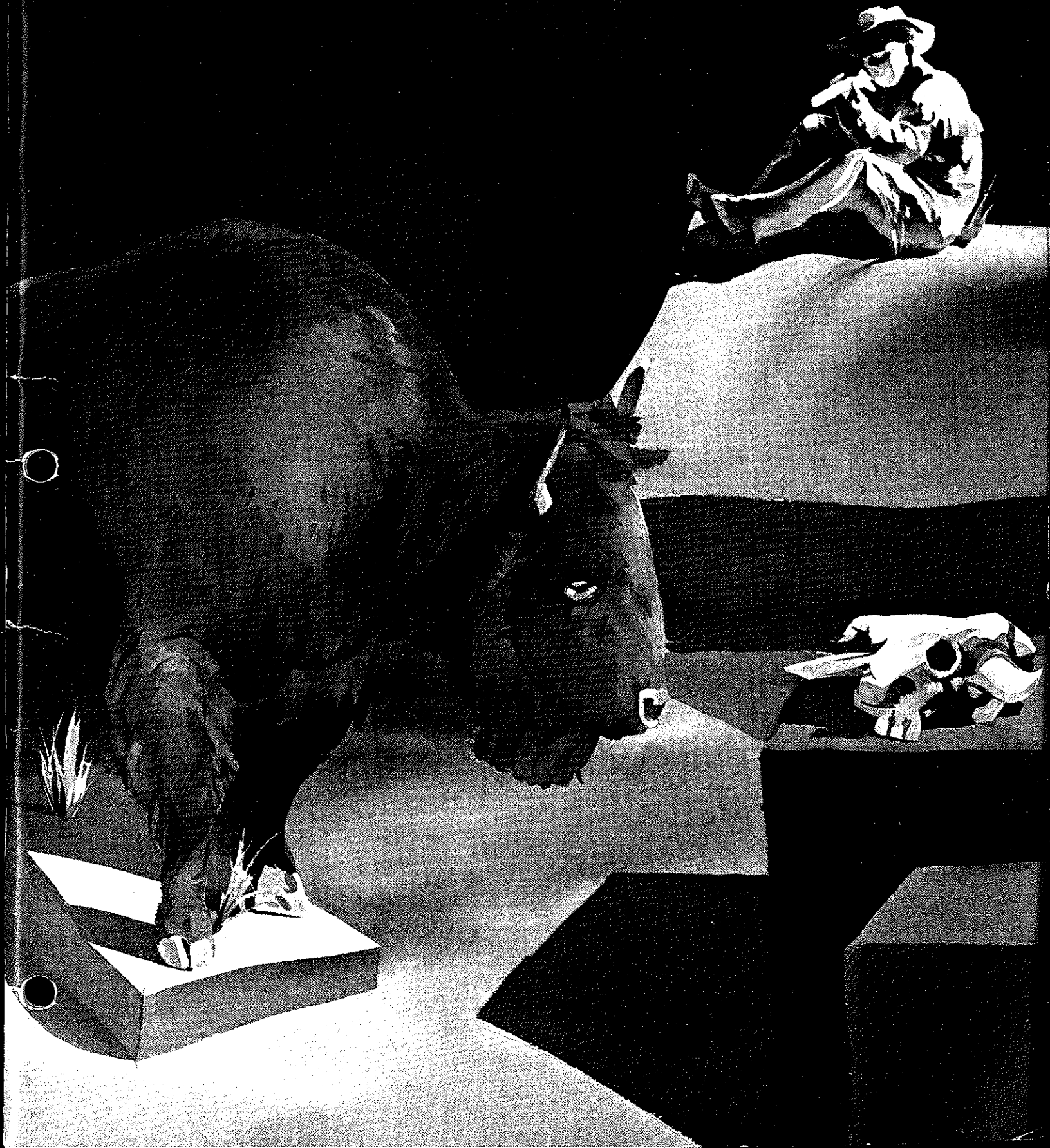


BANK OF NORTH DAKOTA 1981 ANNUAL REPORT



North Dakota Heritage

This year, North Dakota opened its new Heritage Center on the Capitol Grounds. The Bank of North Dakota's 1981 Annual Report depicts this beautiful new facility on our cover and throughout this report.

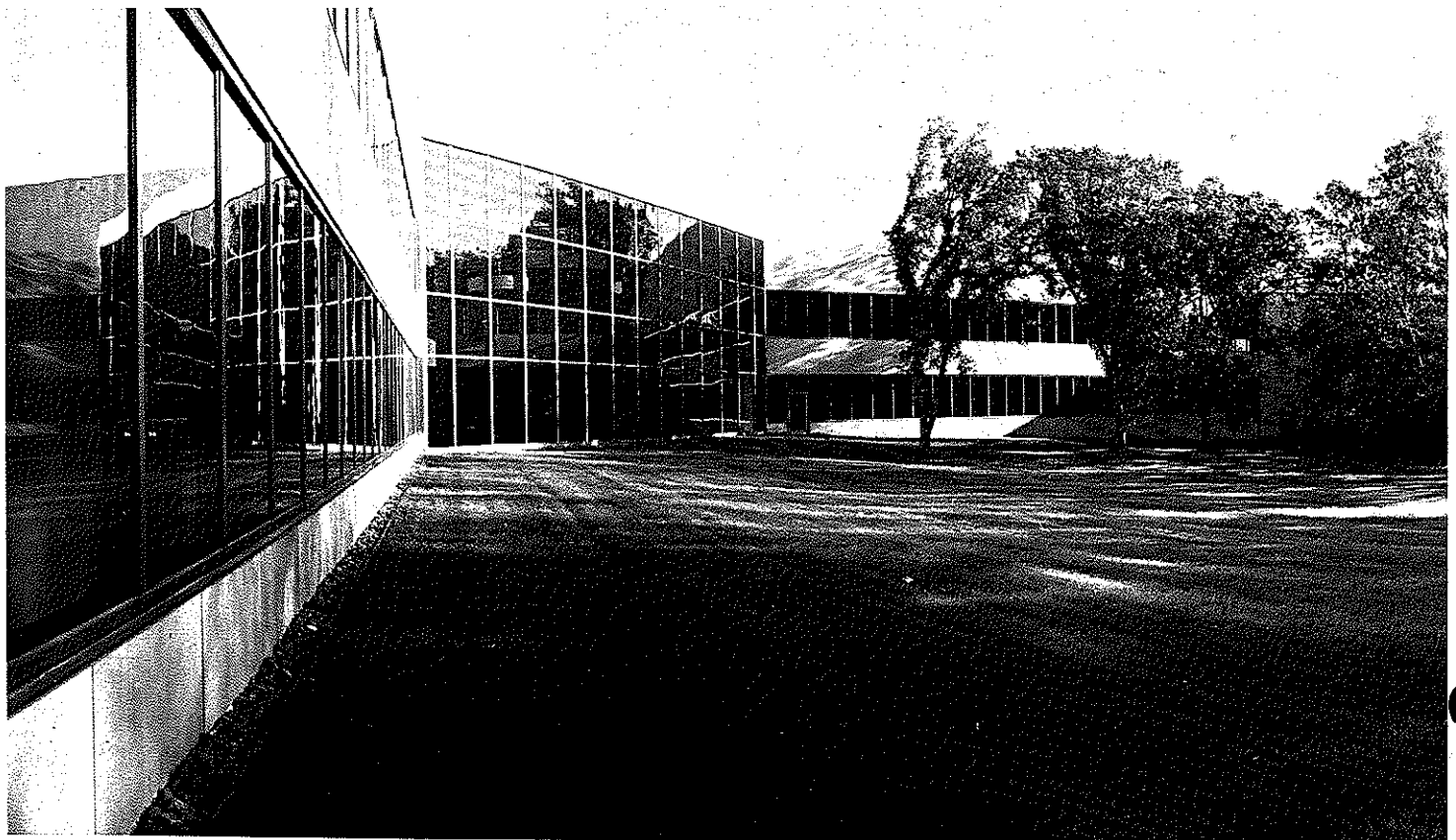
The Bank of North Dakota, the only completely state-owned bank in the United States, has been, and continues to be, an integral chapter of our state's heritage for sixty-two years.

