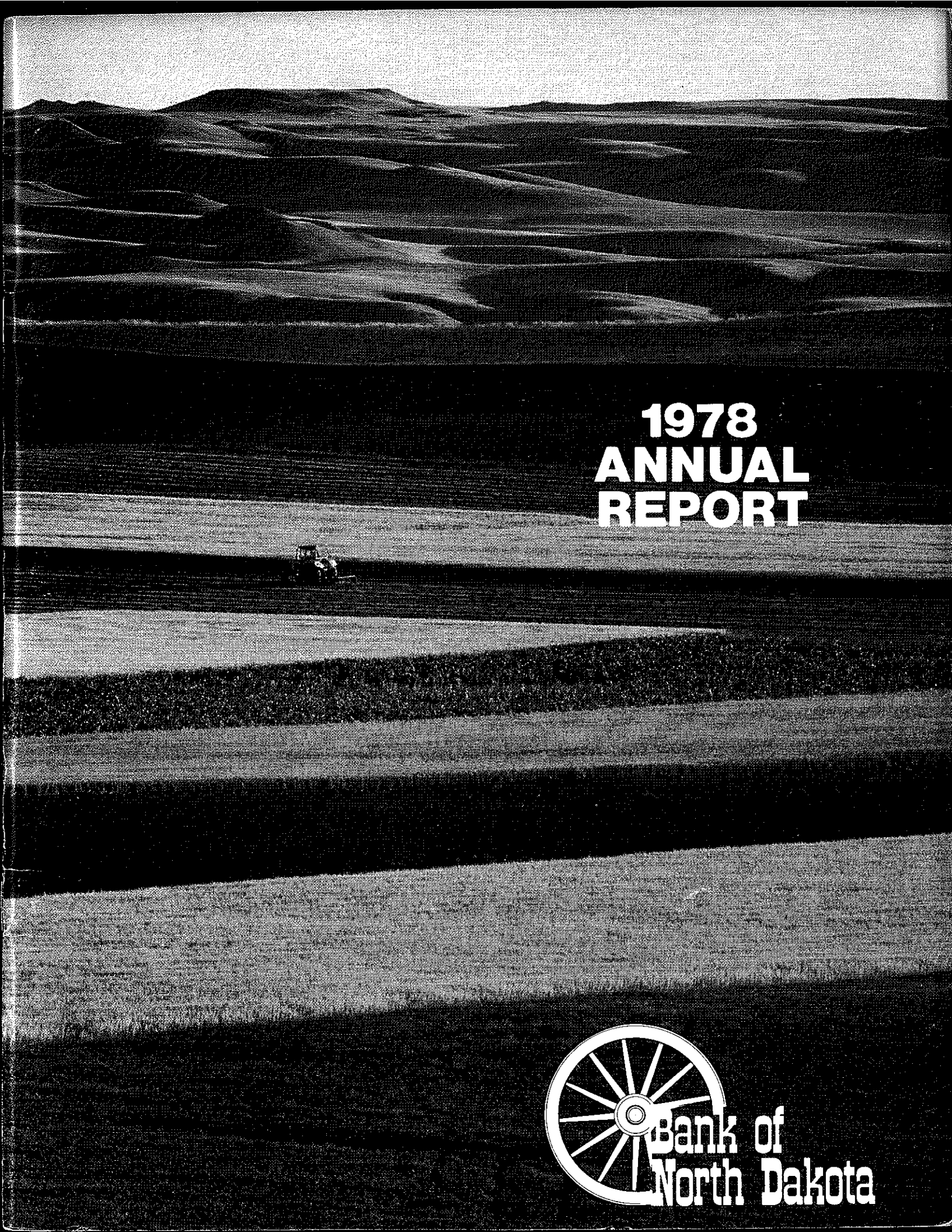

1978 ANNUAL REPORT

Bank of North Dakota

The theme of this year's Annual Report is "WORKING FOR NORTH DAKOTA." The narrative of each department relates how the Bank is working to make a better North Dakota.

Financial Highlights

	1978	1977	
AT YEAR END:			
Resources	$ 572,697,681	$ 512,809,441	+12%
Deposits	403,236,032	376,268,248	+ 7%
Student Loans	36,463,962	32,539,293	+12%
Real Estate Loans	99,212,057	69,027,946	+44%
All Other Loans	124,232,106	90,638,602	+37%
FOR THE YEAR:			
Total Income	41,322,262	32,401,453	+28%
Interest Paid	28,559,224	19,483,245	+47%
Expenses Paid	2,428,943	1,857,888	+31%
NET INCOME	10,334,095	11,060,320	− 7%
Dividend Paid to State Treasury	8,000,000	8,000,000	—
No. of Checks Processed	31,691,742	27,677,998	+15%
Total Fed. Fds. Purchased	16,858,470,000	12,401,485,000	+36%
Total Fed. Fds. Sold	14,323,278,000	21,730,391,000	−34%

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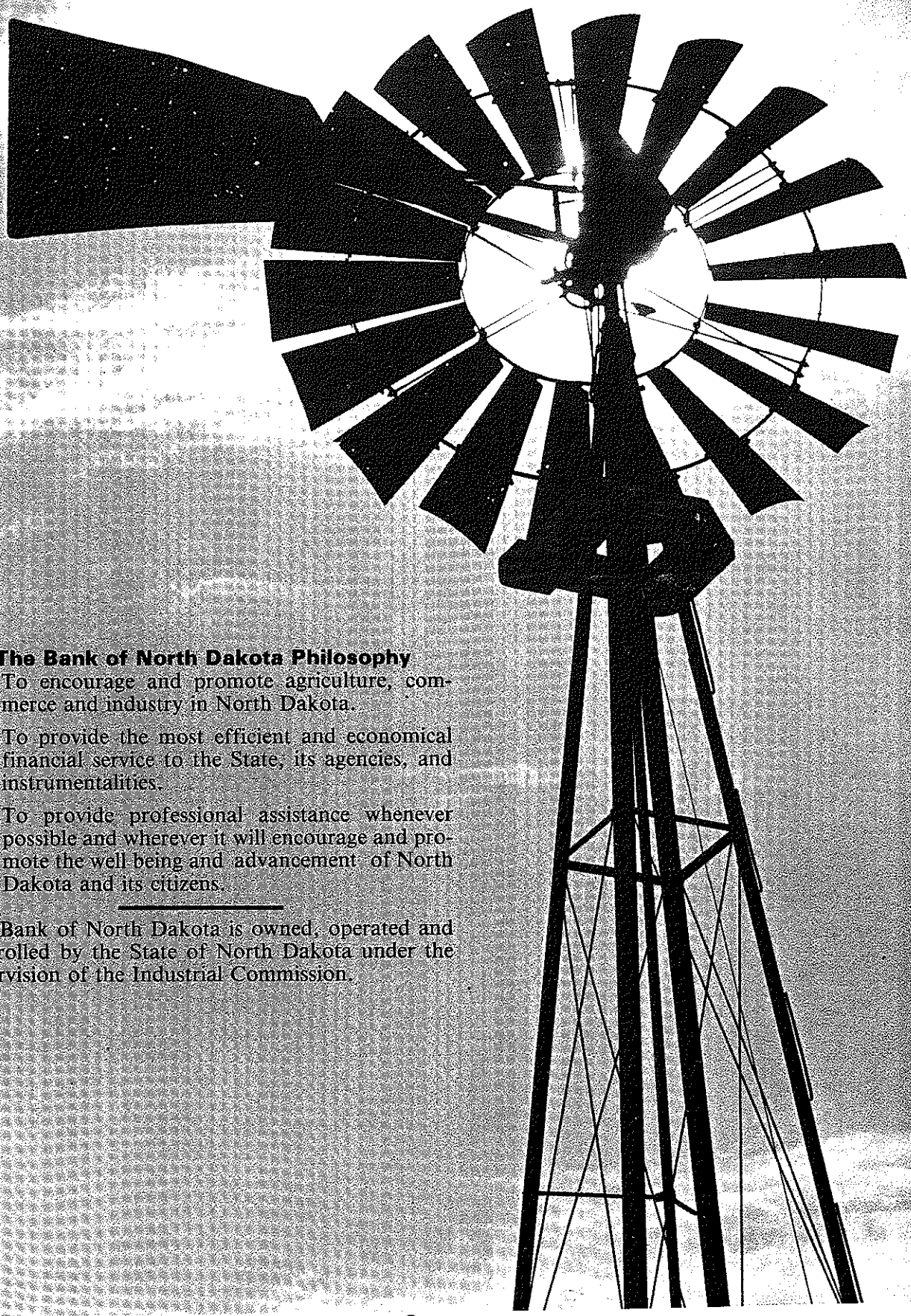


The Bank of North Dakota Philosophy

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.

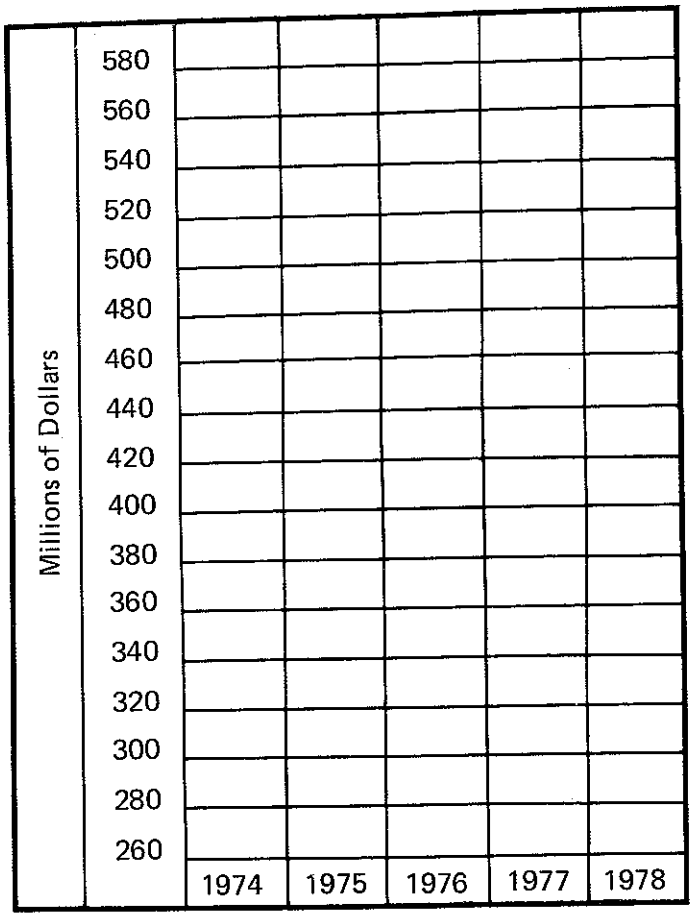
III. To provide professional assistance whenever possible and wherever it will encourage and promote the well being and advancement of North Dakota and its citizens.

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

North Dakota Industrial Commission

To the Citizens of North Dakota:

We are pleased to present this report to the Bank's stockholders, the citizens of North Dakota.



TOTAL RESOURCES

The Bank of North Dakota has been "Working for North Dakota" for over 59 years. The Bank became involved in farm real estate financing the day it opened for business, and in recent years has become very active as a farm lender. In 1978, the Bank started a "Beginning Farmer" loan program in cooperation with the Farmers Home Administration. The "Beginning Farmer" program, along with the Bank's leadership in Federal Insured Student loans, shows how the Bank is dedicated to "Working" to develop our state's most valuable resource, our young people.

During 1978, the Industrial Commission met fifteen times about Bank business. We approved nineteen loans totaling over $47,542,500 with the Bank of North Dakota's share over $40,860,886, and one Industrial Revenue bond issue totaling $3,300,000. (The Industrial Commission, by policy, must specifically approve all loans and Industrial Revenue bonds that exceed $1 million.) The Commission also approved three operational and personnel policies during the year. The Commission approved the election of seven officers and promotion of four other officers. The Commission approved the issuance by the Bank of a $50 million mortgage backed bond issue, the largest bond issue ever originated in North Dakota.

The Commission met four times jointly with the Advisory Board during 1978. We thank them for their advice and counsel.

We urge you to read this report and discover how the Bank of North Dakota is "Working for North Dakota."

Arthur A. Link

Allen I. Olson

Advisory Board

To the North Dakota Industrial Commission:

During 1978, the Advisory Board further expanded its role of overseeing the Bank's operation in "Working for North Dakota." The Board held eleven meetings during the year, with ten located in Bismarck and one in Fargo. One meeting per quarter was held with the Industrial Commission.

