,000	\$ 5,000,000
Surplus	10,000,000	8,000,000
Undivided Profits	14,687,678	8,753,465
Reserve for Purchase of Land and Building Improvements	<u>365,000</u>	<u>30,442</u>
Total Capital Funds	<u>\$ 31,052,678</u>	<u>\$ 21,783,907</u>
Total Liabilities and Capital	<u>\$316,508,149</u>	<u>\$266,700,666</u>

See Notes to Financial Statement

STATEMENT OF INCOME

For the Years Ended December 31, 1974 and 1973

	<u>1974</u>	<u>1973</u>
OPERATING INCOME:		
Interest on Loans	\$ 9,412,652	\$ 7,502,128
Interest on Investment Securities		
U.S. Government Obligations	1,105,180	1,201,607
Federal Agencies Obligations	4,219,400	3,642,828
State and Municipal Obligations	911,598	728,997
Other Money Market Investments	2,765,502	1,591,240
Interest on Federal Funds Sold	4,479,671	1,728,125
Service Charges and Other Income	<u>129,877</u>	<u>127,583</u>
Total Operating Income	<u>\$23,023,880</u>	<u>\$16,522,508</u>
OPERATING EXPENSES:		
Interest Expense –		
Interest on Deposits	\$ 8,938,691	\$ 5,187,861
Interest on Federal Funds Purchased	2,065,901	1,150,530
Interest on Funds Borrowed	<u>1,713,631</u>	<u>1,240,482</u>
Total Interest Expense	<u>\$12,718,223</u>	<u>\$ 7,578,873</u>
Other Expenses (appropriated)		
Salaries	\$ 595,035	\$ 528,184
Employee Benefits (Note 1)	66,513	46,789
Fees and Services	211,859	175,428
Data Processing	101,515	81,931
Supplies and Materials	36,150	30,498
Professional Services	<u>28,744</u>	<u>—</u>
Total Other Expenses	<u>\$ 1,039,816</u>	<u>\$ 862,830</u>
Depreciation (Note 1)	<u>\$ 67,374</u>	<u>\$ 59,475</u>
Total Operating Expenses	<u>\$13,825,413</u>	<u>\$ 8,501,178</u>
Income Before Security Gains	\$ 9,198,467	\$ 8,021,330
SECURITY GAINS	<u>\$ 70,304</u>	<u>\$ 45,054</u>
Net Income for the Year	<u>9,268,771</u>	<u>\$ 8,066,384</u>

See Notes to Financial Statements

STATEMENT OF CHANGES IN CAPITAL FUNDS

For the Years Ended December 31, 1974 and 1973

	Capital	Surplus	Undivided Profits	Res. Pur. of Ld & Bldg. Improvements	Total
BALANCE, DECEMBER 31, 1972	\$2,000,000	\$8,000,000	\$13,018,915	\$698,608	\$23,717,523
Net Income for the year, 1973	—	—	8,066,384	—	8,066,384
Transfer to State of ND General Fund (Note 4)	—	—	(10,000,000)	—	(10,000,000)
Transfer to Capital	3,000,000	—	(3,000,000)	—	—
Transfer from Reserve for Pur. of Ld. & Bldg. Imp.	—	—	250,000	(250,000)	—
Remodeling Costs Pd. & Cap.	—	—	418,166	(418,166)	—
BALANCE, DECEMBER 31, 1973	<u>\$5,000,000</u>	<u>\$8,000,000</u>	<u>\$ 8,753,465</u>	<u>\$ 30,442</u>	<u>\$21,783,907</u>
Net Income for the year 1974	—	—	9,268,771	—	9,268,771
Transfer to Surplus	—	2,000,000	(2,000,000)	—	—
Transfer to Capital	1,000,000	—	(1,000,000)	—	—
Remodeling Costs Pd. & Cap.	—	—	30,442	(30,442)	—
Transfer to Reserve for Bldg. Imp.	—	—	(365,000)	365,000	—
BALANCE, DECEMBER 31, 1974	<u>\$6,000,000</u>	<u>\$10,000,000</u>	<u>\$14,687,678</u>	<u>\$365,000</u>	<u>\$31,052,678</u>

See Notes to Financial Statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1974 and 1973