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FINANCIAL HIGHLIGHTS

AT YEAR END:	1981	1980	
Resources	\$ 853,391,344	\$ 704,966,549	+ 21%
Deposits	590,791,884	435,523,271	+ 36%
Real Estate Loans	213,447,396	187,789,148	+ 14%
All Other Loans	171,001,799	139,516,713	+ 23%
FOR THE YEAR:			
Total Income	\$ 77,355,195	\$ 62,504,562	+ 24%
Interest Paid	67,540,507	49,915,845	+ 35%
Expenses Paid	3,729,838	2,872,698	+ 30%
NET INCOME	6,084,850	9,716,019	- 37%
Dividend Paid to State Treasury	\$ 2,750,000	\$ 5,000,000	- 45%
Number of Checks Processed	45,249,574	39,560,680	+ 14%
Total Federal Funds Purchased	\$ 33,811,178,000	\$ 28,979,563,000	+ 17%
Total Federal Funds Sold	\$ 39,572,296,000	\$ 33,937,515,000	+ 17%



"Proud to be a Part of North Dakota's Heritage"

Located on the State Capitol Grounds in Bismarck, the North Dakota Heritage Center is the state's largest centennial project. It is home for the state historical museum and has been acclaimed the most modern and dynamic museum most visitors have ever seen.

A stunning tourist attraction, the center is also the office of the State Historical Society, art gallery, and the cultural showplace for North Dakota.

The Center, an \$8.9 million facility, is truly for all North Dakotans to enjoy. They can certainly be proud of it.

The Bank of North Dakota Philosophy

To encourage and promote agriculture, commerce and industry in North Dakota.

To provide the most efficient and economical financial service to the State, its agencies, and instrumentalities.

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

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

Report of the Industrial Commission



Governor Allen Olson, Attorney General Robert Wefald and Agricultural Commissioner Kent Jones, who comprise the North Dakota Industrial Commission, relax on a sofa in the main lobby of the Heritage Center. Directly behind them is a gift shop. From the lobby visitors have access to the gallery, library, information desk, meeting rooms and auditorium, all on the same floor. One flight up is the mezzanine lounge. Below is the Hall of Honors and the State Historical Society's divisional offices.

To the Citizens of North Dakota:

Despite record high interest rates, the Bank of North Dakota continued to "encourage and promote agriculture, commerce, and industry", as stated in the Bank's Enabling Act. The Bank now serves as a central clearing bank for the state, and cooperates with all financial institutions in North Dakota to fulfill its mission.

The Industrial Commission is dedicated to continuing the Bank's Student Loan Program, one of the most successful in the nation. Equally successful, the Beginning Farmer Loan Program has been well received, and the Bank is reviewing new ways to expand this program so important to our state's number one industry, agriculture.

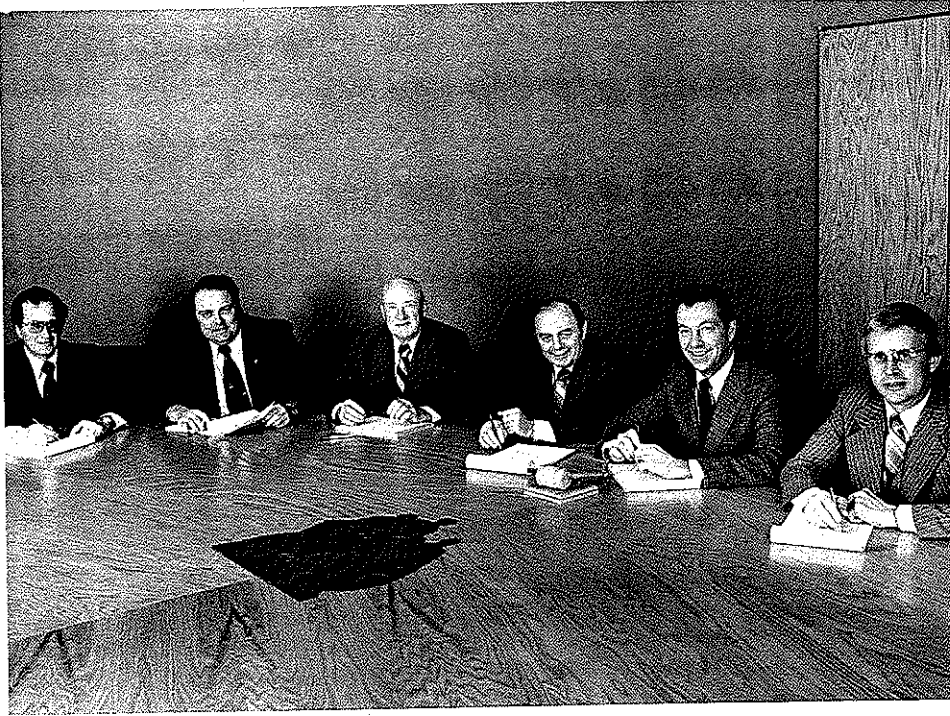
Congressional, U.S. Treasury actions, and the tax-exempt market prevented the Industrial Commission from issuing housing bonds in 1981, which has been disappointing, but we are hoping to issue tax-exempt housing bonds in 1982, through the Housing Finance Agency of North Dakota.

The Bank of North Dakota continues to cooperate with the financial institutions throughout the state to aid economic development and create meaningful employment.

The Industrial Commission met 22 times on Bank of North Dakota business in 1981. We approved 28 loans totaling over \$55 million, with the Bank's share being over \$44 million. The Commission also approved 27 operational policies, and promoted five officers. The Commission met four times with the Advisory Board, and we thank them for their advice and counsel.

