BANK OF NORTH DAKOTA 1980 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

AT YEAR END:	1980	1979	
Resources	$ 704,966,549	$ 624,701,209	+13%
Deposits	435,523,271	408,297,084	+ 7%
Real Estate Loans	187,789,148	147,702,827	+27%
All Other Loans	139,516,713	141,359,384	− 1%
FOR THE YEAR:			
Total Income	$ 62,504,562	$ 48,727,017	+28%
Interest Paid	49,915,845	37,899,879	+32%
Expenses Paid	2,872,698	2,799,240	+ 3%
NET INCOME	9,716,019	8,027,898	+21%
Dividend Paid to State Treasury	$ 5,000,000	$ 7,500,000	−33%
Number of Checks Processed	39,560,680	35,175,488	+12%
Total Federal Funds Purchased	$28,979,563,000	$ 9,951,956,000	+191%
Total Federal Funds Sold	$33,937,515,000	$23,113,159,000	+47%

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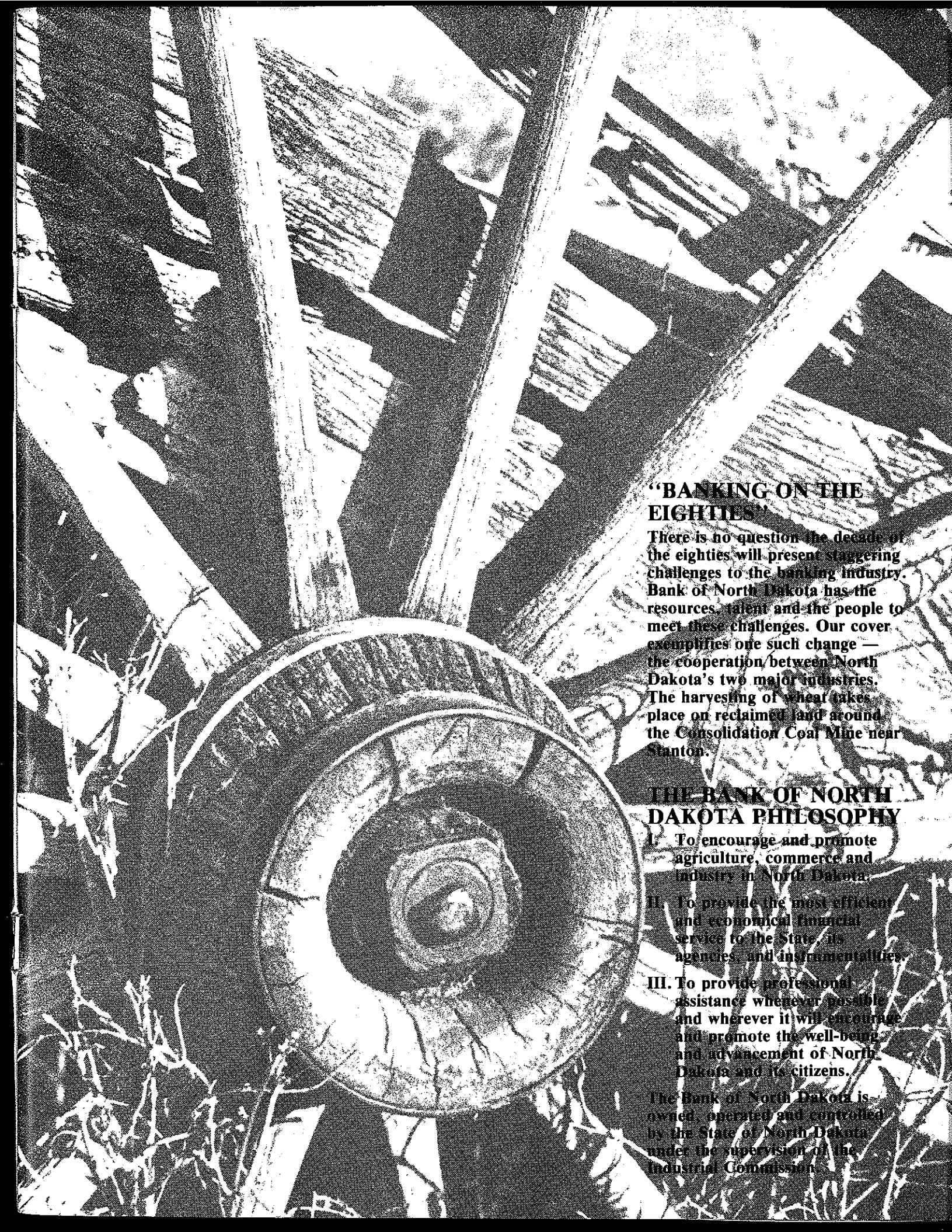


"BANKING ON THE EIGHTIES"

There is no question the decade of the eighties will present staggering challenges to the banking industry. Bank of North Dakota has the resources, talent and the people to meet these challenges. Our cover exemplifies one such change — the cooperation between North Dakota's two major industries. The harvesting of wheat takes place on reclaimed land around the Consolidation Coal Mine near Stanton.

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

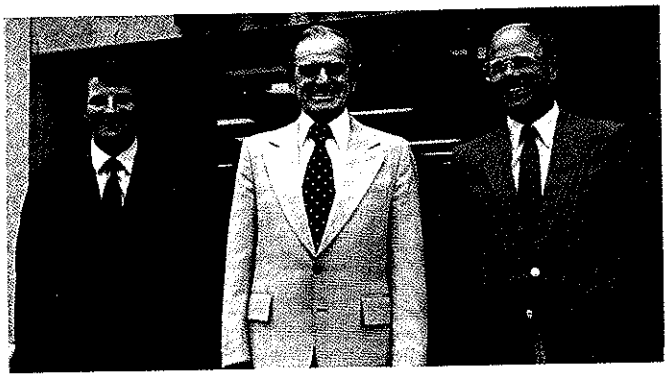
To the Citizens of North Dakota:

The Bank of North Dakota continued its record of service to the citizens of the state in 1980. Most Bank of North Dakota services are delivered to the citizens thru cooperation with the private sector. The Bank of North Dakota provides a market for home loans, student loans, Small Business Administration loans, overlines, and participation loans with the state's banks, savings and loan associations, and credit unions. The Bank of North Dakota is not a competitor, but is a "partner in progress" with the private sector.

The Industrial Commission met 14 times on Bank of North Dakota business in 1980. We approved 32 loans totaling over $129.2 million, with the Bank of North Dakota's share being over $59.2 million. All loans and MIDA bonds over $1 million must be approved by the Industrial Commission. The Industrial Commission approved two MIDA bonds for a total of $5.8 million. The Commission approved 13 operational and personnel policies during the year.

The Commission met three times jointly with the Advisory Board during 1980. We thank them for their advice and counsel.

The citizens of North Dakota can bank on the Bank of North Dakota, as we are confident the Bank will carry on its commitment to "encourage and promote agriculture, commerce and industry" in the eighties.



Arthur A. Link
Governor

Allen I. Olson
Attorney General

Myron Just
Commissioner of Agriculture

A new Industrial Commission was elected in 1980 to take office in 1981. We will continue to direct the Bank of North Dakota in pursuing its mission to "encourage and promote agriculture, commerce and industry" in our great state.

Allen I. Olson
Governor

Robert O. Wefald
Attorney General

H. Kent Jones
Commissioner of Agriculture

Advisory Board

To the North Dakota Industrial Commission:

The Advisory Board held 12 meetings in 1980. Nine meetings were held in Bismarck, three of them jointly with the Industrial Commission, and one each were held in Fargo, Grand Forks, and Dickinson.

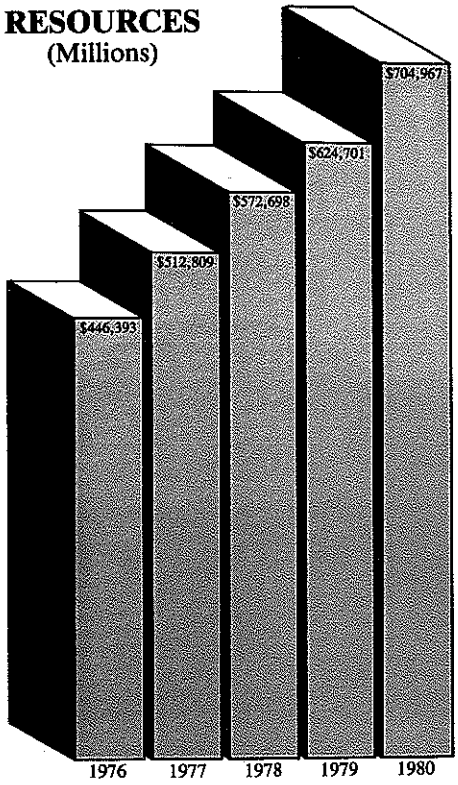
The Board monitored the Bank's operations by reviewing reports and activities each month for all of the Bank's departments and divisions. The Board recommended 13 operational and personnel policies to the Industrial Commission. It is the Bank's present policy that all loans and MIDA bonds in excess of $400,000 be approved by the Advisory Board. The Board approved 82 loans, totaling over $142.2 million, with the Bank of North Dakota's share being over $79.6 million, during the year. It also approved 2 MIDA bond issues totaling $5.8 million.

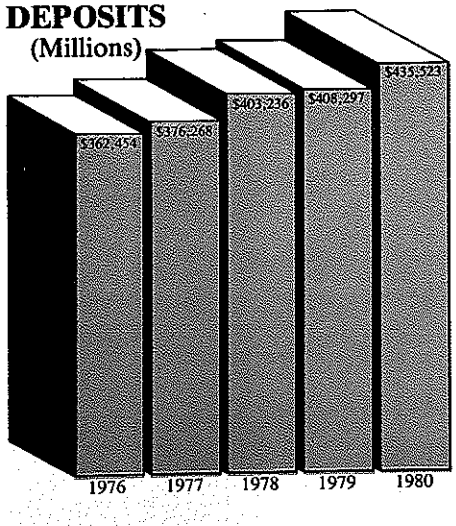
The Advisory Board met monthly with the Bank's auditor and reviewed results, procedures, and recommendations. The Board met with the independent outside auditors, Charles Bailly & Company, and reviewed the report of examination by the Department of Banking and Financial Institutions.

The Industrial Commission appointed the Advisory Board to recommend an underwriter for a proposed Housing Finance Agency bond issue. The Board reviewed twelve written proposals, and personal presentations from three New York-based underwriters. The Board recommended the Industrial Commission select Salomon Brothers/BancNorthwest, and they were subsequently appointed to be the underwriters for the proposed housing bond issue.

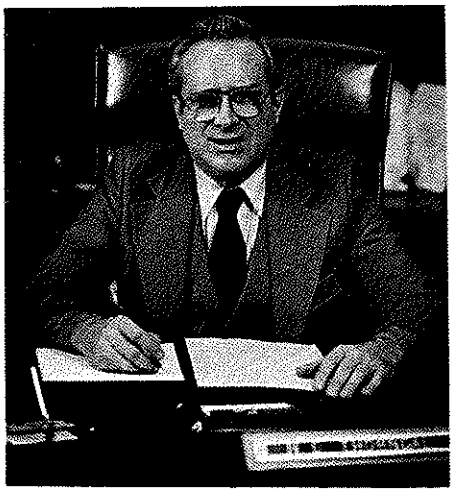
Net earnings were up 21% over the previous year, and the Bank continues to be a very sound, prosperous, and profitable institution. The Advisory Board is confident that the citizens of North Dakota can continue to rely on the Bank of North Dakota to help serve their financial needs in the 1980's.