FUNDS PROVIDED FROM:	<u>1974</u>	<u>1973</u>
Operations -		
Net Income for the year	\$ 9,268,771	\$ 8,066,384
Add - Depreciation expense not Requiring Expenditure of Funds	<u>67,374</u>	<u>59,475</u>
Total from Operations	\$ 9,336,145	\$ 8,125,859
Increase in Deposit Accounts	52,745,105	32,701,933
Increase in Other Liabilities	-	29,582,424
Decrease in Federal Funds Sold	1,060,000	-
Increase in Res. for Lns. & Inv.	<u>66,109</u>	<u>329,568</u>
	<u>\$63,207,359</u>	<u>\$70,739,784</u>
FUNDS USED TO:		
Increase Loans	\$15,733,674	\$26,439,217
Increase Investments	32,231,113	20,217,878
Increase Federal Funds Sold	-	12,630,000
Transfer to ND St. General Fund	-	10,000,000
Purchase Bldg. Imp. & Equip.	47,780	448,554
Increase Cash and Due From Banks	2,796,423	-
Increase Other Assets	98,179	1,004,135
Decrease Other Liabilities	<u>12,300,190</u>	<u>-</u>
	<u>\$63,207,359</u>	<u>\$70,739,784</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENT

December 31, 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Investment Securities —

Investment securities are stated at the lower of cost or par value. Premiums are written-off at the time of purchase.

B. Loan and Investment Losses —

The balance in the reserve account is based on the Banks' past loan and investment loss experience and such other factors which, in managements' judgement, deserve consideration in estimating possible loan and investment losses. No loan loss charge to current operating expenses was deemed necessary for 1974 and 1973.

C. Bank Premises and Equipment —

Bank premises and equipment are stated at cost. Additions, renewals and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to income. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is included in income.

It is the policy of the Bank to provide depreciation based on the estimated useful life of the individual units of property. The depreciation methods and the estimated useful lives of property used as the basis for the application of those methods are as follows:

	Method	Estimated Useful Life
Bank Premises	Straight-line	25 years
Equipment	Straight-line	5-10 years

D. Employee Benefits and Pension Plan —

1. Included in employee benefits for 1974 and 1973 were the following:

	1974	1973
Social Security Taxes	\$30,941	\$21,612
Employee Pension Plan	22,903	16,712
Hospitalization	<u>12,669</u>	<u>8,465</u>
	<u>\$66,513</u>	<u>\$46,789</u>

2. The Bank participates in a retirement plan administered by the North Dakota Public Employees Retirement System covering all full time employees. The employees also contribute to the plan. There are no unfunded past service costs and the value of the pension assets exceeds the vested benefits.

2. PLEDGED ASSETS:

At December 31, 1974, securities with a par value of \$3,000,000 were pledged to secure deposits in the treasury tax and loan account and securities with a par value of \$15,278,000 were pledged to secure securities sold under agreements to repurchase.

3. TRUST FUNCTIONS:

Property (other than cash deposit) held by the bank in fiduciary or agency capacities for its customers is not included in the accompanying financial statements, since such items are not assets of the Bank.

4. APPROPRIATION DUE STATE GENERAL FUND:

In March, 1973, the North Dakota State Legislature authorized a transfer of \$10,000,000 from the Bank's undivided profits to the General Fund of the State of North Dakota payable semi-annually during the biennium July 1, 1973 to June 30, 1975.

5. CAPITAL:

The Bank of North Dakota 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.

6. COMMITMENTS AND CONTINGENT LIABILITIES:

In the normal course of business there are outstanding various commitments and contingent liabilities, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying statements. The Bank does not anticipate losses, as a result of these transactions.

BROEKER HENDRICKSON & CO.
Certified Public Accountants
BISMARCK, NORTH DAKOTA

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

We have examined the statement of condition of THE BANK OF NORTH DAKOTA as of December 31, 1974 and December 31, 1973, and the related statements of income, changes in capital funds and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Bank of North Dakota as of December 31, 1974 and December 31, 1973, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Broeker Hendrickson & Co.

