



1977 ANNUAL REPORT

Audit Department

The Audit Department of the Bank of North Dakota has the responsibility of reviewing operating procedures and internal controls in order to evaluate their adequacy. As evidenced by the growth in assets from \$513 million in 1977 to \$573 million in 1978, overall financial activity has increased. This expansion naturally creates the need to change out-dated procedures and increase processing capabilities. During the last half of 1978, audit personnel began using audit software. This computer application allows the auditor to retrieve information from computer files for verification of any data desired. Customer confirmations are also generated by the system. This type of auditing through the computer is very desirable and should help us keep pace with expanding Bank services.

During 1978, the North Dakota Industrial Commission established an Audit Committee composed of the Advisory Board members and Auditor, for the purpose of placing additional emphasis on the audit function. The first organizational meeting was held on September 21, 1978. Meetings are held on a regular monthly basis which provides for frequent interaction. This move has increased communications between the internal auditor and the board, thereby creating a closer working relationship.

Striving to meet the challenge of the future, the Audit Department is continuously "Working for North Dakota" as an integral part of the Bank of North Dakota.



Official Staff

H. L. Thorndal, President & Manager 1, 2, 3
Robert E. Caudel, Sr. Vice-President 1, 2
John W. Fay, Sr. Vice-President 1, 2
Ruben E. Sailer, Sr. Vice-President 1, 2, 3
Maurice E. Cook, Vice-Pres. & Gen. Counsel 1, 2
Carl Arndt, Vice-President 3
Shirley Homuth, Vice-President 3
Ronald P. Keeley, Vice-President 2, 3
Ernest Pederson, Vice-President 3
Edward B. Sather, Vice-President 2
Martin E. Stenehjem, Vice-President 3
Jeannine Christy, Assistant Vice-President
Duane Wagner, Assistant Vice-President
Sharon Wehner, Assistant Vice-President 3
Evelyn Zelmer, Assistant Vice-President
Ila Eckroth, Cashier 3
Allan Nosbusch, Comptroller 3
Craig Sorenson, Auditor 3
Dale Eberle, Assistant Comptroller
Esther Focke, Assistant Comptroller
Rita Schwab, Assistant Auditor
Cecilia Wanner, Assistant Auditor
Rodney Anheluk, Assistant Cashier
Russell Erickson, Assistant Cashier
Annis Foss, Assistant Cashier
Darlene Felchle, Assistant Cashier
Donna Frey, Assistant Cashier
Nancy Glass, Assistant Cashier
Tim Glass, Assistant Cashier
Audre Goll, Assistant Cashier
Delores James, Assistant Cashier
Alyce Starck, Assistant Cashier
Lewis Wilson, Assistant Cashier
Donald Young, Assistant Cashier
Betty Zeeb, Assistant Cashier

Administrative & Retail Banking Dept.

Ruben E. Sailer, Sr. Vice-President
Ila Eckroth, Cashier
Donna Frey, Assistant Cashier
Audre Goll, Assistant Cashier
Carl Arndt, Vice-President—Operations
Evelyn Zelmer, Asst. Vice-President—Operations
Darlene Felchle, Asst. Cashier—Operations
Alyce Starck, Assistant Cashier—Operations
Allan Nosbusch, Comptroller
Dale Eberle, Assistant Comptroller
Esther Focke, Assistant Comptroller

Audit Department

Craig Sorenson, Auditor
Rita Schwab, Assistant Auditor
Cecilia Wanner, Assistant Auditor

Commercial & Correspondent Banking Department

R. E. Caudel, Sr. Vice-President
Ronald P. Keeley, Vice-Pres.—Commercial Banking
Ernest Pederson, Vice-President—Special Loans
Martin Stenehjem, Vice-President—Student Loans

Official Staff

Duane Wagner, Asst. Vice-President
Mortgage & Loan Servicing
Russell Erickson, Asst. Cashier—Agriculture Loans
Jeannine Christy, Asst. Vice-Pres.—Student Loans
Lewis Wilson, Asst. Cashier
Donald Young, Asst. Cashier
Marilyn Foss, Loan Officer—FHA/VA Home Loans
Delores James, Asst. Cashier—Student Loans
Betty Zeeb, Asst. Cashier—Student Loans

Investment & Trust Department

John W. Fay, Sr. Vice-President
Shirley Homuth, Vice-President—Paying Agent
Edward B. Sather, Vice-President—Investments
Nancy Glass, Asst. Cashier—ND Bond Bank
Tim Glass, Asst. Cashier—Municipals
Rod Anheluk, Asst. Cashier—
Cash Settlement & Federal Funds

Legal Department

Maurice Cook, Vice-President & Gen. Counsel
Annis Foss, Asst. Cashier

Personnel Department

Sharon Wehner, Asst. Vice-President

Key

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



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, 1978, and the related statements of income, capital funds and changes in financial position for the year then ended. Our examination was 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. The financial statements of The Bank of North Dakota for the year ended December 31, 1977, were examined by Broeker Hendrickson & Co., our predecessor firm, whose report dated January 31, 1978, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of The Bank of North Dakota as of December 31, 1978, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Charles Bailly & Company

Bismarck, North Dakota
January 19, 1979

Previously operated as a part
of Broeker Hendrickson & Co.

Statement of Condition

DECEMBER 31, 1978 and 1977

ASSETS	1978	1977
CASH AND DUE FROM BANKS	\$ 39,375,784	\$ 39,399,720
INVESTMENT SECURITIES (Notes 1 and 2)		
U.S. Government obligations	\$ 117,376,744	\$ 91,699,869
Federal agency obligations	57,216,107	41,487,549
Money market investments	37,822,796	97,861,410
State, municipal and other obligations	13,294,053	11,139,728
Total investment securities	\$ 225,709,700	\$ 242,188,556
FEDERAL FUNDS SOLD	\$ 37,525,000	\$ 32,800,000
LOANS:		
Bank participation loans	\$ 107,474,928	\$ 79,063,458
FHA and VA home loans (Note 3)	84,992,295	56,056,962
Federally insured student loans	36,463,962	32,539,293
SBA participation loans	15,177,582	11,932,922
Farm real estate loans	14,219,762	12,970,984
Other	3,579,596	1,642,222
Total loans	\$ 261,908,125	\$ 194,205,841
Less reserve for loan losses (Notes 1 and 4)	2,000,000	2,000,000
	\$ 259,908,125	\$ 192,205,841
BANK PREMISES AND EQUIPMENT (Note 1)	\$ 1,401,597	\$ 1,018,302
ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS	\$ 8,777,475	\$ 5,197,022
Total Assets	<u>\$ 572,697,681</u>	<u>\$ 512,809,441</u>
 LIABILITIES AND CAPITAL FUNDS		
DEMAND DEPOSITS:		
State Treasurer	\$ 36,772,910	\$ 27,450,698
Political subdivisions	44,395,546	44,950,438
Banks	17,687,924	14,932,293
Individuals, partnerships and corporations	6,200,735	5,115,297
U.S. Government	199,068	59,909
Official checks	730,685	134,678
Total demand deposits	\$ 105,986,868	\$ 92,643,313
TIME AND SAVINGS DEPOSITS:		
State Treasurer	\$ 232,351,520	\$ 211,577,065
Political subdivisions	47,209,288	47,701,560
Individuals, partnerships and corporations	17,688,356	24,346,310
Total time and savings deposits	\$ 297,249,164	\$ 283,624,935
Total deposits	\$ 403,236,032	\$ 376,268,248
OTHER LIABILITIES:		
Federal funds purchased	\$ 35,530,000	\$ 55,420,000
Securities sold under agreements to repurchase (Note 2)	36,895,886	36,226,000
Collateralized long-term bonds (Note 3)	50,000,000	—
	\$ 122,425,886	\$ 91,646,000
Accrued expenses and other	6,946,037	4,639,562
Appropriation due State General Fund (Note 5)	4,000,000	12,000,000
Total other liabilities	\$ 133,371,923	\$ 108,285,562
CAPITAL FUNDS:		
Capital (Note 1)	\$ 12,000,000	\$ 10,000,000
Surplus	12,000,000	12,000,000
Undivided profits	10,553,301	4,344,380
Reserve for contingencies	1,500,000	1,500,000
Reserve for purchase of land and building improvements	36,425	411,251
Total capital funds	\$ 36,089,726	\$ 28,255,631
COMMITMENTS AND CONTINGENCIES (Note 6)		
Total Liabilities and Capital	<u>\$ 572,697,681</u>	<u>\$ 512,809,441</u>

See notes to Financial Statements.

Statement of Income

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

	1978	1977
OPERATING INCOME:		
Interest on loans	\$ 21,153,316	\$ 13,964,920
Interest on investment securities —		
U.S. Government obligations	7,778,164	7,047,207
Federal agency obligations	3,433,640	3,064,859
Money market investments	5,372,757	3,386,066
State, municipal and other obligations	493,821	897,084
Interest on Federal funds sold	2,955,485	3,387,808
Service charges and other income	45,016	126,772
Total operating income	\$ 41,232,199	\$ 31,874,716
OPERATING EXPENSES:		
Interest expense —		
Interest on deposits	\$ 21,390,105	\$ 16,737,044
Interest on Federal funds purchased	3,521,108	1,896,567
Interest on funds borrowed	3,648,011	849,634
Total interest expense	\$ 28,559,224	\$ 19,483,245
Other expenses—		
Salaries	\$ 1,120,608	\$ 1,032,105
Employee benefits (Note 8)	151,101	114,060
Fees and services	456,316	381,362
Data processing	200,221	220,540
Supplies and materials	71,437	58,971
Provision (recoveries) for loan losses (Notes 1 and 4)	348,390	(24,293)
Depreciation (Note 1)	80,870	75,143
Total other expenses	\$ 2,428,943	\$ 1,857,888
Total operating expenses	\$ 30,988,167	\$ 21,341,133
Income before security gains	\$ 10,244,032	\$ 10,533,583
SECURITY GAINS (Note 9)	90,063	526,737
Net income for the year	\$ 10,334,095	\$ 11,060,320

See notes to financial statement.

Statement of Capital Funds

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

	Capital	Surplus	Undivided Profits	Reserve for Contingencies	Reserve for Purchase of Land and Building Improvements	Total
Balance, December 31, 1976	\$ 10,000,000	\$ 10,000,000	\$ 12,330,311	\$ 500,000	\$ 365,000	\$ 33,195,311
Net income for the year 1977	—	—	11,060,320	—	—	11,060,320
Transfer to surplus	—	2,000,000	(2,000,000)	—	—	—
Transfer to reserve for contingencies	—	—	(1,000,000)	1,000,000	—	—
Transfer to State of North Dakota General Fund (Note 5)	—	—	(16,000,000)	—	—	(16,000,000)
Transfer to reserve for purchase of land and building improvements	—	—	(245,000)	—	245,000	—
Remodeling costs paid and capitalized	—	—	198,749	—	(198,749)	—
Balance, December 31, 1977	\$ 10,000,000	\$ 12,000,000	\$ 4,344,380	\$ 1,500,000	\$ 411,251	\$ 28,255,631
Net income for the year 1978	—	—	10,334,095	—	—	10,334,095
Transfer to capital	2,000,000	—	(2,000,000)	—	—	—
Transfer to reserve for purchase of land and building improvements	—	—	(40,000)	—	40,000	—
Remodeling costs paid and capitalized	—	—	414,826	—	(414,826)	—
Transfer to the Community Water Facility Loan Fund (Note 6)	—	—	(2,500,000)	—	—	(2,500,000)
Balance, December 31, 1978	\$ 12,000,000	\$ 12,000,000	\$ 10,553,301	\$ 1,500,000	\$ 36,425	\$ 36,089,726

Statement of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

FUNDS PROVIDED FROM:	1978	1977
Operations —		
Net income for the year	\$ 10,334,095	\$ 11,060,320
Add - Depreciation expense not requiring expenditure of funds .	80,870	75,143
	\$ 10,414,965	\$ 11,135,463
Increase in —		
Deposits	26,967,784	13,813,809
Other liabilities	25,086,361	57,542,202
Decrease in —		
Cash and due from banks	23,936	—
Investment securities	16,478,856	—
Accrued interest receivable	—	442,760
	\$ 78,971,902	\$ 82,934,234
FUNDS USED TO:		
Purchase —		
Building improvements and equipment	\$ 464,165	\$ 255,917
Bond issue costs	544,389	—
Transfer to —		
Community Water Facility Loan Fund	2,500,000	—
State of North Dakota General Fund	—	16,000,000
Increase —		
Cash and due from banks	—	16,210,497
Investment securities	—	1,563,145
Federal funds sold	4,725,000	2,147,000
Loans	67,702,284	46,757,675
Accrued interest receivable	3,036,064	—
	\$ 78,971,902	\$ 82,934,234

See notes to financial statements.

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. On certain exchange transactions of like kind securities, the cost basis of the old security is carried over as the basis of the new security.
- 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 \$333,345 and \$252,475 at December 31, 1978 and 1977, 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. PLEDGED SECURITIES:

At December 31, 1978 and 1977, securities with a par value of \$2,400,000 were pledged to secure deposits in the treasury tax and loan account. At December 31, 1978 and 1977, securities with a par value of \$37,545,000 and \$36,835,000, respectively, were pledged to secure securities sold under agreement to repurchase. In addition, the Bank has pledged and deposited in escrow with the Manufacturers Hanover Trust Company, U.S. Government securities totaling \$16,500,000 to secure the payment of principal and interest of the 1977 Series A Bonds in the amount of \$15,000,000 issued by the North Dakota Municipal Bond Bank (Note 9). At December 31, 1978, \$7,000,000 in U.S. Government securities are pledged as collateral to collateralized long-term debt issued by the Bank (Note 3).

3. COLLATERALIZED LONG-TERM BONDS:

The Bank issued 9/4 percent collateralized long-term bonds in December, 1978, totaling \$50,000,000. Annual sinking fund payments of \$2,500,000 are due beginning December 1, 1979 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 109.25 percent at December, 1978, until it is eliminated in December, 1991. The bonds are collateralized by FHA or VA guaranteed loans with a principal balance of \$68,901,750 outstanding as of December 31, 1978. The Bank is required to maintain the discounted value of eligible collateral at 115 percent 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 debt 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, 1978.

4. RESERVE FOR LOAN LOSSES:

Transactions in the reserve for loan losses were as follows:

	1978	1977
Balance, January 1	\$ 2,000,000	\$ 2,000,000
Add (deduct)—		
Recoveries	—	25,430
Loans charged off	(348,390)	(1,137)
Provision charged to operating expenses	348,390	(24,293)
Balance, December 31	\$ 2,000,000	\$ 2,000,000

5. APPROPRIATION DUE STATE GENERAL FUND:

In March, 1977, the North Dakota State Legislature authorized a transfer of \$16,000,000 from the Bank's undivided profits to the General Fund of the State of North Dakota. It is the policy of the Bank to make these payments semiannually during the biennium July 1, 1977, to June 30, 1979.

6. COMMITMENTS AND CONTINGENT LIABILITIES:

- 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. The act provided that \$5,000,000 is to be transferred from the future undivided profits of the Bank during the biennium ended June 30, 1979, with \$1,250,000 to be transferred on each of the following dates: July 1, 1978; October 1, 1978; January 1, 1979; and April 1, 1979. The Legislature did not appropriate the remaining \$5,000,000.
- 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 agency capacities for its customers is not included in the accompanying financial statements, since such items are not assets of the Bank.