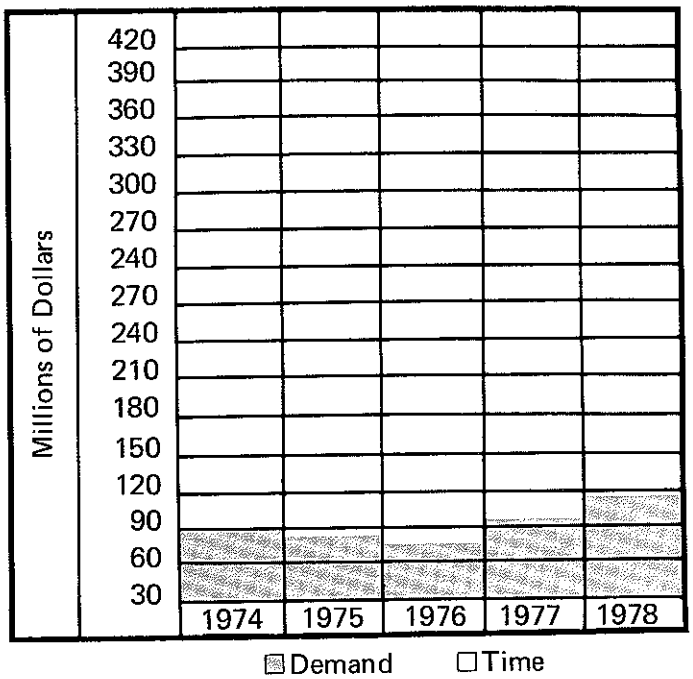
The Board continued to monitor the operations of the Bank through review of departmental reports and activities, progress and results of goals and objectives and new and updated policies and procedures. Three administrative policies and a series of supplemental personnel policies were approved by the Board. During 1978, the Board also approved 62 loans, amounting to $75,622,893 from 32 financial institutions throughout the state , with the Bank of North Dakota's share being $57,616,967. It is Bank policy for the Advisory Board to review and approve all loans over $400,000. Nine loans were rejected by the Board. The Loan Rate Guide was closely reviewed and adjusted by the Board throughout the year.

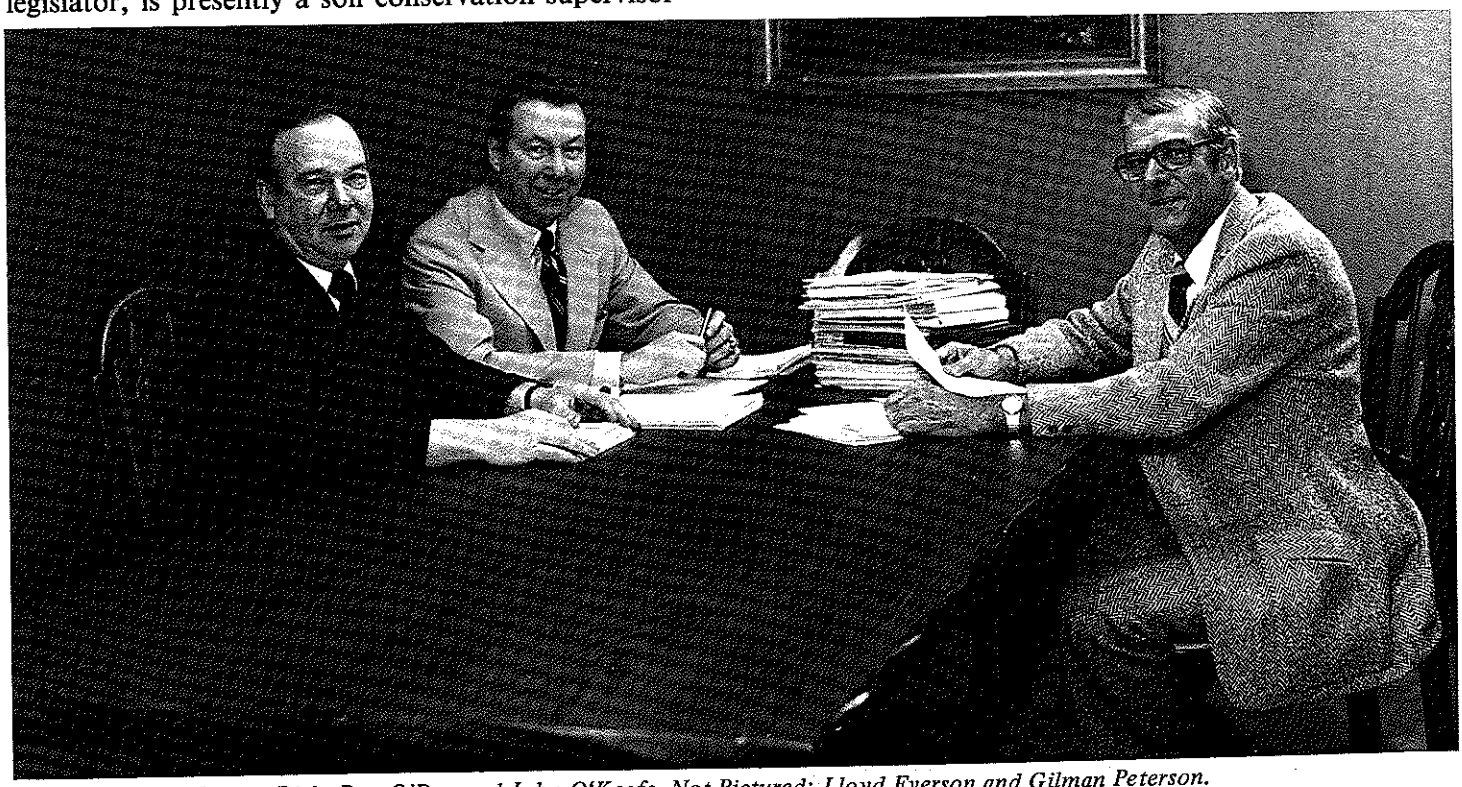
The Audit Committee of the Advisory Board has met on a monthly basis with the head of the Bank's Audit Department to review audit procedures and findings. In March, the Board met with the external auditing firm, Charles Bailly & Company, to review the Bank's yearly independent audit.

In April, a recognition dinner was held for R.T. Carley, an original Board member whose term ended in 1977. The Board welcomes Mr. Carley's replacement, Gilman F. Peterson a New England (North Dakota) farmer-rancher. Mr. Peterson, a former state legislator, is presently a soil conservation supervisor for Stark and Billings Counties. He is the first active farmer-rancher to serve on the Bank's Advisory Board and his expertise in the agriculture area is appreciated.

The Bank of North Dakota, again, had an excellent year in 1978. We urge you to read this Report, and we're sure you will agree the following statistics definitely confirm the Bank of North Dakota is "Working for North Dakota."

DEPOSITS





Eugene Rich, Dan O'Day and John O'Keefe. Not Pictured: Lloyd Everson and Gilman Peterson.

To the North Dakota Industrial Commission:

We are pleased and proud to present the results of the past year. The Bank of North Dakota became more involved in the state's economy, and more of our resources are "working for North Dakota."

Resources peaked at $616,214,096.44 on August 2, 1978. Year-end resources totaled $572,697,681, up $59,888,240, an increase of 12% from the previous year end. However, deposits were only up $26,967,784 or 7%, and stood at $403,236,032 at year-end. We anticipate a decline in deposits in 1979, due to a predicted decrease in the State's General Fund.

Net income totaled $10,334,095 for 1978, a 7% decrease from 1977's all time high of $11,060,320. The small decline can be attributed to the higher cost of borrowed funds. The Bank's interest expense increased 47% in 1978, totaling $28,559,224. Other expenses also increased, primarily because of the remodeling of the third and fourth floors. We anticipate net income to be as good in 1979 as was the past year. If interest rates on borrowed funds decreases during the year, as we expect, 1979 could be a record year for Bank earnings.

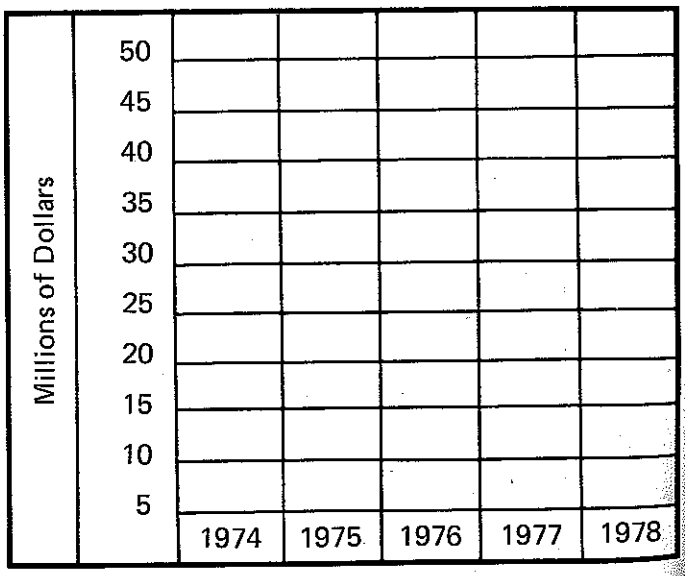
The Bank increased its capital by $2 million in 1978, which added strength and stability to its financial condition. The Bank's legal lending limit to any one borrower is now $6 million. The Bank again paid an $8 million "dividend" to the state by transferring that amount, as directed by the 1977 legislature, to the State's General Fund.

Loans increased $67,702,000, up 35%, to a total of $259,908,000 at year end. This was $27,702,000 more than we had anticipated a year ago. The largest increases were in real estate and bank participation loans. The Bank made or purchased 1,035 home loans during the year, and 79 farm ownership loans. Twenty-two of these were "beginning farmer" loans, a program which was started late in the year. We are pleased that more of our assets are "working for North Dakota," and expect this trend to continue in 1979.

The Bank issued a $50 million mortgage backed bond issue in 1978. We believe this is the largest bond issue to have ever been originated in North Dakota. Smith Barney, Harris Upham & Co. was the underwriter. The issue received a AAA rating and has an interest rate of 9¼%, which was very favorable, considering the bond markets of last year. The Industrial Commission will be issuing a $65 million Student Loan Revenue Bond issue in 1979, which will purchase all of our Federally Insured Student Loans, and provide funds for the estimated volume of these loans for the next two and a half years. We will also have another North Dakota Municipal Bond Bank issue in 1979. These bond issues will ease liquidity pressures during the year.

The financial statements beginning on page 32 have been examined and certified by Charles Bailly & Company, Certified Public Accountants. The Bank was also examined by the North Dakota Department of Banking and Financial Institutions during the year. The Advisory Board appointed an Audit Committee in 1978 and they met periodically with the Bank's internal audit department, the outside auditors and the bank examiners.

The Bank promoted Rod Anheluk, Annis Foss, Darlene Felchle, Russ Erickson, Donald Young and Donna Frey to Assistant Cashiers; Esther Focke to Assistant Comptroller; Duane Wagner and Sharon Wehner to Assistant Vice Presidents; and M.E. Cook to Vice President and General Counsel in 1978. The staff increased from 98 to 102 in 1978, a very



TOTAL INCOME

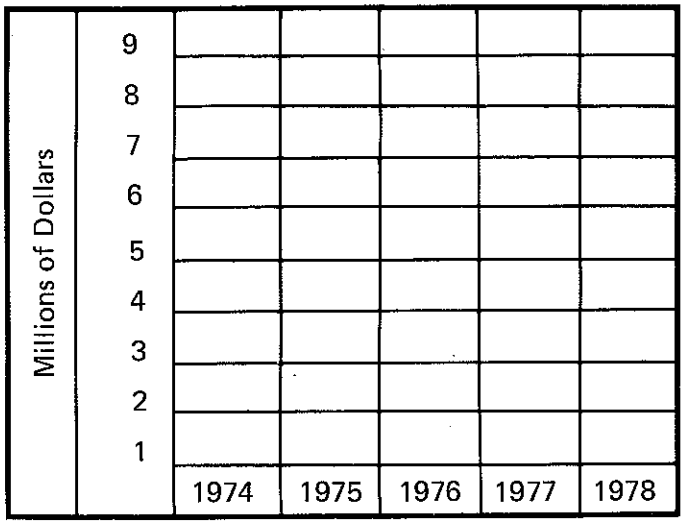
modest increase, considering the increase in activity in all departments.