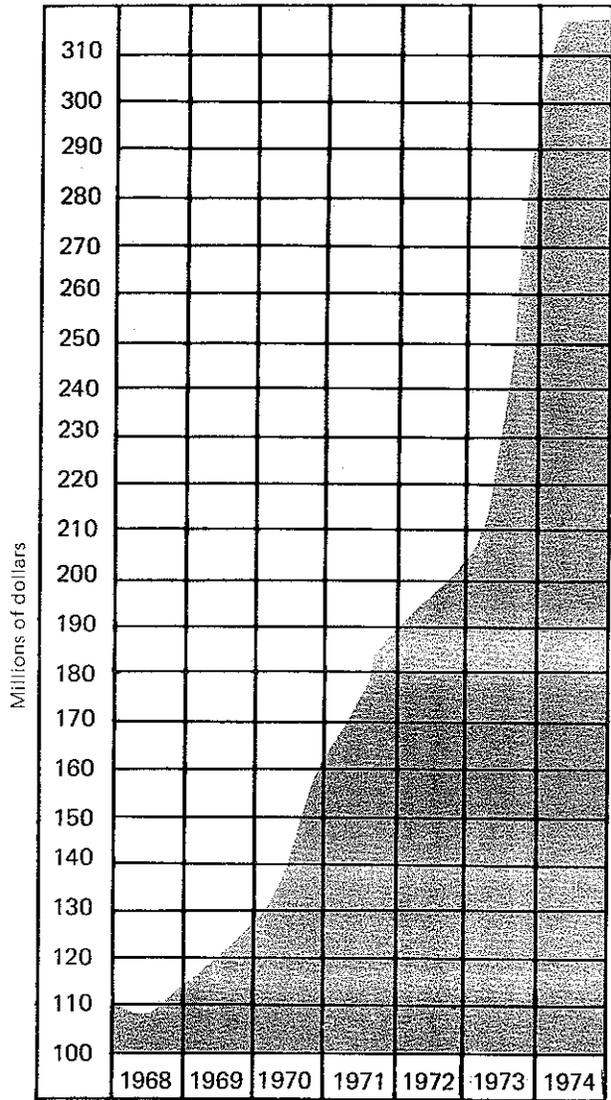
Bismarck, North Dakota
January 10, 1975

INCOME

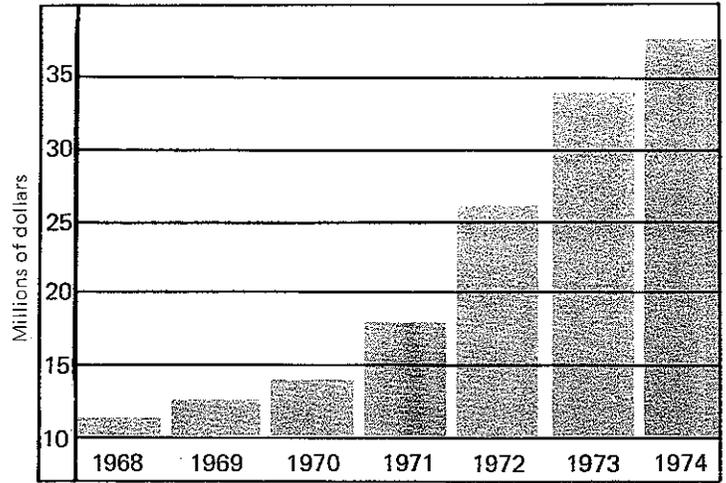
<p>FEDERAL AGENCIES, FEDERAL FUNDS AND OTHER SECURITIES 49.8%</p>	<p>INTEREST ON LOANS 40.9%</p>	ALL OTHER INCOME	6%
		U. S. TREASURY SECURITIES	4.8%
		STATE AND MUNICIPAL SECURITIES	3.9%

EXPENSES and PROFITS

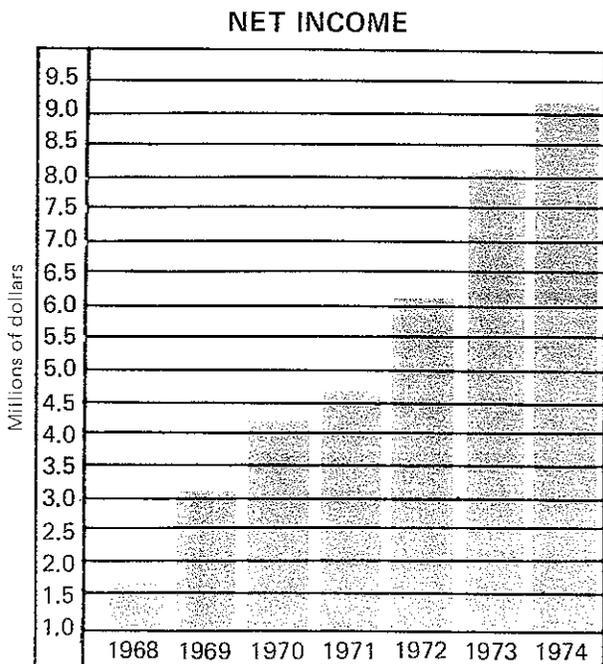
<p>PROFIT 40.3%</p>	<p>INTEREST PAID ON STATE TREASURER'S ACCOUNTS 28.5%</p>	<p>ALL OTHER INTEREST PAID 26.7%</p>	ALL OTHER EXPENSES	1.6%
			SALARIES AND EMPLOYEE BENEFITS	2.9%