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





President's Message



To the North Dakota Industrial Commission:

The Bank of North Dakota entered the eighties with confidence and determination to provide innovative services to the state's financial industry, thus providing better services and assistance to the citizens of North Dakota.

Resources peaked at over $691 million the end of May, and totaled $704,966,549 at year-end, an increase of over $80 million, or 13% over 1979. Deposits totaled $435,523,271, a modest gain of only 7%, or $27.2 million. We had anticipated a decline for the year. However, increased tax revenue, primarily from oil, gas, and coal extraction taxes, kept the state's general fund and other special funds higher than we had predicted. This year, we predict increases in the state's fund balances, and expect higher deposits at year-end 1981.

Net Income totaled $9,716,019 for the year, which reversed the downward trend shown the two previous years. The 1980 increase of $1.7 million was up 21% over 1979. The third quarter of the year was the best in the Bank's history.

Record high interest rates the first half of the year, and the last quarter, adversely affected the Bank's earnings. If interest rates decline in 1981, as generally expected, we will expect our earnings to be up substantially.

Interest paid totaled $49.9 million for the year, up 32% over 1979. Of this, $19.9 million was paid to the State Treasurer as interest on the state's time deposits. Other expenses were up only $73,458, or 2%, which we feel is very good, considering our costs were subject to double digit inflation. We are continuing to effectively apply computer technology to make our operations more efficient and economical.

We predict interest rates, both what we will have to pay on borrowed funds and what we charge, will be very erratic throughout the year. We expect very high rates the first quarter, generally declining the second quarter, leveling the third quarter, and rising rates the fourth quarter. We predict counter swings in each quarter. The lack of rate stability may become a permanent problem for lenders (and borrowers) in the eighties.

The Bank had planned to transfer $14 million to the state's general fund during the biennium; however, because of the need to increase capital, the Industrial Commission ordered the Bank to retain $4 million of that planned transfer. The Bank increased its capital to $16 million in 1980. We will probably increase the Surplus account from $12 million to $16 million in 1981. The Bank now has a legal lending limit to any one borrower of $7 million (25% of combined capital and surplus). At year-end, the Bank held no loans in excess of $4 million.

The Bank will propose only $5 million of its undivided profits be paid to the general fund during the 1981-83 biennium. This will enable the Bank to bring its capital to deposit and other ratios up to more acceptable levels.

Loans increased $38.2 million from year-end 1979 to year-end 1980. Over $30 million of this increase was in home loans, as the Bank was about the only secondary market available for home loans during the year. The Bank made or purchased 904 home loans from throughout the state in 1980. Farm real estate loans were up nearly $10 million, which included 257 beginning farm loans totaling $15.8 million. The demand for long-term farm loans was up substantially, and we foresee this trend continuing throughout the eighties. We are exploring the possibility of obtaining

these funds through bond issues. Due to high interest rates, bank participation loans were down nearly $9 million. Until interest rates moderate, we expect participations to continue to decline, at least in 1981. The Student Loan Trust ran out of money in October, 1980, and the Bank continued the student loan program by holding the student loans in the Bank's portfolio. These totaled over $5.3 million at year-end. We expect to have another student loan trust bond issue in 1981, as soon as bond rates decline. The Bank was loaned up to 75% of deposits at year-end, which is acceptable for a bank this size. We do not believe there will be any liquidity problem for the next couple of years. Loan losses were less than half what they had been for the previous year. We do not foresee any problems with our present portfolio. The quality of our loans remains excellent. As the agriculture economy improves, our loans will get even better.

The Bank instituted its own "Prime" rate in early 1980. It is arrived at by a formula based on the Bank's cost of acquired funds. It has generally been ½% to 1½% less than national primes, and has developed into a standard "benchmark" for other North Dakota lenders.

There were no remodeling programs done on the bank building in 1980. The Bank is becoming very crowded, and we plan to move the Student Loan Division to another location in 1981. It has not been decided which divisions will be relocated to the third floor after the Student Loan Division has moved.

The Industrial Commission named James Stewart, Sandy Kienzle, Ron McGlynn, and Arlene Olson to Assistant Cashier, promoted Tim Glass, Russ Erickson, Don Young and Annis Foss to Assistant Vice President, named Ila Eckroth as Vice President and Cashier, and named Tom Tudor General Counsel.

The financial statements beginning on page 30 have again been examined and certified by our independent outside auditors, Charles Bailly & Company, Certified Public Accountants.

The Bank will continue to upgrade its staff through educational programs. Most of the Bank's staff have received their training and experience with the Bank of North Dakota. The stability and excellence of the staff are a result of personnel policies that provide opportunities for advancement from within.

Management and staff thank the Industrial Commission and the Advisory Board for their advice, counsel, and support.

We look forward to the eighties with confidence that we will enhance our position of leadership and continue to deliver efficient and economical financial service to the state.

TOTAL INCOME
(Millions)

H.L. Thorndal
President

Farm and Ranch Ownership Loans

Agriculture is an integral part of North Dakota's economy and way of life. For this reason, North Dakota is concerned about the growing challenges confronting our farmers in the 1980's.

The farmer of tomorrow will have to be a financier, salesman, engineer, scientist and market analyst, all rolled into one. He will have increasing capital needs which will contribute to fewer and larger farms. In fact, already 30% of all farms in the United States take in more than 90% of all cash receipts.

Bank of North Dakota has been active in assisting our farmers to combat today's problems through our Farm and Ranch Ownership Loan Program. This program is a combined effort by the Bank of North Dakota and the Farmers Home Administration.

North Dakota 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 65% of the appraised value. Farmers Home Administration allows second mortgage loans when another lender, such as the Bank of North Dakota, is willing to loan a portion of the funds. Therefore, the Bank of North Dakota and Farmers Home Administration, together, can lend up to 100% of the appraised value to qualified farmers.

Our Beginning Farmer Program, instituted in 1978, further aids our beginning farmers. This program 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, it may 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.

In 1980, the BND-FmHA Farm and Ranch Ownership Loans portfolio increased 50%. The year-to-date portfolio balance was $30,770,000, of which beginning farmers had $15,837,000. Some 257 beginning farmers have taken advantage of Bank of North Dakota's Beginning Farmer Program.

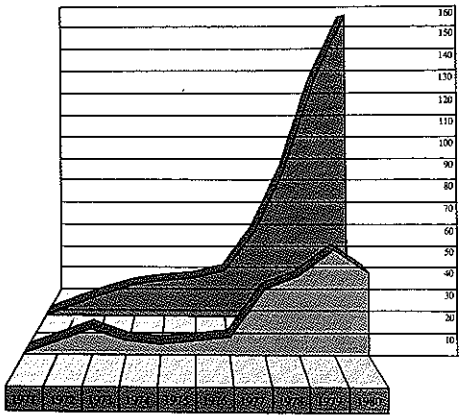
The decade of the eighties will present new challenges to North Dakota's farmers. As in the past, Bank of North Dakota will aid in meeting these challenges to better serve its North Dakota citizens.

FARM AND RANCH OWNERSHIP LOANS (Millions)

Home Mortgage Loans

In the spring of 1980, soaring interest rates and escalating construction costs made it virtually impossible for a North Dakota resident of low to moderate income to obtain a mortgage loan. In response to this need, Bank of North Dakota continues to provide a secondary market for Federal Housing Administration "235" interest subsidy loans and requires only 2% discount points while other FHA/VA loans are purchased with a 4% - 10% discount point structure. During 1980, Bank of North Dakota purchased 904 FHA/VA loans for a total dollar amount of $35,583,185 with interest rates ranging between 9½% and 14%.

Bank of North Dakota expanded its mortgage purchase program to include purchase of FHA Rehabilitation Loans. This program enables a mortgagor to use first mortgage loan proceeds to purchase and remodel an existing dwelling or to refinance existing indebtedness and remodel such a dwelling.

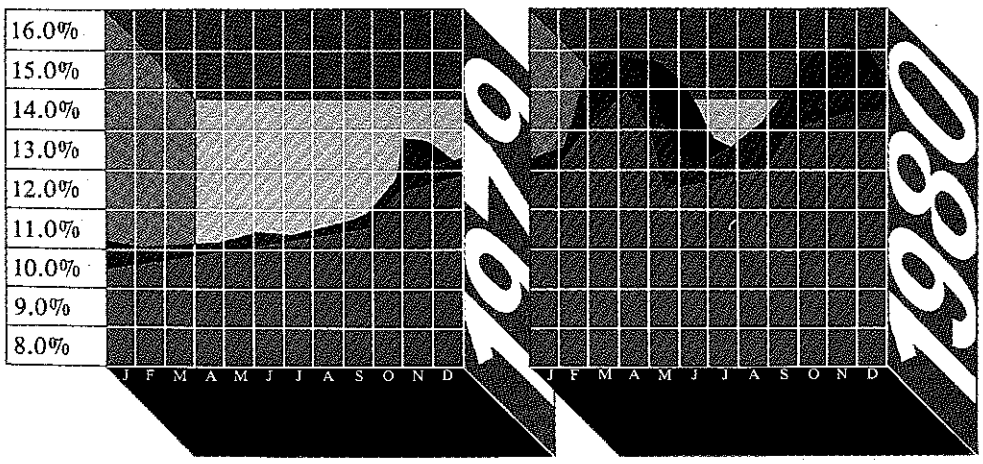


FHA/VA HOME LOANS
(Millions)