Every effort will be made to keep staff expansion to a minimum in 1979, in keepinng with authorization approved by the legislature. The Bank's 102 employees are a strong and experienced staff dedicated to "working for North Dakota" and monitoring our assets in such a way that they will do the most good for the citizens of the state.

The third and fourth floor remodeling project was completed in 1978. The President's office, Personnel Department, Loan and Correspondent Department, and board room are now located on the fourth floor. The Student Loan Division and employee lunch room are now on the third floor. This remodeling project allows the Bank to occupy the entire building for the first time since opening in June, 1919.

Management and staff wish to thank the Industrial Commission and Advisory Board for their advice and counsel. Their many hours of study, meetings, and travel is very much appreciated. They are helping the Bank "work for North Dakota."

We look forward to another good year in 1979, and are dedicated to serving the needs of North Dakota.



PAID TO STATE FROM EARNINGS

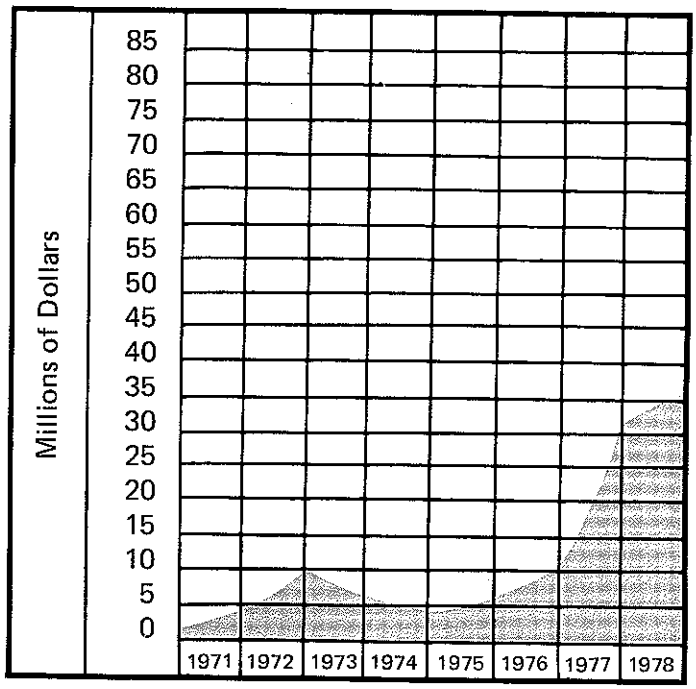
H.L. Thorndahl
President

Home Mortgage Division

During 1978 Bank of North Dakota demonstrated its sustained commitment to meeting the housing needs of the people of North Dakota. Bank of North Dakota continued to originate mortgage loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration where eligible applicants for such mortgage loans were unable to obtain loans through their local lenders. The Bank's expanded Mortgage Loan Purchase Program greatly reduced the need for this direct loan service, however, because the program assured local lenders of having a secondary market for the FHA and VA loans which they originated in their communities. The Bank of North Dakota's Mortgage Loan Purchase Program enabled local lenders to provide their communities with nearly $37,000,000 to meet the growing housing needs of the people of North Dakota. This was an increase of 16½% over the amount allocated in 1977. The existence of the viable secondary market for the sale of mortgage loans which the Bank of North Dakota's Mortgage Loan Purchase Program provided was especially important during the third quarter of 1978. Volatile interest rate increases for mortgage loans resulted in uncertainty about future, profitable access to national secondary markets for many North Dakota lenders. The availability of the Bank of North Dakota's Mortgage Loan Purchase Program allowed these lenders to continue to make home loans to North Dakotans despite uncertainties and fluctuations in national secondary mortgage markets.

One of the major problems faced by North Dakotans with moderate incomes is that of finding and obtaining adequate, affordable housing. In order to encourage the construction and financing of such housing, Bank of North Dakota developed a special mortgage loan purchase program for Federal Housing Administration "235" loans. Under the "235" program a borrower with a low or moderate income may be eligible to receive assistance from the Federal Housing Administration, through the Bank of North Dakota, so that the rate of interest upon which the borrower's monthly house loan payment is based is

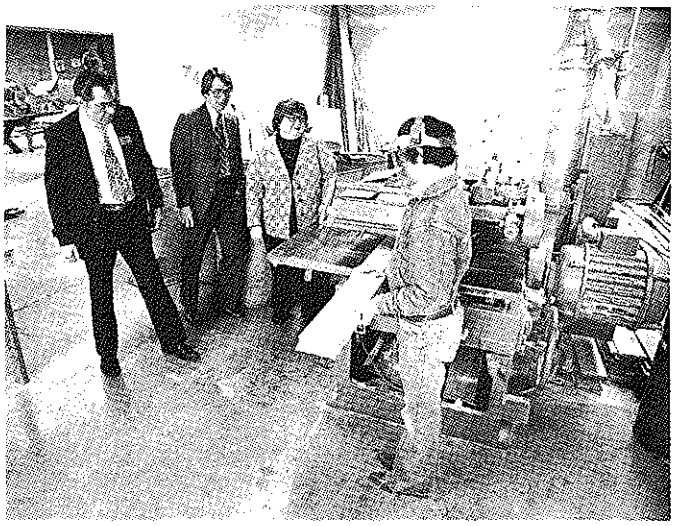
VA/FHA HOME LOANS

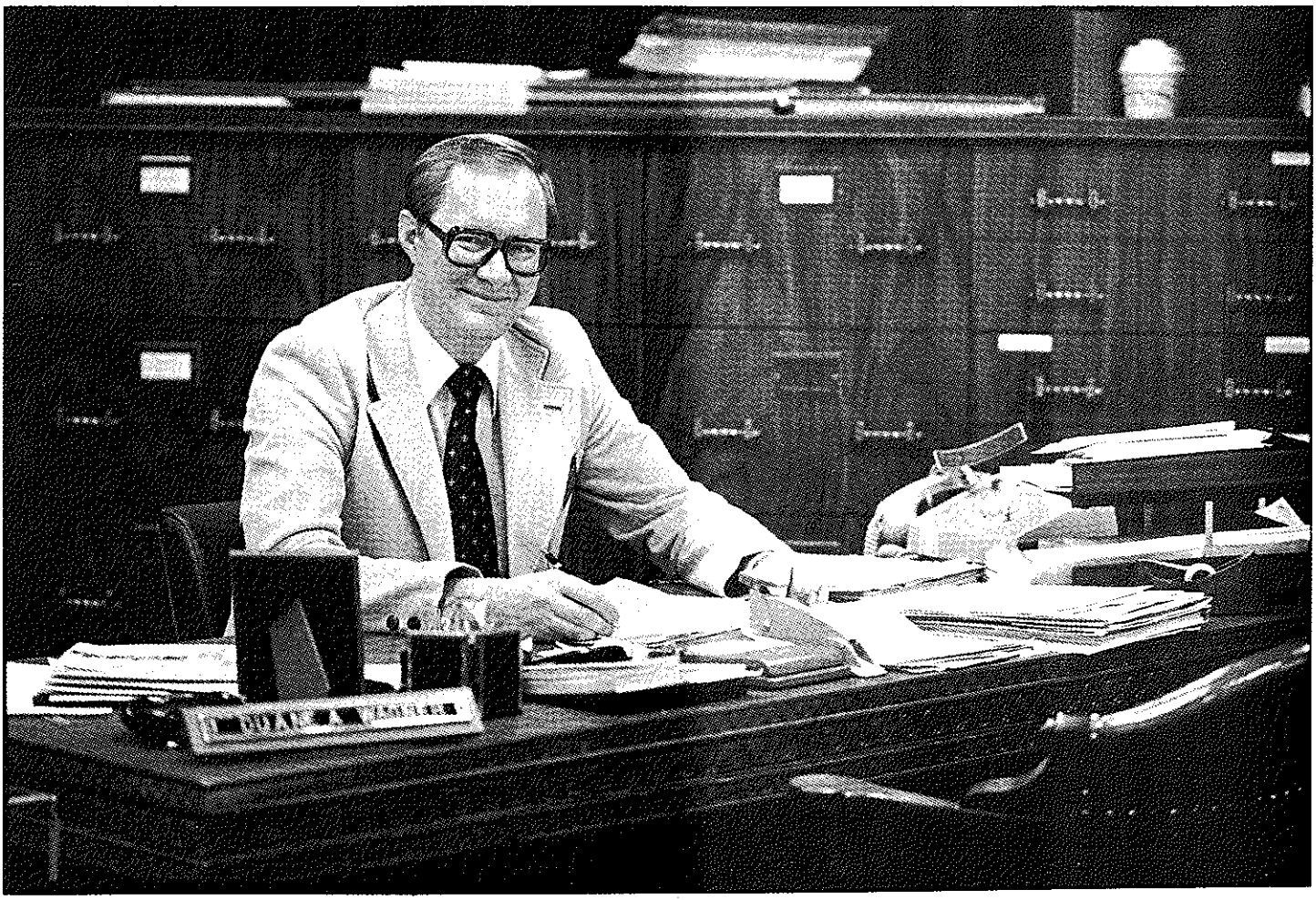


☐ Total Loan Portfolio
▨ Total New Loans added to the Portfolio

reduced to as low as 4%. Initially this may reduce the borrower's monthly house payment by as much as $160. If the borrower remains eligible, this assistance may continue for the entire term of the loan. "235" loans have special servicing requirements which may become burdensome for local lenders who originate only a few of the loans. Because there is a great need for a successful assistance program in North Dakota, Bank of North Dakota purchases whole "235" loans, that is, it purchases both the note and the servicing on these loans. Furthermore, Bank of North Dakota has substantially reduced the discount points which it requires to purchase "235" loans. These features of the "235" Purchase Program have made it an overwhelming success. Several qualified housing developments were designed, built, and sold under this program in 1978 and several more developments are planned for 1979. The loans on these houses are now being purchased and serviced by Bank of North Dakota; during December, 1978, more than $978,000 was allocated to the purchase of the "235" loans by Bank of North Dakota. All indications are that this program will continue to generate great interest and result in a substantial increase in the availability of adequate, moderately priced housing for North Dakotans with low or moderate incomes.

At the end of 1978, Bank of North Dakota held $52,106,992 in mortgage loans which were insured by the Federal Housing Administration and $32,679,860 in mortgage loans which were guaranteed by the Veterans Administration. Of this $84,786,852 mortgage portfolio, $36,787,980 was added during 1978 through the origination and purchase of 1,035 FHA and VA loans. In the final analysis this is the evidence which shows that Bank of North Dakota is fulfilling its commitment "working for North Dakota" to provide the people of our state with access to the funds required in order for them to obtain housing adequate to meet their needs.