As North Dakotans we are proud of our heritage, and because the Bank of North Dakota continues to play such an important role in our state's development as we progress in the decade of the 80's. We urge you to read this report.

Advisory Board



To the North Dakota Industrial Commission:

The Advisory Board met 12 times in 1981. One of the meetings was conducted in Fargo while eleven of the sessions were held in Bismarck. Four of the Bismarck meetings were conducted as joint sessions with the Industrial Commission.

The Board approved 55 loans totaling over \$68 million, with the Bank of North Dakota's share amounting to nearly \$52 million. The Board has noted a dramatic increase of loan activity in the past few years, indicating the Bank's increasing involvement in North Dakota's economy.

The Board met monthly with the Bank's Audit Department, to oversee numerous recommendations and procedure changes. In meeting with the Bank's independent outside auditors, the Advisory Board also monitored recommended internal procedure changes.

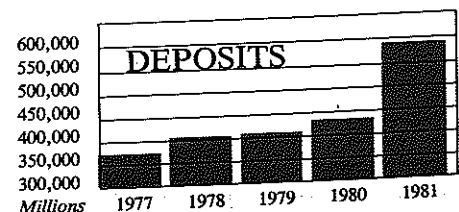
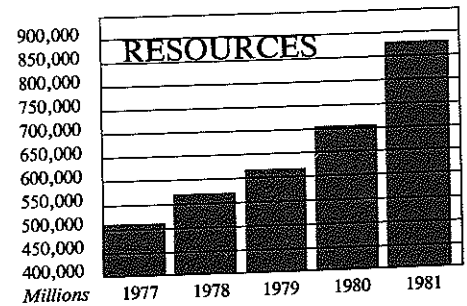
Four members of the Advisory Board retired in 1981. Mr. Eugene Rich and Mr. Lloyd Everson resigned after 12 years of service as members since the board's inception. Mr. John O'Keefe resigned following 8 years of service and Mr. Gilman Peterson after four years. We thank them for their advice, help, years of service, and enormous contribution to the Bank's success during their tenure on this body.

Governor Olson appointed the three remaining members as the Board's officers; Mr. Dan O'Day was named Chairman, Mr. John McGinley Vice Chairman, and Mr. Les Nesvig as Secretary. The Governor also appointed four new members, effective July 1, 1981. The new members are Mr. John Rouzie and Mr. William Clairmont of Bismarck, Mr. Robert Gregoire of Washburn, and Mr. William "Buzz" Baldwin, Jr. of St. Thomas.

In spite of high interest expense which caused a substantial decrease in earnings for 1981, the Bank experienced another successful year.

The Bank of North Dakota is a vital and growing part of North Dakota's heritage and continues to play an important role in our state's expanding economy.

The Advisory Board of the Bank of North Dakota consists of (from left) Robert Gregoire; William Baldwin, Jr.; John Rouzie; John McGinley; Dan O'Day; Leslie Nesvig and William Clairmont (not pictured). The board is assembled in the State Historical Board conference room in the North Dakota Heritage Center. The table, designed specifically for this room and donated by Mrs. Louise Stockman of Fargo, was made at the State Penitentiary. At the center of the table is a hand-tooled leather inlay, a replica of the pioneer family statue on the capitol mall. The inlay was made by Bert Caulkins of Mandan.



Presidents Message



To the North Dakota Industrial Commission:

1981 was witness to circumstances that created an exceptionally volatile situation throughout the financial community, not just in North Dakota, but throughout the United States. Caught in the "money-cost" squeeze, the rapid changes and increased costs of money were cause for the Bank of North Dakota to report earnings of \$6,084,850 for 1981. These earnings were a decrease of about 37% from last year and the lowest earnings for the Bank since 1972. You should note the Bank's "prime rate" changed nineteen times during the year, but income from new higher-interest loans could not keep pace with the nearly 90% of the Bank's deposits which were interest-bearing funds. Upon realization that an excess of fixed rate assets (primarily single family home mortgages) are being held by the Bank, you can readily comprehend the predicament. The Bank was also a heavy buyer of Federal Funds and Repurchase Agreements. The final results, at year end, showed the Bank paying interest on more than 81% of its available funds. Obviously the conception that banks benefit from high interest rates, now more than ever before, is a misconception. Rates continued an inflationary trend in 1981 resulting in our paying more for our deposits and other money market funds. Rates on our home mortgages and farm real estate loans, however, stayed the same for those in our portfolio.

For more detailed information, you should review the Comptrollers report, which outlines various percentages and comparisons.

Increasing the spread on our base loan rate, and decreasing the number and type of fixed rate loans are steps we have taken to correct the "mismatch" of fixed rate loans to volatile interest-bearing deposits. We expect rates to moderate somewhat in 1982, but continue high by historical standards. If rates decline, the Bank's earnings will improve substantially.

Resources were substantially increased at year end to over \$853 million, an increase of over \$148 million, or 21%. A large part of this was the proceeds of the 1981 student loan revenue bonds, totaling \$94.25 million, which were sold in December 1981. This bond sale will assure funds for the student loan program for the next three years.

The Bank increased the surplus account by \$4 million in 1981, which now totals \$16 million. The Bank's lending limit (25% of capital and surplus — by policy) is now \$8 million. As of year end, no single loan exceeded \$5 million.

The 1981 Legislature transferred the Housing Finance Agency (HFA) and the Housing Assistance Program (HAP) to the Industrial Commission, who temporarily placed them under the Bank's supervision. When they

are better established we expect they will be transferred to direct Industrial Commission supervision, and not be part of the Bank of North Dakota, notwithstanding the Bank's continuing position to be a force in the housing industry throughout North Dakota.

The Student Loan Division moved to a building at 1833 Bismarck Avenue in mid-year. The Investment and Trust Department and the Legal Department moved to the third floor of the Bank. The Audit Department and Comptrollers Division relocated in the main floor. No major remodeling or building programs are planned for 1982.

In an effort to upgrade our data processing capabilities the Bank will be installing a new computer in 1982. Our commitment to continually upgrade our electronic and data processing capabilities characterizes our recognition of the rapid changes taking place in the banking industry and our intention to continue to keep the Bank of North Dakota in a leadership position.