Total Loan Portfolio
Total New Loans added to Portfolio

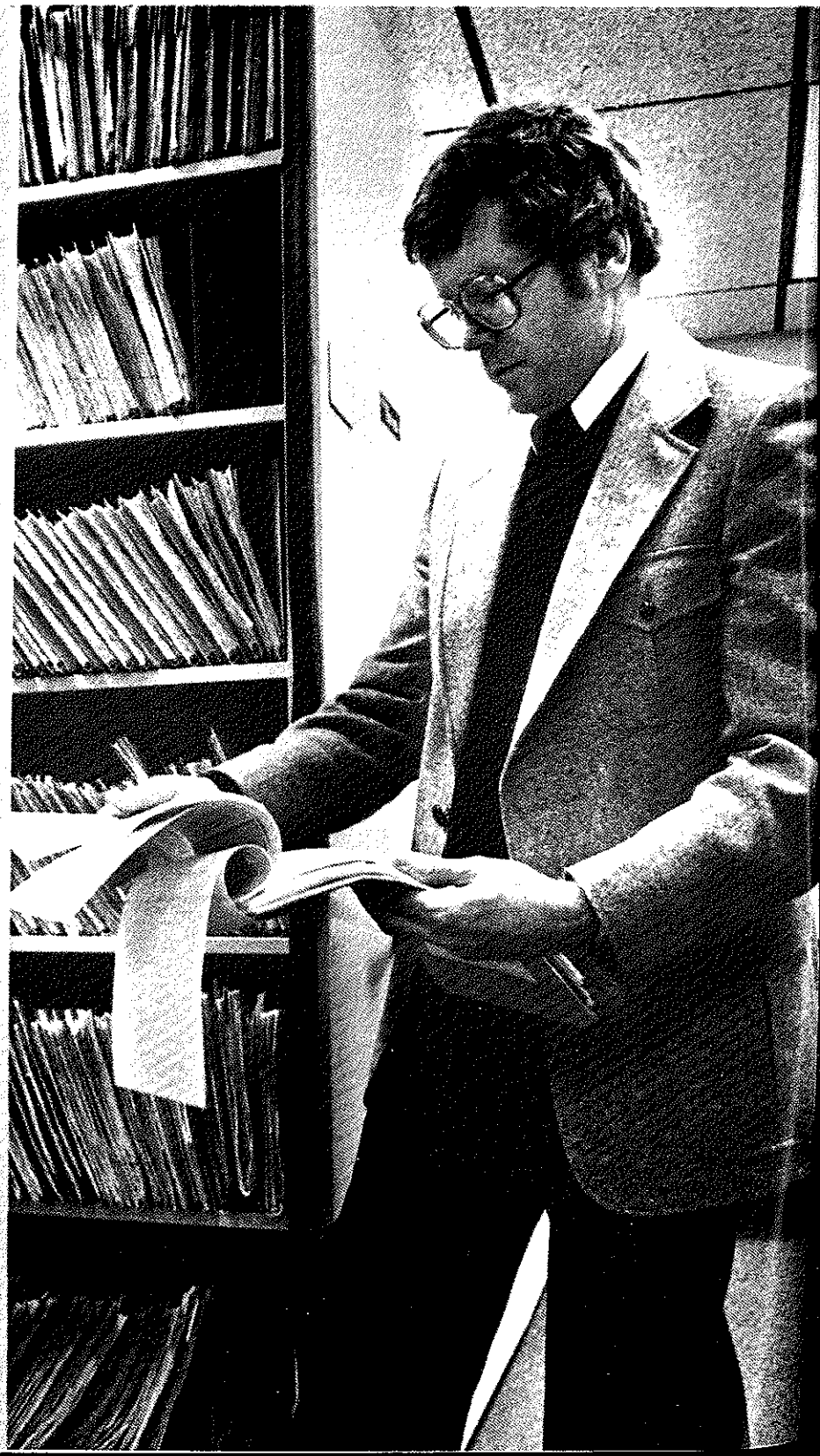
Housing Finance Agency

High interest rates and tight money supply created a need for the issuance of tax-exempt revenue bonds to make home loan money available at lower interest rates to North Dakota citizens. Governor Link's task force on home construction drafted an initiated measure to create a statewide "mortgage pool" for low and middle income homebuyers. On November 4, 1980, North Dakota voters overwhelmingly passed the initiated measure authorizing the Industrial Commission to issue State of North Dakota Single Family Mortgage Revenue Bonds. Mortgage lending institutions will originate and service loans for sale to Bank of North Dakota, which will in turn deliver the loans to the Industrial Commission. Due to adverse market conditions in 1980, the bonds could not be priced at a rate favorable to future homeowners. The sale will be pursued again in 1981. The underwriters, Salomon Brothers/BancNorthwest, are studying legislation passed by Congress in early December to see what, if any, modifications are required before the bonds may be sold.



INTEREST RATE & GROSS YIELD WITH DISCOUNT POINTS

■Gross Yield with discount points ▩FHA/VA Interest Rate



Commercial Loans

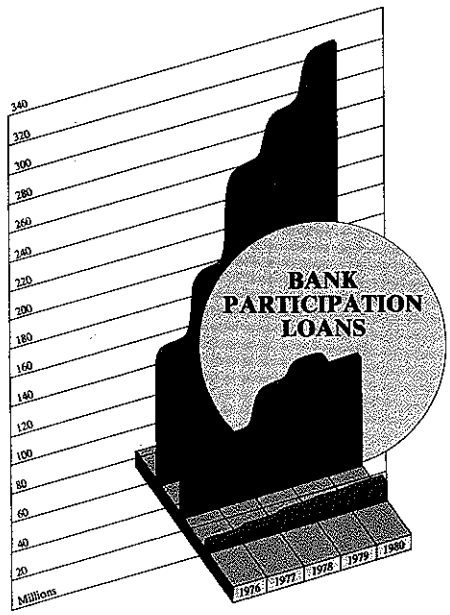
The 1980's are destined to be a decade of tremendous change, dictating challenge and opportunity to the banking industry. The Bank of North Dakota plans to meet those challenges by continuing and improving its lending services to the financial community of North Dakota throughout the 1980's. The Bank will continue to provide a secondary market for Small Business Administration and Farmers Home Administration Business and Industry loans. It will participate with financial institutions by providing "overlines" and other assistance necessary to enhance their services, and will develop new services as they become necessary to North Dakota's economy.

Although our commercial loan portfolio (SBA, FmHA, B&I, and Bank Participation loans) was actually down from $137.5 million at year-end 1979 to $128.7 million at year-end 1980, our increase in total loans from $291 million to $328 million for that same period is an indication of our continued effort to help North Dakota financial institutions meet the needs in their communities. The decrease in our Commercial Loan portfolio is a direct result of the volatile, high interest rate economy experienced in 1980, which caused borrowers to tighten their belts and keep borrowings at a bare minimum. The increase in loan totals is a reflection of the growth and development of the coal and oil "impact" areas of western North Dakota.

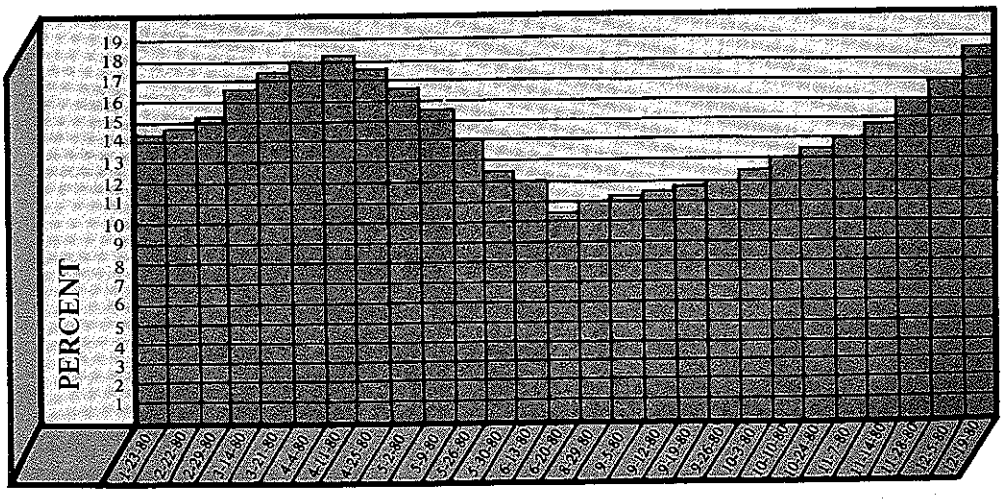
The continued coal and oil development, along with further development of the agricultural segment of North Dakota's economy, necessitates continuing our commitment to assist the financial needs in North Dakota to the best of our ability. We pride ourselves on being the 34th largest agricultural lender in the nation in 1980, and plan to keep agriculture at the top of our priority list in the future as well.

The Bank of North Dakota took a major step in 1980, in keeping with the management policy of expanding variable rate lending, by establishing the "Bank of North Dakota Prime" interest rate to be used as a base for pricing variable rate loans. We feel that our prime rate, based on the Bank's cost of acquired funds, is a better indicator for North Dakota's economy than the prime rate used by money center banks. Overall, this rate has been accepted by North Dakota's financial community, and we plan to continue its use in the future.

The decade ahead is uncertain, but the Bank of North Dakota will be here to serve the state, as we plan to "Bank on the Eighties."



■Total Loans
■Bank Participation Loans
■SBA Loans

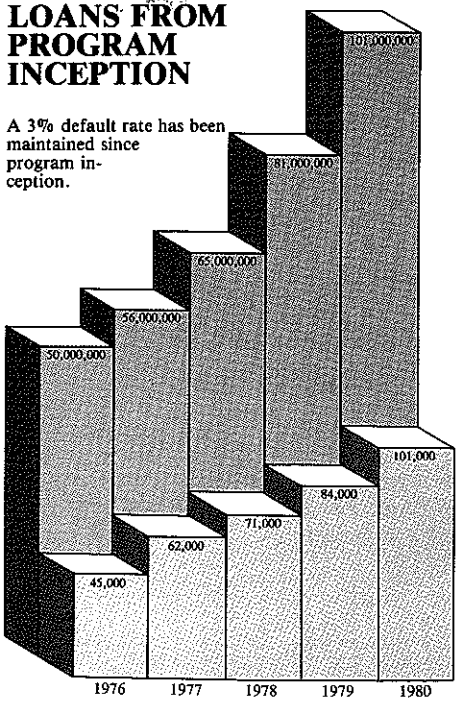


BANK OF NORTH DAKOTA PRIME RATE

Student Loans

TOTAL STUDENT LOANS FROM PROGRAM INCEPTION

A 3% default rate has been maintained since program inception.



Loans made or purchased
Number of Students

The past decade has been one of constant turbulence and challenge to the Student Loan Department of the Bank of North Dakota. It has been the goal of the department to provide leadership and participation, so all North Dakota's students will have the opportunity to pursue an educational program permitting them to develop to their full potential. This includes vocational, undergraduate or graduate programs, either in or outside the state.

In December of 1980, loan number 100,000 was processed and disbursed. This represents a total of $100,000,000 which has been available and utilized by North Dakota students over the past 12 years. Almost 50% of the loans have been processed during the past three years. An acceptable default rate of three percent is being maintained despite continued inflation and high unemployment in some areas.

The cost of attending schools of higher education, including vocational training, has more than doubled in the last 10 years. The average state school costs have increased from $1,600 a year 10 years ago, to $3,300 for the 1980-81 academic year. As prices continue their upward spiral in the next decade, a year of attendance at a state-supported school may represent an investment in excess of $4,500.

Additional funds can be obtained by new Student Loan bond issues. This will assist our secondary market and provide liquidity and assistance for local lenders, whose support of the program is most essential.

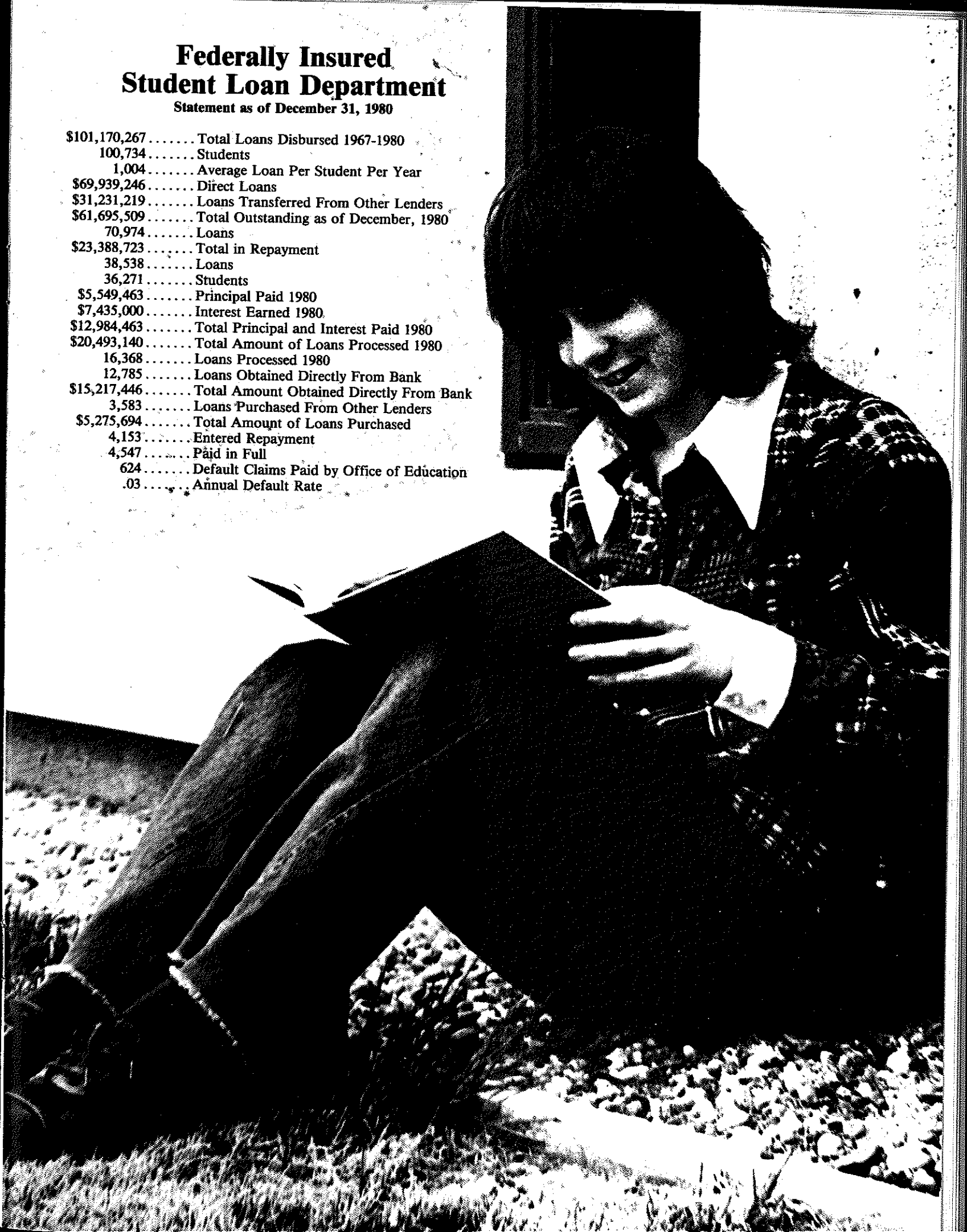
As financial assistance, and particularly student loans, become more essential to meeting the rising costs of education, it is imperative the Bank of North Dakota develop new programs where needed, and upgrade present services. To serve students, parents, schools, lenders, and governmental bodies, we will continue developments aimed at capital availability, reduced costs, and efficient loan administration. This will be achieved by the combined effects of increased computerization, personnel training, and intensified management.