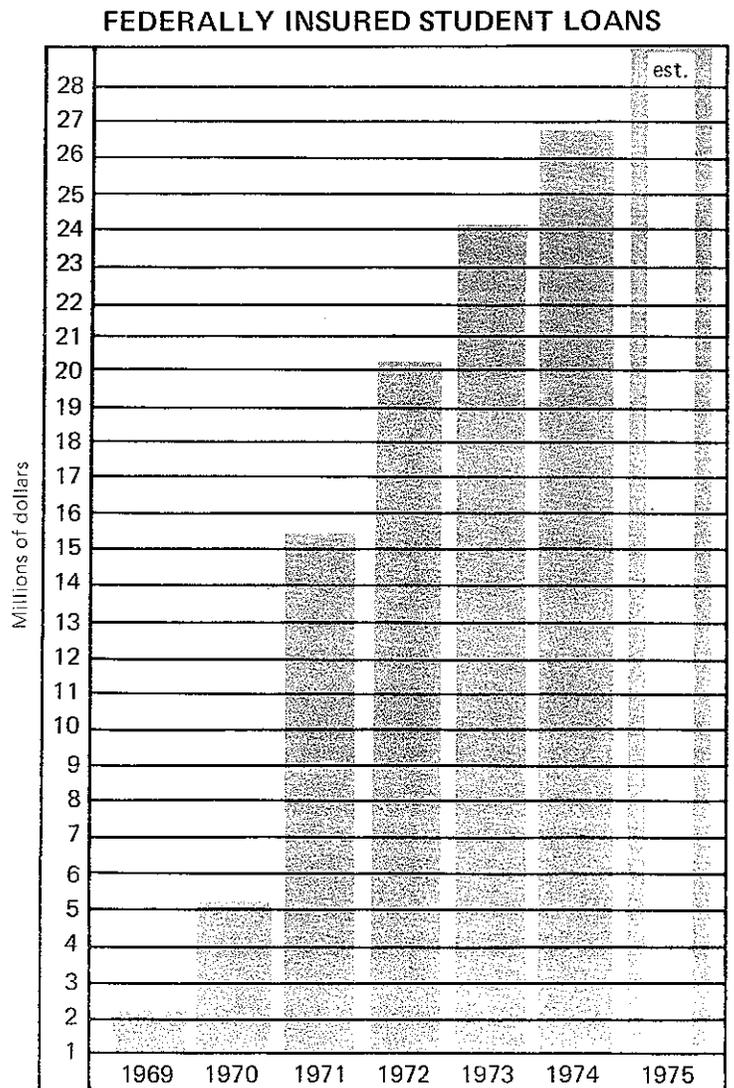
TOTAL RESOURCES



FARM AND HOME MORTGAGES VALUE



NET INCOME



FEDERALLY INSURED STUDENT LOANS

NEW LOANS

SIX YEAR SUMMARY

	1974	1973	1972	1971	1970	1969	
OPERATING RESULTS (000 omitted)							
Total Income	\$ 23,024	\$ 16,523	\$ 11,000	\$ 9,502	\$ 8,703	\$ 6,271	\$
Interest Expense	12,718	7,579	4,031	3,722	3,656	2,622	
Other Oper. Expenses	1,040	863	895	941	719	537	
NET EARNINGS (Profits)	9,269	8,066	6,083	4,839	4,328	3,112	
Paid to St. Treas. (Dividend)	5,000	4,125	3,250	3,000	2,750	2,875	
BALANCE AT YEAR END(000 omitted)							
Total Resources	\$316,508	\$266,700	\$206,349	\$178,070	\$143,920	\$128,750	\$
Total Deposits	253,630	200,857	168,156	153,964	122,150	108,837	
Demand Deposits	86,476	117,437	89,467	84,638	65,875	55,801	
Time Deposits	167,154	83,420	78,689	69,326	56,275	53,036	
Fed. Fds. Purchased/R.P.'s	25,428	33,418	10,160	—0—	—0—	—0—	
Fed. Fds. Sold	17,190	18,250	5,620	8,100	3,300	5,000	
TOTAL INVESTMENT SECUR.	\$148,733	\$116,501	\$ 96,284	\$ 92,311	\$ 82,401	\$ 78,573	\$
U.S. Government	18,542	20,796	14,154	17,421	25,569	20,800	
Federal Agencies	62,915	64,511	36,498	31,008	24,014	28,168	
Other Money Market Instruments	51,788	14,862	31,888	32,685	11,591	130	
N.D. Political Sub. Bds.	15,488	16,332	13,744	11,197	21,231	29,475	
TOTAL LOANS	122,153	106,392	79,952	62,338	46,818	35,998	
Farm Home Adm. Loans	6,408	13,266	18,158	19,686	16,446	13,024	
Fed. Insured St. Lns.	26,836	24,360	20,290	15,195	8,492	5,043	
Farm Real Estate Loans	4,285	2,343	636	78	95	109	
FHA Home Loans	15,872	16,169	15,223	12,999	10,340	9,707	
GI Home Loans	17,629	15,544	10,871	4,869	3,695	3,583	
Small Business Adm. Loans	6,495	5,174	3,812	4,008	3,390	2,325	
BK. Participation Loans	44,404	27,746	9,779	5,082	2,730	1,825	
Other Loans	223	1,788	1,190	422	1,631	382	