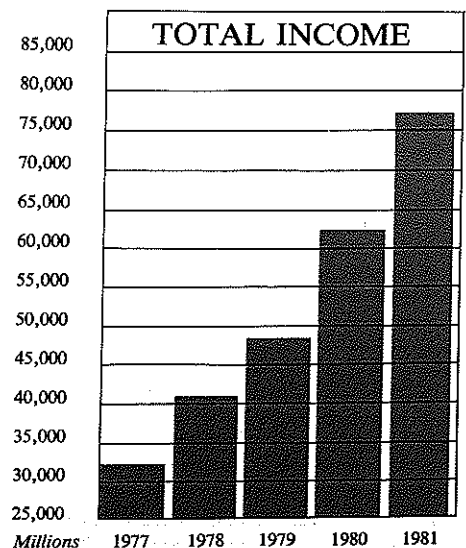
We consider development and training of our staff one of our strongest resources. It is the Bank's policy to give our personnel responsibility to the extent they are prepared for it, and solely on the basis of talent and merit. Evelyn Zelmer was promoted to Vice President. Arlene Olson, Alyce Starck, and Betty Zeeb were promoted to Assistant Vice Presidents during the year. Janette Melby was promoted to Assistant Cashier.

Mr. Eugene Rich of Fargo and Mr. Lloyd Everson of Bismarck resigned from the Advisory board in 1981, having served since the Board's inception in 1969. Mr. John O'Keefe of Grand Forks and Mr. Gilman Peterson of New England also resigned, having served since 1973 and 1977 respectively. These four directors provided considerable contribution to the Bank's success and we appreciate their advice, counsel, and support. Governor Olson named Mr. Dan O'Day Chairman, Mr. John McGinley Vice Chairman, and Mr. Les Nesvig Secretary of the Board. The Governor also appointed Mr. William "Buzz" Baldwin, Jr. of St. Thomas, Mr. William Clairmont of Bismarck, Mr. Robert Gregoire of Washburn, and Mr. John Rouzie of Bismarck as members of the Advisory Board. We welcome these able members and look forward to a positive working relationship.

The past year was one of rapid changes that we expect to see continue throughout the decade of the 80's. As part of North Dakota's heritage, the Bank of North Dakota will continue to "encourage and promote agriculture, commerce, and industry in North Dakota. . ." and to improve our services to the citizens of our state.



H.L. Thorndal
President





Correspondent Banking



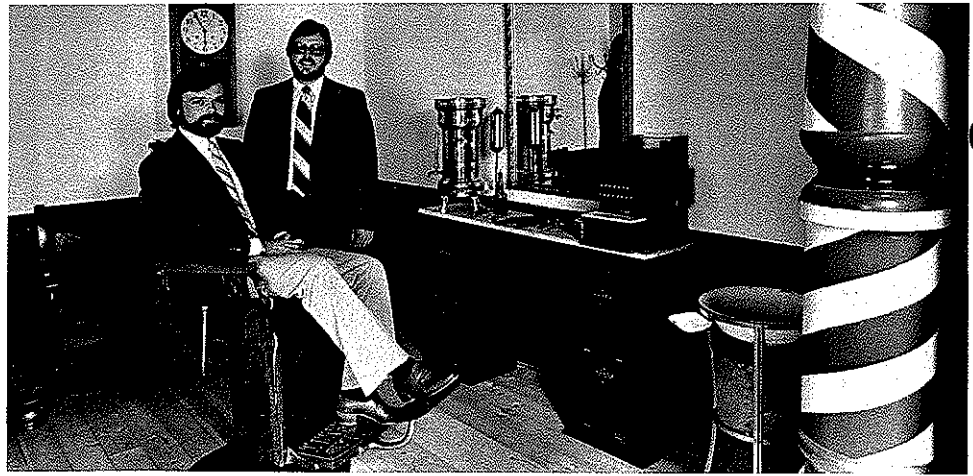
The daily Correspondent Banking activities of the state-owned bank exemplifies the role Bank of North Dakota plays in the heritage of our state. Dating back to the populist movement that reached its peak in the election of 1918, the Bank became a reality in 1919, secure in its purpose to "encourage and promote agriculture, commerce and industry in North Dakota." Most of the banks and other financial institutions in North Dakota today, as they were 62 years ago, are reasonably small, and their individual ability to cope with large dollar amounts and highly technical loans is limited. Bank of North Dakota works in partnership with the community banks as an overline lender and the source of expertise in evaluating, structuring, and documenting the larger or the unusual loans. Every bank in North Dakota has a respondent relationship with Bank of North Dakota. Since the Legislative Session of 1977, Bank of North Dakota has become one of the major sources of bank stock loans for North Dakota banks or holding companies.

The "Mid-Winter Break" has become a popular annual conference sponsored by the Correspondent Banking Department of the Bank of North Dakota. Regardless of the weather, bankers from every part of the state gather in Bismarck to hear local, regional and national speakers discuss matters of current importance to the financial community.

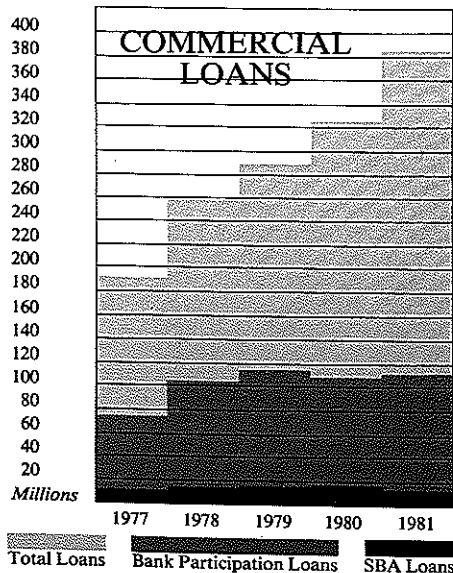
Each year the lending and correspondent banking activities represent a larger portion of the asset side of the Bank of North Dakota's balance sheet. This is in keeping with the philosophy of the Bank, as we build an ongoing part of North Dakota's heritage.

Robert E. Caudel, senior vice president, is pictured in the hallway leading from the front lobby to the auditorium. The hallway leads past public meeting rooms and also serves as a display area for Indian busts by North Dakota artist Ida Prokop Lee. A future state symbols exhibit will also be housed in the hallway by the spring of 1982.

Commercial Loans Department



Donald Young, assistant vice president, and Lewis Wilson (standing), vice president, are probably too young to remember a barbershop resembling this "period room." Period room exhibits are temporary. Permanent museum displays will be constructed in six phases over a 10-year period. The first of these phases, covering the period of contact and conflict between white and Indian cultures from the 1730's through the 1870's, presently occupies one-sixth of the gallery. Part of a second exhibit on the environment has also been completed. Future phases will cover the 1860's through World War I, the period between the wars, native cultures prior to the 1730's, and North Dakota today. Until the permanent exhibits are installed, temporary displays have been set up in the remaining area of the gallery. When the total six phases are in place the visitor will be able to get an idea of North Dakota history from the geological beginnings to the present time.



Nowhere in the Statement of Condition of the Bank of North Dakota is the commitment to agriculture, commerce and industry more evident than in the growth of our loan portfolio.

This commitment is the premise on which the Bank was founded. It is the reason for our success through the years, and is certainly a part of North Dakota's heritage.