In tomorrow's job market, skilled and well-trained workers will be the ones in demand. For those critics who belabor post-secondary education, we need only point to the fact that unemployment is more than twice as prevalent for those without training or skills. The schools, both academic and vocational, are constantly striving to upgrade and provide more meaningful curriculum. A well-trained or well-educated population is the greatest insurance we can have against poverty and unemployment.

Federally Insured Student Loan Department

Statement as of December 31, 1980

$101,170,267	Total Loans Disbursed 1967-1980
100,734	Students
1,004	Average Loan Per Student Per Year
$69,939,246	Direct Loans
$31,231,219	Loans Transferred From Other Lenders
$61,695,509	Total Outstanding as of December, 1980
70,974	Loans
$23,388,723	Total in Repayment
38,538	Loans
36,271	Students
$5,549,463	Principal Paid 1980
$7,435,000	Interest Earned 1980
$12,984,463	Total Principal and Interest Paid 1980
$20,493,140	Total Amount of Loans Processed 1980
16,368	Loans Processed 1980
12,785	Loans Obtained Directly From Bank
$15,217,446	Total Amount Obtained Directly From Bank
3,583	Loans Purchased From Other Lenders
$5,275,694	Total Amount of Loans Purchased
4,153	Entered Repayment
4,547	Paid in Full
624	Default Claims Paid by Office of Education
.03	Annual Default Rate



Special Loans

In the past, there have been long-term, low-rate loans to farmers to buy land and other capital items. Since local lenders have put farm chattle and operating loans on variable rates, and with those rates now higher than the farmers can handle, we find many more applicants seeking real estate loans for the purpose of refinancing short-term debts.

The various accounts and 1980 activities are as follows:

The State Land Department Loan Pool — This $45 million pool had 89 loans paid in full, had 65 new loans made, and earned $3,483,629.19 for the State Land Department, paying $154,083.51 to the Bank of North Dakota in fees.

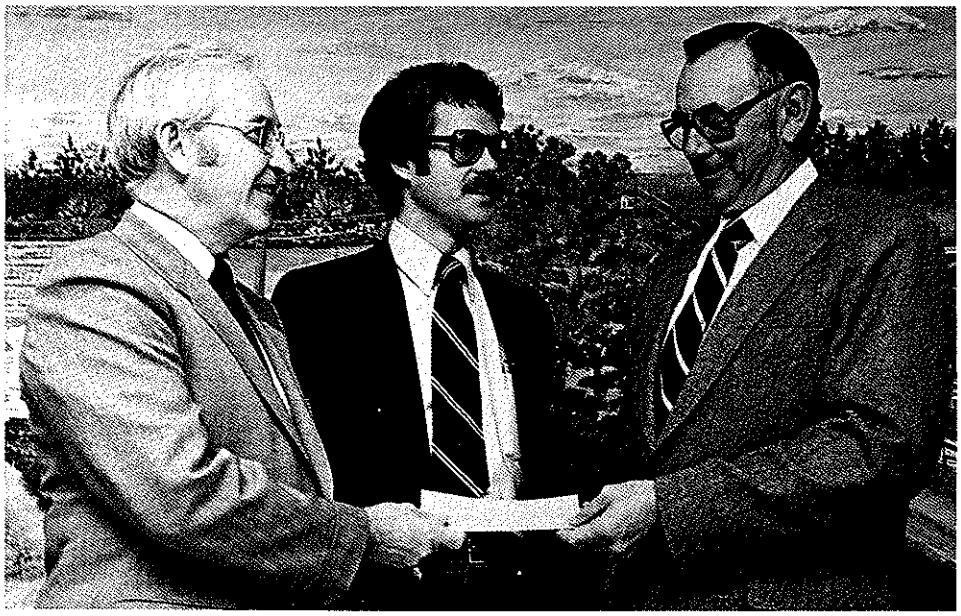
The Nursing and Home for the Aged Fund — This fund has fourteen loans on the books, with a year-end balance of $659,609.29.

The North Dakota Rural Rehabilitation Loan Account — This account made 44 Farmers Home Administration subordinated farm operating loans totaling $433,520. These loans are only made to farm borrowers who have no other credit available.

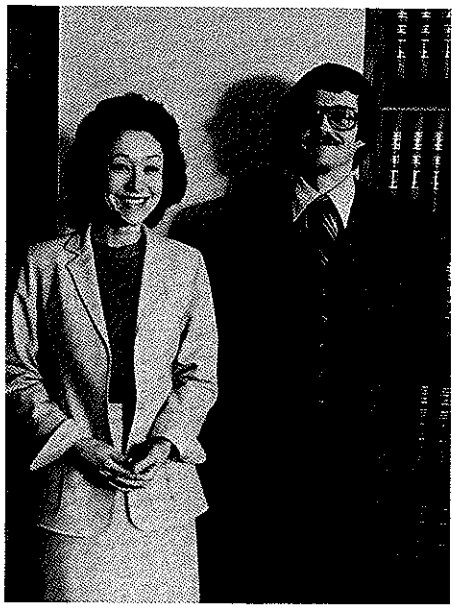
The Community Water Facility Loan Account — Two loans were funded to rural water systems. One to Burleigh Water Users in the amount of $1,600,000 and one to All Seasons Water Users for the Rolette and Towner Counties extension in the amount of $400,000. These loans supplement loans and grants from the Farmers Home Administration and make it possible for rural families and small communities to get a reliable supply of quality water for domestic use.

The Judge A.M. Christianson Project — One contract for deed was paid in full, leaving 10 contracts in force for a year-end dollar amount of $33,851.63.

The Industrial Building and Agricultural Mortgage Fund — This fund has been inactive, and an attempt will be made to convert this fund to better use when the Legislature meets in 1981.



Legal Department



The 1980's will see the Legal Department of the Bank of North Dakota involved in many challenging and exciting activities. This forecast is based in large part on the recent adoption and enactment of legislation in three areas on both the state level and the federal level. The following is a brief summary of each of these three areas.

The Legal Department is already heavily involved in the activity resulting from the adoption of Initiated Measure No. 7 by the voters of this state at the 1980 General Election and the subsequent enactment by Congress of the Mortgage Subsidy Bond Act of 1980. Initiated Measure No. 7 designated the Industrial Commission as the state housing finance agency, and the Mortgage Subsidy Bond Act of 1980 established the legal framework within which tax-exempt housing revenue bonds may be issued by the Commission. The Mortgage Subsidy Bond Act of 1980 has placed severe restrictions on the issuance of tax-exempt housing revenue bonds. The Legal Department is working closely with all of the involved parties and departments of the Bank to help resolve the questions and problems which have been raised by these restrictions.

The Bankruptcy Reform Act of 1978 went into effect on October 1, 1979. Although this state has not yet experienced a significant increase in the number of bankruptcies filed under this new Bankruptcy Code, nation-wide experience has been that the relaxed provisions of the Bankruptcy Code have resulted in a tremendous increase in bankruptcy filings. If the trend should spread to this state, there is no doubt the Bank will be affected, because of its state-wide involvement in the purchase of home mortgages and bank participation loans.

The Depository Institutions Deregulation and Monetary Control Act of 1980 is perhaps the most comprehensive legislation affecting financial institutions and their customers to be enacted by Congress since the 1930's. This Act, in part, requires all depository institutions to maintain reserves on their transaction accounts whether or not they are members of the Federal Reserve System, provides for a six-year phase-out of the limitations on the payment of interest and dividends on deposits and accounts (Regulation Q), authorizes the automatic transfer of funds, authorizes negotiable order-of-withdrawal (NOW) accounts, expands the powers of thrift institutions, and preempts state usury laws. This Act has had an effect on some phase of the activities of each of the Bank's departments.

Correspondent Banking

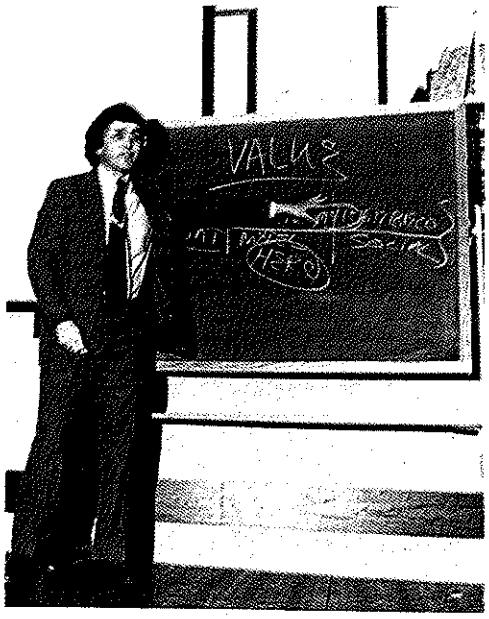
The future for the entire state of North Dakota has never held more promise than the decade of the eighties. Bank of North Dakota will be the pivital institution for "Banking on the Eighties." Agriculture, livestock, manufacturing, energy, coal, oil and gas, services, housing, commerce and distribution — North Dakota has the resources, talent and the labor supply to embark on a new era of development and prosperity.

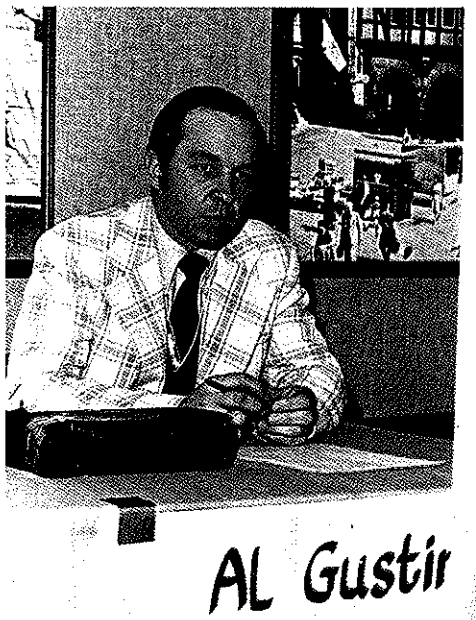
Overlines, participations and bank stock loans will continue to be the cornerstone of our functions; however, we shall continue to expand other correspondent services such as check clearing, securities and safekeeping, money desk, coin and currency supply, municipal bond underwriting and a full spectrum of specialized or technical activities.