8. EMPLOYEE BENEFITS AND PENSION PLAN:

- a. Included in employee benefits for 1978 and 1977 were the following:

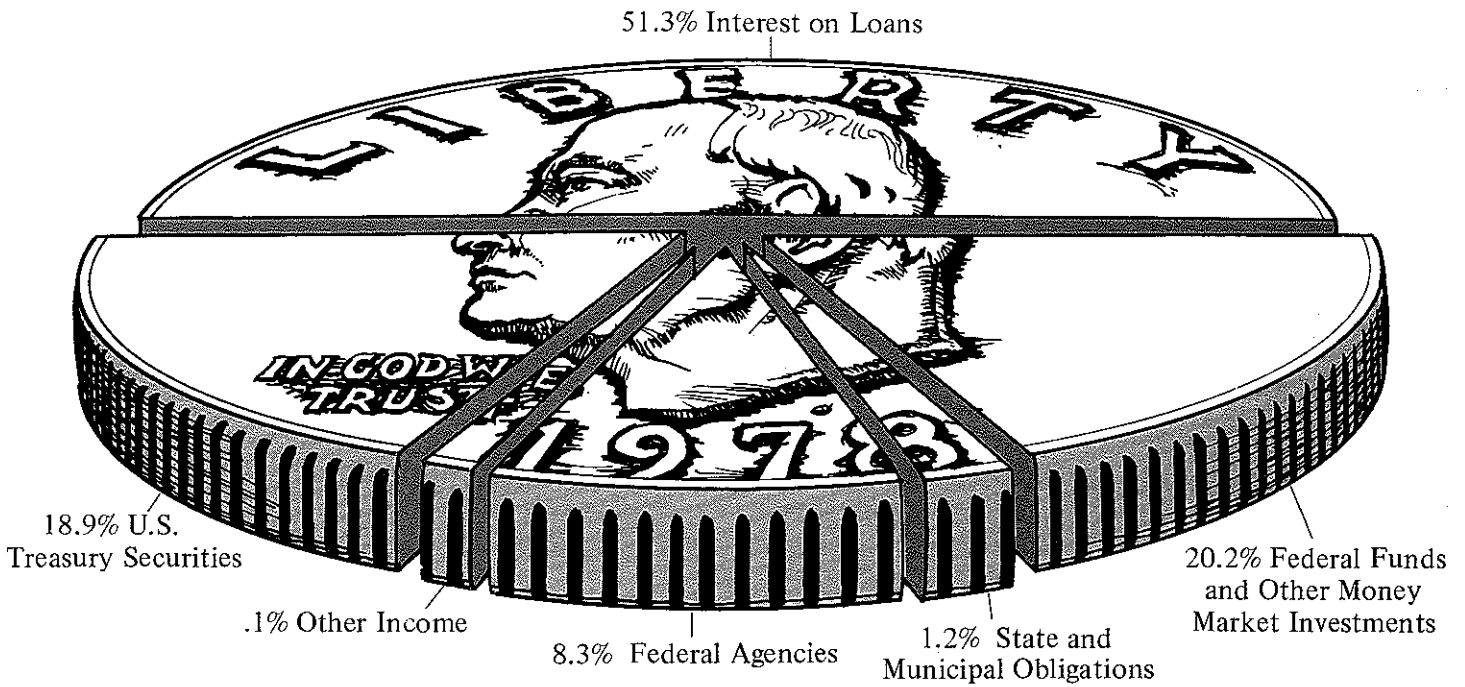
	1978	1977
Employee pension plan	\$ 56,073	\$ 45,982
Social security taxes	59,136	42,678
Hospitalization	27,661	25,400
Unemployment compensation insurance	8,231	-
	\$151,101	\$114,060

- 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 pension plan is applicable to all employees of the State of North Dakota including the employees of the Bank. Under the provisions of the plan, the Bank contributes 5.12 percent and the employee 4.00 percent of the monthly qualifying salary of the individual employee. Monthly contributions are expensed when paid.

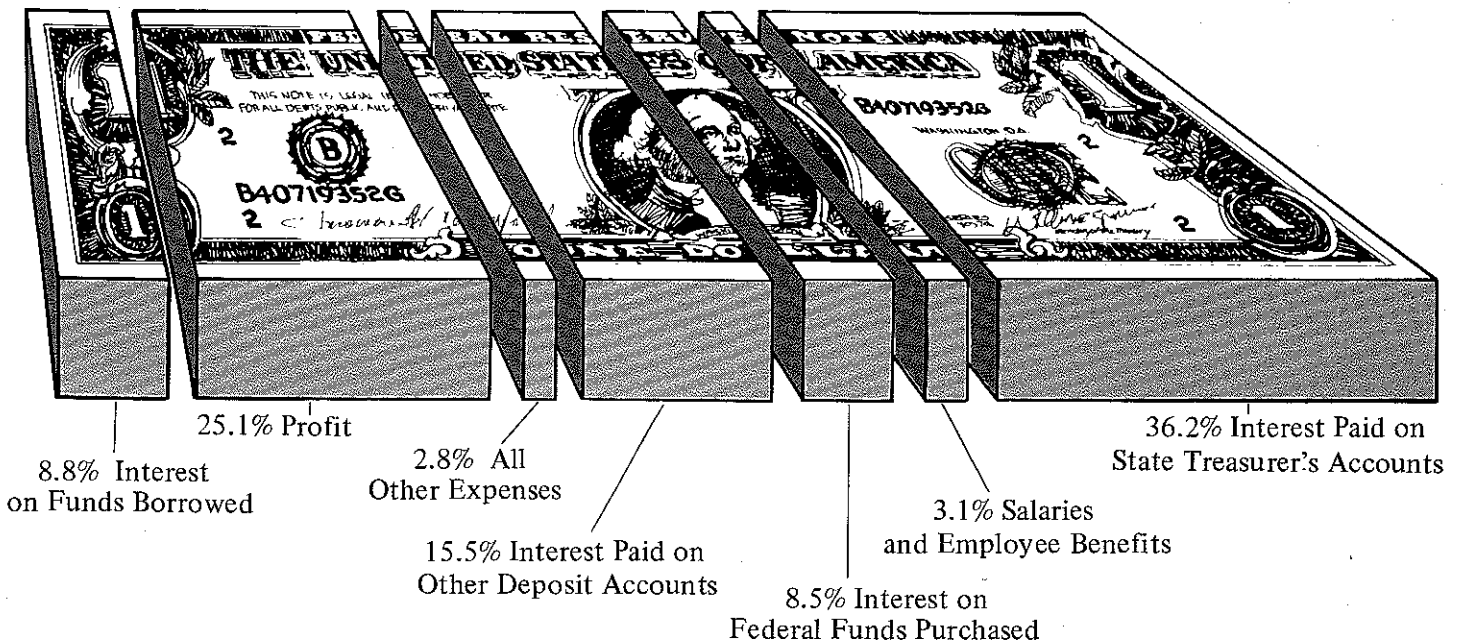
9. RELATED PARTY TRANSACTIONS:

The North Dakota Municipal Bond Bank (Bond Bank) was established by the North Dakota Legislature, as provided in Chapter 6-09.4 of the North Dakota Century Code as a separate instrumentality of the State of North Dakota, within The Bank of North Dakota. All employees and officers of the Bond Bank are also employees and officers of the Bank of North Dakota. The Bond Bank had \$2,601,209 on deposit at the Bank of North Dakota as of December 31, 1978. On August 4, 1977, the Bond Bank, in accordance with the Municipal Bond Bank Act, purchased all qualifying Municipal Securities held in the Bank of North Dakota portfolio as of July 1, 1975. These securities were purchased at a price of \$4,104,458 plus accrued interest of \$40,856 and yielded a gain of \$196,481 to the Bank of North Dakota. The selling price of the securities was determined in accordance with the General Bond Resolution pertaining to Bond Bank's issuance of the 1977 Series A Bonds (Note 2).

Income



Expenses and Profit



The Future—Credit Crunch?

Alternatives for the Bank of North Dakota

This page outlined a plan for the future in last year's report. We are progressing and expanding that plan.

The anticipated decline in our main source of deposits (67 percent of total deposits at year end), the State's General Fund, is getting closer. While we do not anticipate any liquidity problems in 1979, we are preparing to meet a substantial draw-down in the State's General Fund during the ensuing biennium (July 1, 1979 thru June 30, 1981), with the projected low point to be in December 1980 or January 1981.

We have been increasing financial institutions' deposits (up 18 percent in 1978) and will have all such accounts on an analysis basis in 1979. We increased our capital by \$2 million in 1978, and will probably increase Surplus and/or Reserves in 1979. The legislature decreased our "dividend" to the State's General Fund by \$2 million, to \$14 million, for the ensuing biennium. Political subdivision deposits decreased slightly, and with taxpayer resistance to tax increases, we foresee a continued slight decrease in these deposits.

We issued \$50 million in mortgage backed bonds in 1978. We will probably have another issue of this type of bonds in 1980. We will continue to be a net buyer of Federal Funds and Repurchase Agreements. We will have a \$65 million issue of Federally Insured Student Loan Revenue Bonds in 1979. We will also have another issue of the North Dakota Municipal Bond Bank, probably for about \$16.5 million.

We are making arrangements to participate some of our loans to money center correspondents and also "down stream" to North Dakota banks. As more of the banks in the state participate more of their loans to the Bank of North Dakota, we will become more dependent on "purchased" funds and rate sensitive deposits. We are making every effort to match these rate sensitive liabilities with floating rate loans. We will be required to push loan rates up to, or slightly over, national market loan rates. If we accomplish this, we will be able to continue to obtain funds to "work for North Dakota."

We are confident about the future of North Dakota, the Bank of North Dakota, and the banking industry in our great state.

H. L. Thorndal
President

Six Year Summary

OPERATING RESULTS (000 omitted)	1978	1977	1976	1975	1974	1973
Total Income	\$ 41,322	\$ 32,401	\$ 28,257	\$ 25,446	\$ 23,024	\$ 16,523
Interest Expenses	28,559	19,483	16,724	15,504	12,718	7,579
Other Oper. Expenses	2,429	1,858	1,725	1,607	1,040	863
NET EARNINGS (profit)	10,334	11,060	9,808	8,335	9,269	8,066
Paid to St. Treas. (Dividend)	8,000	8,000	8,000	6,500	5,000	4,125
BALANCE AT YEAR END (000 omitted)						
Total Resources	572,698	512,809	446,393	401,435	316,508	266,700
Total Deposits	403,236	376,268	362,454	311,720	253,630	200,857
Demand Deposits	105,987	92,643	77,934	86,443	86,476	117,437
Time Deposits	297,249	283,625	284,520	225,277	167,154	83,420
Fed. Fds. Purchased/R.P.'s	72,426	91,646	43,712	49,611	25,428	33,418
Fed. Fds. Sold	37,525	32,800	30,653	22,485	17,190	18,250
TOTAL INVESTMENT SECURITIES (000 omitted)						
U.S. Government	225,710	242,189	240,625	226,153	148,733	116,501
Federal Agencies	117,377	91,700	120,159	38,788	18,542	20,796
Other Money Market Instruments	57,216	41,488	53,318	56,024	62,915	64,511
N.D. Political Sub. Bds.	37,823	97,861	50,796	116,581	51,788	14,862
	13,294	11,140	16,352	14,760	15,488	16,332
TOTAL LOANS (000 omitted)						
Farm Home Adm. Loans	259,908	192,206	145,448	119,029	122,153	106,392
Fed. Insured Student Loans	390	392	1,030	1,665	6,408	13,266
Farm Real Estate Loans	36,464	32,539	29,288	27,993	26,836	24,360
FHA Home Loans	14,220	12,972	9,018	6,515	4,285	2,343
GI Home Loans	52,312	31,610	16,778	15,018	15,872	16,169
Small Business Adm. Loans	32,680	24,446	20,381	20,422	17,629	15,544
Bank Participation Loans	15,178	11,933	9,954	7,899	6,495	5,174
Other Loans	105,475	77,063	58,504	39,422	44,404	27,746
	3,189	1,251	495	95	223	1,788
CAPITAL AND RESERVES (000 omitted)						
Capital	36,090	28,256	33,195	25,428	33,093	23,758
Surplus	12,000	10,000	10,000	8,000	6,000	5,000
Undivided Profits	12,000	12,000	10,000	10,000	10,000	8,000
Reserves	10,553	4,344	12,330	5,023	14,688	8,753
	1,537	1,912	865	2,405	2,405	2,005
OTHER DATA (Numbers)						
Financial Inst. with BND Accts.	203	206	206	174	163	159
Individual Checking Accounts	3,832	3,895	4,077	3,878	3,489	2,909
Individual Savings Accounts	3,695	3,161	2,678	1,524	1,279	1,043
Fed. Insured Student Loans (made or purchased)	9,109	8,543	6,577	5,883	6,912	7,757
FHA House Loans (made or purchased)	710	707	152	46	67	101
GI House Loans (made or purchased)	325	301	124	191	139	279
SBA Loans Purchased	16	42	21	15	14	14
Bank Participation Loans	972	470	404	77	100	59
Number of Employees	102	98	92	89	83	80

The theme of this year's Annual Report is "DEVELOPING NORTH DAKOTA'S TOMORROW." Our municipal bond underwriting activities, our loan programs such as student loans, home loans, farm loans, business and industrial loans play an important role in North Dakota's future, both in the quality of life and the economic environment.

Financial Highlights — 1977

	1977	1976	Percentage of Change
AT YEAR END:			
RESOURCES	\$ 512,809,441	\$ 446,393,110	+ 15%
Deposits	376,268,248	362,454,439	+ 4%
Student Loans	32,539,293	29,288,295	+ 11%
Real Estate Loans	69,027,946	46,177,125	+ 49%
All Other Loans	90,638,602	69,982,746	+ 30%
FOR THE YEAR:			
Total Income	32,401,453	28,256,887	+ 15%
Interest Paid	19,483,245	16,724,496	+ 16%
Expenses Paid	1,857,888	1,724,636	+ 8%
NET INCOME	11,060,320	9,807,755	+ 13%
Dividend Paid to State Treasury	8,000,000	8,000,000	—
No. of Checks Processed	27,677,998	24,415,586	+ 13%
Total Fed. Fds. Purchased	12,401,485,000	7,638,868,000	+ 62%
Total Fed. Fds. Sold	21,730,391,000	15,165,558,000	+ 43%

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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

1977 Industrial Commission

Arthur A. Link
Governor, Chairman

Allen J. Olson
Attorney General

Myron Just
Commissioner of Agriculture

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

H. L. Thoradal
President and Manager

North Dakota Industrial Commission

To the Citizens of North Dakota:

The Bank of North Dakota is the **only wholly state owned bank** in the nation. That makes each citizen of North Dakota a stockholder in the Bank. We are pleased to present this report to the Bank's stockholders.

"Developing North Dakota's Tomorrow" is a most fitting theme for this report. By its leadership in student loans, the Bank is developing our state's most valuable resources, our young people. Its financing of housing and farm ownership is helping to develop independence for thousands of our citizens. In cooperation with other financial institutions, the Bank is "encouraging and promoting agriculture, commerce, and industry." The Bank is literally "Developing North Dakota's Tomorrow."

In 1978, the Bank will become involved in rural water development loans. The North Dakota Bond Bank, administered by the Bank of North Dakota, will again save thousands of dollars of interest costs for our political subdivisions. The Bank is now servicing the loan portfolio of the State Land Department, which improved the efficiency of state government.