In the early years of this century, North Dakota farmers, ranchers, businessmen and financial institutions were virtually held captive by out-of-state banks and Commission Houses. Out of the turmoil and rebellion of those desperate years, the Bank of North Dakota and the State Mill and Elevator were created by the State Legislature in 1919. Even the most optimistic boosters of the state-owned business concept would be surprised and pleased by the magnitude of these operations today. Their success greatly enhances the economy of our region, benefiting every North Dakota citizen.

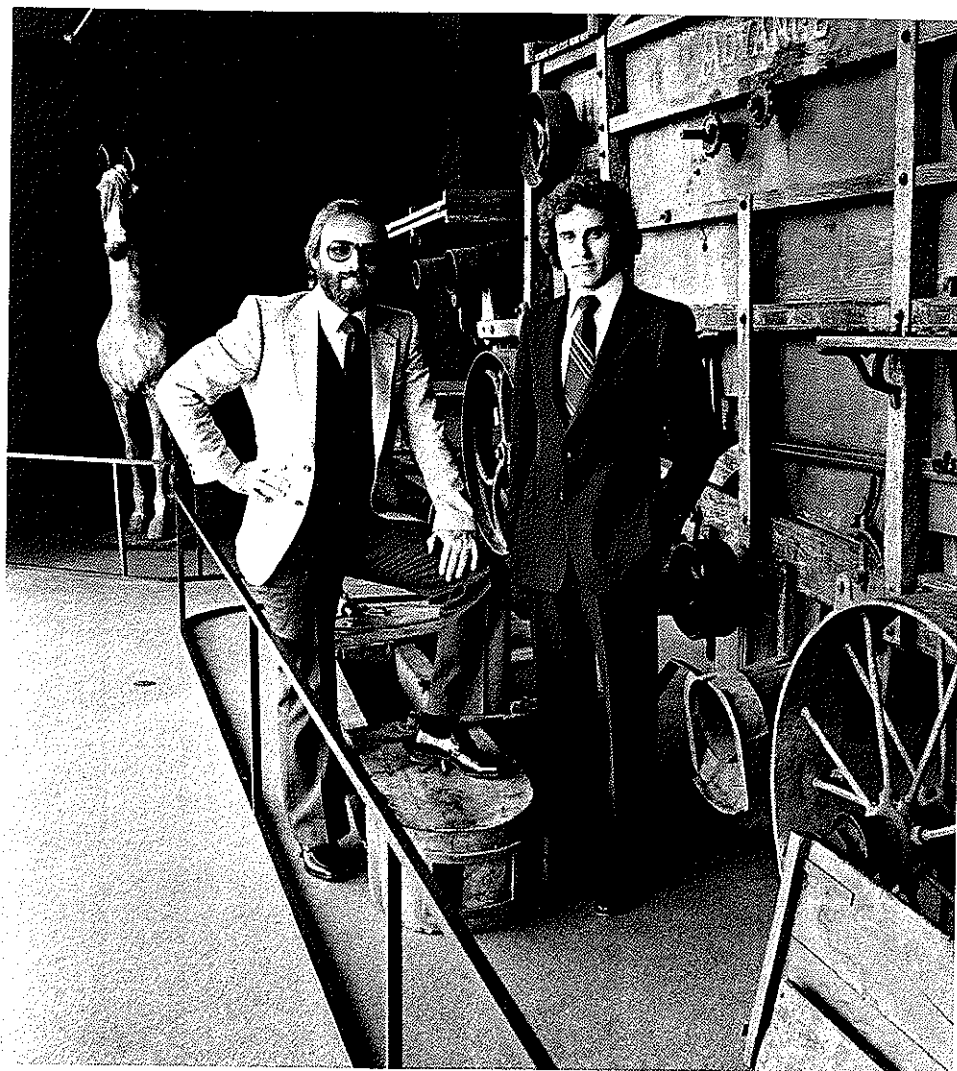
1981 was another record-breaking year for the Commercial Loan Department which developed over \$210 million in volume including \$112 million in agricultural loans. The American Bankers Association has ranked Bank of North Dakota the 34th largest agricultural financial leader in the United States, and the 10th largest in the plains states area. All our agricultural loans are restricted to North Dakota farmers and ranchers.

As of December 31, 1981, the portfolio included \$31 million in student loans; \$171 million in residential mortgages; \$43 million in farm and ranch real estate loans including \$28 million to beginning farmers; \$24 million in SBA or FmHA Business and Industry guaranteed loans; \$9 million in Bank stock loans, and \$115 million in bank participation loans to farmers, businessmen, and ranchers. In addition to the Bank's portfolio, the Commercial Loan Department manages \$54 million in student loans pledged to North Dakota Student Loan Revenue Bonds; \$55 million in farm and ranch real estate loans for the State Land Department; and \$5 million in loans to rural water districts.

In 1981, the Bank of North Dakota has led the way in providing assistance to community banks throughout the state to manage their funds through efficient asset-liability planning and the introduction of floating interest rates to their customers. The latter, an imperative change, was not accomplished quickly, nor was it instituted without considerable apprehension and resistance.

Notwithstanding the continued growth of coal and oil development in the western portions of North Dakota, our state's economy is, and shall continue to be largely based on agriculture. Because of that base, we continue our 62-year commitment to "encourage and promote agriculture, commerce, and industry in North Dakota," a North Dakota heritage of which we are extremely proud.

Farm and Ranch Ownership



Russell Erickson (left), assistant vice president, and Rod Anheluk, assistant cashier, stand next to an old Advance threshing machine on display at the North Dakota Heritage Center. The thresher is just one of several larger items exhibited in the 20,000 square foot main exhibit gallery. In the Liberty Memorial Building, the former museum, there were only about 6,000 square feet (counting the hallways) of display space. That building couldn't accommodate many larger exhibit items such as the thresher, a horse-drawn hearse and an authentic Sioux tipi, all currently on display in the new museum. The new Heritage Center contains over 127,000 square feet of usable space. The old building had only 37,000 square feet, much of it inappropriate for display or work areas.

Agriculture is the bedrock of North Dakota's economy and continues to contribute much to our heritage as a state.

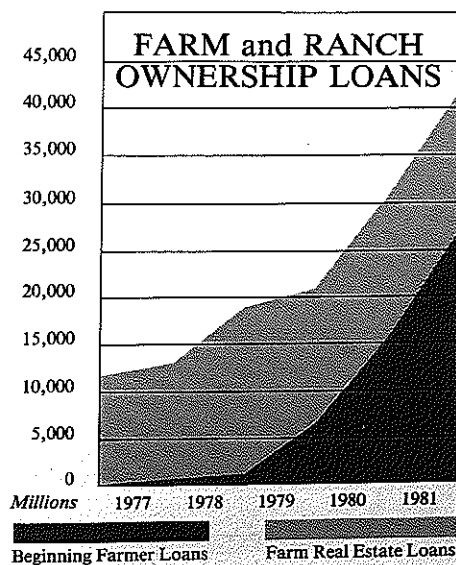
The Bank of North Dakota remains dedicated in its efforts to assist our farmers and ranchers through our Farm Ownership Loan Program. This program is a combined effort by the Bank of North Dakota and the Farmers Home Administration.