One of our goals in the eighties, perhaps our most important goal, is to bring out-state capital into North Dakota for the expansion of commerce, industry, and marketing. The processing of our food, fiber, livestock, coal and oil is vital to our economy. Bond issues, upstream participations, exporting and international banking, joint ventures, and loan pools are possible vehicles toward this end.

And each year, the "Mid-Winter Break," the annual bankers' conference sponsored by the Bank of North Dakota, will present local, regional and national speakers on matters of importance to the financial community.

Bank of North Dakota will continue to enlarge the services offered to all the financial institutions of North Dakota. Every bank, the majority of the savings and loan associations and the larger credit unions of North Dakota have a correspondent relationship with the "central bank." In the eighties, every citizen of North Dakota can bank on Bank of North Dakota!





KIRKWOOD

Investment & Trust

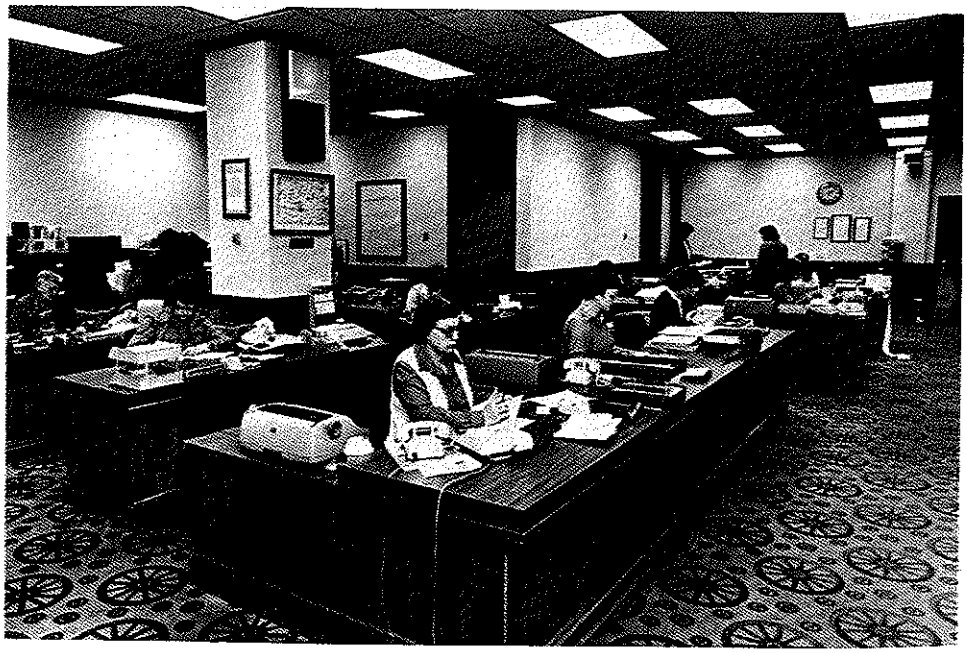
The year 1980 ushered in a new decade. The uncertainty and extreme of the seventies was behind us — we thought.

Activities of the year quickly dispelled any thoughts of tranquility or stability, and we learned the meaning of "whipsaw." Daily swings in the market exceeded levels of belief, and interest rates broke all previous levels.

Dollar volumes became astronomical in the cash management area. Tax-exempt purchases remained about constant, and we are trying to enter the market with three new debt issues: North Dakota Housing Finance Agency, North Dakota Student Loan Bond II, and North Dakota Municipal Bond Bank III. We must wait for acceptable interest rates before we can sell these issues. The Paying Agency absorbed the trusteeship of both previous Bond Banks and the 1979 Student Loan Bond in stride, but does show increased stress on critical dates.

Municipal purchases for 1980 were $14.5 million, and sales were in excess of $28 million. These trusteed funds have grown to over $250 million, increased quality and yield, and shortened maturity.

We look forward to the excitement and challenges of the future with confidence that the Bank of North Dakota can, under the direction of the Industrial Commission, meet the needs of the people and the state.

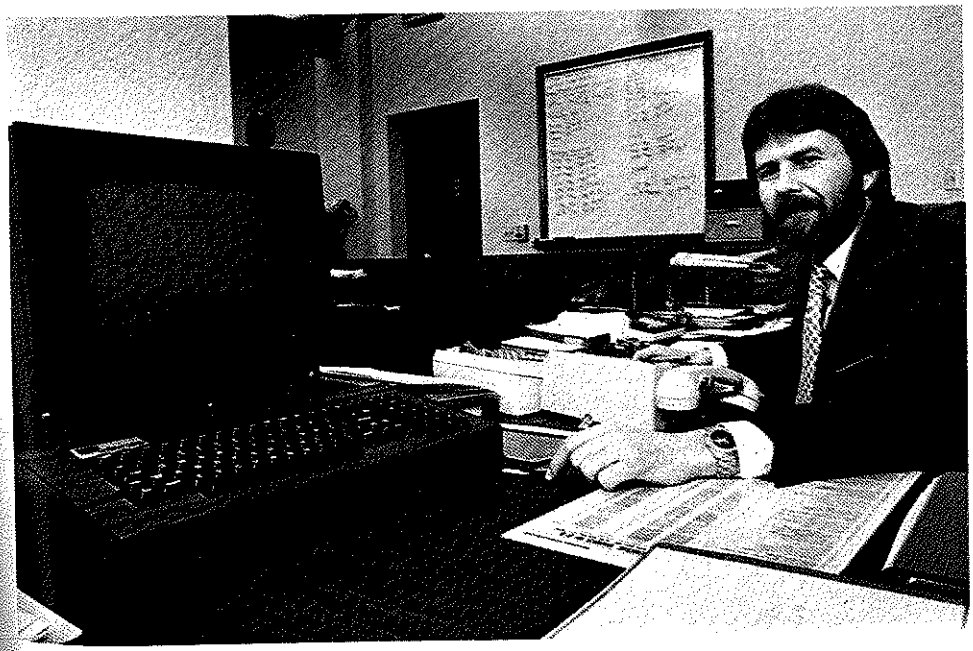


Money Market Center

We can describe 1980 as the year of volatility. New highs were established for money markets and other fixed income investments.

Due to market volatility and demand for liquidity, many North Dakota institutions remained in the Federal Funds Market. Total Fed Funds transactions were $62.917 billion, resulting in a daily trading volume of $172.4 million, an increase of 90.2%. The Bank of North Dakota paid an effective daily rate of 13.39%.

In meeting the challenges of the eighties, the Investment Division will continue to provide funds to North Dakota financial institutions.

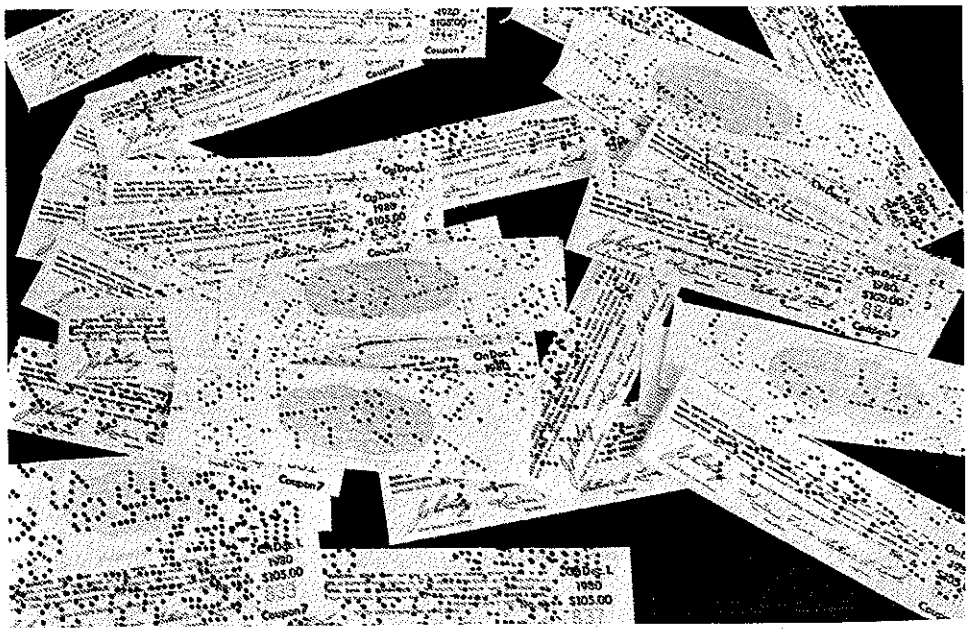


Bond and Coupon Division

Every two-week period of the year, beginning January 1, 1980, members of the Bond and Coupon Division received for verification and payment interest coupons and/or bonds for municipal, industrial development, and N.D. Board of Higher Education issues, based on the following outstanding amounts, payable semi-annually:

January 1-July 1	$97,813,000	April 1-Oct. 1	$36,622,000
January 15-July 15	711,000	April 15-Oct. 15	1,056,000
February 1-Aug. 1	7,673,000	May 1-Nov. 1	15,871,000
February 15-Aug. 15	2,845,000	May 15-Nov. 15	10,061,000
March 1-Sept. 1	10,737,000	June 1-Dec. 1	23,677,000
March 15-Sept. 15	560,000	June 15-Dec. 15	17,120,000
TOTAL			$224,746,000

Remitting to bondholders for earnings on their holdings is only a part of this division's responsibilities as paying agent. Every security paid must be accounted for to the issuing municipality. For every dollar paid by them on their obligation, a like amount of cancelled securities must be returned to them. It is an on-going, never-ending process, and the Bank of North Dakota is proud of the service it is extending to political subdivisions throughout the State at a cost consisting of mostly "out of pocket" expense for postage and registration. The citizens and municipalities of the State of North Dakota can be equally proud of their timely repayment and no default record.



Cashiers Division

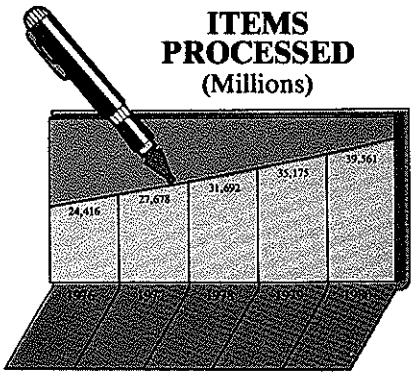
The banking industry in the eighties will have many changes due to new laws, rules and regulations. The Depository Institution Deregulation and Monetary Control Act of 1980 provided a variety of changes like the NOW accounts, the phase-out of Regulation Q, new Reserve requirements, and the pricing of Federal Reserve services.

NOW accounts are available only to individuals or to an organization that is primarily for religious, philanthropic, charitable, educational, or other similar purposes and which are non-profit.

The Depository Institution Deregulation Act of 1980 also provides for the gradual increase of deposit interest rate levels to market rates and the eventual termination of all rate-setting authority, phasing out Regulation Q over a six-year period.

The Act requires the Federal Reserve to price their services to financial institutions. This means we will be charged for the currency and coin we order from the Federal Reserve as well as for the picking up and delivering of currency and coin to the Bank. In the future, the user will pay for the services he receives.