The Industrial Commission wishes to thank Mr. Richard T. Carley of Casselton, for his many years of service to the state as a member of the Bank's Advisory Board. Mr. Carley served from the Board's inception in 1969 through June 30, 1977. Replacing Mr. Carley on the Advisory Board is Mr. Gilman Peterson of New England. The Industrial Commission welcomes his advice and counsel.

We urge you to read this report and see how the Bank of North Dakota is "Developing North Dakota's Tomorrow."

TOTAL RESOURCES

Millions of Dollars	500					
	480					
	460					
	440					
	420					
	400					
	380					
	360					
	340					
	320					
	300					
	280					
	260					
	240					
220						
200						
180						
160						
140						
		1973	1974	1975	1976	1977



Arthur A. Link
ARTHUR A. LINK
Governor
Chairman



Allen I. Olson
ALLEN I. OLSON
Attorney General



Myron Just
MYRON JUST
Commissioner of
Agriculture

Advisory Board

To the North Dakota Industrial Commission:

The Advisory Board held eleven meetings in 1977. Four were joint meetings with the Industrial Commission. Four meetings were held outside Bismarck, one each in Minot and Dickinson and two in Fargo. The Board toured projects the Bank is involved with in Minot and Dickinson, and met with financial leaders in these cities.

The Board is continuing its prime purpose in "aiding in development of the Bank's role in the state's economy." The large increase in participation loans with other banks in North Dakota attests to the increasing importance of the Bank of North Dakota in the state's economy.

The Board monitors the operations of the Bank monthly, reviewing reports from each department, and checking progress towards goals and new developments. The Board will continue to review, implement and monitor policies, and recommend changes when necessary to the Industrial Commission. The Board reviews suggested promotions and salaries, and recommends any changes to the Industrial Commission.

We extend our best wishes to Richard T. Carley, who had served on the Board since its inception in 1969. Mr. Carley asked, for personal reasons, not to be reappointed to the Board. We are pleased to welcome to the Board Gilman Peterson of New England, North Dakota.

The Bank of North Dakota had an excellent year in 1977. We anticipate it to be ever more involved in "Developing North Dakota's Tomorrow" in 1978. We urge you to read this report.



Eugene Rich, Chairman
State Bank of Fargo



Lloyd Everson, V. Chairman
C.E.O., Northern National



John O'Keefe, Secretary
Owner-McDonalds Grand Forks

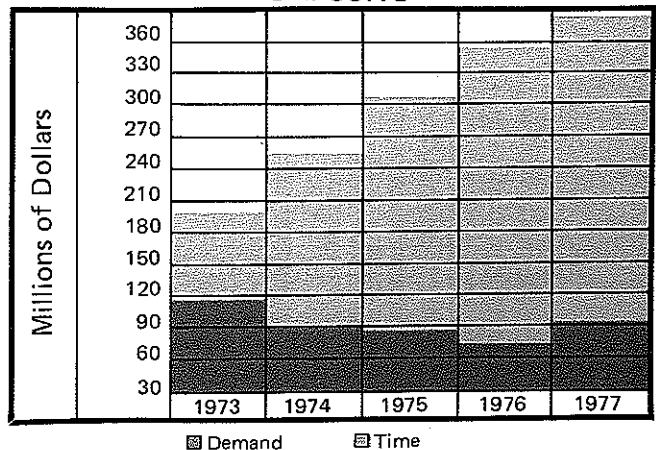


Dan O'Day, Member
Pres., O'Day Equipment



Gilman Peterson, Member
Farmer/Rancher

DEPOSITS



To the North Dakota Industrial Commission:

We have the pleasure of reporting the results of the best year in the Bank of North Dakota's fifty-eight year history. Resources peaked at \$534,697,180 on June 3, 1977. Total resources exceeded \$500 million for most of the year and stood at \$512,809,441 at year end, an increase of \$66,416,331 or 15% over 1976. We are the first financial institution in North Dakota to have reached a half billion dollars. We were the 242nd largest bank in the country in 1977. The year end figures were better than we predicted at the start of the year.

Net income totaled \$11,060,320 for 1977, an increase of \$1,252,565 or up 13%. Special attention was given to funds management to assure that the maturities and interest sensitivity of the Bank's earning assets and liabilities were appropriately matched. Interest on the state's general fund deposits continued to be the Bank's largest expense. Expenses, other than interest costs, increased only 7.7% in 1977. We anticipate total income and interest costs increasing in 1978, with overall rate increases exceeding 1% during the year. We expect other operating expenses to increase moderately in 1978.

Deposits increased \$13,813,809, a modest 3.8% to \$376,268,248 at year end. We again anticipate a substantial decrease in the last half of 1978, due to lower tax collections and increased spending from the state's general fund.

The Bank increased its surplus by \$2 million and its contingency reserve by \$1 million in 1977. The Bank's legal lending limit to any one borrower is now \$5½ million. The Bank set aside \$16 million to be paid to the state's general fund in 1977 and \$8 million was transferred to the State Treasurer, and another \$8 million will be transferred in 1978. This "dividend" to the state amounted to more than 72% of our net income. The 1977 Legislature authorized the Bank to transfer \$2½ million to a special community water facility loan fund during 1978, from which low interest loans will be made to rural water districts. This will decrease the amount available for future transfers to the state's general fund. We anticipate increasing capital in 1978.

Loans increased by \$46,757,675, or nearly 32%, to \$194,205,841. This increase was 56% greater than we had anticipated, and required the Bank to reorganize and increase the loan

department's staff. The commercial and agricultural loan divisions and the President's office will be moved from the first to the fourth floor in 1978. The loan division will become more specialized in the future as the Bank expands its expertise and improves its ability to serve the state and its part in "Developing North Dakota's Tomorrow." We anticipate total loans to increase by more than \$40 million in 1978. There were no loan losses or charge offs in 1977.

The North Dakota Municipal Bond Bank sold its first issue in 1977, for \$15 million composed of 181 North Dakota political subdivision bond issues. It received an AAA rating, and a net interest cost of 4.487%. We were very pleased with this sale. We did not anticipate the large increase in bond underwriting in 1977. It is difficult to predict the volume for 1978, however, there will be one or more bond bank issues, and the Bank is prepared to underwrite whatever the needs of the state's political subdivisions may be. The Bank sold all of its inventory of Municipal Industrial Development bonds for a profit in 1977.

The 1977 financial statements beginning on page 32 have been examined and certified by Broeker Hendrickson Co., Certified Public Accountants. The Bank is also regularly examined by North Dakota Department of Banking and Financial Institutions and is subject to internal audit procedures.

The Bank promoted Shirley Homuth and Ron Keeley to Vice Presidents, Tim Glass, Audre Goll and Nancy Ray to Assistant Cashiers, and Rita

TOTAL INCOME

Millions of Dollars	50					
	45					
	40					
	35					
	30					
	25					
	20					
	15					
	10					
	5					
	1973	1974	1975	1976	1977	

Schwab to Assistant Auditor. There were no retirements during the year. The staff increased from 92 to 98 in 1977. We are assured that the Bank of North Dakota will continue to respond to future changes in the state's economy and be able to partake in "Developing North Dakota's Tomorrow." The Bank instituted an affirmative action program during the year. This effort has moved us closer to the achievement of equal opportunity for all, in spirit and in fact. We are an "equal opportunity employer." We do not believe the Bank transcends the people who comprise it. The Bank's staff brings to the citizens of the state integrity, skill, imagination and thoroughness. Our greatest strength comes from pride and abilities all of us have in our association throughout the Bank.

The Bank expanded its parking lot in 1977, and the third and fourth floors will be remodeled and occupied in 1978.

Management and staff are appreciative of the help, counsel and understanding provided by the Industrial Commission and the Advisory Board. We wish to thank Mr. Richard T. Carley of Casselton, North Dakota, for his eight years of constructive service to the Bank. Mr. Carley asked not to be reappointed to the Advisory Board. We welcome to the Board Mr. Gilman Peterson of New England, North Dakota. We welcome his counsel and help. We are sorry to report the death of George Thompson, a former

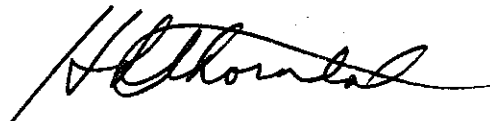
president and manager of the Bank. His passing reminds us of the contributions of others in making the Bank of North Dakota the great institution it is today.

We continue to be enthusiastic about the opportunities ahead for the Bank of North Dakota and our great state. We are by far the largest bank in the state and one of the largest in the Upper Midwest. North Dakota is a dynamic area with outstanding agricultural and energy resources. Our manufacturing and processing facilities advanced during the year.

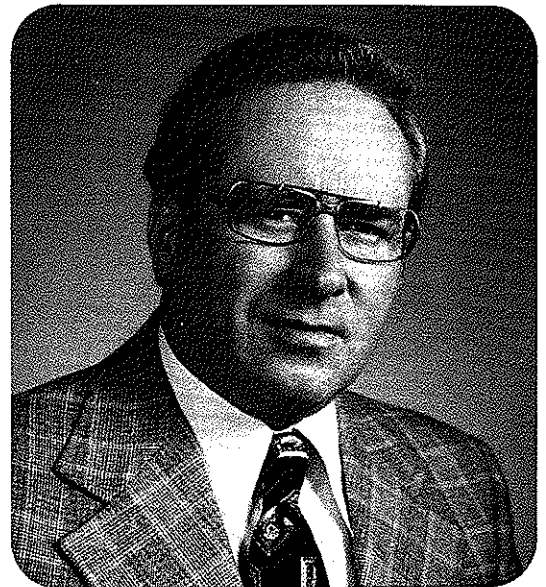
We have developed a strong management team, whose members are enthusiastic and goal oriented. We will build on that strength, improving our ability to serve our state and our part in "Developing North Dakota's Tomorrow."

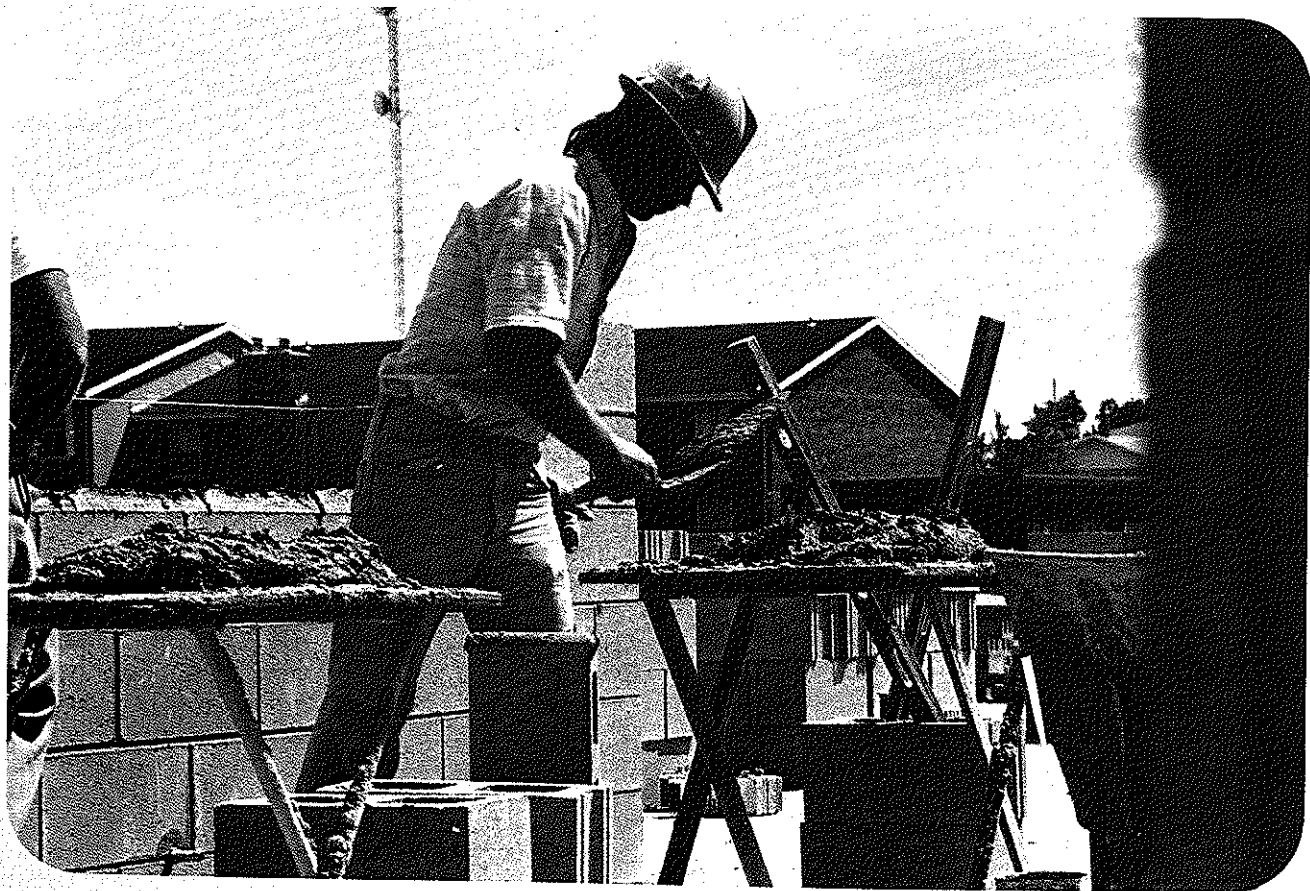
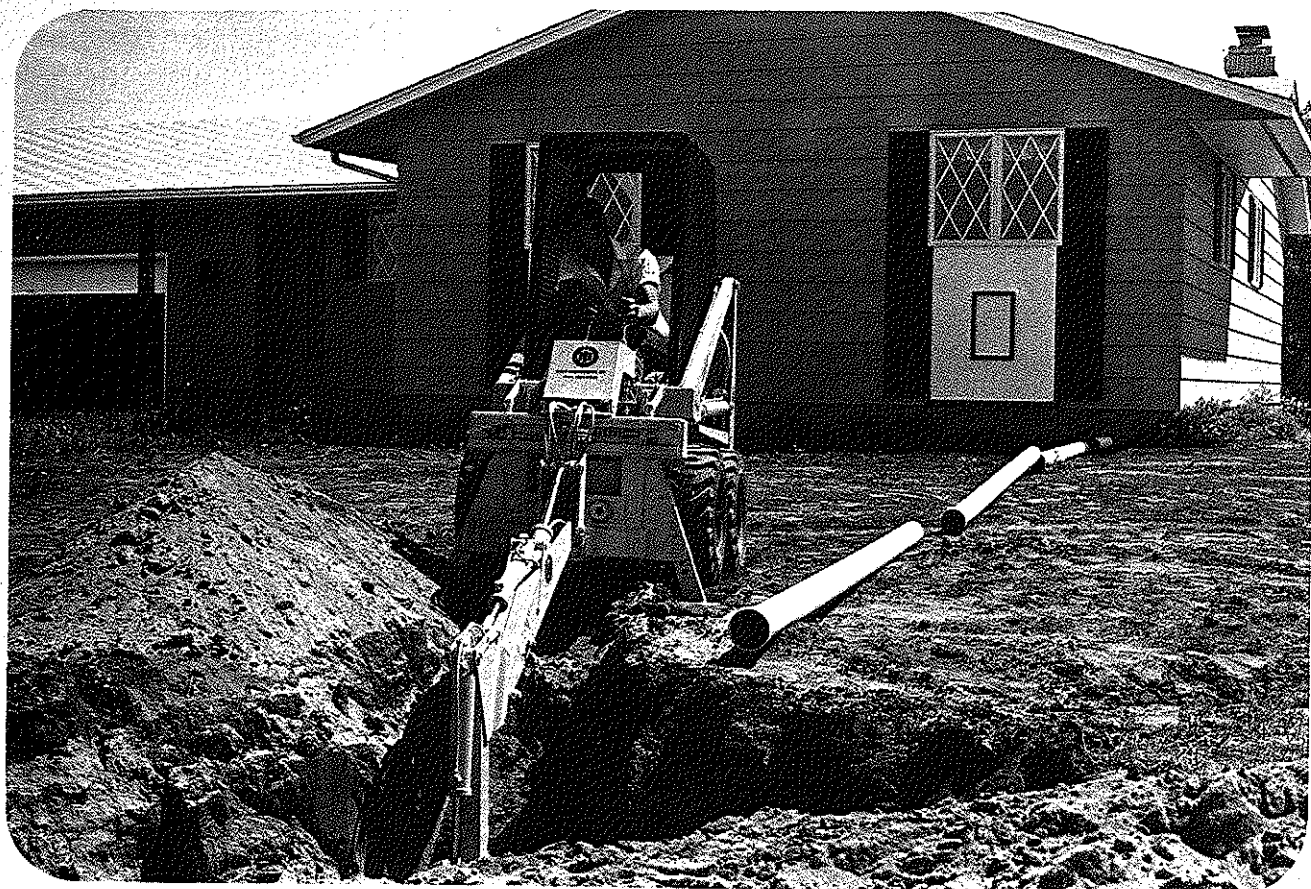
PAID TO STATE FROM EARNINGS

Millions of Dollars	9					
	8					
	7					
	6					
	5					
	4					
	3					
	2					
	1					
		1973	1974	1975	1976	1977



H.L. Thorndal
President





The Bank of North Dakota continues to develop its real estate division to meet the needs of our citizens in a rapidly changing housing market.