State Law allows the Bank of North Dakota to make loans secured by a first real estate mortgage, and up to 65% of the appraised value of the farm real estate. The Farmers Home Administration is allowed to make real estate loans secured by second mortgages, therefore together, the Bank of North Dakota and the Farmers Home Administration can lend up to 100% of the appraised value to qualified farmers.

Established in 1978, the Beginning Farmer Loan Program assists in the purchase of farm real estate. The Bank of North Dakota's portion of the loan allows a beginning farmer to receive a term of 40 years, a deferral of principal payments for the first two years, and a 2% reduction in the interest rate from the Bank's regular rate for the first five years of the loan.

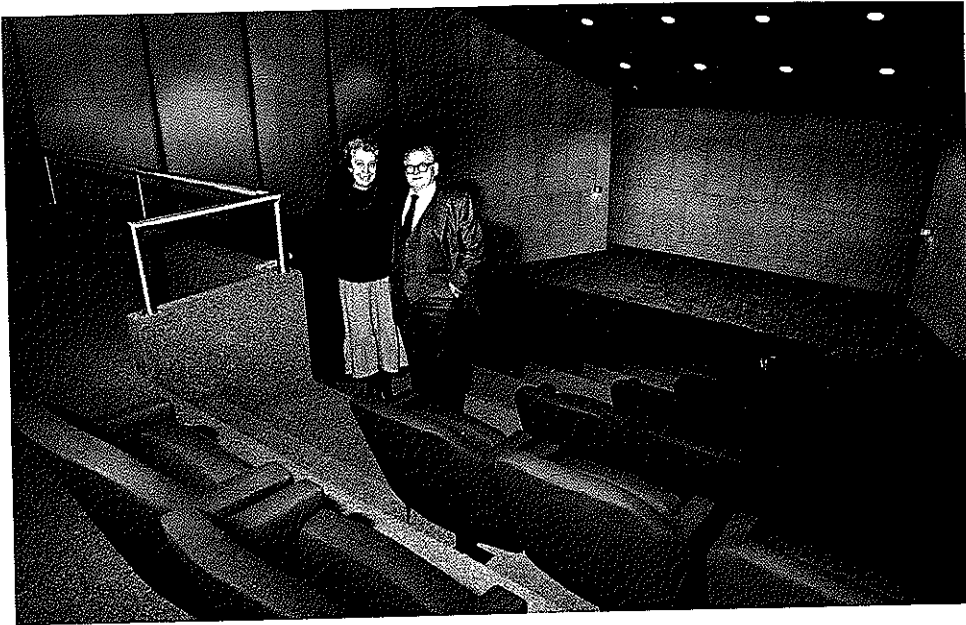
In 1981, \$13,213,995 was added to the BND-FmHA Farm Ownership Loan Portfolio bringing the total to \$42,714,579, including nearly \$27.8 million which are loans to more than 400 beginning farmers.

As a part of North Dakota's heritage, the Bank of North Dakota continues to aid state farmers and ranchers through present and future financial programs.





Student Loans Department



The establishment and maintenance of an adequate education system, accessible to everyone, has always received maximum attention from the citizens as well as the lawmakers of North Dakota. This is evidence of the high priority placed on education by all generations whose efforts have formed and maintained our state's heritage. It was only natural the Bank of North Dakota would become a viable force in this important area.

In the 1940's and 50's two small state educational loan funded programs were administered by the Bank. The state scholarship loan fund (discontinued in 1967) shows a collection success of 99.37%. Less than 1/2 of one-percent will have to be declared uncollectible. During the 1960's, college costs rose sharply placing a great strain on the ability of families and students to fulfill their education desires. As a result, the Bank of North Dakota undertook a most challenging and ambitious goal in 1967. This goal was to provide the state of North Dakota with the financial leadership and participation necessary to assure all North Dakota students the opportunity to pursue their educational goals. It was in 1967 the Bank of North Dakota made the first federally insured student loan in the United States. Since entering the Federal Insured Student Loan Program, the Bank has processed over 120,000 loans totaling \$132 million.

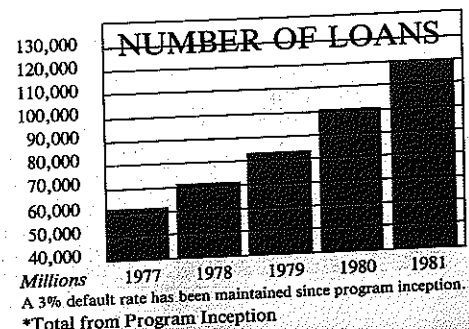
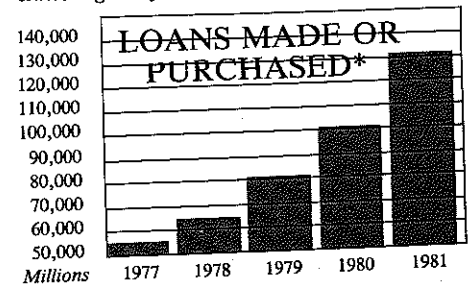
Loans have been processed for students from every known locality attending colleges and universities located in every state in the union and in many foreign countries.

Over \$53 million has been repaid leaving an outstanding balance of \$78 million, of which \$30 million has reached the repayment status. Monthly payments are being received from 14,500 accounts with an annual default rate of only 3% . . . among the lowest in the nation.

A secondary market was provided for state lenders in 1972. This previously untried concept was put in place before the National Student Loan Marketing Association (Sally Mae) was instituted. More than 125 North Dakota lenders continue to make use of our secondary market during periods of liquidity problems or to transfer loans prior to the repayment period, the least profitable period. This secondary market and the administrative assistance provided through workshops and seminars and daily communication allow local lenders to provide a very worthwhile service to their customers.

The Student Loan Department of the Bank of North Dakota is proud to participate in providing an assured source of educational loans when other sources are not available. Four out of every five educational loans made to North Dakota students are processed by the Student Loan Department . . . providing yet another contribution to North Dakota's heritage.

I. Jeannine Christy and Martin Stenehjelm, both vice presidents, pause to look around the North Dakota Heritage Center's Russell Reid Memorial Auditorium. The auditorium, which seats about 330 people, serves as a room for public hearings as well as various performances and educational programs sponsored by the State Historical Society. Response to programs held in the new auditorium has been overwhelming. The lobby area outside the auditorium is an exhibit gallery.