Operations

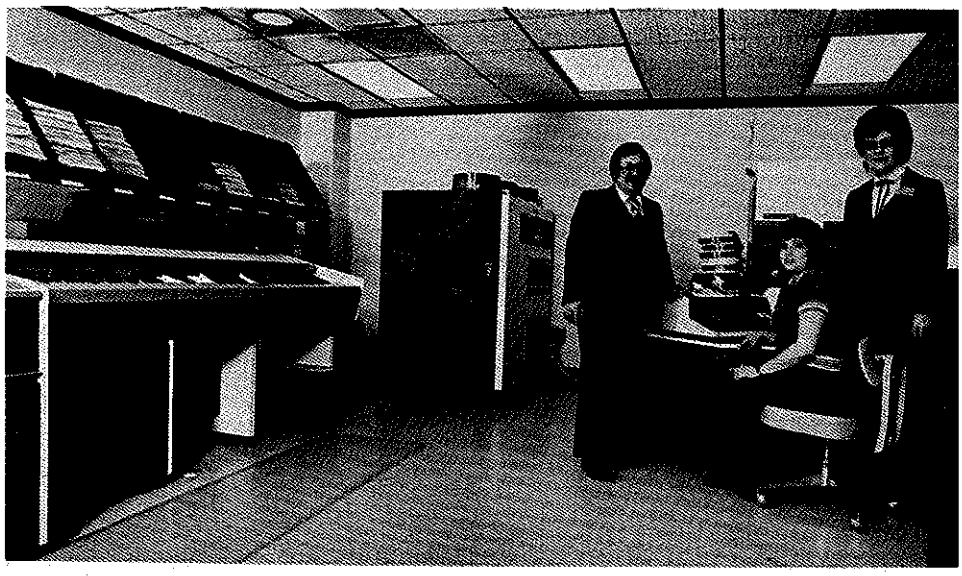


The Operations Department is banking on the eighties to be a decade for processing checks, as the volume increases each year. Along with the increased volume, we will be looking at a larger and faster computer to keep up. At the present time, we are averaging 158,648 items per day. We processed 39.5 million checks in 1980, an increase of 4.3 million items over 1979.

About 105 North Dakota banks send their checks to the Bank of North Dakota for clearing. We send checks to every bank in North Dakota each business day.

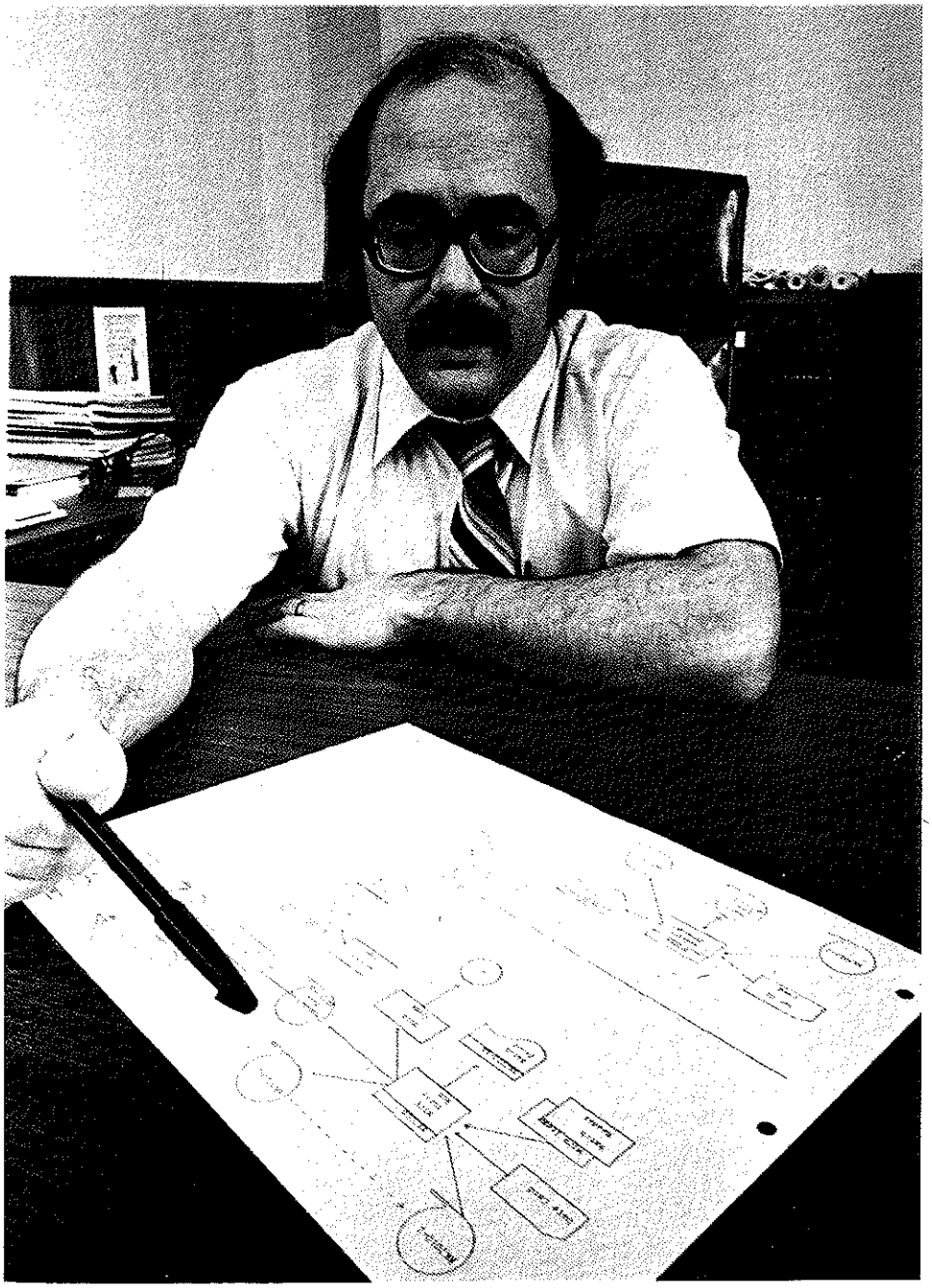
Since we have direct contact with each bank in North Dakota, some state agencies will be setting up direct deposits of payroll or retirement in 1981.

With the Monetary Control Act of 1980, the Bank of North Dakota will be acting as a pass-thru for reserves for some North Dakota banks.



The effects of developments such as the authorization of NOW accounts, changes in reserve requirements, etc., during the latter part of the 1970's are only now beginning to be felt by the banking industry. We must anticipate numerous far-reaching changes in the banking environment during this new decade. Government regulation will change; the competition will change; new banking services will be offered; old and trusted banking services will be revitalized; banking's theory and practice regarding pricing of services will be revised.

Some of these changes will be met with new technologies, in data processing for instance. Others can only be met by people; but all changes must be met. The banking industry, and specifically Bank of North Dakota, must rise to these challenges to remain a viable segment of the banking environment of North Dakota during the 1980's.



Comptrollers

Personnel

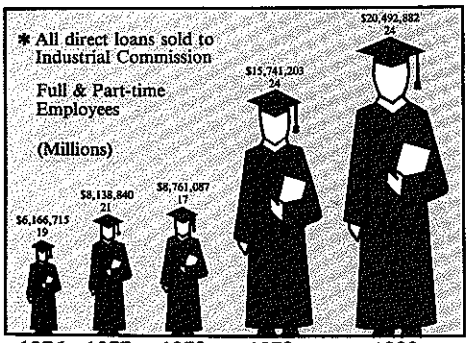
"Banking on the eighties" will be strengthened with the foundation of today's human resources. Our workforce must be able to respond to the rapid economic, political and social changes. Management will continue to restructure and expand the employer/employee relationship, noting changes in the employees' perception of work, changes in the make-up of the employable population, as well as the actual production and technological changes. Increased programs aimed at career development and upward mobility will be a major thrust in this restructuring process.

During 1980, the Bank requested and had approved thirteen position reclassifications, increasing the actual paygrade and salary range. Fourteen other employees received position promotions, moving from one job to a higher level position. The Industrial Commission named four new officers during the year; elected four assistant cashiers to assistant vice presidents, one cashier to vice president and cashier, and one acting general counsel to general counsel.

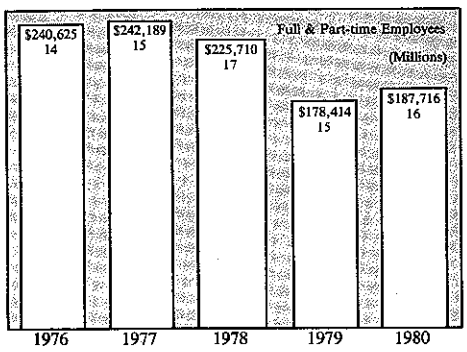
The eighties will see a continued commitment from the Bank to provide equal employment opportunities to all without regard to color, race, religion, sex, age, national origin, physical disabilities, political affiliations or any non-merit factor.

The staff of full-time permanent employees remained at 110 during 1980, while permanent and temporary part-time employees increased from 14 to 17.

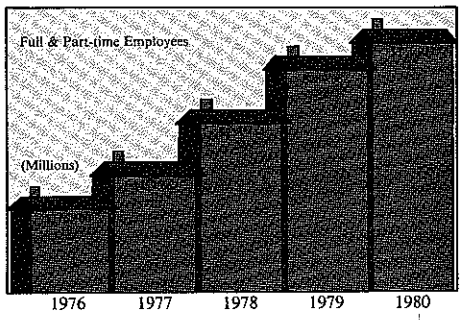
North Dakota citizens can "bank on the eighties" with the continued dedication and efficiency of the Bank of North Dakota and its employees.



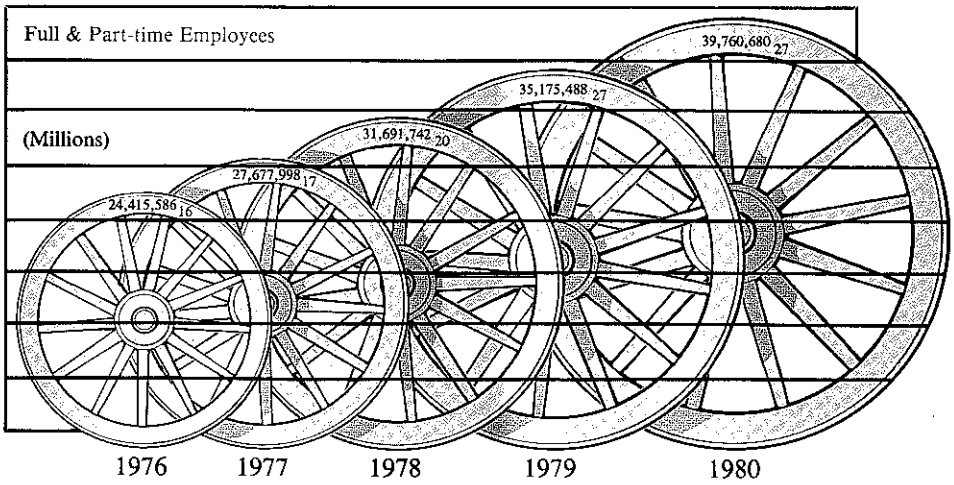
STUDENT LOANS (Made & Purchased)



INVESTMENTS

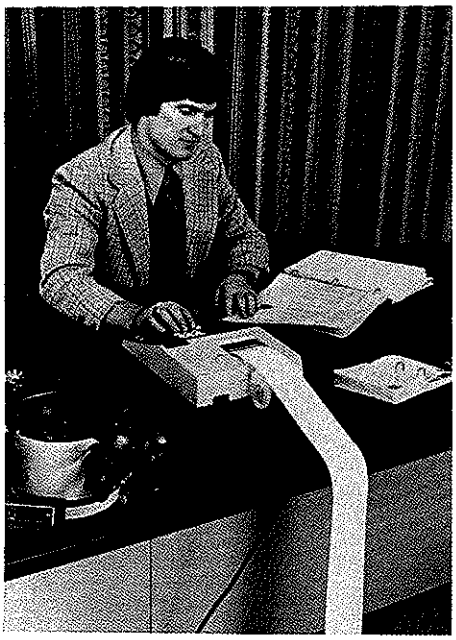


LOANS (Farm, Home, SBA, BP, Other)



OPERATIONS (Number of Checks Processed)

Internal Audit Department



The Audit Department has been in existence since the Bank of North Dakota's beginning in 1919. However, the Bank has had a full-time auditor only since 1972. Internal auditing has gradually grown from a management-dominated function to an independent function, which can be objective in its review of bank activities.