Alternate forms of housing and new sources of energy are becoming increasingly important in the housing field. The cost of construction is pricing more and more people out of the normal housing market. This problem can be met by developing new forms of housing which make better use of our resources and innovative forms of financing tailored to meet the needs of North Dakota homeowners. The standard amortized housing loan is being joined by subsidized interest payments and other financing techniques designed to fit the lifestyles and incomes of our consumers.

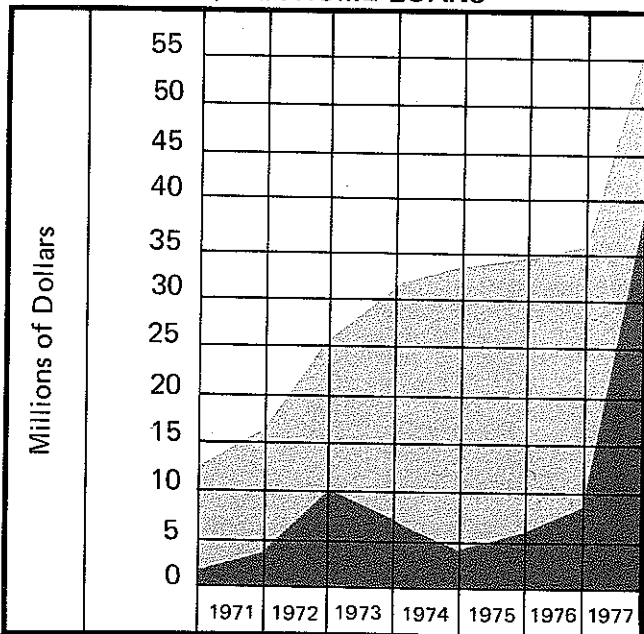
In addition, new housing construction methods aimed at conservation and new sources of energy are being developed every day. To keep pace with the developments in North Dakota's tomorrow the Bank of North Dakota is continuously seeking to mold its programs to fit these new areas of need.

More than \$30,000,000 in new mortgages were added to the Bank's portfolio in 1977, of which more than \$3,000,000 were in special loans to low and moderate income North Dakota citizens. The bulk of these new loans have come to the Bank in participation with other lenders throughout North Dakota who are utilizing our mortgage purchase program. This provides a statewide secondary market for FHA/VA mortgages and

Home Mortgage Loan Division

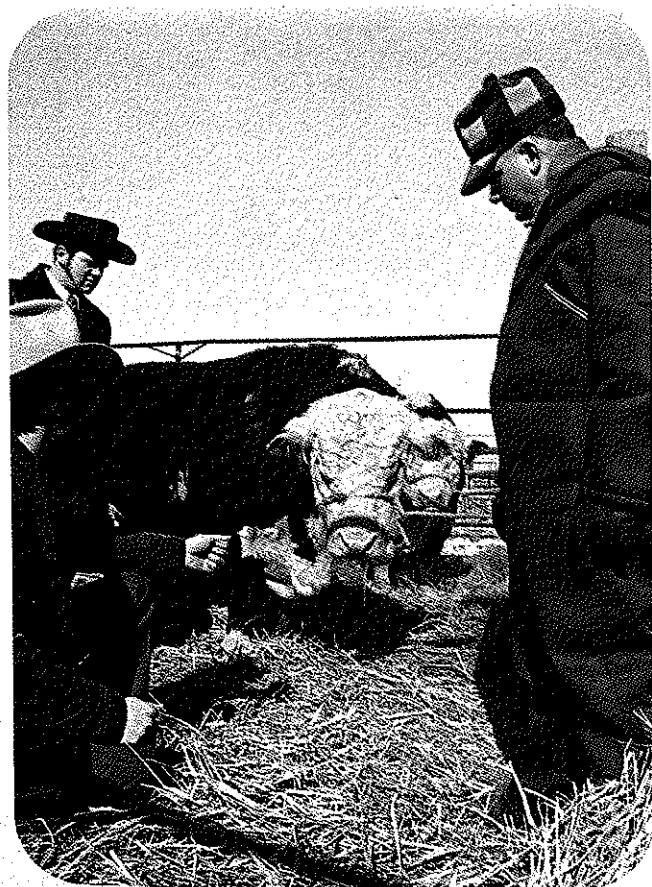
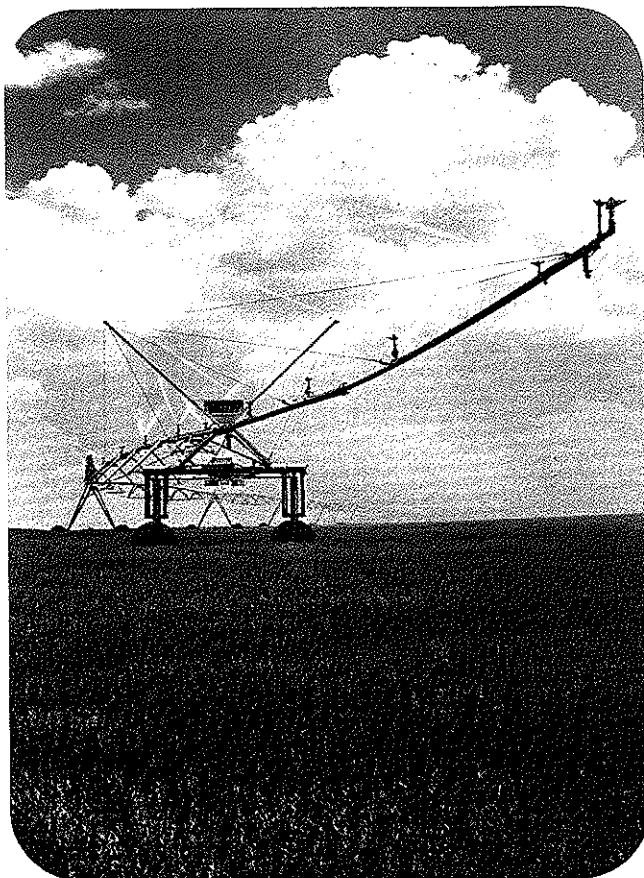


VA/FHA HOME LOANS



■ Total Loan Portfolio (1971-1977 increased 214%)
 ■ Total New Loans Added to the Portfolio (1971-1977 increased 990%)

thus enables banks and Savings and Loan Associations throughout North Dakota to more adequately meet the housing needs of their communities. The Bank of North Dakota will continue to dedicate its efforts toward assisting all North Dakota citizens in securing adequate housing tomorrow as well as today.



COMMERCIAL LOAN DEPARTMENT

Past performance is certainly an excellent indicator of Bank of North Dakota's commitment to North Dakota's tomorrow! What other bank has been so helpful to agriculture since 1919?

In August, the **Agricultural Banker** ranked Bank of North Dakota as the 73rd largest bank in the United States in total agricultural lending. At year-end, the Bank was responsible for more than \$60,000,000, loaned specifically for agriculture, and provided service to more than 5% of North Dakota's farmers.

On July 1, 1977, by order of the 1977 North Dakota Legislature, Bank of North Dakota became agent for the Board of University and School Land Funds. The Bank now administers these farm real estate loans of almost \$40,000,000 to more than 1,500 farmers across the state.

Loans from the State Land Fund are made direct to farmers, as are loans made in conjunction with the Farmers Home Administration (FmHA). These are loans to low-equity and beginning farmers. FmHA helps coordinate the loan, and compliments it with a second mortgage. The Bank increased the FmHA farm real estate loan portfolio by \$3,000,000 in 1977. More than 400 farmers presently hold this type of loan.

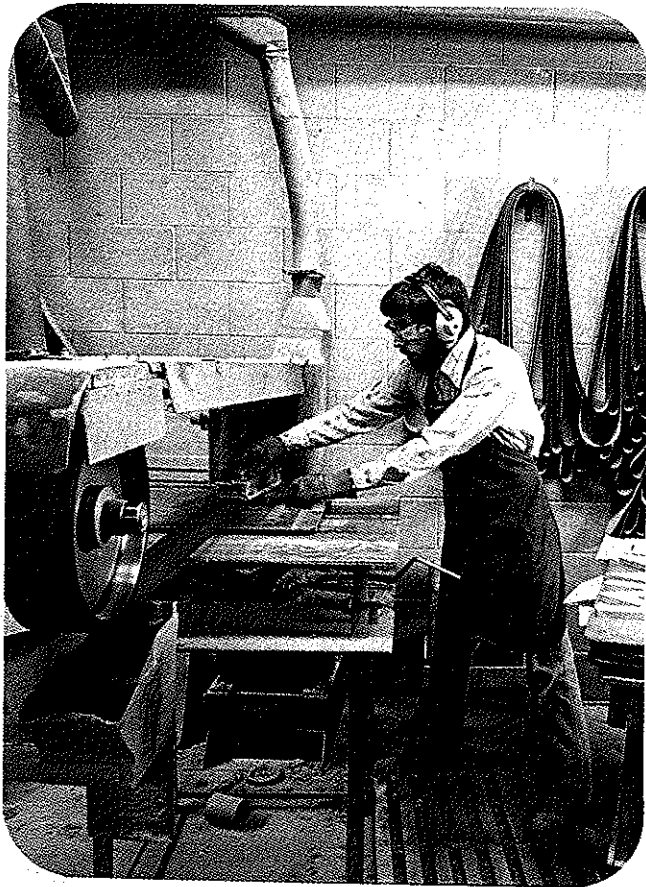
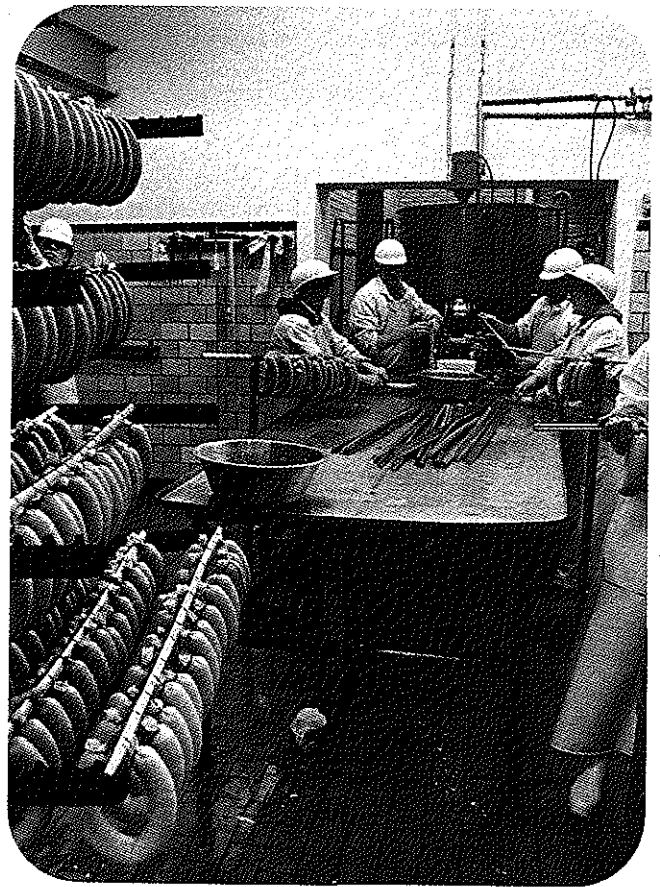
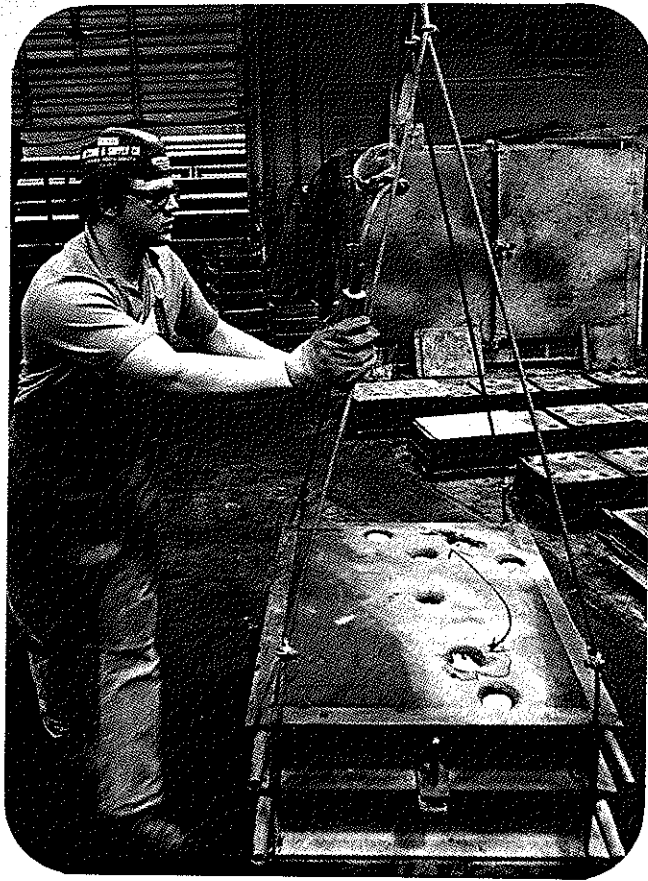
As a major secondary market for overlines in North Dakota, the Bank peaked in August at almost \$16,000,000 of agriculture overlines. This money is used solely for production of agricultural produce, and usually could not have been lent by the local bank without outside help.

Irrigation is a bright spot in the future of North Dakota agriculture; and certainly agriculture cannot continue to be North Dakota's largest industry if young farmers are not encouraged. Bank of North Dakota is committed to aiding both young farmers and irrigation. The staff is presently developing expertise in every phase of irrigation and hopes to have a program for irrigation financing in the near future. The Bank has kept in close touch with young farmers and farm organizations to better aid the young farmer in getting started.