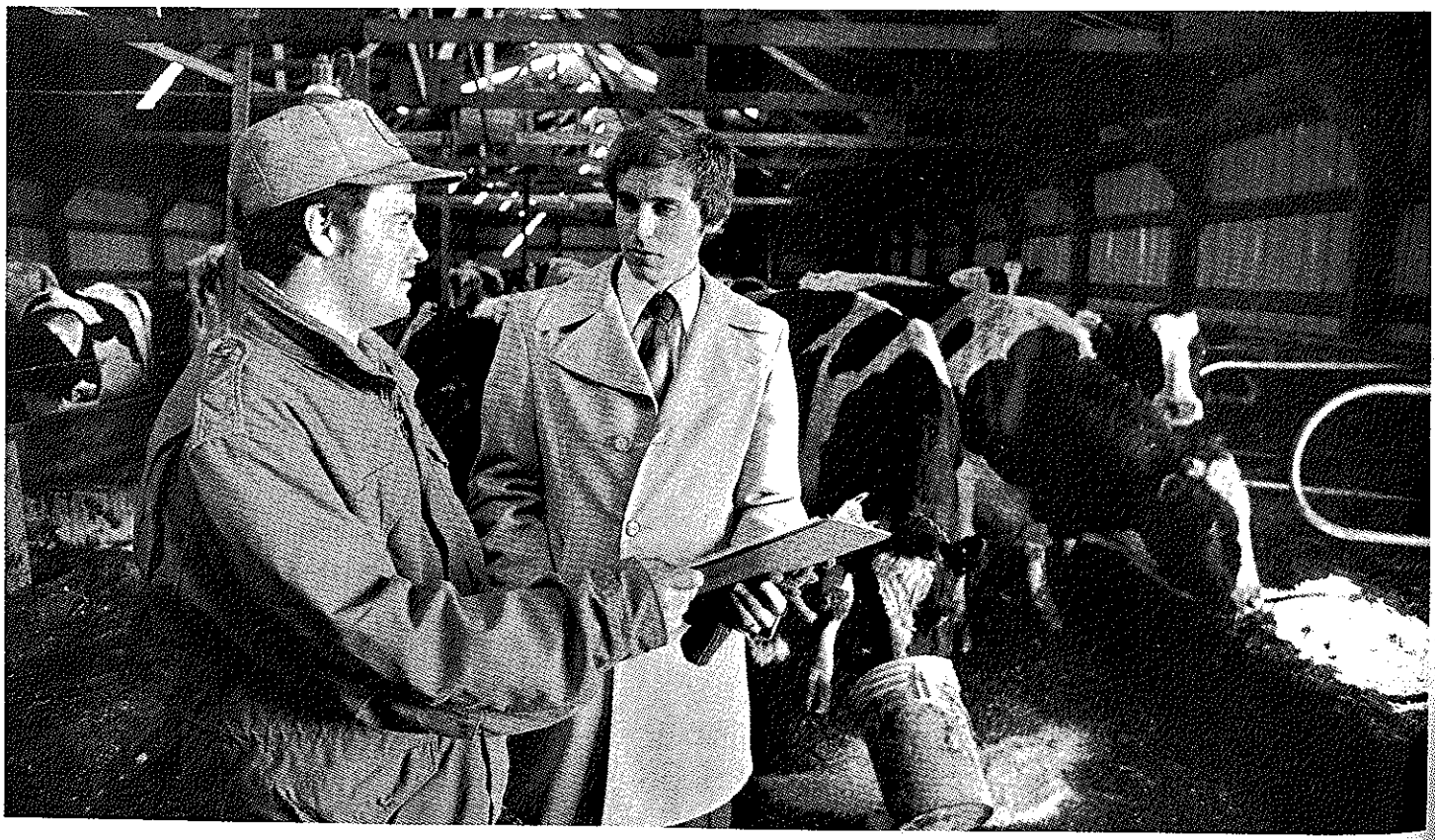


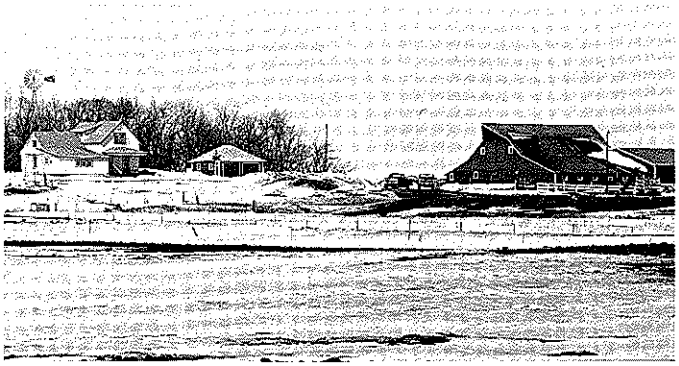
Farm and Ranch Ownership Loans

As a central bank in the State of North Dakota's financial community, the Bank of North Dakota has been actively making real estate loans to farm and ranch operators. This program is a combined effort by the Bank of North Dakota and the Farmers Home Administration.

North Dakota's state law allows the Bank of North Dakota to make loans secured by a first real estate mortgage on farm real estate, providing the loan does not exceed 50% of the appraised value. Farmers Home instructions allow second mortgage loans when another lender (such as Bank of North Dakota) is willing to loan a portion of the funds. Therefore, the Bank of North Dakota and the Farmers Home Administration together can lend up to 100% of the appraised value to qualified farmers.

On June 28, 1978, the North Dakota Industrial Commission adopted a policy to aid beginning farmers. This policy enables the Bank of North Dakota to offer favorable rates on its portion to assist beginning farmers in purchasing farm real estate. If a borrower qualifies for the Bank's Beginning Farmer Program, the Bank of North Dakota can extend the term up to 40 years, defer principal payments for the first two years, and offer a 2% deviation from the normal interest rate for the first five years of the loan. By substantially lowering the debt repayment, the Beginning Farmer Program helps to combat rising land values and equipment costs which have made it more difficult for people in North Dakota to start farming.

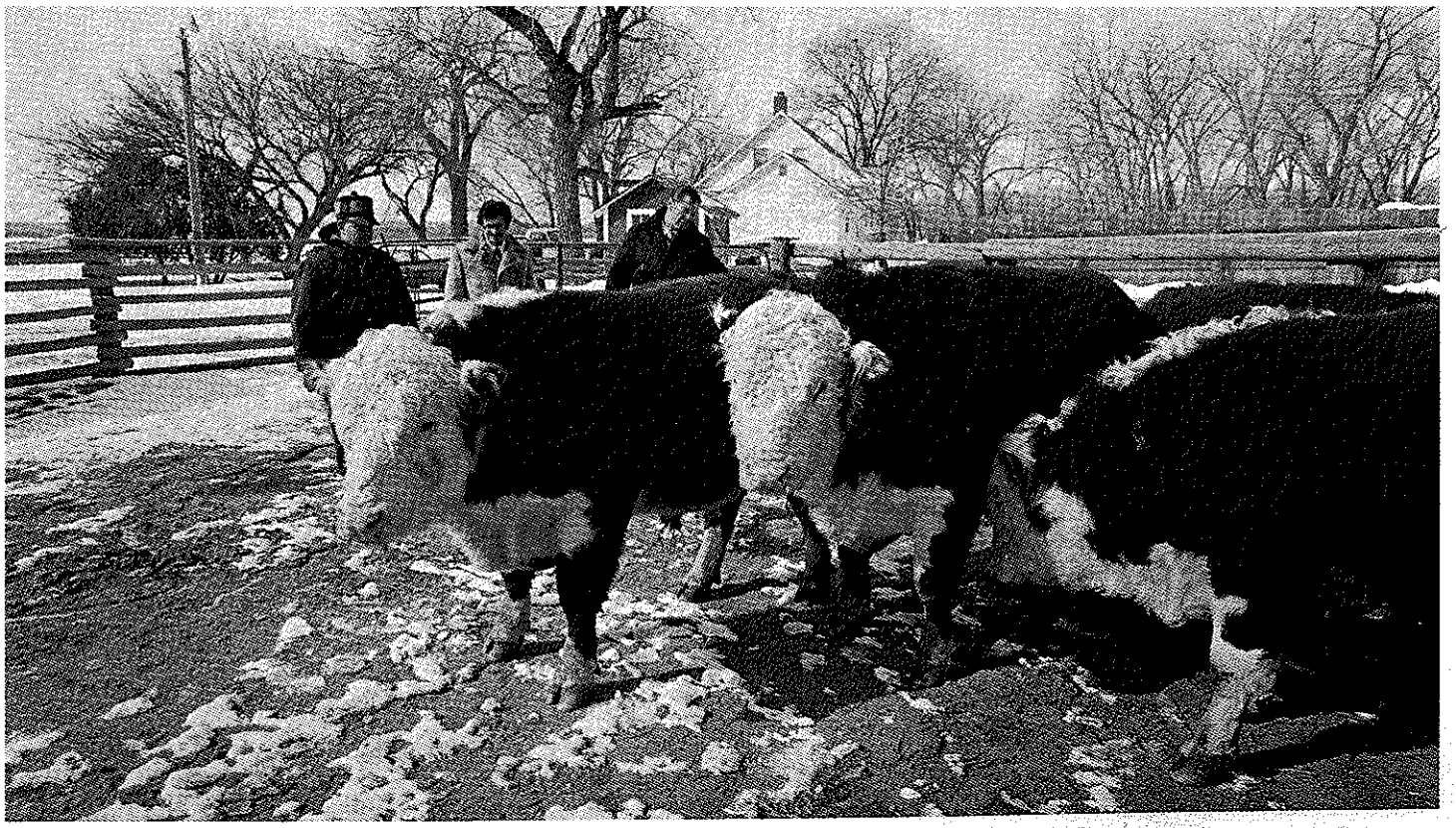




The Beginning Farmer Program has generated an enthusiastic response. During its first 6 months of operation, a total of 22 loans were dispensed totaling $1,101,000 and the Bank had committed funds of $3,037,800 to beginning farmers. In addition, the Bank had committed over $3 million for beginning farmers loans that were in process by year end 1978. We expect the program to be one of our busiest in 1979.

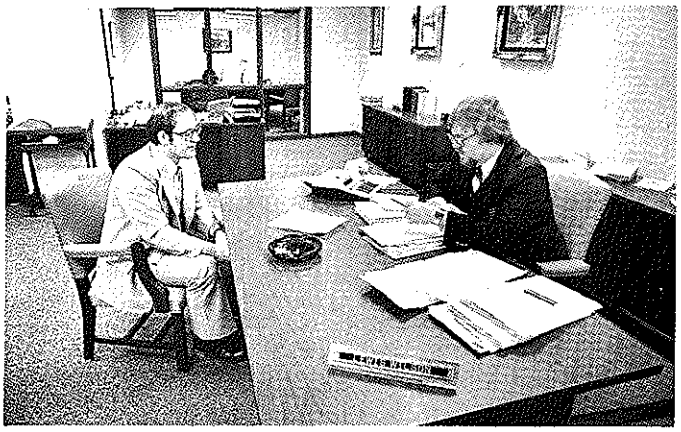
In 1978, the Bank of North Dakota made a total of 79 regular participation loans with Farmers Home Administration amounting to $3,663,120.00. This brought the outstanding portfolio balance to $14,219,762, which represents 450 separate farm real estate loans to farmers located throughout the state.

Through the Bank of North Dakota — Farmers Home Administration Farm and Ranch Ownership Loans, the Bank of North Dakota is "working for North Dakota" by providing the financial assistance necessary to the people who are engaged in North Dakota's #1 industry, agriculture.



SBA and Participation Loans

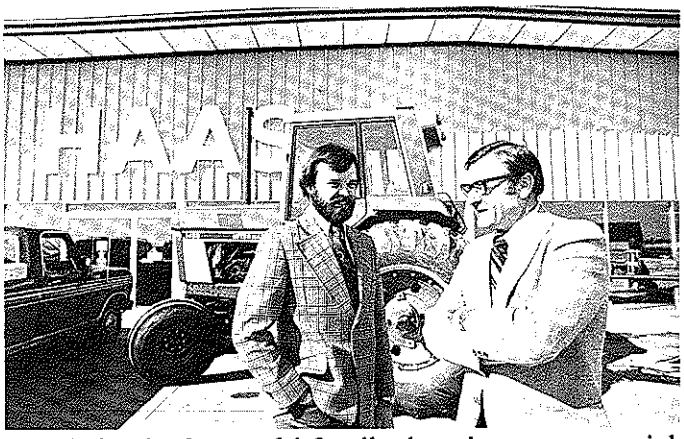
In 1919 the Bank of North Dakota was organized and began operations shortly thereafter to "work" for North Dakota. From the terrible 20's and the dirty



30's we've come a longway — From the desperation and hardships of the pioneers to the technical and mechanical wonders of today's agri-business.

By the very concept of the enabling act which created and governs the Bank of North Dakota, we are a correspondent bank. The Bank of North Dakota's deposit base and ability to borrow on a national level has provided liquidity and loanable funds for our correspondent banks. These funds, while subject to fluctuations in the cost of money, have enabled North Dakota bankers to provide the community service necessary for a strong North Dakota economy. Our agricultural overlines peaked in September at almost $24,500,000 and our agri-business overlines at $8,900,000. Our total bank participation portfolio peaked in October at $114,050,000.