Special Loans Division



Ernest Pederson, vice president, stands near a chuck wagon on display in the Center's gallery. North Dakota will celebrate its 100th birthday in 1989. The Center, the culmination of more than 16 years of planning, legislating, fund raising and finally construction, is the state's largest centennial project. The Heritage Center was built for \$8.7 million. Of the total about \$2 million was donated, \$500,000 came from a federal grant, \$6 million was appropriated by the legislature, and the difference was made up by interest earned. The North Dakota Heritage Foundation, Inc., continues to accept donations for eventual expansion of the Heritage Center.

State and local government utilize the Bank of North Dakota to serve special needs of its citizens through direct real estate loans to farmers, low interest loans to nonprofit organizations providing nursing and care for the aged, to rural communities for water facilities, and beginning in 1981, to non-profit corporations providing residences and day activity facilities for developmentally disabled persons and residential facilities for physically disabled persons.

1981 activities in the special accounts are as follows:

The State Land Department Loan Pool — This pool was increased from \$45 million to \$50 million, had 136 loans paid in full, had 50 new loans made, earned over \$3.9 million for the State Land Department, and paid more than \$163 thousand to the Bank of North Dakota in fees.

The Nursing and Home for the Aged Fund — This fund has 14 loans with a year-end balance of nearly \$579 thousand. Since July 1, 1981, the principal and interest payments on these loans are credited to the new ICF-DD loan fund.

The Developmentally Disabled Facility Loan Program — This program was created by the 1981 Legislature and a fund of \$4 million was established at the Bank of North Dakota. Legislation also provided that the assets in the Nursing and Home for the Aged Fund be transferred to this fund effective July 1, 1981, in the amount of \$185 thousand. The cash balance in this fund at year end was more than \$3.9 million.

The North Dakota Rural Rehabilitation Loan Account — This account of \$1.1 million made 29 Farmers Home Administration subordinated farm operating loans totaling \$537,700. These loans are made to FmHA borrowers when they need further credit and none is available.

The Community Water Facility Loan Account — Two loans were funded in 1981 using two types of financing. One to Richland Rural Water Users, Inc. in the amount of \$500 thousand on a Real Estate Mortgage and one to R & T Water Supply Association, involving the cities of Ray and Tioga, in the amount of \$1.3 million on a revenue bond. Both of these loans are supplemental to loans made by the Farmers Home Administration.

The Judge A.M. Christianson Project — We now have 9 remaining contracts for deed on the project units at Burlington with a balance of nearly \$26 thousand.

The Industrial Building and Agricultural Mortgage Fund — This fund has been inactive since it was created and the 1981 Legislature authorized the closing of this account. Expenditures up to \$10,000 were directed and the balance of all funds in the account were transmitted to the State Treasurer.

The 1981 Legislature also passed two other programs involving this Division: 1) The Fuel Production Facility Loan Guarantee Program which sets up a guarantee program not to exceed \$10 million; however, the bill did not appropriate any money, and 2) The Seller Sponsored Loan Guarantee Program which did establish a \$2 million fund at the Bank of North Dakota; however, we have had no request for a guarantee.

By tradition and their heritage, North Dakotans have always shown compassion to help their neighbors who may be less fortunate or have a special need to better their quality of life. It is fitting the Bank of North Dakota maintains a Special Loans Division to enable that heritage and those traditions to continue.

Home Loans

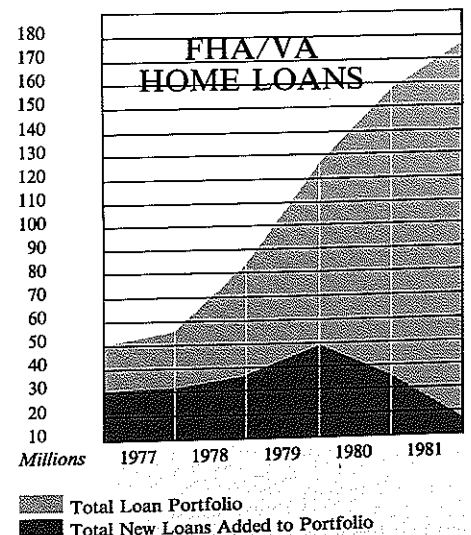


Betty Zeeb (standing), and Annis Foss, both assistant vice presidents, relax on the porch of a building resembling a structure once found at Fort Abraham Lincoln, south of Mandan. Visitors to the North Dakota Heritage Center's main gallery can stand in front of the facade and listen to ballads probably sung by soldiers at the fort in the 1870's.

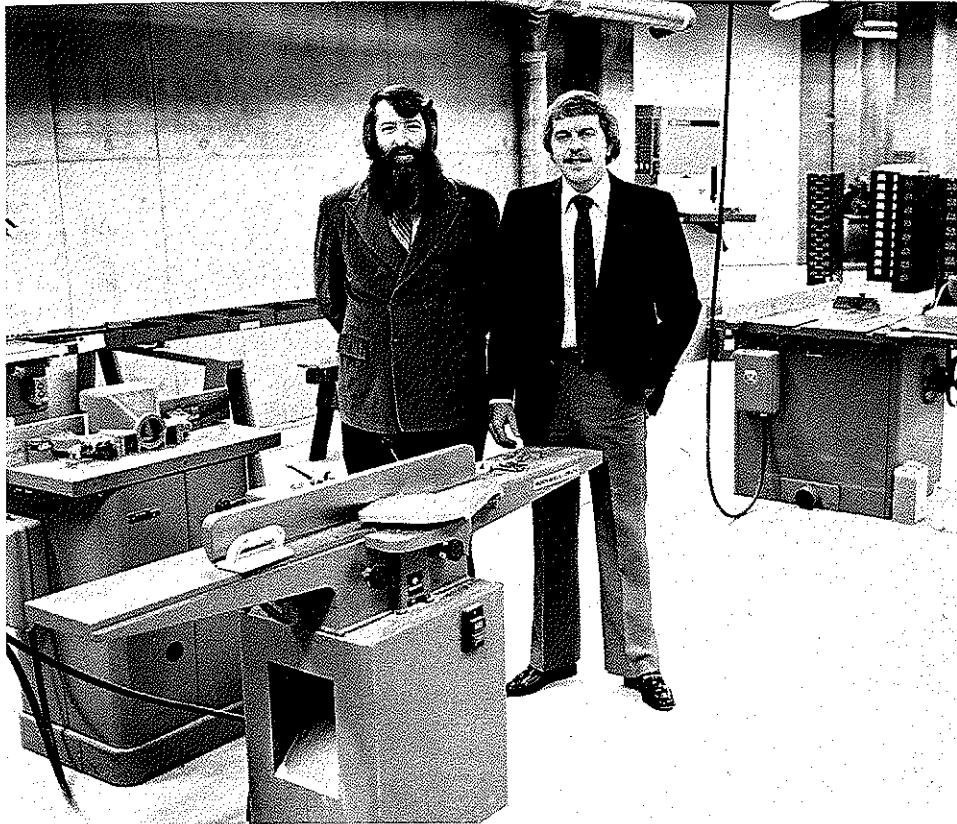
Home ownership is a part of the very fiber that is every North Dakotan's heritage and during 1981, the Bank of North Dakota continued to provide a secondary market for housing in North Dakota through the purchase of home loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

High interest rates and a tight money supply, however, forced the Bank to change its purchase program in the event it became necessary for any of these loans to be sold to another secondary market.