Without a doubt . . . Bank of North Dakota is committed to "Developing North Dakota's Tomorrow."

FMHA Farm and Ranch Ownership Loans





SBA Loans

In 1968 the Bank of North Dakota with the cooperation of the SBA district office in Fargo, was the first to purchase an SBA guaranteed loan, thereby establishing a secondary market for government guaranteed commercial loans. The Bank of North Dakota continues to furnish North Dakota banks with this secondary market for all SBA and FmHA guaranteed loans, thus providing a source of liquidity, additional earnings and a vehicle to fund additional community borrowing needs.

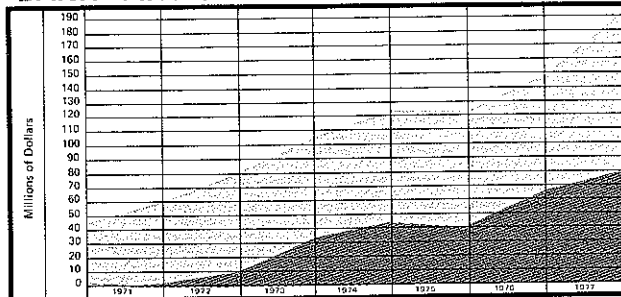
The Bank of North Dakota has never refused to purchase the guaranteed portion of a SBA or a FmHA loan since the inception of the program. This program offers all North Dakota banks the ability to serve more customers by putting up fewer dollars. The secondary market also increases a bank's yield on the unguaranteed portion in that the Bank of North Dakota reimburses the lead bank for the SBA guarantee fee and pays a servicing fee on the guaranteed portion.

The Bank of North Dakota is totally committed to providing these lending services to North Dakota financial institutions in accordance with our philosophy "to encourage and promote agriculture, commerce and industry in North Dakota."

Commercial Loans

The Commercial Loan Department, moving forward in close cooperation with the financial community of North Dakota, has increased bank participations outstanding \$18,560,000 (31%) during 1977. This indicates the continuing goal of the department to maintain an active interest in the financial progress of North Dakota. The commercial loan participation program includes all areas of the state's economy with priorities directed toward farm and ranch operating loans, irrigation loans, multi-family units, construction loans and other commercial and retail areas.

BANK PARTICIPATION AND TOTAL LOANS



□ Total Loans 1971-1977) +212% Growth
 ■ Bank Participations (1971-1977) +1456% Growth

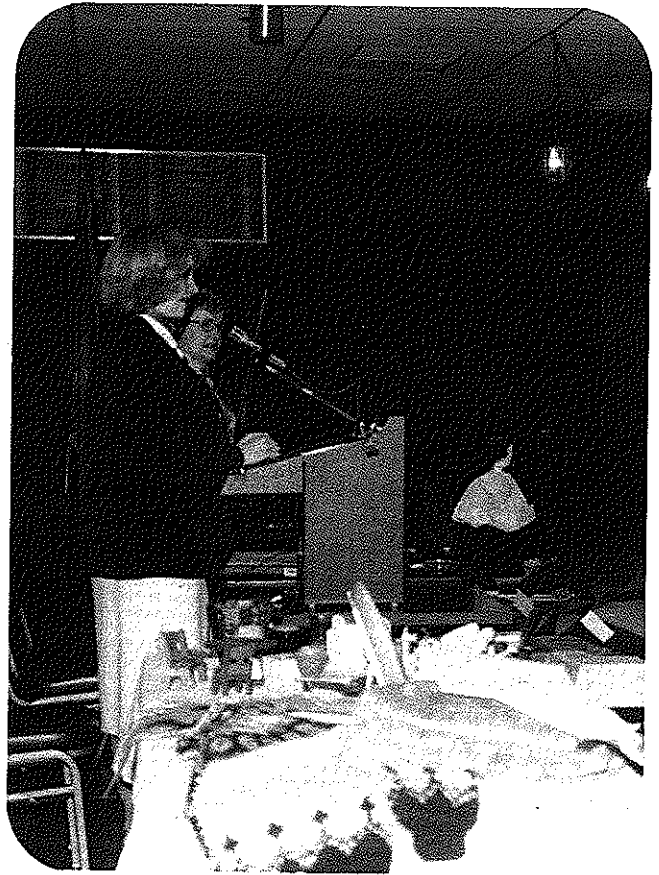
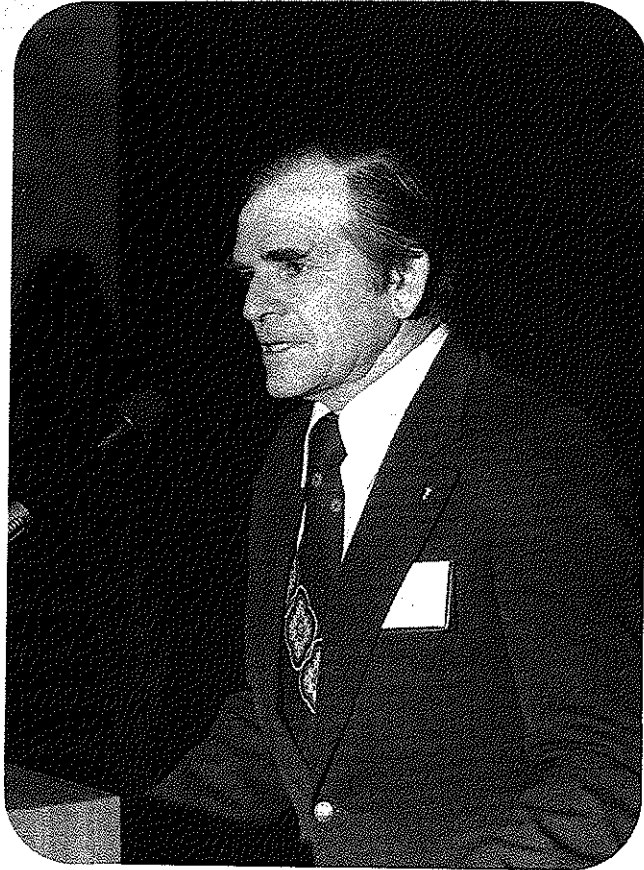
COMMERCIAL LOAN DEPARTMENT

SBA and Participation Loans



Loans to North Dakota residents for the purchase of bank stock has added a new dimension to the Commercial Loan Department this past year. Bank stock loans were authorized by the 1977 Legislature and are expected to have a significant impact on the banking industry in future years. We at the Bank of North Dakota feel bank stock loans will compliment the original purpose of the Bank in its effort to stabilize markets, prices, interest rates and reduce dependence on out-of-state interests.

The Bank of North Dakota has also continued its previous cooperation with farmer-producers, their cooperatives, the Bank for Cooperatives, R.E.A., SBA and the FmHA. Processing and manufacturing plants, with the aid of Bank of North Dakota resources, continue to support and compliment the farm economy. These plants, which we feel are important to the development of the state's industry, also aid in developing technology and markets important to the farmer-producer.



CORRESPONDENT BANKING

The Central Bank

The Bank of North Dakota is the only state owned and operated bank in the nation. Every bank in North Dakota and most savings and loan associations are our correspondents and through them the financial resources of the state are funneled to encourage and promote agriculture, commerce and industry and to provide assistance for the well being of all North Dakota citizens.

Bank of North Dakota supplies the technical assistance and the funds for overline loans or liquidity balance for many financial institutions in North Dakota. The stability and financial strength of the bank is available to every locality or community for any worthwhile purpose.

Bismarck is centrally located and our lending or bonding officers can be anywhere in the state on a days notice to assist with advice or technical skill on a funding request. Our statewide WATS line gives immediate telephone response to any inquiry from financial managers or citizens of the state.

Our services are constantly expanding to better serve the development of North Dakota's tomorrow.

"Mid-Winter Break"

The funnel through which the economy of North Dakota passes is the local community banker. In February of each year, the Bank of North Dakota sponsors the annual "Mid-Winter Break" for bankers, savings and loan officials, credit union managers, legislators, Agri-credit agencies, SBA, FHA and other finance oriented individuals. This conference presents both national and local authorities for the exchange of ideas and plans for developing North Dakota's tomorrow.

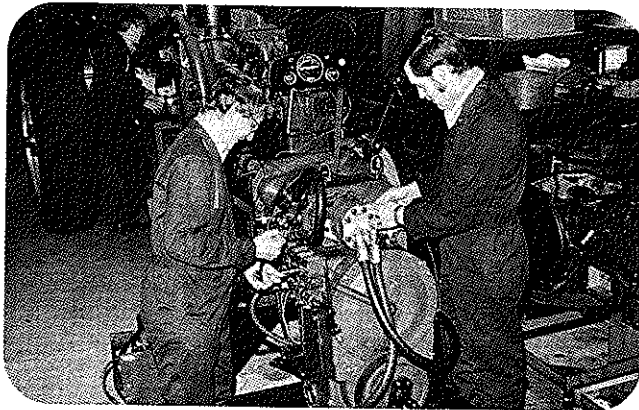




STUDENT LOAN DIVISION

Tomorrow's development of North Dakota will create the need for additional trained vocational technicians, administrators and heavy equipment operators. North Dakota will be hard pressed to supply them. While the training will be the responsibility of the vocational schools, a large part of the finances will have to come from the private sector. This must be viewed as an investment in human potential. We must be prepared to meet this challenge.

The Student Loan Department of the Bank of North Dakota has been in existence for only 10 years. During this time the loan program has become the major source of financial assistance available to North Dakota students. The state-owned and operated Bank has made more than \$55,000,000 available for more than 60 thousand loans to students attending institutions of higher education and vocational or technical schools within and outside the boundaries of North Dakota.



The Student Loan Department of the Bank of North Dakota is dedicated to the ideal that education and training is growth and all North Dakota students should have the opportunity to develop to their full potential. The development of North Dakota's tomorrow depends upon the state's ability to provide students with the contemporary training, education and opportunities necessary to meet the challenging needs of agriculture, business, industry and government in an ever changing society.



Recognizing the shortage of medical, dental and veterinary personnel in many areas, the Bank of North Dakota, through the Student Loan Program and working closely with the University of North Dakota Medical School has made loans available to students participating in the University program as well as to those North Dakota students attending medical, dental, podiatric, optometry and veterinary schools throughout the United States. North Dakota students trained in these professions are much more apt to return to the state and thereby contribute to the development of North Dakota's tomorrow.

The secondary market operated by the Bank of North Dakota is available to lenders throughout the state and has provided liquidity and administrative assistance to many by purchasing their loans prior to a repayment status, thereby releasing funds for additional loans to their customers.



Workshops and seminars are conducted by the Bank's staff on an annual basis and have been well attended by lenders throughout the state. New regulations and policies are explained and discussed at these meetings which in the past have included representatives from more than 200 lending institutions.

Lenders have been encouraged to participate in the program by providing a secondary market. This allows the local lenders to make the loans, carry them during the in-school period, but sell them prior to the repayment period which is the least profitable time and also the time of most problems. A Repayment Department of almost \$20,000,000 has been established and handles more than \$6,000,000 annually in monthly payments. A default rate of 2% is being maintained. This is well below the national average of between 8% and 12%.

BANK OF NORTH DAKOTA STUDENT LOAN ACTIVITY

	1977	1976
Total Loans	\$56,175,094	\$48,036,253
Students	61,762	54,582
Average Loan Per Student	1,133	937
Total Outstanding	32,539,293	29,288,295
Loans Outstanding	44,620	40,241
Total in Repayment	16,873,461	15,647,074
Loans in Repayment	26,193	25,162
Students	9,739	12,044
Principal Paid in 1977	4,849,678	4,340,843
Interest Paid in 1977	2,628,795	2,367,491
Total Principal and Interest Paid in 1977	7,478,473	6,708,334
Total Amount of Loans Processed in 1977	8,978,391	5,744,676
Loans Processed	7,180	6,577
Loans Obtained Directly from Bank of North Dakota	5,396	4,523
Loans Purchased from other Lenders	1,784	2,054
Entered Repayment	2,229	5,822
Paid in Full	1,705	3,882
Default Claims Outstanding	134	276
Default Rate as of December 31013	.02

Nominal Payee Rule Upheld — The issuer of a loan disbursement check made the spouse of their borrower a joint payee even though the spouse had never been a party to the loan transaction. Alleging a forgery of the spouse's endorsement issuer sought payment from BND, the depository bank. The court ruled that the spouse was a nominal payee and as such the spouse's endorsement was not necessary to the negotiation and that no liability was created in the depository bank, even though the endorsement may have been forged.

Securities and Exchange Commission Exemption Granted — In 1975, banks underwriting municipal securities were required to register as Municipal Securities Dealers. BND filed a petition for exemption of its underwriting activities primarily because BND is the State of North Dakota and that its underwriting activities are limited to small issues of North Dakota municipal securities with only an insignificant number of sales to private individuals. On April 14, 1977, the SEC granted an exemption thereby enabling BND to continue to provide underwriting service to North Dakota political subdivisions at minimum cost.

North Dakota Municipal Bond Bank — BND now purchases short-term bonds from North Dakota political subdivisions and the Bond Bank provides long-term financing. The initial 15.5 million dollar sale of Bond Bank bonds financed approximately 181 separate political subdivision bond issues. Final determination of legal sufficiency of all political subdivision bonds purchased by BND and the Bond Bank is made by BND's Legal Department acting in the dual capacity of counsel for both BND and the Bond Bank.

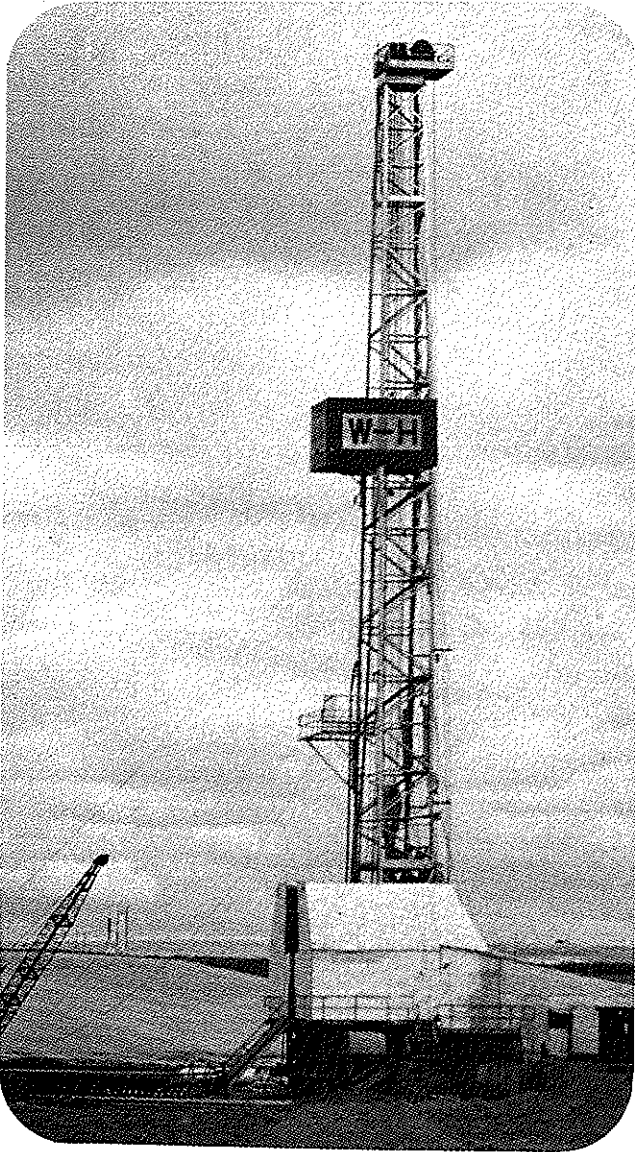
First Bank of North Dakota — The Comptroller of the Currency granted authority to change title to five North Dakota First Bank System banks. They are now known as "First Bank of North Dakota (N.A.), Fargo, Wahpeton, Grand Forks, Jamestown and Minot." The Comptroller ruled that the similarity between the name Bank of North Dakota and names selected by the First Systems banks was not so great as to cause public confusion. The Comptroller's decision was upheld by the Federal District Court. The matter is now on appeal before the Eighth Circuit Court of Appeals in St. Louis asserting that Bank of North Dakota has a common law right to use of the name Bank of North Dakota to the exclusion of other obviously similar names.