The growth of our various portfolios in the last few years is indicative of our commitment to work for North Dakota. The Commercial Loan Division is aware of the changing nature of the loan requirements through the state. We have entered into what we believe is just the first of many oil and gas exploration production loans. We participate in loans to a mustard seed processing plant, a hydrostatic drive utility tractor manufacturing plant, two sugar beet processing factories, and a host of other North Dakota based enterprises. The Bank has continued its previous commitment and cooperation with SBA, FmHA, REA and the Bank for Cooperatives, established a young farmers program for the purchase of farm real estate in cooperation with FmHA, pro-

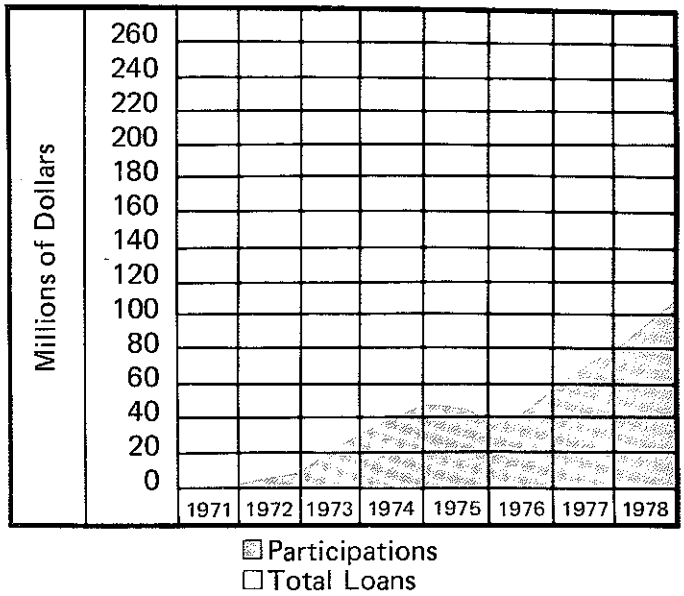


vided funds for multi-family housing, commercial buildings, working capital for all types of North Dakota industry and intermediate term debt for the transportation industry.

As stated, Bank of North Dakota is involved in almost all aspects of commercial lending; however, the priorities are directed to farm and ranch real estate, SBA and FmHA business loans, farm and ranch operating loans, irrigation loans, and working capital for North Dakota manufacturers.

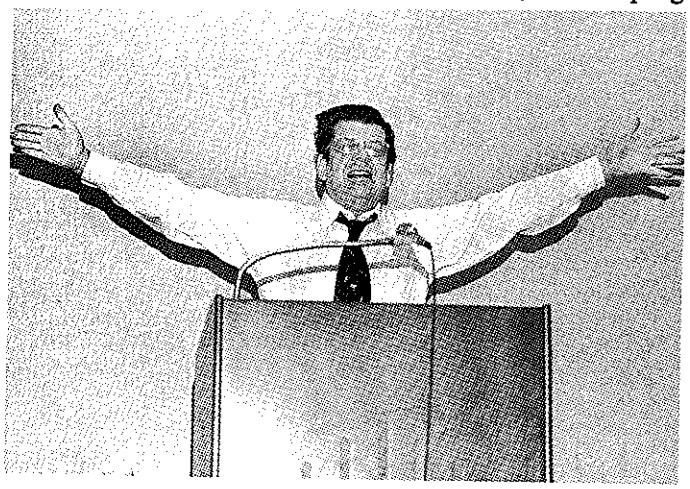
The Bank of North Dakota is indeed "working for North Dakota" by providing lending services and credit expertise through the financial institutions of the state "to encourage and promote agriculture, commerce and industry in North Dakota."

BANK PARTICIPATION AND TOTAL LOANS



Correspondent Banking

Bank of North Dakota functions in many respects as a smaller Federal Reserve Bank for the financial institutions within the state. Clearing checks, wire transfers, technical assistance, overlines, safekeeping and money center transactions are among our primary services. By law, we are not a full service bank, and our financial strength is funneled through our correspondent community banks to encourage and promote agriculture, commerce and industry.



Utilizing its central location, the nation's only state-owned bank, can easily serve the credit or technical requests from anywhere in North Dakota. While all loan requests are subject to the Bank's legal lending limit of $6,000,000, our lending or bonding officers can be anywhere within the state on a day's notice to discuss or review a funding request. In addition, our instate WATS provides access to immediate discussions between loan officers on a state-wide basis. Our Investment Committee meets weekly to consider and act upon completed applications. All requests over $400,000 are also reviewed by the Advisory Board and Industrial Commission on a monthly basis.

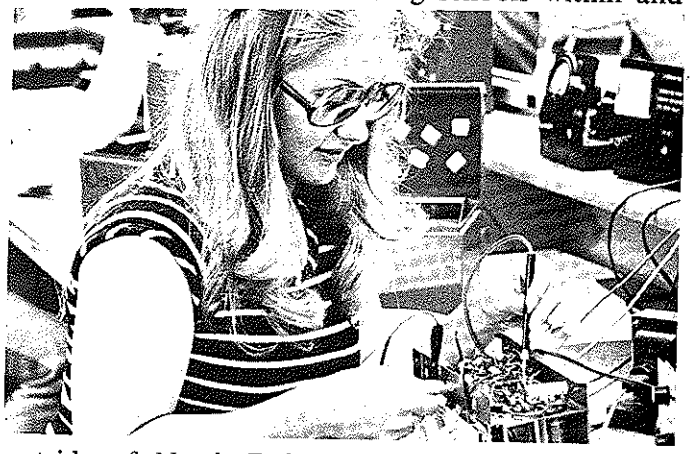
The Correspondent Banking Department organizes

an annual Mid-Winter Break, the purpose of which is to enable North Dakota bankers to become familiar with the available correspondent services; and, utilizing local, regional, and national authorities to discuss the current concerns of area bankers. This conference has been increasingly well attended, and we have scheduled the program for the benefit of all bankers, savings and loan officials, credit union managers, SBA, FHA and FmHA representatives.

We are extremely proud that we have a correspondent relationship with every bank in the State of North Dakota and most of the savings and loan associations. With them, and through them, we are "working for North Dakota."

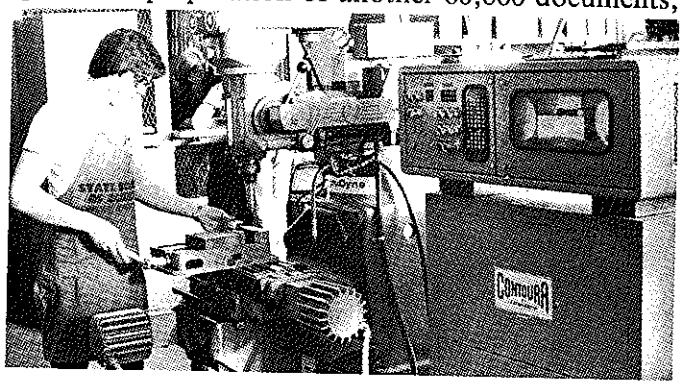
Student Loan Division

To assure loan access to all North Dakota students who desire post secondary education is a continuing challenge. "Working for North Dakota" is more than an advertising phrase to the Student Loan Department. Since the inception of the Guaranteed Student Loan Program in North Dakota, the Bank of North Dakota has processed 70,871 loans in the amount of $65,000,000. These loans have been made to students from every municipality in the State of North Dakota. Students are attending schools within and



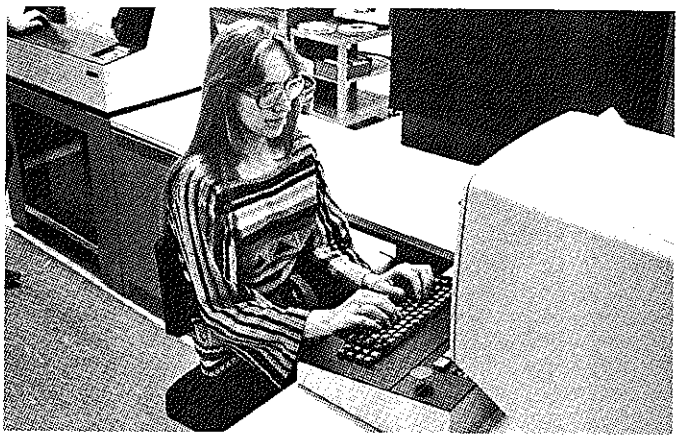
outside of North Dakota in all 50 states and in many foreign countries. Twenty-seven million dollars has been repaid. This represents 20,000 loans that have been paid in full. The year 1978 provided a 25% increase in the number and dollar amount of loans handled. The increase was primarily in loans made directly by the Bank of North Dakota. During 1978, 6,334 loans entered repayment status and 3,883 were paid in full. This resulted in total payments of $8,518,902, of which $4,832,470 was payment on principal and $3,675,431 was interest payments. Presently, 10,131 students are being billed on a monthly basis. This represents 28,657 loans, or an average of 2.8 loans per student. An annual default rate of less than 3% is being maintained, which is one of the lowest default rates in the United States under the Federally Insured Student Loan Program. This attests to the character of the people we are privileged to serve as well as to the high quality of schools and lending institutions with which we work.

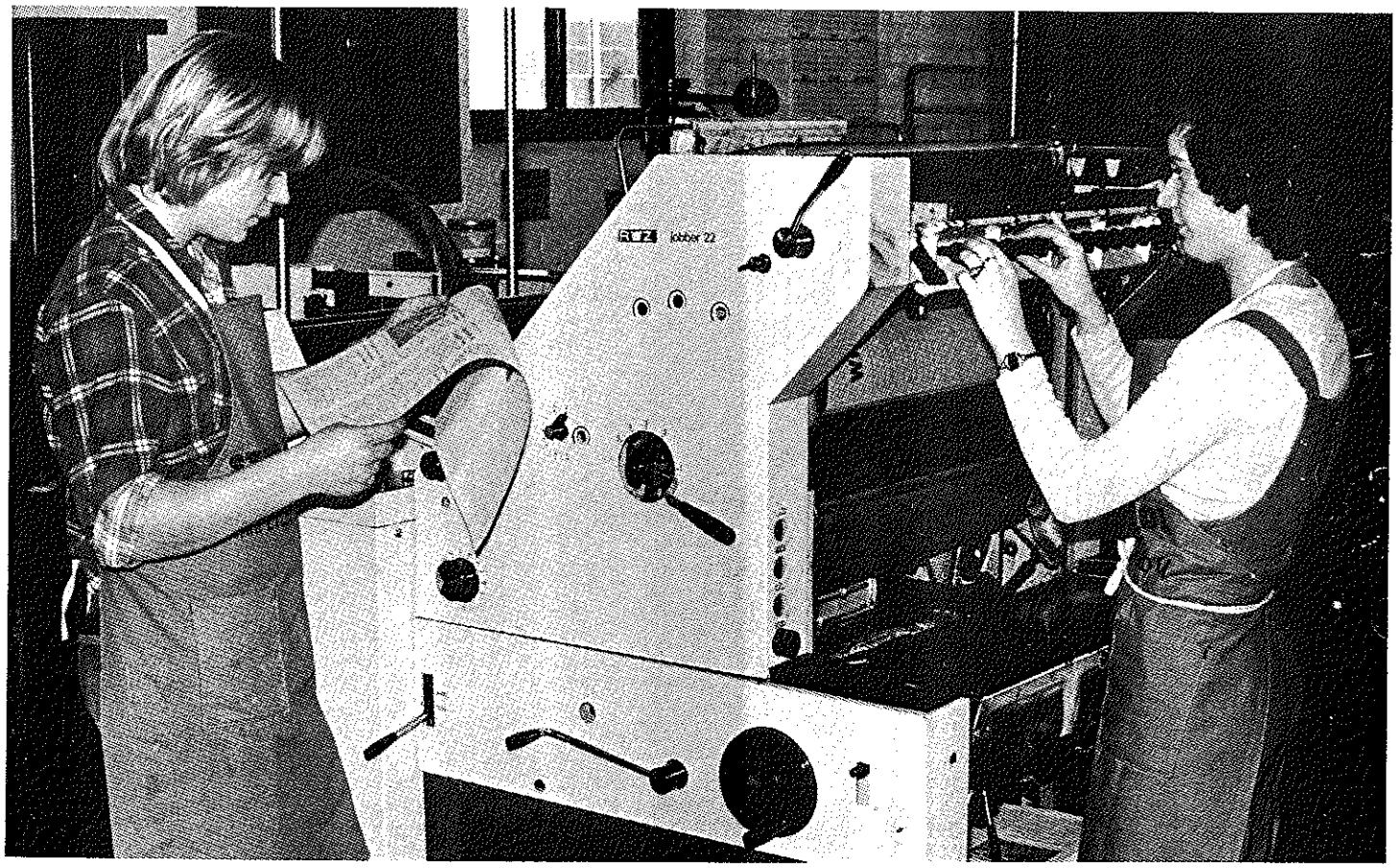
Over 150,000 monthly billings were mailed to borrowers and an equal number of payments were received and processed. The processing of 9,109 loans requires the preparation of another 60,000 documents,



such as notes, supplemental information requests, statements of responsibility forms, second and third disbursal requests, checks sent to appropriate schools and notification to students when checks are mailed to the various schools. Checking student status and establishing repayment procedures requires another 15,000 communications. Collection procedures accounted for 6,000 contacts. These procedures together with the reports demanded by the Office of Education and other regulatory agencies requires the completion of over 250,000 items by this department on an annual basis. In addition, telephone calls in excess of 2,000 monthly are handled in the normal operation of the department. In order to encourage participation by other lenders, a secondary market is afforded to all state lenders so that the more complex and less profitable repayment period may be assumed by the Bank of North Dakota. This provides liquidity when desired and permits the local lender to provide their customers with personal lending services without the problems and extra work brought on by lengthy repayment periods. The secondary market offered to North Dakota lending institutions has been utilized by more than 125 lenders and accounts for $22,000,000 or 32% of our total volume.