CAPITAL AND RESERVES	\$ 33,093	\$ 23,758	\$ 25,692	\$ 17,654	\$ 19,132	\$ 14,620	\$
Capital	6,000	5,000	2,000	2,000	2,000	2,000	
Surplus	10,000	8,000	8,000	4,000	3,000	3,000	
Undivided Profits	14,688	8,753	13,019	9,680	12,158	7,306	
Reserves	2,405	2,005	2,673	1,974	1,974	2,314	
OTHER DATA (Numbers)							
N.D. Banks with BND Accounts	163	159	157	140	124	114	
Individual Checking Accounts	3,489	2,909	2,306	1,945	1,875	1,434	
Individual Savings Accounts.	1,279	1,043	744	785	618	647	
Fed. Insured Student Loans (made or purchased)	6,912	7,757	9,083	7,317	4,694	3,360	
FHA House Lns., Made or Purch.	67	101	201	151	122	96	
GI House Lns., Made or Purch.	139	279	321	45	27	33	
SBA Loans Purchased	14	14	13	8	12	7	
Bank Participation Loans	100	59	43	17	9	20	
Number of employees	83	80	73	69	67	62	

1964	1954	1944	1934	1924
4,886	\$ 2,634	\$ 928	\$ 770	\$
2,234	1,051	240	347	
308	190	105	167	
2,339	1,551	57	109	25
2,000				
118,170	\$127,630	\$63,756	\$29,209	\$18,373
98,637	117,170	58,790	26,133	16,182
50,790	59,598	30,398	13,613	13,129
47,847	57,572	28,392	12,520	3,053
-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-
86,961	\$106,276	\$50,506	\$21,843	\$ 2,483
33,915	85,484	46,159	13,086	454
23,500	3,836	-0-	697	2
-0-	-0-	2,486	4,711	1,858
29,546	16,956	1,861	3,349	169
17,887	6,417	2,237	1,424	5,262
10,271	1,750	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-
355	-0-	-0-	-0-	-0-
2,664	1,286	1,286	-0-	-0-
3,818	2,775	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-
779	606	951	1,424	5,262
19,315	\$ 10,104	\$ 4,875	\$ 2,577	\$ 2,000
2,000	2,000	2,000	2,000	2,000
3,000	2,000	-0-	-0-	-0-
9,732	2,694	1,123	567	-0-
4,583	3,410	1,752	10	-0-
96	100	104	123	163
1,630	2,304	3,089	3,298	453
788	1,434	1,913	1,574	-0-
-0-	-0-	-0-	-0-	-0-
33	30	236	-0-	-0-
14	92			
50	52	57	52	37