LEGAL DEPARTMENT

We have summarized on this page four of the major legal activities the department was involved in during 1977.



Real Estate and Mineral Trust



In an attempt to avoid duplication and increase efficiency in State government, the 1977 Legislature passed a law that transferred all the Bank's real property and reserved minerals to the Board of University and School Lands (State Land Department).

This law also established a loan pool account at the Bank of North Dakota to handle the direct farm loans for the Board of University and School Lands (State Land Department).

During the period 1919 through June 30, 1977, on behalf of the State of North Dakota, the Bank of North Dakota made 16,482 direct farm loans covering 4,219,130 acres of land in the amount of \$39,573,000. As a result of the depression of the "Thirties," 6,500 loans were foreclosed. All but two parcels of land were later sold to former owners and others. In 1939, the Legislature directed the Bank to retain 5% of the minerals when the land was sold, and in 1941 increased the reservation to 50%.

Oil and gas activities began on a large scale in 1948-1949 with the Bank holding approximately 750,000 mineral acres for the State which were scattered throughout the State including interest in several tracts in the Tioga area on which the Bank had granted leases.

One of those tracts, in which the Bank had an interest, had been sold to Clarence Iverson. Oil was discovered in early 1951 on this land.

At the time of the transfer, the "Trust" had an interest in 132 producing units and had received a total of \$9,680,997.52 in bonuses, rentals and royalties.

In addition to the transfer of the properties and records of the Real Estate and Mineral Trust, the Bank also transferred the unsold real property and the reserved minerals of the Judge A.M. Christianson project located adjacent to the city of Burlington, North Dakota.

For Tomorrow's Farmers

Loan Pool Account (An agency for the State Land Department)

By year end, 62 of the loans had been paid in full leaving 1445 loans on the records.

Interest income had been collected in the amount of \$1,909,270.38 and remitted to the State Land Department.

Fees had been paid to the Bank in the amount of \$110,171.15.

SPECIAL LOANS DIVISION

Farm Operating Loans (An agency for the NDRRC)

In 1977, this division made 68 FmHA Subordinated farm operating loans for the North Dakota Rural Rehabilitation Corporation in the amount of \$772,635.00. All of these borrowers had not been able to get local credit.

For Tomorrow's Farmers and Rural Communities

Community Water Facility Loan Account

In order to improve the health, general welfare, convenience, and prosperity of communities and rural inhabitants presently lacking adequate water supplies, the 1977 Legislature passed a law that provides for a transfer of ten million dollars from future undivided profits of the Bank of North Dakota to be used primarily for supplementary financing in conjunction with federal moneys. Under this transfer, the first funds will be made available on July 1, 1978.

For Tomorrow's Elderly

Nursing and Home for the Aged Fund

Many of North Dakota's elderly and disabled citizens are being cared for in fourteen homes that got their start through low interest loans from this fund which was created by the Legislature out of undivided profits of the Bank of North Dakota. This division services these loans.

Judge A.M. Christianson Project

This project located at Burlington, North Dakota was originally established from federal funds by the Rural Rehabilitation Corporation and the Mining Rehabilitation Corporation in order to rehabilitate the coal miners at Burlington as the coal mine was depleted in the thirties.

Later the project was deeded to the State of North Dakota and named by the Legislature to honor one of our great Supreme Court Justices. At that time the rehabilitation purpose was enlarged to include disabled rural veterans.

The unsold portions of the project were transferred to the State Land Department. This division services 14 purchase contracts.





UNITED STATES OF AMERICA
STATE OF NORTH DAKOTA

North Dakota Municipal Bond Bank

1977 SERIES A BOND

KNOW ALL MEN BY THESE PRESENTS that the North Dakota Municipal Bond Bank, a public body corporate and politic, constituted as an instrumentality of and authorized and existing under and pursuant to the laws of the State of North Dakota, acknowledges itself to be indebted to, and for value received, hereby promises to pay to bearer, or if this bond is registered then to the registered owner, from its 1977 Series A Bond and Interest Sinking Fund Account, upon presentation and surrender of this Bond, without option of prior payment, the principal sum of

FIVE THOUSAND DOLLARS (\$5,000)

ON THE FIRST DAY OF JUNE, 1978,

and to pay interest thereon at the rate of

THREE AND EIGHTY HUNDREDTHS PERCENT (3.80%)

per annum, semiannually on the first day of December, 1977, and on the first days of June and December of each year thereafter, interest to maturity being payable in accordance with and upon presentation and surrender of the interest coupons appurtenant hereto. Interest hereon shall cease at maturity unless the holder hereof shall present this Bond for payment and payment is refused. This Bond and interest hereon are payable at the Bank of North Dakota, in Bismarck, North Dakota, or, at the option of the holder hereof and of the coupons appurtenant hereto, at the main office of Northwestern National Bank of Minneapolis, in Minneapolis, Minnesota as co-paying agent, in any coin or currency of the United States which, on the respective dates of payment, is legal tender for public and private debts.

The Bonds of this Series and the Interest hereon are payable solely from, and are secured by a pledge of, the proceeds of Municipal Securities of Political Subdivisions of the State, from and of a Reserve Fund established for the Bonds of this Series and other series and from and of an escrow account established to secure the Bonds of this Series, as specified in the General Bond Resolution and the Series Resolution authorizing issuance of Bonds of this Series adopted by the North Dakota Industrial Commission. Neither this Bond nor the interest hereon constitutes an indebtedness of the State of North Dakota or the Bank of North Dakota, and the holder or registered owner hereof or of any coupon appurtenant hereto has no right to require the levy of any tax or appropriation of any funds by the State, nor to any assets of the Bank of North Dakota except Bond Bank moneys and investments pledged by such Resolutions, for the payment of principal hereof or interest hereon.

This Bond is one of a series in the aggregate principal amount of \$15,000,000, all of like date and tenor except as to serial number, interest rate and maturity date, issued under and pursuant to and in full conformity with the provisions of the Constitution and laws of the State of North Dakota now in effect, including Chapter 6-09.4, North Dakota Century Code, for the purpose of making loans to and acquiring general obligation municipal securities of political subdivisions of the State of North Dakota.

This Bond is negotiable and shall pass by delivery, except when registered as to principal other than to bearer. This Bond may be registered as to principal only in the name of the owner on the registration books of the Bond Bank to be kept for that purpose at the office of the Bank of North Dakota, as its agent, upon presentation hereof at such office and the notation of such registration endorsed hereon by the Bank of North Dakota, as its agent, and upon payment of any tax, fee or other governmental charge required to be paid with respect to such registration, and this Bond may thereafter be transferred only on such books, at the written request of the registered owner or his duly authorized attorney, and evidence of such transfer shall be in like manner endorsed hereon; but this Bond may be discharged from registration by being in like manner transferred to bearer, after which it shall again become transferable by delivery; and this Bond may again and from time to time be registered or discharged from registration in the same manner. Registration of this Bond shall not affect the negotiability of the coupons hereto attached, which shall continue to pass by delivery and shall remain payable to bearer.

The coupon Bonds, upon surrender thereof at the office of the Bank of North Dakota with all unexpired coupons, may, at the option of the holder thereof, be exchanged for an equal aggregate principal amount of registered Bonds without coupons of the same maturity and interest rate of any of the authorized

denominations, upon payment of any tax, fee or other governmental charge required to be paid with respect to such exchange, and any out-of-pocket printing or other expenses incurred in connection with such exchange, and in the manner and subject to the conditions provided in the General Bond Resolution. In like manner, upon payment of any required tax, fee or other governmental charge and any out-of-pocket printing or other expenses incurred in connection with such exchange, and subject to such conditions, registered Bonds without coupons, upon the surrender thereof with a written instrument of transfer satisfactory to the Bond Bank or the Bank of North Dakota, as its agent, duly executed by the registered owner or his duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of coupon Bonds of the same maturity and interest rate with appropriate coupons attached, or of registered Bonds without coupons of the same maturity and interest rate of any other authorized denominations.

It is further certified and recited that the General Bond Resolution and the Series Resolution for the Bonds of this Series adopted by the Industrial Commission pledge to the payment of the Bonds of this Series and coupons appurtenant thereto principal of, premium (if any) on, and interest on the pledged Municipal Securities are required to be deposited in the 1977 Series A Bond and Interest Sinking Fund Account after deduction of the Bond Bank's administrative fee; that the moneys and investments in the 1977 Series A Bond and Interest Sinking Fund Account may only be used to pay the 1977 Series A Bonds and Interest thereon; that there has been deposited in escrow with Manufacturers Hanover Trust Company, in the City and State of New York, as escrow agent, obligations of the United States of America and agencies thereof equal to 110% in principal amount of the Bonds of this Series, to be maintained by such escrow agent or its successor and invested in obligations of the United States of America or agencies thereof at least equal in principal amount to 110% of the principal amount of outstanding Bonds of this Series; that by said Chapter 6-09.4 and said Resolutions the Reserve Fund is required to be maintained in an amount at least equal to the maximum amount of principal of, premium (if any) and interest payable in any calendar year with respect to Bonds of this Series and any other series, issued or to be issued by the Bond Bank and then outstanding; that the Industrial Commission is required by said Chapter 6-09.4 and Resolutions to certify to the Legislative Assembly of the State of North Dakota the amount of any continuing deficiency in the Reserve Fund; and that the General Bond Resolution and Series Resolution may be amended only as provided in the General Bond Resolution.

It is further certified, recited and declared that all acts, conditions and things required by the Constitution and the statutes of the State of North Dakota, to exist, to have happened and to have been performed precedent to and in connection with the issuance of the 1977 Series A Bonds have been performed in due time, form and manner as required by law; and that the issue of the 1977 Series A Bonds, together with all other indebtedness of the North Dakota Municipal Bond Bank, is within every debt and other limit prescribed by law.

IN WITNESS WHEREOF, the North Dakota Municipal Bond Bank has caused this Bond to be executed in its name by the facsimile signatures of the Chairman and the Secretary of the Industrial Commission and the facsimile of the seal of the Industrial Commission to be imprinted hereon, and attested by the manual signatures of its Chief Executive Officer, and the interest coupons hereto attached to be executed by the facsimile signatures of said officers, all as of the first day of June, 1977.

North Dakota Municipal Bond Bank

By *Arthur A. Link*
Chairman

Karlene Fine
Secretary

ATTEST:

SPECIMEN

Chief Executive Officer



INVESTMENT AND TRUST DEPARTMENT

North Dakota Municipal Bond Bank

The first issue of the North Dakota Municipal Bond Bank sold on the 23rd of June, 1977 at a net interest cost of 4.4871% over 20 years. We received bids from 12 syndicates composed of practically all the major banks and investment bankers in the country. The bid difference was only 28 basis points, and officials felt gratified with the market acceptance of this issue. Moody's Investors Service rated the offering "AAA" and this was strongly confirmed by the market.

Bond Bank No. 2 is being positioned at this time, and we request any communities wishing to be a part thereof to contact us.

Underwritings of 70 issues totaling \$11,000,000 were undertaken in 1977 — with approximately one-third in revenue issues with the balance committed to the Bond Bank.



Bond & Coupon Paying and Receiving Division



The year 1977 was quite a transition in the accounting procedures of the Bond and Coupon Paying and Receiving Division. More than 130 municipal issues totaling \$4,000,000 (for which the Bank of North Dakota acts as paying agent) were sold to the North Dakota Municipal Bond Bank as well as \$10,000,000 in refunded issues. The Bank of North Dakota retained its paying agency duties on all of these issues together with assuming the duties of retiring the Municipal Bond Bank Bonds.

The Safekeeping Department is custodian of approximately \$228,000,000 of securities for its customers of which a large percentage are municipal issues payable at either the Bank of North Dakota or various agencies throughout the United States. The services of clipping maturing coupons and/or bonds, forwarding them out for payment, and finally disbursing the funds when received is rendered to our customers at a cost of only "out of pocket" expense.

Investment and Trust Department

Investments

The Bank of North Dakota's portfolio increased to \$242,188,556 as of December 31, 1977, and it is anticipated the Bank's portfolio will decrease in 1978 as a result of increased loan demand and state spending.

Due to lack of investor's confidence, trading in Federal Funds showed substantial growth throughout the year. Total Fed Funds transactions were **\$34.1 billion** resulting in a daily trading volume of **\$93.5 million**.

Investment and Trust Department

The year 1977 brought a healthy infusion of investable funds to the Bank's portfolio. Returns throughout most of 1977 were in the lower end of the scale which resulted in the portfolio staying very short, an advantage that has been used in early 1978 to acquire a much better rate of return and still retain the liquidity necessary.

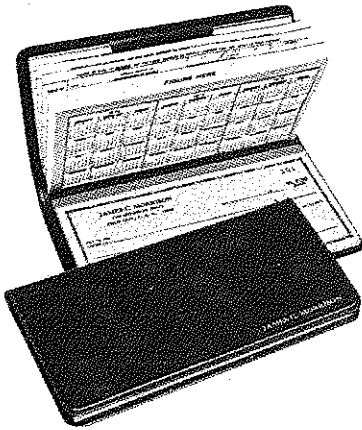
The dedicated funds under trust management have enjoyed a steady cash flow enhanced by a 14½ million dollar addition to the Teachers Fund for Retirement on the part of the 1977 Legislature. The quality of these funds runs generally around 75% in "AA" or better, with an average maturity around 13 years and a yield in the 8% range.

The trusteeship on behalf of state institutions continues to provide investments at the request of agencies, instrumentalities and political subdivisions.





ADMINISTRATIVE & RETAIL BANKING DEPARTMENT



Cashiers Division

Checking Accounts

A checking account is your key to financial management, providing you with a convenient and safe way to handle your money. We do not have a service charge or require a minimum balance. You can make your deposits in person, by mail or by using the night depository. You will receive a monthly statement showing your deposits, withdrawals and any charges to your account.

Savings Accounts

Savings accounts provide you with a way of earning interest and saving money at the same time. Your savings account earns interest from day of deposit to day of withdrawal with the interest paid quarterly. You will receive a statement quarterly showing your deposits, withdrawals, and interest received. The interest rate is 5%, the maximum allowable by law.

Certificates of Deposit

Certificates of Deposit are another form of savings. The interest rates vary from 5% to a maximum of 7½% depending on the maturity.

All deposits in the Bank of North Dakota are guaranteed by the State of North Dakota under Sec. 6-09-10 of the **North Dakota Century Code**.