Administrative assistance is made available by sponsoring workshops and seminars at various cities throughout the state. Lenders, school officials and federal agency personnel are invited to attend and





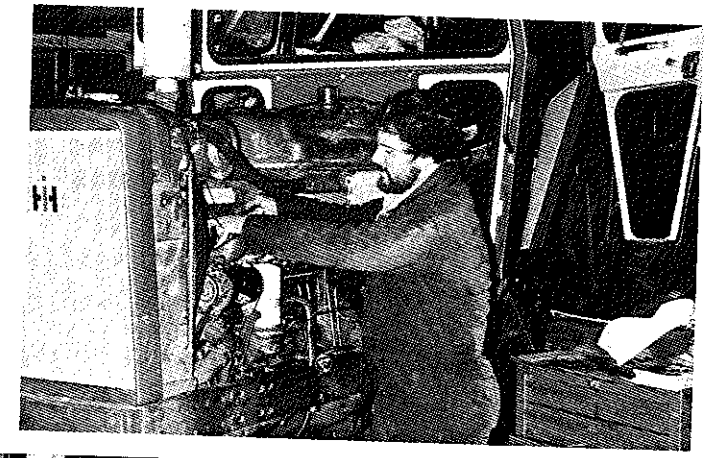
FEDERALLY INSURED STUDENT LOAN DEPARTMENT
STATEMENT AS OF DECEMBER 31, 1978

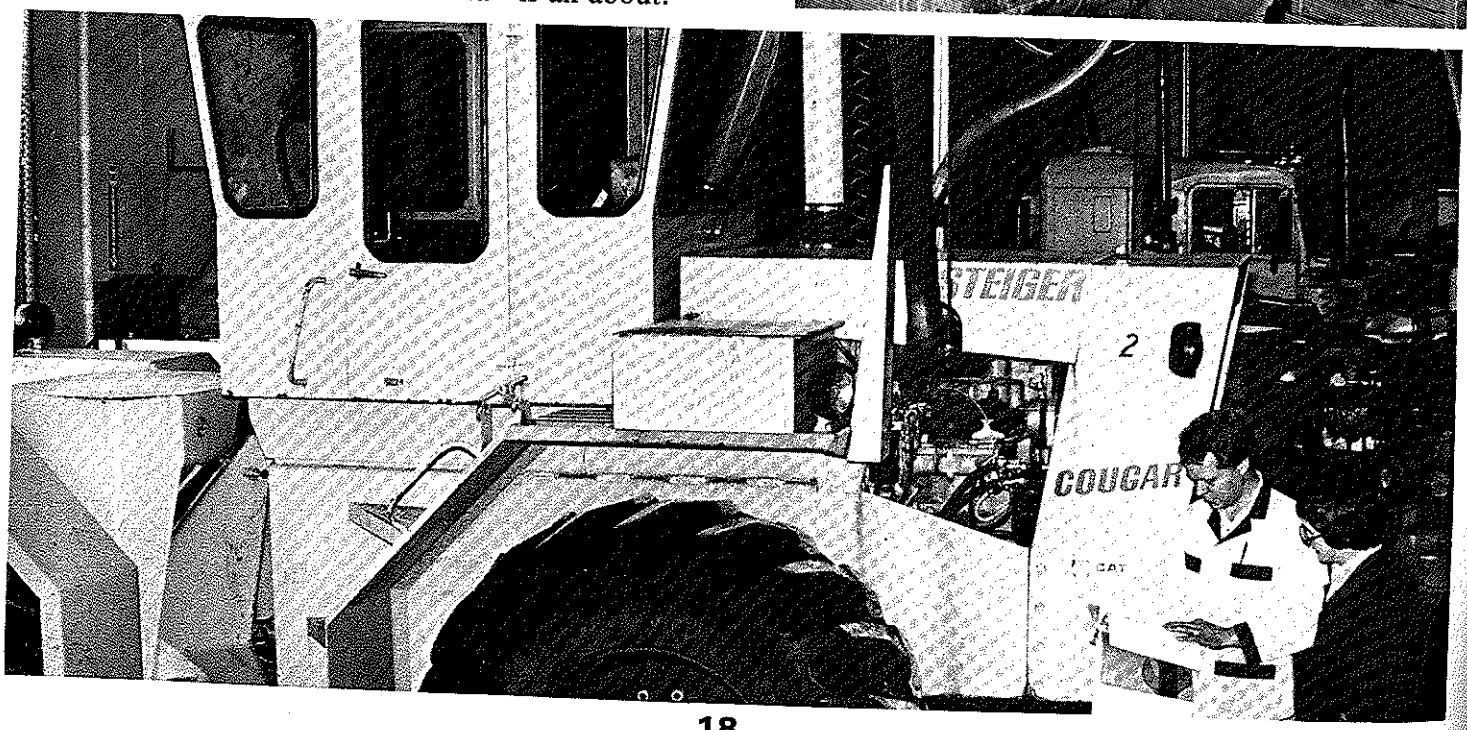
$ 64,936,181	Total Loans Disbursed — 1967-1978
70,871	Students
916	Average Loan per Student per Year
$ 36,463,962	Total Outstanding as of December 1978
49,680	Loans Outstanding as of December 1978
$ 16,618,321	Total in Repayment
28,637	Loans
10,131	Students
$ 4,823,471	Principal Paid 1978
$ 3,675,431	Interest Paid 1978
$ 8,518,902	Total Principal and Interest Paid 1978
$ 8,676,456	Total Amount of Loans Processed 1978
9,109	Loans Processed 1978
7,735	Loans Obtained Directly from Bank
1,374	Loans Purchased from Other Lenders
6,334	Entered Repayment
3,883	Paid in Full — 1978
134	Default Claims Outstanding
.013	Annual Default Rate

Loans are made at 7% interest with the interest paid by the Office of Education in all cases. Students pay 7% interest during repayment.

discuss all aspects of the program. These meetings are especially useful to bring the lender and the schools up-to-date concerning new or changing regulations. The 1978 workshops were attended by over 350 participants.

Student Loan personnel are encouraged to attend state and regional financial aid officers' meetings, high school career days throughout the state, meetings with guidance counselors and are available for talks to service clubs or high school groups. These are a few of the methods and oportunities utilized to explain and bring the student loan information to the students of North Dakota. We firmly believe that this is what "working for North Dakota" is all about.





Legal Department

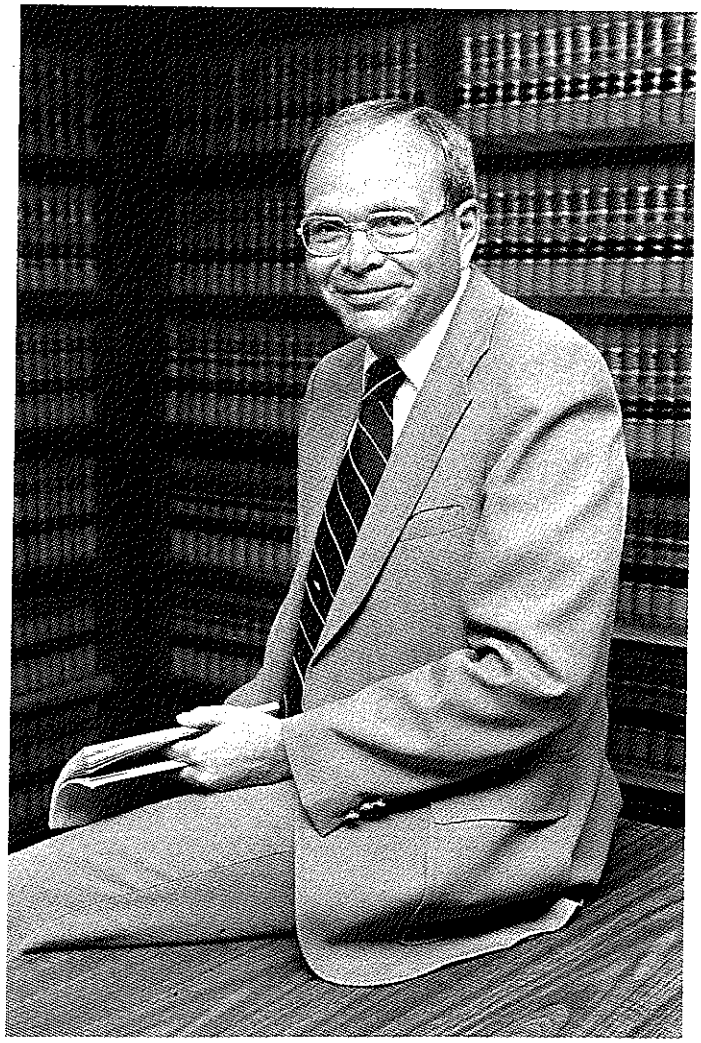
Bank of North Dakota's Legal Department works with political subdivisions, business organizations and individuals through their lawyers and financial institutions. Bank of North Dakota's lawyers are full-time special assistant attorneys general and are not permitted to engage in the private practice of law.

Farm real estate loans are made direct to North Dakota farmers in cooperation with FmHA. The FmHA designated attorneys provide legal service at the local level. We prepare Bank of North Dakota's documents and review the titles and perfection of mortgage security interests after loan closing. In 1978, we were involved in 22 transactions totaling over 4 million dollars.

Purchasing political subdivision bonds involves working directly with the lawyers for the city, school district, airport authority, water management district, county, etc. The lawyer for the political subdivision prepares the basic documentation for the issue and in all issues of more than $100,000 associates recognized bond counsel. When the matter is ready for purchase, the entire transcript is submitted to Bank of North Dakota's Legal Department for review and attorney general's approving opinion. We also work with the local attorneys and bond counsel when general obligation and special assessment bonds are sold to the North Dakota Municipal Bond Bank, as counsel for the Bond Bank. In 1978, 48 issues were reviewed and approved by Bank of North Dakota in total dollar amount of approximately 14 million dollars.

Participation with other North Dakota banks in large loans involves the joint preparation of loan agreements between the lead bank, the borrower and Bank of North Dakota. These loan agreements require periodic review and revision. If enforcement becomes necessary, Bank of North Dakota's Legal Department works closely with the originating bank and their lawyers.

Most bank's trade territory is primarily local. Bank of North Dakota's activities involve the entire state. We must rely heavily upon the cooperation of other financial institutions and work closely with them to bring to the people of North Dakota the financial benefits available from and through Bank of North Dakota.



Special Loans Division

Working for North Dakota farmers through the Loan Pool Account (an agency for the State Land Department).

In the first full year of operation, the loan pool made 53 long term loans to farmers for a dollar amount of $4,718,464.85. One hundred thirty one loans were paid in full leaving 1,367 loans on the books at year end.

Interest income remitted to the State Land Department was $3,348,354.80 and fees paid to the Bank totaled $157,436.13.

Working for Farmers through short term Farm Operating Loans (an agency for the North Dakota Rural Rehabilitation Corporation).

This account has funds available for those Farmers Home Administration borrowers who are unable to get operating loans from other lenders.

Working for Rural Community Water Development:
At year end, this account had funds in the amount of $2,500,000.00 and was gearing up to participate in loans to three systems by early summer, 1979.

Working for North Dakota's Elderly:
Fifteen nursing and homes for the aged are operating and caring for many of our elderly citizens which got started with a low interest loan from a special BND fund.

Working at the Judge A.M. Christianson Project; Burlington, North Dakota:
Three more residents were able to pay off their contracts and were issued deeds. Eleven buyers still have open contracts for deed.