The overriding concerns for the Bank of North Dakota in the next decade will be bank profitability and capital adequacy. As the Bank attains these goals, it will be able to support and financially aid North Dakota in its growth. These concerns will impact the Internal Auditor, who will be working more and more on expense control. In order to assist management in cost control, he will become proficient in operational audits, appraising the economy, efficiency and effectiveness of the activities audited. Analysis and review procedures also assist management in cost control. These types of audit activities will give the Bank both expense reduction opportunities and expense avoidance opportunities that can and should be identified for management decisions. There may also be income improvement recommendations as a result of these audit procedures.

The Internal Auditor, as the internal control expert in the Bank, will be expected to assure the Industrial Commission, Bank of North Dakota Advisory Board and the Bank's management that the systems of internal control are effective and efficient.

In the 1980's, it will be essential to expand our computer data processing capability, reducing the risk of loss and to audit cost effectively. We will also move toward monitoring bank activities on a present-time basis instead of reviewing past activities. The Audit Department will devote itself to developing auditors who are proficient in the knowledge and use of computer system's hardware and programs.

Official Staff

H.L. Thorndal, President & Manager (1-2-3)

Administrative & Retail Banking
R.E. Sailer, Senior Vice President (1-2-3)
Carl C. Arndt, Vice President (3)
Ila Eckroth, Vice President & Cashier (3)
A.R. Nosbusch, Vice President & Comptroller (3)
Dale Eberle, Ass't. Vice President & Ass't. Comptroller
Evelyn Zelmer, Ass't. Vice President
Dale Emerson, Ass't. Comptroller
Esther Focke, Ass't. Comptroller
Joyce Welder, Ass't. Comptroller
Darlene Felchle, Ass't. Cashier
Donna Frey, Ass't Cashier
Audre Goll, Ass't. Cashier
Betty Renz, Ass't. Cashier
Alyce Starck, Ass't. Cashier

Audit
Steve Aune, Auditor (3)
Korrine Lang, Ass't. Auditor
Cecelia Wanner, Ass't. Auditor

Investment & Trust Department
John W. Fay, Senior Vice President (1-2)
Shirley Homuth, Vice President (3)
Edward B. Sather, Vice President (1-2)
Nancy Glass, Ass't. Vice President
Tim Glass, Ass't. Vice President
Connie Kaldor, Ass't. Cashier
James Stewart, Ass't. Cashier

Commercial & Correspondent Banking
R.E. Caudel, Senior Vice President (1-2)
I. Jeannine Christy, Vice President
E.W. Pederson, Vice President (3)
M.E. Stenehjem, Vice President (3)
Lewis Wilson, Vice President (2-3)
Russell Erickson, Ass't. Vice President
Annis Foss, Ass't. Vice President
Delores James, Ass't. Vice President
Duane Wagner, Ass't. Vice President
Donald Young, Ass't. Vice President
Rod Anheluk, Ass't. Cashier
Sharon Grendahl, Ass't. Cashier
Sandy Kienzle, Ass't. Cashier
Ron McGlynn, Ass't. Cashier
Arlene Olson, Ass't. Cashier
Betty Zeeb, Ass't. Cashier

Legal
Tom B. Tudor, General Counsel (2)

Personnel
Sharon Wehner, Ass't Vice President (3)

Key — 1 Member of Executive Committee
2 Member of Investment Committee
3 Member of Operations Committee

Statement of Condition

December 31, 1980 and 1979

ASSETS	**1980**	**1979**
CASH AND DUE FROM BANKS	$ 44,284,630	$ 51,914,949
INVESTMENT SECURITIES (Notes 1 and 2):		
U.S. Government obligations	$ 73,112,808	$ 84,620,553
Federal agency obligations	64,475,136	72,365,476
Money market investments	36,010,724	13,186,905
State, municipal and other obligations	14,117,631	8,240,774
Total investment securities	$187,716,299	$178,413,708
FEDERAL FUNDS SOLD	$135,000,000	$ 95,735,000
LOANS:		
Bank participation loans	$111,503,261	$120,537,951
FHA and VA home loans (Note 3)	157,012,089	126,708,682
Federally insured student loans	5,393,689	—
SBA participation loans	17,202,792	16,850,037
Farm real estate loans	30,777,059	20,994,145
Other	7,416,971	5,971,396
Total loans	$329,305,861	$291,062,211
Less reserve for loan losses (Notes 1 and 4)	2,000,000	2,000,000
	$327,305,861	$289,062,211
BANK PREMISES AND EQUIPMENT (Note 1)	$ 1,424,551	$ 1,496,084
ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS	$ 9,235,208	$ 8,079,257
Total Assets	**$704,966,549**	**$624,701,209**
LIABILITIES AND CAPITAL FUNDS		
DEMAND DEPOSITS:		
State treasurer	$ 26,205,890	$ 32,337,777
Political subdivisions	45,294,571	46,428,213
Banks	27,643,409	30,035,213
Individuals, partnerships and corporations	4,898,817	5,450,939
U.S. Government	143,314	196,635
Official checks	1,117,674	349,915
Total demand deposits	$105,303,675	$114,798,692
TIME AND SAVINGS DEPOSITS:		
State treasurer	$206,572,582	$192,399,720
Political subdivisions	104,293,974	83,379,059
Individuals, partnerships and corporations	19,353,040	17,719,613
Total time and savings deposits	$330,219,596	$293,498,392
Total deposits	$435,523,271	$408,297,084
OTHER LIABILITIES:		
Federal funds purchased	$ 83,095,000	$ 52,820,000
Securities sold under agreements to repurchase (Note 2)	88,562,340	67,971,500
Collateralized long-term bonds (Note 3)	45,000,000	47,500,000
	$216,657,340	$168,291,500
Accrued interest and other	9,952,295	9,995,001
Appropriation due State General Fund (Note 5)	1,500,000	10,500,000
Total other liabilities	$228,109,635	$188,786,501
CAPITAL FUNDS:		
Capital (Notes 1 and 5)	$ 16,000,000	$ 12,000,000
Surplus	12,000,000	12,000,000
Undivided profits	11,832,607	2,110,102
Reserve for contingencies	1,500,000	1,500,000
Reserve for purchase of land and building improvements	1,036	7,522
Total capital funds	$ 41,333,643	$ 27,617,624
COMMITMENTS AND CONTINGENCIES (Note 6)		
Total liabilities and capital funds	**$704,966,549**	**$624,701,209**

See notes to financial statements

Statement of Income

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980	1979
INTEREST INCOME:		
Interest and fees on loans	$31,551,404	$25,992,014
Interest on investment securities —		
U.S. Government obligations	6,381,505	7,315,390
Federal agency obligations	5,910,715	4,872,175
Money market investments	6,028,374	2,002,331
State, municipal and other obligations	794,225	708,060
Interest on Federal funds sold	9,844,391	7,467,911
Total interest income	$60,510,614	$48,357,881
INTEREST EXPENSE:		
Interest on deposits	$30,499,344	$24,552,353
Interest on Federal funds purchased	10,942,960	3,541,973
Interest on funds borrowed	8,473,541	9,805,553
Total interest expense	$49,915,845	$37,899,879
Net interest income	$10,594,769	$10,458,002
Per cent to total interest income	17.5%	21.6%
SERVICE CHARGES AND OTHER INCOME	$ 1,590,299	$ 410,805
	$12,185,068	$10,868,807
OPERATING EXPENSES:		
Salaries and benefits (Note 8)	$ 1,633,642	$ 1,434,669
Fees and services	587,736	595,128
Data processing	304,826	250,793
Supplies and materials	90,207	96,678
Provision for loan losses (Note 4)	147,131	319,325
Depreciation	109,156	102,647
Total operating expenses	$ 2,872,698	$ 2,799,240
Income before security gains (losses)	$ 9,312,370	$ 8,069,567
SECURITY GAINS (LOSSES)	403,649	(41,669)
Net income for the year	$ 9,716,019	$ 8,027,898

Statement of Capital Funds

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	Capital	Surplus	Undivided Profits	Reserve for Contingencies	Reserve for Purchase of Land and Building Improvements	Total
Balance, December 31, 1978	**$12,000,000**	**$12,000,000**	**$10,553,301**	**$ 1,500,000**	**$ 36,425**	**$36,089,726**
Net income for the year	—	—	8,027,898	—	—	8,027,898
Appropriation due to State of North Dakota General Fund (Note 5)	—	—	(14,000,000)	—	—	(14,000,000)
Transfer to reserve for purchase of land and building improvements	—	—	(41,500)	—	41,500	—
Remodeling costs paid and capitalized	—	—	70,403	—	(70,403)	—
Transfer to the Community Water Facility Loan Fund (Note 6)	—	—	(2,500,000)	—	—	(2,500,000)
BALANCE, DECEMBER 31, 1979	**$12,000,000**	**$12,000,000**	**$ 2,110,102**	**$ 1,500,000**	**$ 7,522**	**$27,617,624**
Net income for the year	—	—	9,716,019	—	—	9,716,019
Transfer from approp. to State of North Dakota General Fund (Note 5)	4,000,000	—	—	—	—	4,000,000
Transfer to reserve for purchase of land and building improvements	—	—	(7,500)	—	7,500	—
Remodeling costs paid and capitalized	—	—	13,986	—	(13,986)	—
BALANCE, DECEMBER 31, 1980	**$16,000,000**	**$12,000,000**	**$11,832,607**	**$ 1,500,000**	**$ 1,036**	**$41,333,643**

See notes to financial statements.

Statement of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1980 AND 1979

	1980	1979
FUNDS PROVIDED FROM:		
Operations —		
Net income for the year	$ 9,716,019	$ 8,027,898
Add — Depreciation and amortization expense not requiring expenditure of funds	174,543	175,271
Total from operations	$ 9,890,562	$ 8,203,169
Increase in —		
Deposits	27,226,187	5,061,052
Other liabilities	39,323,134	55,414,578
Capital	4,000,000	—
Decrease in —		
Cash and due from banks	7,630,319	—
Investment securities	—	47,295,992
Accrued interest receivable	—	625,594
	$ 88,070,202	$116,600,385
FUNDS USED TO:		
Purchase building improvements and equipment	$ 37,623	$ 197,134
Transfer to —		
Community Water Facility Loan Fund	—	2,500,000
Appropriation due to State of North Dakota General Fund	—	14,000,000
Increase —		
Federal funds sold	39,265,000	58,210,000
Loans	38,243,650	29,154,086
Investment securities	9,302,591	—
Accrued interest receivable	1,221,338	—
Cash and due from banks	—	12,539,165
	$ 88,070,202	$116,600,385

See notes to financial statements.