Operations Division



In February 1972, the Bank of North Dakota converted the checking accounts and Proof Transit to computer. At the end of December 1972 we had processed 15,926,342 checks through the computer. As more Banks were sending their checks through the Bank of North Dakota the computer had to be upgraded. In February of 1977 we installed a much larger computer. For the year 1977 we processed 27,677,998 checks. This is an increase of 11,751,656 checks during this period.

The Bank of North Dakota is clearing checks with every bank in North Dakota daily. Approximately 142 banks are doing business with us daily, regarding bank deposits, bank participations, Fed. Funds, and safekeeping.

One of our largest days on record for processing checks was November 15, 1977 when we processed 180,532 checks. At the present time we are averaging 110,000 checks per day.

On September 1, 1977 the Operations Department installed a new Burroughs Mini-Computer Model L6500 to post General Ledger. This equipment has helped very much in obtaining a very detailed daily statement of condition.

Comptroller's Division

AUDIT DEPARTMENT



The Comptroller's Division of the Bank of North Dakota bears responsibility for the overall financial administration of the Bank in its day-to-day operations, as well as control of internal support services and physical facilities. Each of these influence the Bank's ability to adequately serve the citizens of North Dakota.

During the past year, operating expenses amounted to only 5.8% of gross earnings. No other financial institution can effectively function on such a ratio and yet meet the customer's demand for services.

During 1977, a \$600,000 remodeling project was undertaken to provide improved facilities for our customers. This project is particularly important at this time in light of changing traffic patterns and steadily increasing customer activity.

The actions taken today along these lines will prove invaluable to the Bank as it strives to Develop North Dakota's Tomorrow.



The Audit Department of the Bank of North Dakota is responsible to the North Dakota Industrial Commission for the review of bank operations and reporting on those reviews.

As growth takes place at the Bank of North Dakota, the workload increases for the Audit Department. In 1977, approximately 1,500 State Land Department farm loans were transferred to the Bank to be serviced. These loans will be included in our verification balances program.

PERSONNEL DEPARTMENT

The Bank is aiding in the "Development of North Dakota's Tomorrow" through the successful management of its human resources. The success has been based on the analysis of human behavior to help the Bank identify and improve in the area of **total** existing working environments and to plan the working environments of the future.

One of the most important accomplishments during 1977 was the approval of the Bank's Affirmative Action Plan by the Department of the Treasury (Office of Equal Opportunity Program-Chicago Region) and the Office of Federal Contract Compliance Programs (Department of Labor). The Bank of North Dakota, as an agency of the State of North Dakota and a federal contractor, is committed to the practice of providing equal employment opportunities to all without regard to race, color, religion, sex, age, national origin, physical disabilities, political affiliations or any non-merit factor. The entire management of the Bank is committed to nondiscrimination and to the support of equal employment opportunities.

During 1977, the Bank promoted seventeen females and three males to high classifications, resulting in a higher pay grade and salary range for the individuals. These promotions were the result of the Bank's newly instituted job posting system.

On-going education, as well as actual banking experience, play a large part in upward mobility. The Bank of North Dakota encourages its staff to participate in the American Institute of Banking courses, by offering reimbursement upon successful completion. The Bank also has been active in encouraging its members to attend various banking related schools, conferences and seminars. Orientation sessions and staff meetings were implemented to provide the initial and continued in-house education.

During the year, an audit of personnel practices, policies and procedures was conducted to insure a full and continuing application of all elements of the personnel system, which is designed to build and maintain the best possible employee relations throughout the Bank.

Our staff, made up of 98 full and part time employees, are dedicated, hard working individuals which support (and are supported by) Bank management, the Advisory Board and Industrial Commission.



INDUSTRIAL COMMISSION

ARTHUR A. LINK, Chairman
Governor
ALLEN I. OLSON, Member
Attorney General
MYRON JUST, Member
Commissioner of Agriculture

ADVISORY BOARD

Eugene Rich, Chairman
Exec. V. President, State Bank of Fargo
Lloyd K. Everson, Vice Chairman
Chief Exec. Officer, Northern National Life Ins. Co.
John H. O'Keefe, Secretary
Owner, McDonalds Restaurant, Grand Forks
Dan J. O'Day, Member
President, O'Day Equipment Co.
Gilman F. Peterson, Member
Farmer-Rancher

OFFICIAL STAFF

H.L. Thorndal, President & Manager 1, 2, 3
Robert E. Caudel, Sr. Vice President 1, 2, 3
John W. Fay, Sr. Vice President 1, 2, 3
R.E. Sailer, Sr. Vice President 1, 2, 3
Maurice E. Cook, General Counsel 1, 2
Carl Arndt, Vice President 3
Shirley Homuth, Vice President 3
Ronald P. Keeley, Vice President 2, 3
Ernest Pederson, Vice President 3
Edward B. Sather, Vice President 2
Martin E. Stenehjelm, Vice President 3
Jeannine Christy, Asst. V. President
Gail Vetter, Asst. V. President
Evelyn Zelmer, Asst. V. President
Ila Eckroth, Cashier 3
Allan Nosbusch, Comptroller 3
Craig Sorenson, Auditor 3
Dale Eberle, Asst. Comptroller 3
Don Young, Asst. Comptroller
Rita Schwab, Asst. Auditor
Cecilia Wanner, Asst. Auditor
Tim Glass, Asst. Cashier
Audre Goll, Asst. Cashier
Delores James, Asst. Cashier
Nancy Ray, Asst. Cashier
Freda Rubbelke, Asst. Cashier
Alyce Starck, Asst. Cashier
Steve Tomac, Asst. Cashier
Duane Wagner, Asst. Cashier
Sharon Wehner, Asst. Cashier 3
Lewis Wilson, Asst. Cashier
Betty Zeeb, Asst. Cashier

ADMINISTRATIVE & RETAIL BANKING DEPT.

R.E. Sailer, Senior Vice President
Ila Eckroth, Cashier
Audre Goll, Asst. Cashier
Carl Arndt, Vice President - Operations
Evelyn Zelmer, Asst. V. Pres. - Operations
Alyce Starck, Asst. Cashier - Operations
Allan Nosbusch, Comptroller
Dale Eberle, Asst. Comptroller
Don Young, Asst. Comptroller

OFFICIAL STAFF

COMMERCIAL & CORRESPONDENT BANKING DEPARTMENT

R.E. Caudel, Sr. Vice President
Ronald P. Keeley, Vice President Commercial Banking
Lewis Wilson, Asst. Cashier
Steve Tomac, Asst. Cashier Agriculture Representative
Russell Erickson, Loan Officer Agriculture Loans
Gail Vetter, Asst. Vice President FHA & VA Home Loans
Duane Wagner, Asst. Cashier Mortgage & Loan Servicing
Ernest Pederson, Vice President Special Loans
Martin Stenehjelm, Vice President Student Loans
Jeannine Christy, Asst. Vice Pres. Student Loans
Betty Zeeb, Asst. Cashier Student Loans
Delores James, Asst. Cashier Student Loans
Larry Stockert, Loan Officer Credit Department

INVESTMENTS & TRUST DEPARTMENT

John W. Fay, Sr. Vice President
Shirley Homuth, Vice President Paying Agent
Edward B. Sather, Vice President Investments
Tim Glass, Asst. Cashier Municipals
Nancy Ray, Asst. Cashier North Dakota Bond Bank
Freda Rubbelke, Asst. Cashier Municipals and Bond Bank
Rod Anheluk, Investment Coordinator Cash Settlement & Federal Funds

AUDIT DEPARTMENT

Craig Sorenson, Auditor
Rita Schwab, Asst. Auditor
Cecilia Wanner, Asst. Auditor

LEGAL DEPARTMENT

Maurice Cook, General Counsel

PERSONNEL DEPARTMENT

Sharon Wehner, Asst. Cashier

KEY

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

STATEMENT OF CONDITION

ASSETS	DECEMBER 31, 1977 AND 1976	1977	1976
CASH AND DUE FROM BANKS		\$ 39,399,720	\$ 23,189,223
INVESTMENT SECURITIES (Notes 1, 2 and 3):			
U.S. Government obligations		\$ 91,699,869	\$120,159,411
Federal agencies obligations		41,487,549	53,318,420
State and municipal obligations		11,139,728	16,351,834
Money market investments		97,861,410	50,795,746
Total investment securities		<u>\$242,188,556</u>	<u>\$240,625,411</u>
FEDERAL FUNDS SOLD		\$ 32,800,000	\$ 30,653,000
LOANS:			
FHA and GI home loans		\$ 56,056,962	\$ 37,158,923
Bank participation loans		79,063,458	60,504,060
Federally insured student loans		32,539,293	29,288,295
SBA participation loans		11,932,922	9,953,914
Farm real estate loans		12,970,984	9,018,202
Farmers Home Administration loans		391,309	1,029,820
State institution loans and other		1,250,913	494,952
Total loans		<u>\$194,205,841</u>	<u>\$147,448,166</u>
Less reserve for loan losses (Notes 1 and 4)		2,000,000	2,000,000
		<u>\$192,205,841</u>	<u>\$145,448,166</u>
BANK PREMISES AND EQUIPMENT (Note 1)		\$ 1,018,302	\$ 837,528
ACCRUED INTEREST RECEIVABLE		\$ 5,197,022	\$ 5,639,782
TOTAL ASSETS		<u>\$512,809,441</u>	<u>\$446,393,110</u>
LIABILITIES AND CAPITAL FUNDS		1977	1976
DEMAND DEPOSITS:			
State treasurer		\$ 27,450,698	\$ 14,946,489
Political subdivisions		44,950,438	46,042,150
Banks		14,932,293	12,107,372
Individuals, partnerships and corporations		5,115,297	4,532,251
U.S. Government		59,909	52,166
Official checks		134,678	253,131
Total demand deposits		<u>\$ 92,643,313</u>	<u>\$ 77,933,559</u>
TIME AND SAVINGS DEPOSITS:			
State treasurer		\$211,577,065	\$221,524,088
Political subdivisions		47,701,560	45,949,715
Individuals, partnerships and corporations		24,346,310	17,047,077
Total time and savings deposits		<u>\$283,624,935</u>	<u>\$284,520,880</u>
Total deposits		<u>\$376,268,248</u>	<u>\$362,454,439</u>
OTHER LIABILITIES:			
Federal funds purchases		\$ 55,420,000	\$ 19,505,000
Securities sold under agreements to repurchase (Note 3)		36,226,000	15,807,000
Participation certificates sold in federally insured student loan pool		—	8,400,000
		<u>\$ 91,646,000</u>	<u>\$ 43,712,000</u>
Accrued expenses and other		4,639,562	3,031,360
Appropriation due State General Fund (Note 7)		12,000,000	4,000,000
Total other liabilities		<u>\$108,285,562</u>	<u>\$ 50,743,360</u>
CAPITAL FUNDS:			
Capital (Note 8)		\$ 10,000,000	\$ 10,000,000
Surplus		12,000,000	10,000,000
Undivided profits		4,344,380	12,330,311
Reserve for contingencies		1,500,000	500,000
Reserve for purchase of land and building improvements		411,251	365,000
Total capital funds		<u>\$ 28,255,631</u>	<u>\$ 33,195,311</u>
COMMITMENTS AND CONTINGENCIES (Note 9)			
TOTAL LIABILITIES AND CAPITAL		<u>\$512,809,441</u>	<u>\$446,393,110</u>

Statement of Income

FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
OPERATING INCOME:		
Interest on loans	\$13,964,920	\$10,618,311
Interest on investment securities —		
U.S. Government obligations	7,047,207	3,796,550
Federal agencies obligations	3,064,859	3,399,723
State and municipal obligations	897,084	888,211
Other money market investments	3,386,066	6,814,551
Interest on Federal funds sold	3,387,808	2,120,577
Service charges and other income	126,772	110,247
Total operating income	<u>\$31,874,716</u>	<u>\$27,748,170</u>
OPERATING EXPENSES:		
Interest expense —		
Interest on deposits	\$16,737,044	\$14,805,808
Interest on Federal funds purchased	1,896,567	1,058,905
Interest on funds borrowed	849,634	859,783
Total interest expense	<u>\$19,483,245</u>	<u>\$16,724,496</u>
Other expenses —		
Salaries	\$ 1,032,105	\$ 876,010
Employee benefits (Note 5)	114,060	107,974
Fees and services	361,362	326,910
Data processing	220,540	152,935
Supplies and materials (Notes 1 and 4)	58,971	48,688
Loan — loss provision (recoveries)	(24,293)	138,387
Depreciation (Note 1)	75,143	73,732
Professional services	20,000	—
Total other expenses	<u>\$ 1,857,888</u>	<u>\$ 1,724,636</u>
Total operating expense	<u>\$21,341,133</u>	<u>\$18,449,132</u>
Income before security gains and cumulative effect	\$10,533,583	\$ 9,299,038
SECURITY GAINS (Note 10)	526,737	159,886
Net income for the year before cumulative effect of a change in accounting principle	<u>\$11,060,320</u>	<u>\$ 9,458,924</u>
CUMULATIVE EFFECT on prior years to December 31, 1975 of change in accounting for premiums and discounts on investment securities (Note 2)	—	348,831
NET INCOME FOR THE YEAR	<u><u>\$11,060,320</u></u>	<u><u>\$ 9,807,755</u></u>

Statement of Capital Funds

FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

	Capital	Surplus	Undivided Profits	Reserve for Contingencies	Reserve for Purchase of Land and Building Improvements	Total
BALANCE, DEC. 31, 1975	\$ 8,000,000	\$10,000,000	\$ 5,022,556	\$ —	\$ 365,000	\$23,387,556
Net income for the year 1976	—	—	9,807,755	—	—	9,807,755
Transfer to capital	2,000,000	—	(2,000,000)	—	—	—
Transfer to reserve for contingencies	—	—	(500,000)	500,000	—	—
BALANCE, DEC. 31, 1976	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$12,330,311</u>	<u>\$ 500,000</u>	<u>\$ 365,000</u>	<u>\$33,195,311</u>
Net income for the year 1977	—	—	11,060,320	—	—	11,060,320
Transfer to surplus	—	2,000,000	(2,000,000)	—	—	—
Transfer to reserve for contingencies	—	—	(1,000,000)	1,000,000	—	—
Transfer to State of North Dakota General Fund (Note 7)	—	—	(16,000,000)	—	—	(16,000,000)
Transfer to reserve for purchase of land and building improvements	—	—	(245,000)	—	245,000	—
Remodeling costs paid and capitalized	—	—	198,749	—	(198,749)	—
BALANCE, DEC. 31, 1977	<u><u>\$10,000,000</u></u>	<u><u>\$12,000,000</u></u>	<u><u>\$4,344,380</u></u>	<u><u>\$1,500,000</u></u>	<u><u>\$ 411,251</u></u>	<u><u>\$28,255,631</u></u>

See notes to Financial Statements.

Statement of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

FUNDS PROVIDED FROM:	1977	1976
Operations —		
Net income for the year	\$11,060,320	\$ 9,807,755
Add — Depreciation expense not requiring expenditure of funds	75,143	73,732
Total from operations	\$11,135,463	\$ 9,881,487
Increase in other liabilities	57,542,202	—
Additional deposits	13,813,809	50,734,527
Decrease in accrued interest receivable	442,760	487,920
Decrease in cash and due from banks	—	3,561,829
	\$82,934,234	\$64,665,763
FUNDS USED TO:		
Increase loans	\$46,757,675	\$28,418,912
Increase cash and due from banks	16,210,497	—
Transfer to State of North Dakota General Fund	16,000,000	—
Increase Federal funds sold	2,147,000	8,168,000
Increase investment securities	1,563,145	14,472,874
Purchase building improvements and equipment	255,917	22,304
Decrease other liabilities	—	13,543,543
Decrease reserve for loan and investment losses	—	40,130
	\$82,934,234	\$64,665,763

See notes to financial statements.