Personnel Department

The Bank of North Dakota's overall strength, as a financial institution and state agency "working for North Dakota", is built on its skilled and highly motivated employees. At year end, the Bank's staff consisted of one hundred two full-time and nine part-time employees.

As banking operations and regulations grow more complex and the demand for specialized knowledge increases, the development of the Bank's staff is a foremost priority. This development begins with the selection of highly trained men and women and continues with on-going training, both on the job and in the classroom. The Bank continues to enlarge the scope of available training programs to improve job proficiency and to prepare employees for further career development.

Emphasis is not only placed on career development but on individual development. In October, the Bank began sponsoring "Adventures in Attitudes," an in-house five-day seminar produced by Personal Dynamics Institute. All employees have the opportunity to participate in this growth experience that deals with the "whole person."

A measure of the opportunities afforded throughout the Bank was the upward movement of its employees. During the calendar year, thirty-four females and fourteen males were advanced to higher classifications. The higher classifications resulted from position reclassifications and promotions through the job posting program.

Progress in equal employment opportunity continued during 1978. Employees and potential employees participated on an equal opportunity basis, without regard to race, color, religion, sex, age, national origin, physical disabilities, political affiliations or any non-merit factor in all aspects of their initial contact and continued association with the Bank. Bank management remains totally committed to non-discrimination and its Affirmative Action Program.

The total working environment for the staff and customers was improved with the completion of the third and fourth floor remodeling project. The Bank's completed quarters, ranging from parking to proper restroom facilities, are accessible to the handicapped.

The dedicated and supportive staff will continue to share enthusiasm about the Bank's role in "working for North Dakota" and its future.

This announcement constitutes neither an offer to sell nor a solicitation of an offer to buy these securities. The offering is made only by the Offering Circular, copies of which may be obtained in any State from such of the undersigned and other as may lawfully offer these securities in such State.

November, 30, 1978

$50,000,000

Bank of North Dakota

9¼% Collateralized Bonds, Series A, Due December 1, 1993

Price 100%

(Plus Accrued Interest)

Smith Barney, Harris Upham & Co.
The First Boston Corporation
Dillon, Read & Co. Inc.
Goldman, Sachs & Co.
Kidder, Peabody & Co.
Lehman Brothers Kuhn Loeb
Merrill Lynch White Weld Capital Markets Group
Paine, Webber, Jackson & Curtis
Warburg Paribas Becker
Dean Witter Reynolds Inc.
L.F. Rothschild, Unterberg, Towbin
Ladenburg, Thalmann & Co. Inc.
Oppenheimer & Co., Inc.
Thomson McKinnon Securities Inc.
Weeden & Co.
Moore & Schley, Cameron & Co.

Bache Halsey Stuart Shields
Blyth Eastman Dillon & Co.
Drexel Burnham Lambert
E.F. Hutton & Company Inc.
Lazard Freres & Co.
Loeb Rhoades, Hornblower & Co.
Advest, Inc.
Salomon Brothers
Wertheim & Co., Inc.
Bear, Stearns & Co.
Shearson Hayden Stone Inc.
Moseley, Hallgarten & Estabrook Inc.
Stuart Brothers
Tucker, Anthony & R.L. Day, Inc.
Janney Montgomery Scott Inc.
Neuberger & Berman

Investment and Trust Department

The Investment and Trust Department, working primarily with the political subdivisions throughout the state, has grown in contacts and in friends as well as services rendered throughout the year.

The Bank of North Dakota sold in the national market a $50 million dollar bond issue collateralized with FHA and VA home loans. This was the first direct offering by the Bank of North Dakota and was well received by the market, carrying an "AAA" rating from both rating services. This issue will increase the Bank's liquidity and provide the funds to continue to purchase these loans from North Dakota lenders.

During 1978, the Department purchased a total of 48 new issues from political subdivisions for a total underwriting amount of $13,988,500.00, representing political subdivisions from across the state. The increased costs of installation will probably exert pressure on the flow of funds available in this area. The Municipal Bond Bank, which will be going to sale in the near future, should provide us with the availability to continue in this area of service in spite of accelerating costs. The various financial institutions of the state provided good support in purchasing $14,808,000 in political subdivision offerings from us during the year and it is hoped that we can continue to serve this market as well.

The state trusteed funds — Teachers Fund, Workmen's Compensation, Highway Patrol, State Bonding, and Fire and Tornado Fund — have grown in size to $160 million, showing a yield to maturity of 8.30 percent plus with better than 80 percent of the funds invested in AA and AAA securities with the average life in the area of 13 years.

Bond and Coupon Division

The Bank of North Dakota, working as Paying Agent of the Political Subdivisions of North Dakota, is responsible for the servicing and retirement of 630 municipal issues with a face value of $134,000,000. This covers funding to Cities, Counties, Schools, Water Management Districts, Park Districts, Industrial Development Projects, North Dakota Board of Higher Education and North Dakota Bond Bank. All remittances are handled by the Investment and Trust Department and the Bond and Coupon Paying Division.

The Bond and Coupon Paying Agency disbursed in coupons and maturities $16,384,081.00 in 1978, this coming from a total held in customer safekeeping of $312,000,000. This increase in volume has been carried by the same personnel but regrettably has resulted in a squeeze at times for which we apologize and hope will not reoccur.

To provide liquidity for the Bank of North Dakota and to be of service to the communities of North Dakota, the Bank has sold one bond issue and will be selling two more in 1979. The trusteeship of both will fall to the paying agency. We enjoy the privilege of working with each and everyone of our customers and strive to improve our ability to cope with your requests in a prompt and effective manner and to your complete satisfaction.

Investment Division

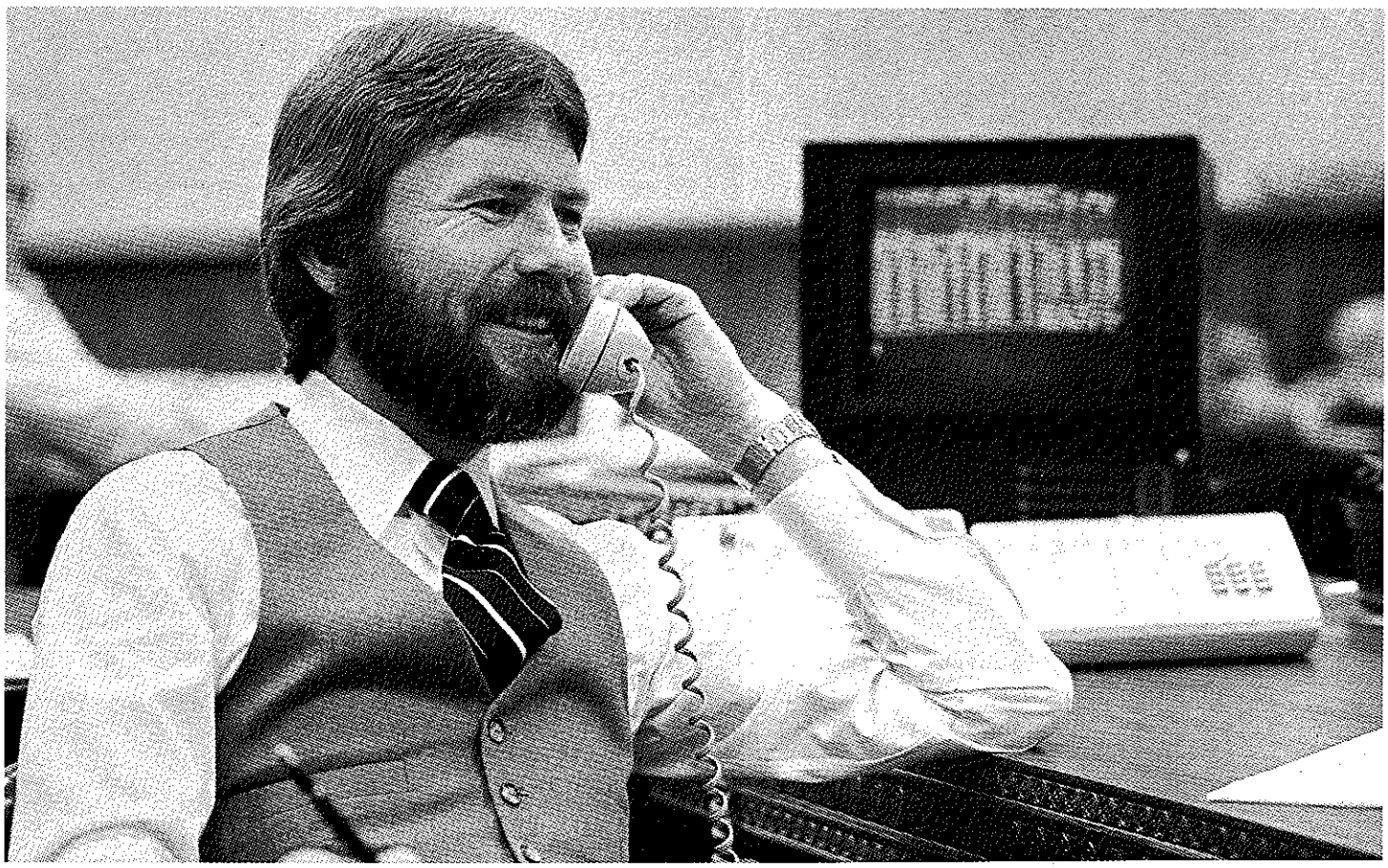
Investments in the Bank's portfolio totaled $226,066,465 at year end; a year that saw yields of government securities ranging from 6¼ percent through the 10 percent level. The yield curve inverted mid-year giving room for some portfolio changes that were very advantageous, although the difficulty of dealing with this type curve truly tests the skill of the portfolio manager.

The Department's Federal Funds transactions totaled 31.1 billion resulting in a daily trading volume at 85.4 million and processed 23,725 money transfers or 65 daily.

We expect North Dakota will experience strong loan demand during 1979. The Department, through its asset and liability management, will continue to "work" to provide funds to meet the needs of North Dakota.

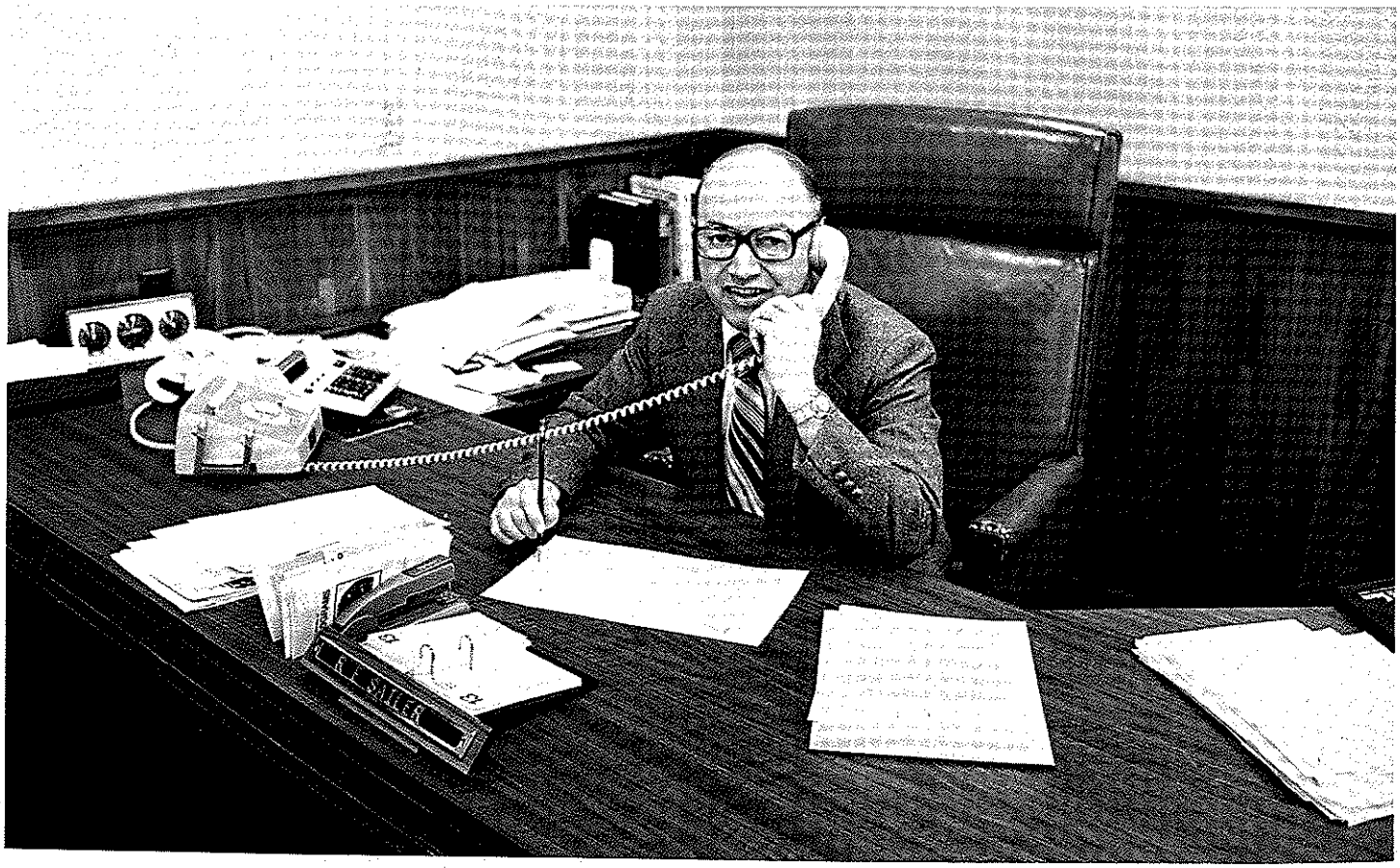
In 1978, the six trusteed state funds all enjoyed some modest growth of new money and with the reinvestment of dividends and coupons allowed an upgrading of the portfolios both in quality and in yield. The quality of funds totally invested is "AA" or better, average maturity in the twelve-plus range and return in the area of 8.30 percent.