Charles Bailly & Company

Certified Public Accountants

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, 1980 and 1979, and the related statements of income, 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, 1980 and 1979, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Bismarck, North Dakota
January 20, 1981

Charles Bailly & Company

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Nature of Organization —
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. According to state law, all state funds must be deposited in The Bank of North Dakota.

b. Investment Securities —
Investment securities are stated at cost, adjusted for amortization of premiums and discounts.

c. Reserve For Loan Losses —
The reserve for loan losses is based on the Bank's past loan loss experience and other such factors which, in management's judgment, deserve current recognition in estimating loan losses.

d. Bank Premises and Equipment —
Bank premises and equipment are stated at cost, less accumulated depreciation of $545,147 and $435,992 at December 31, 1980 and 1979, respectively.

It is the policy of the Bank to provide depreciation based on the estimated useful life of the individual units of property. Depreciation is computed on the straight-line method using estimated useful lives of 25 years for the Bank premises and 5-10 years for equipment.

2. INVESTMENT SECURITIES:
The Bank has pledged investment securities to the following:

	Amounts Pledged	
	1980	1979
Deposits in the treasury tax and loan account	$ 2,000,000	$ 2,400,000
Securities sold under agreements to repurchase	92,351,000	69,354,000
Collateralized long-term bonds (Note 3)	7,000,000	7,000,000
Payment of principal and interest of the 1977 Series A Bonds issued by the North Dakota Municipal Bond Bank	15,000,000	15,000,000
	$116,351,000	$93,754,000

3. COLLATERALIZED LONG-TERM BONDS:
The Bank issued 9¼% collateralized long-term bonds in December, 1978, totaling $50,000,000. Annual sinking fund payments of $2,500,000 are due each December 1 through December 1, 1988, and $5,000,000 beginning December 1, 1989 through December 1, 1993, when the bonds mature. Redemption of the bonds may be accelerated by paying a premium which decreases proportionately from 108.538% at December, 1979, until it is eliminated in December, 1991. The bonds are collateralized by FHA and VA guaranteed loans with a principal balance of $74,608,708 outstanding as of December 31, 1980. The Bank is required to maintain the discounted value of eligible collateral at 115% of the aggregate principal amount of the bonds outstanding. In addition, the Bank pledged $7,000,000 in U.S. Government securities as reserve collateral. The bond indenture contains certain restrictive covenants which, among other things, require the maintenance of a ratio of deposits and long-term dept to capital, surplus and reserves no greater than 20 to 1. The Bank is in compliance with all provisions of the indenture agreement as of December 31, 1980.

4. RESERVE FOR LOAN LOSSES:
Transactions in the reserve for loan losses were as follows:

	1980	1979
Balance, January 1	$2,000,000	$2,000,000
Add (deduct) —		
Recoveries	74,809	31,393
Loans charged off	(221,940)	(350,718)
Provision charged to operating expenses	147,131	319,325
Balance, Dec. 31	$2,000,000	$2,000,000

5. APPROPRIATION DUE STATE GENERAL FUND:
The North Dakota State Legislature appropriated $14,000,000 for the State General Fund from the undivided profits of the Bank during the biennium beginning July 1, 1979. It is the policy of the Bank to make payments on these appropriations semi-annually during the biennium. The remaining amount due at December 31, 1980 is $1,500,000. On July 12, 1980, the Industrial Commission authorized The Bank of North Dakota to withdraw $4,000,000 of the amount appropriated to increase the Bank's capital account.

6. COMMITMENTS AND CONTINGENCIES:

a. The 1977 North Dakota State Legislature created a Community Water Facility Loan Fund to be administered by the Bank of North Dakota. The loan fund will be established from the future undivided profits of The Bank of North Dakota with an authorized ceiling of $10,000,000. As of December 31, 1979, $5,000,000 has been appropriated and paid. The remaining $5,000,000 has been appropriated at December 31, 1980.

b. 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 financial statements. The Bank does not anticipate losses as a result of these transactions.

7. TRUST ASSETS:
Property (Other than cash deposits) 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.

8. SALARIES AND BENEFITS:

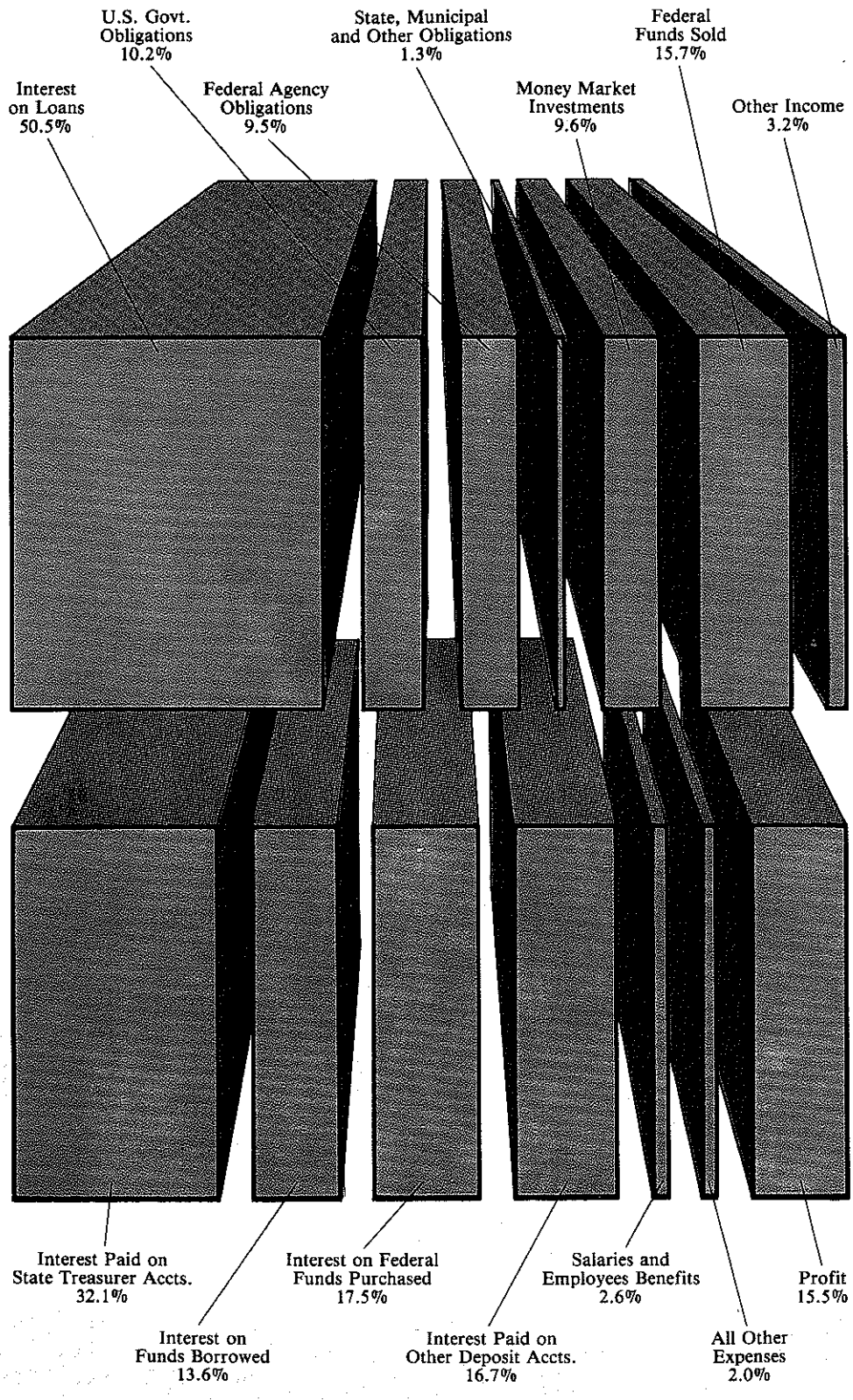
a. Included in salaries and benefits for 1980 and 1979 were the following:

	1980	1979
Salaries	$1,400,870	$1,257,280
State retirement	66,646	58,891
Social security taxes	93,116	69,557
Hospitalization	64,112	42,957
Unemployment and workmen's compensation	8,898	5,984
	$1,633,642	$1,434,669

b. The Bank participates in a defined benefit pension plan authorized by the State of North Dakota and administered by the North Dakota Public Employees Retirement System. The plan is available to all full-time employees of the Bank. Under the provisions of the plan, the Bank contributes 5.12% and the employee 4.00% of the monthly qualifying salary of the individual employee. Monthly contributions are expensed when paid. Vested benefits currently exceed the fund assets. The amount of the excess is not known for each individual governmental unit. The Bank is not liable for the amount by which vested benefits exceed fund assets.

Income

Expenses & Profit



Five Year Summary	1980	1979	1978	1977	1976
OPERATING RESULTS (000 omitted)					
Total Income	$ 62,505	$ 48,727	$ 41,322	$ 32,401	28,257
Interest Expenses	49,916	37,900	28,559	19,483	16,724
Other Oper. Expenses	2,873	2,799	2,429	1,858	1,725
NET EARNINGS (profit)	9,716	8,028	10,334	11,060	9,808
Paid to St. Treas. (Dividend)	5,000	7,500	8,000	8,000	8,000
BALANCE AT YEAR END (000 omitted)					
Total Resources	704,967	624,701	572,698	512,809	446,393
Total Deposits	435,523	408,297	403,236	376,268	362,454
Demand Deposits	105,304	114,799	105,987	92,643	77,934
Time Deposits	330,219	293,498	297,249	283,625	284,520
Fed. Fds. Purchased /R.P.'s	171,657	120,792	72,426	91,646	43,712
Fed. Fds. Sold	135,000	95,735	37,525	32,800	30,653
TOTAL INVESTMENT SECURITIES (000 omitted)	187,716	178,414	225,710	242,189	240,625
U.S. Governments	73,113	84,621	117,377	91,700	120,159
Federal Agencies	64,475	72,365	57,216	41,488	53,318
Other Money Market Instruments	36,011	13,187	37,823	97,861	50,796
N.D. Political Sub. Bds.	14,117	8,241	13,294	11,140	16,352
TOTAL LOANS (000 omitted)	327,306	289,062	259,908	192,206	145,448
Farm Home Adm. Loans	0	0	390	392	1,030
Fed. Insured Student Loans	5,394	0	36,464	32,539	29,288
Farm Real Estate Loans	30,777	20,994	14,220	12,972	9,018
FHA Home Loans	108,338	83,628	52,312	31,610	16,778
GI Home Loans	48,674	43,081	32,680	24,446	20,381
Small Business Adm. Loans	17,203	16,850	15,178	11,933	9,954
Bank Participation Loans	109,503	118,538	105,475	77,063	58,504
Other Loans	7,417	5,971	3,189	1,251	495
CAPITAL AND RESERVES (000 omitted)	41,334	27,618	36,090	28,256	33,195
Capital	16,000	12,000	12,000	10,000	10,000
Surplus	12,000	12,000	12,000	12,000	10,000
Undivided Profits	11,833	2,110	10,553	4,344	12,330
Reserves	1,501	1,508	1,537	1,912	865
OTHER DATA (Numbers)					
Financial Inst. with BND Accts.	210	207	203	206	206
Individual Checking Accounts	4,747	3,795	3,832	3,895	4,077
Individual Savings Accounts	3,629	4,513	3,695	3,161	2,678
Fed. Insured Student Loans (made or purchased)	16,368	13,577	9,109	8,543	6,577
FHA House Loans (made or purchased)	717	936	710	707	152
GI House Loans (made or purchased)	187	352	325	301	124
SBA & BI Loans Purchased	30	70	16	42	21
Bank Participation Loans	1,656	1,033	972	470	404
Number of Employees	128	121	102	98	92