Notes to Financial Statements

December 31, 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- a. **Investment Securities —**
Investment securities are stated at cost, adjusted for amortization of premiums and discounts. On certain exchange transactions of like kind securities, the cost basis of the old security is carried over as the basis of the new security.
- b. **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 judgement, deserve current recognition in estimating loan losses.
- c. **Bank Premises and Equipment —**
Bank premises and equipment are stated at cost, less accumulated depreciation of \$252,475 and \$177,332 at December 31, 1977 and 1976, 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. ACCOUNTING CHANGE:

Effective January 1, 1976, the Bank changed its method of accounting for premiums and discounts on investment securities. Prior to 1976, the Bank carried its investment securities at the lower of cost or par value which required that premiums be written off at the time of purchase. Under the new method premiums and discounts will be amortized over the remaining life of the security. The new method of accounting, which is the preferable method, was adopted in order to reflect the actual yield over the life of the security.

The cumulative effect of this change as of January 1, 1976 totaled \$348,831 and is reflected in the statement of income accordingly. The effect for the year ended December 31, 1976, of utilizing the new method was to increase net income before the cumulative effect by \$674,659.

3. PLEDGED ASSETS:

At December 31, 1977 and 1976, securities with a par value of \$2,400,000 were pledged to secure deposits in the treasury tax and loan account. At December 31, 1977 and 1976, securities with a par value of \$36,835,000 and \$15,955,000 respectively, were pledged to secure securities sold under agreement to repurchase. In addition, the Bank has pledged and deposited in escrow with the Manufacturers Hanover Trust Company U.S. Government securities totaling \$16,500,000 to secure the payment of principal and interest of the 1977 Series A Bonds in the amount of \$15,000,000 issued by the North Dakota Municipal Bond Bank (Note 10).

4. RESERVE FOR LOAN LOSSES:

Transactions in the reserve for loan losses were as follows:

	1977	1976
Balance January 1	\$2,000,000	\$2,040,130
Add (deduct) —		
Recoveries	25,430	17,144
Loans charged off	(1,137)	(195,661)
Provision charged to operating expenses	(24,293)	138,387
Balance, December 31	<u>\$2,000,000</u>	<u>\$2,000,000</u>

5. EMPLOYEE BENEFITS AND PENSION PLAN:

- a. Included in employee benefits for 1977 and 1976 were the following:

	1977	1976
Employee pension plan	\$ 45,982	\$ 33,587
Social security taxes	42,678	56,751
Hospitalization	25,400	17,636
	<u>\$114,060</u>	<u>\$107,974</u>

- 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 applicable to all employees of the State of North Dakota including the 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.

6. 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.

7. APPROPRIATION DUE STATE GENERAL FUND:

In March, 1977, the North Dakota State Legislature authorized a transfer of \$16,000,000 from the Bank's undivided profits to the General Fund of the State of North Dakota. It is the policy of the Bank to make these payments semi-annually during the biennium July 1, 1977 to June 30, 1979.

8. CAPITAL:

The Bank of North Dakota is owned and operated by the State of North Dakota under the supervision of the Industrial Commission as provided by Chapter 6-09 of the North Dakota Century Code. According to state law, all state funds must be deposited in the Bank of North Dakota.

9. COMMITMENTS AND CONTINGENT LIABILITIES:

- 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. The act provided that \$5,000,000 is to be transferred from the future undivided profits of the Bank during the Biennium ended June 30, 1979, with \$1,250,000 to be transferred on each of the following dates: July 1, 1978; October 1, 1978; January 1, 1979; and April 1, 1979. No specific dates have been established for the transfer of the remaining \$5,000,000.

- 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.

10. RELATED PARTY TRANSACTIONS:

The North Dakota Municipal Bond Bank (Bond Bank) was established by the North Dakota Legislature, as provided in Chapter 6-09.4 of the North Dakota Century Code as a separate instrumentality of the State of North Dakota, within the Bank of North Dakota. All employees and officers of the Bond Bank, are also employees and officers of the Bank of North Dakota. The Bond Bank had \$3,080,714 on deposit at the Bank of North Dakota as of December 31, 1977. On August 4, 1977 the Bond Bank, in accordance with the Municipal Bond Bank Act, purchased all qualifying Municipal Securities held in the Bank of North Dakota portfolio as of July 1, 1975. These securities were purchased at a price of \$4,104,458 plus accrued interest of \$40,856 and yielded a gain of \$196,481 to the Bank of North Dakota. The selling price of the securities was determined in accordance with the General Bond Resolution pertaining to Bond Bank's issuance of the 1977 Series A Bonds (Note 3).

BROEKER HENDRICKSON & CO.
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, 1977 and 1976, 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.

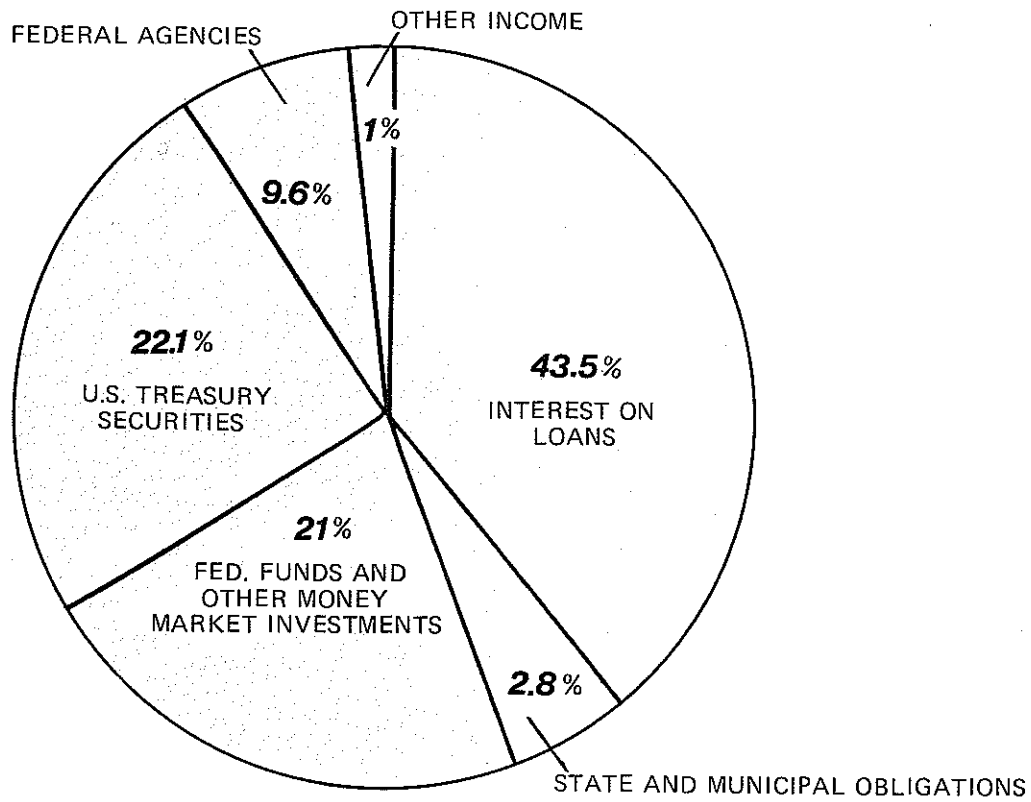
In our opinion, the financial statements referred to above present fairly the financial position of The Bank of North Dakota as of December 31, 1977 and 1976, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1976 in the method of accounting for premiums and discounts on investment securities as described in Note 2 to the financial statements.

Broeker Hendrickson & Co.

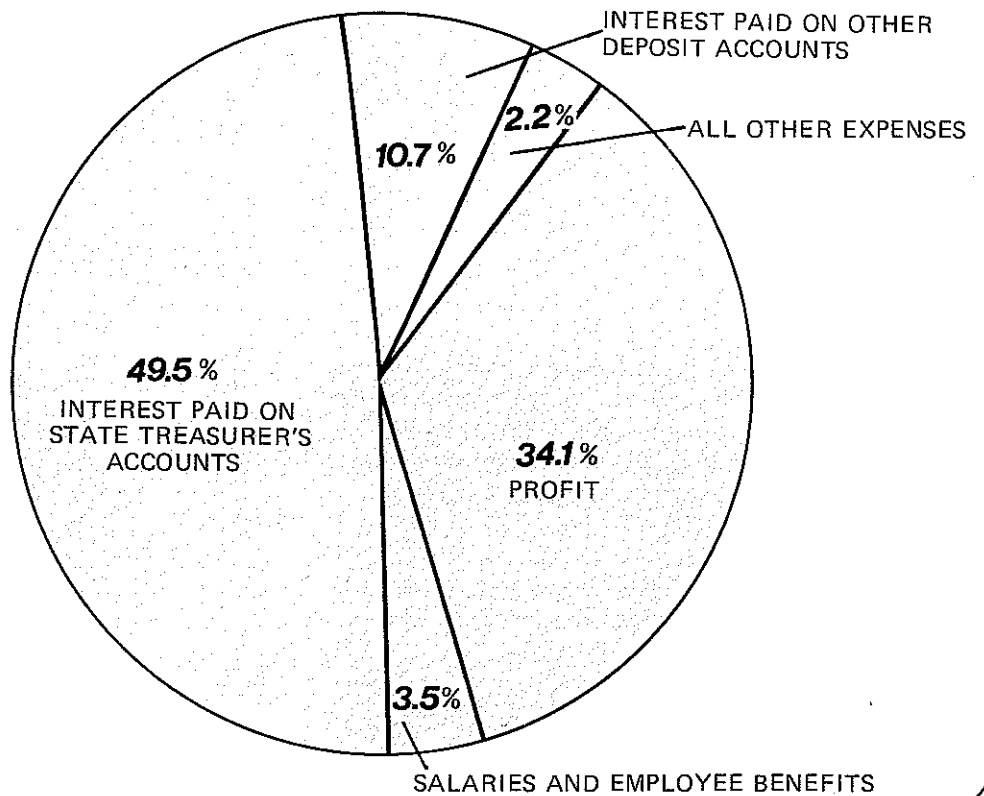
Bismarck, North Dakota

January 31, 1978

Income



Expenses and Profit



A PLAN FOR THE FUTURE

In the 1976 Annual Report, this page gave a short history of the Bank. While we are proud of our past, and have learned valuable lessons from it, our main concern is the future, and how the Bank can continue to "Develop North Dakota's Tomorrow."

Approximately 65% of our deposits are funds from the State Treasurer. Declining tax revenues and increased state expenditures makes this source of deposits rather unstable in the years ahead. The Bank will need a minimum of \$300 to \$400 million in resources in order to remain a viable force in North Dakota's economy. Our strategy is to maintain a flow of funds so that the Bank can continue our services. With our major source of funds, the state's general fund, declining, we have to look for other sources.

Our goals over the next three years are:

1. Increase financial institution deposits with us to a daily collected average of \$30 million (presently about \$15 million).
2. Increase capital, surplus and reserves to \$30 million (presently \$25.5 million).

3. Increase political subdivision demand deposits to \$60 million (present deposits are \$44.9 million).
4. Maintain a base of \$50 million of net Fed Funds buys and Repurchase Agreements (presently a net buyer of \$59.1 million).
5. Continue to issue North Dakota Municipal Bond Bank bonds and keep municipal portfolio under \$5 million (first issue of bond bank was \$15 million on August 1, 1977, present municipal portfolio is \$11.1 million).
6. Issue mortgage backed bonds (plan to issue \$50 million in 1978 to enable us to continue to purchase North Dakota mortgages).
7. Issue student loan bonds (probably in 1979).
8. Support legislation creating a North Dakota Housing Finance Agency (1979 session).

We believe we can accomplish these goals by 1980. If we do, we will be able to continue and expand our programs.

H.L. Thorndal
President

Six Year Summary

OPERATING RESULTS (000 omitted)	1977	1976	1975	1974	1973	1972
Total Income	\$ 32,401	\$ 28,257	\$ 25,446	\$ 23,024	\$ 16,523	\$ 11,000
Interest Expenses	19,483	16,724	15,504	12,718	7,579	4,031
Other Oper. Expenses	1,858	1,725	1,607	1,040	863	895
NET EARNINGS (Profit)	11,060	9,808	8,335	9,269	8,066	6,083
Paid to St. Treas. (Dividend)	8,000	8,000	6,500	5,000	4,125	3,250
BALANCE AT YEAR END (000 omitted)						
Total Resources	512,809	446,393	401,435	316,508	266,700	206,349
Total Deposits	376,268	362,454	311,720	253,630	200,857	168,156
Demand Deposits	92,643	77,934	86,443	86,476	117,437	89,467
Time Deposits	283,625	284,520	225,277	167,154	83,420	78,689
Fed. Fds. Purchased/R.P.'s	91,646	43,712	49,611	25,428	33,418	10,160
Fed. Fds. Sold	32,800	30,653	22,485	17,190	18,250	5,620
TOTAL INVESTMENT SECURITIES (000 omitted)						
	242,189	240,625	226,153	148,733	116,501	96,284
U.S. Government	91,700	120,159	38,788	18,542	20,796	14,154
Federal Agencies	41,488	53,318	56,024	62,915	64,511	36,498
Other Money Market Instruments	97,861	50,796	116,581	51,788	14,862	31,888
N.D. Political Sub. Bds.	11,140	16,352	14,760	15,488	16,332	13,744
TOTAL LOANS (000 omitted)						
	192,206	145,448	119,029	122,153	106,392	79,952
Farm Home Adm. Loans	392	1,030	1,665	6,408	13,266	18,158
Fed. Insured St. Lns.	32,539	29,288	27,993	26,836	24,360	20,290
Farm Real Estate Loans	12,972	9,018	6,515	4,285	2,343	636
FHA Home Loans	31,610	16,778	15,018	15,872	16,169	15,223
GI Home Loans	24,446	20,381	20,422	17,629	15,544	10,871
Small Business Adm. Loans	11,933	9,954	7,899	6,495	5,174	3,812
Bk Participation Loans	77,063	58,504	39,422	44,404	27,746	9,779
Other Loans	1,251	495	95	223	1,788	1,190
CAPITAL AND RESERVES (000 omitted)						
	28,256	33,195	25,428	33,093	23,758	25,692
Capital	10,000	10,000	8,000	6,000	5,000	2,000
Surplus	12,000	10,000	10,000	10,000	8,000	8,000
Undivided Profits	4,344	12,330	5,023	14,688	8,753	13,019
Reserves	1,912	865	2,405	2,405	2,005	2,673
OTHER DATA (Numbers)						
Financial Inst. with BND Accts.	206	206	174	163	159	157
Individual Checking Accounts	3,895	4,077	3,878	3,489	2,909	2,306
Individual Savings Accounts	3,161	2,678	1,524	1,279	1,043	744
Fed. Insured Student Loans (made or purchased)	8,543	6,577	5,883	6,912	7,757	9,083
FHA House Loans (made or purchased)	707	152	46	67	101	201
GI Home Loans (made or purchased)	301	124	191	139	279	321
SBA Loans Purchased	42	21	15	14	14	13
Bank Participation Loans	470	404	77	100	59	43
Number of employees	98	92	89	83	80	73