The Division keeps all of the Bank's funds "working for North Dakota" daily.



Administrative and Retail Banking Department

The Administrative and Retail Banking Department is divided into three divisions. The Cashiers Division is responsible for all the checking and savings transactions, check cashing, new accounts, and currency and coin shipments. The Comptrollers Division is responsible for the financial administration of the Bank, Data Processing, Word Processing and the property and the equipment of the Bank. The Operations Division has the responsibility of all our check processing and demand deposit accounting.



Cashiers Division

The recently completed remodeling program added two new teller stations in the Cashiers Division. The addition of the extra area has increased the efficiency of the employees in this Division and allows us to serve more customers at the same time. This decreased the customer waiting time in the lobby. It improved the Division's abililty to better "work" for our customers.

During the year we opened 643 new checking accounts and 1,386 new savings accounts. The currency and coin shipments have increased to include forty financial institutions. Currency and coin orders are nearly 8 shipments per working day.

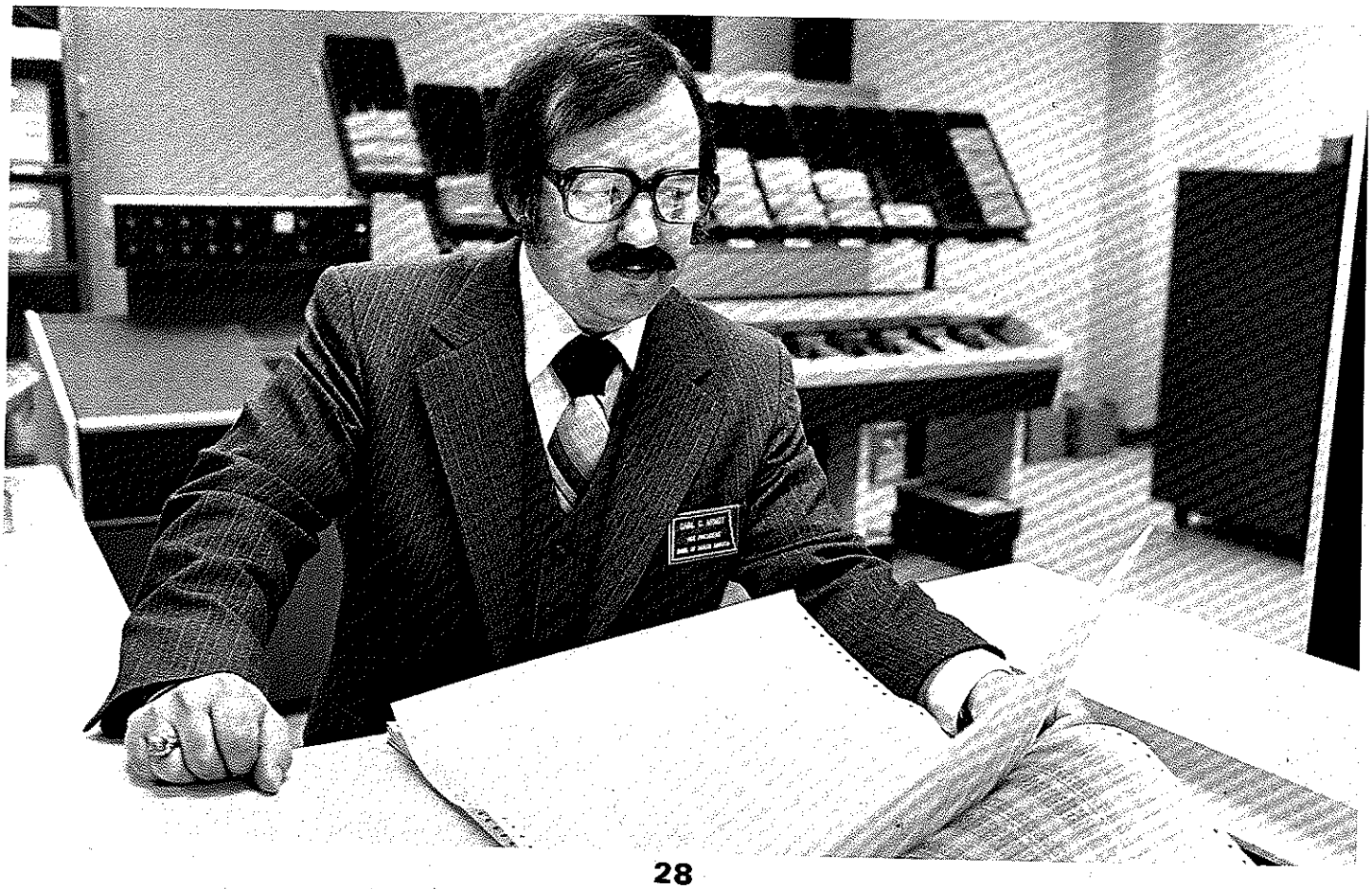
The Money Market Certificates were also introduced in 1978. These time deposits are for $10,000 or more, with a maturity of six months, at a rate not to exceed the rate established for United States Treasury bills with maturities of six months issued on or immediately prior to the date of deposit. Federal regulations prohibit the compounding of interest during the term of the deposit.

Operations Division

The Operations Division hit an all time high in processing checks on December 5, 1978, when 213,380 checks were processed. Total check volume has increased substantially for the year in comparison to 1977. In 1978, we processed 31,691,742 items in comparison to 27,677,998 in 1977, an increase of 15 percent.

The Operations Division is sending cash letters to every bank in North Dakota daily. Total dollars in these cash letters has been averaging fifteen million dollars per day.

The Operations Division is "working for North Dakota" by clearing items for approximately 145 financial institutions throughout the state of North Dakota.



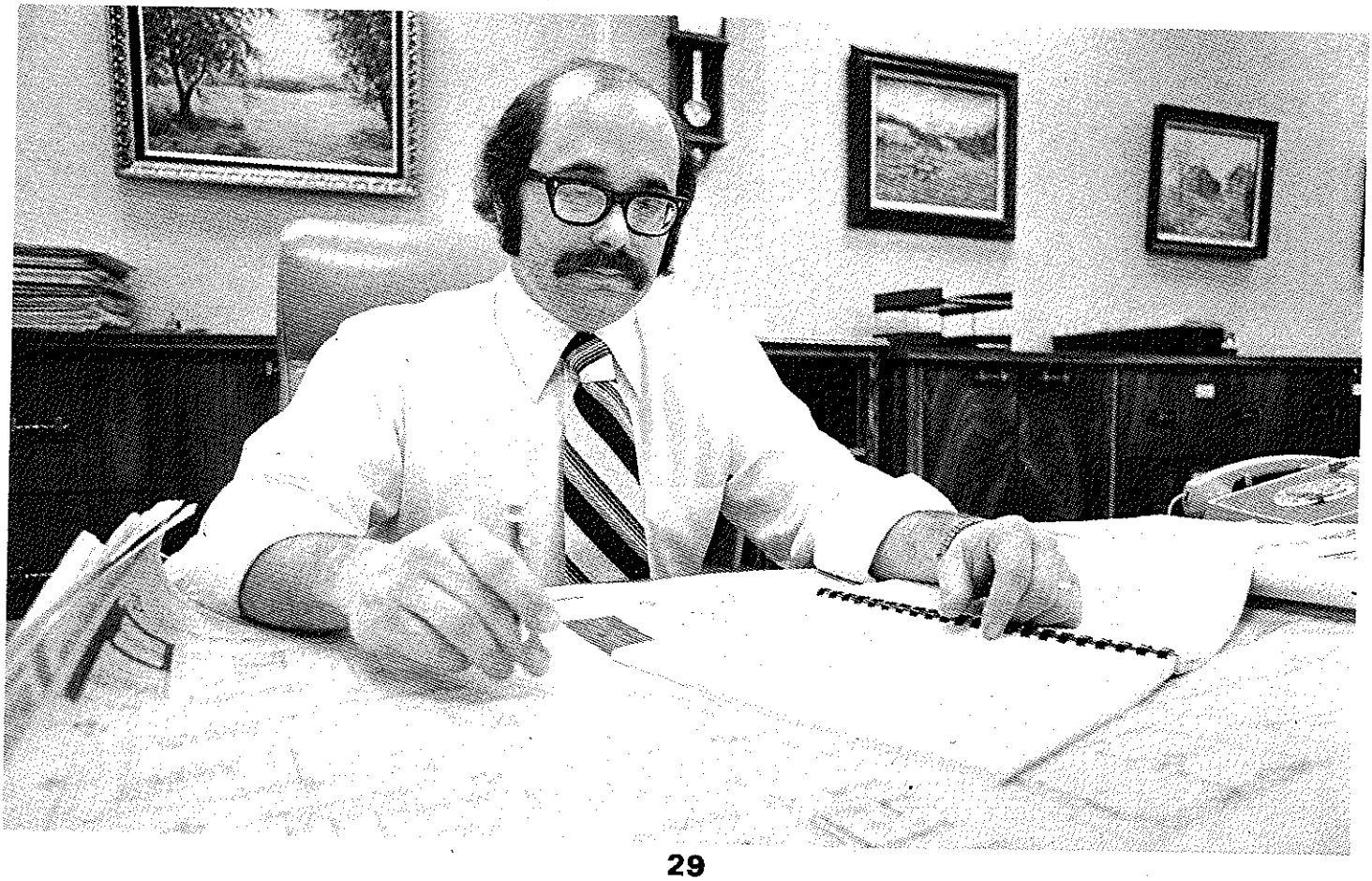
Comptrollers Division

The Comptrollers Division of the Bank of North Dakota is responsible for accounting administration; support services such as word processing, data processing, printing and supply, and plant and equipment. This combination involves the division directly in an interaction with all other departments in their daily activities with the people of North Dakota.

With the approach of a new biennium, the Bank has once again been involved in the state's budgetary process in order to achieve an adequate operating budget. Without such an earnings appropriation it would be impossible for the Bank of North Dakota to take a leadership position in North Dakota's banking industry.

During 1978, operating expenses once again amounted to only 5.9 percent of gross earnings. No other financial institutions are able to operate on such a margin yet provide the range of services available to the banking industry and citizens of North Dakota from the Bank of North Dakota.

Data processing activities during the last year involved extensive overhauls of some of the Bank's data systems involving proof transit, commercial and agricultural lending.

During the course of the year, Bank of North Dakota completed the major portion of a remodeling project begun in 1977. The added facilities obtained in this project will prove valuable, especially to those Bank employees working with the people of North Dakota in the areas of lending and investment.

During the past year, considerable time was devoted by several departments to the development of a $50 million bond issue for the Bank of North Dakota. Similar bonding activity is expected in future years. Undertakings of this nature allow the Bank to tap new sources of investment funds and thus participate in the progress enjoyed by North Dakota business and citizens.