Federal Housing Administration "235" Interest Subsidy Loans represented the majority of the Bank's housing loans. Federal government funding reductions in the subsidized loan program as well as high interest rates made housing unaffordable to most North Dakota families this past year. As a result, many home buyers have elected to assume already existing home loans rather than refinance at current market rates. All \$170,732,817 in loans in the Bank of North Dakota's FHA/VA portfolio are fully assumable at the note rate.







Housing Finance Agency

During 1981, the Housing Finance Agency obtained 41 H.U.D. Section 8 subsidized units. Those units were committed to the substantial rehabilitation of the Fargo Powers Hotel for low to middle income apartments.

The passage of the Mortgage Subsidy Bond Tax Act of 1980 and high interest rates resulted in a difficult year for Housing Finance Agencies nationwide. These conditions thwarted a bond issue attempt in August of 1981, but the Internal Revenue Service has since amended the rules, clarifying two problem areas.

Through the efforts of our congressional delegation, the Housing Finance Agency, and the Council of State Housing Agencies in seeking legislation to change the IRA regulations, the tax exempt bond market has improved slightly towards year end, but is not yet sufficient to make a bond issue feasible. As a result, the agency is reviewing other sources of funds and attempting to develop a mortgage pool outside the bond market.

In 1981, state lawmakers passed legislation expanding Initiated Measure #7 to make other Housing Programs a responsibility of the Housing Finance Agency. This action resulted in the Housing Assistance Program becoming a part of H.F.A.

At year-end H.A.P. had 1,963 units of Section 8 existing housing under its management throughout the state. The office anticipates an additional contract for 100 units of housing through the Section 8 Moderate Rehabilitation Program in early 1982.

While there are many changes in National Housing Programs that are being formulated for the '80s, the deep-rooted heritage of North Dakotan's home ownership is cause enough for the Housing Finance Agency to meet the challenges of change for our citizens.

Robert Barr (left), director HAP; and Robert Olson, administrator, Section 8 Moderate Rehabilitation Program, examine the various pieces of equipment found in the carpentry workroom in the Center. The workrooms and additional equipment enable the State Historical Society to do a number of tasks internally — build displays or repair collection items, for example. Because of the additional internal capabilities of the new building, the staff will be able to do much more restoration and curatorial work.

Housing Assistance Program

Investment and Trust Department



John W. Fay, senior vice president, stands on a stairway leading from the main lobby to a mezzanine. The mezzanine, which serves as a public lounge, also includes a balcony providing an overlook of the entire museum gallery. Directly below the stairway, on the lower level of the Center, is the Hall of Honors. Space has been set aside in the Hall of Honors for the silver service from the U.S.S. North Dakota.

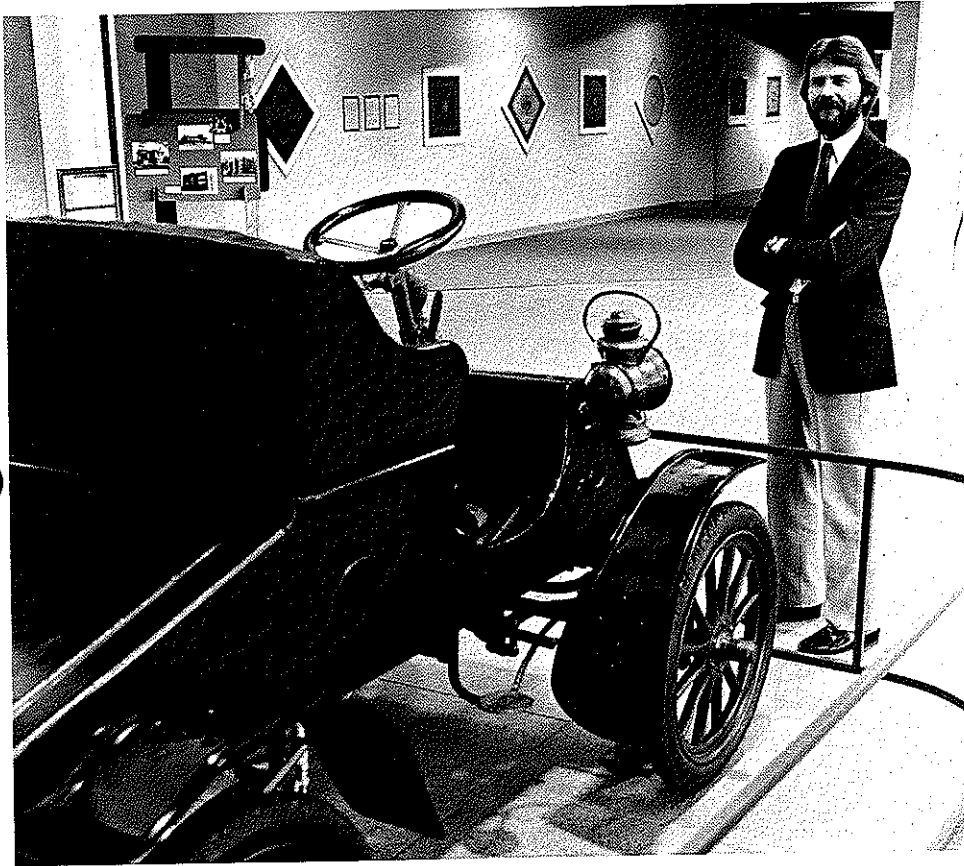
1981 provided challenges beyond our expectations. The wide fluctuations in the bond market were unbelievable. If a money manager could have guessed the turns (guessed is the only applicable term) investments could have been parlayed into unbelievable returns. The exposure on such rapid moves is equal to the potential wrong moves that could have been as disastrous as right moves would have been rewarding.

As of December 1, the North Dakota Industrial Commission sold \$94,520,000 in Student Loan Bonds. This will provide funding for the current portfolio of loans and demand for the next two to three years. This amount raises the total debt issues sold to \$255 million new capital raised in the national market and brought into North Dakota.

Municipal underwriting volume held about the same. Federal fund purchases and sales were up and the paying agency volume increased significantly.

As this year has become history, we profit from our experiences to better serve the State of North Dakota and our customers in the years to come.

Money Market Center



Edward B. Sather, vice president, observes a 1904 Cadillac on display in the main lobby of the North Dakota Heritage Center. Upon entering the lobby, visitors will also notice a television camera and monitor. Seventeen motorized cameras keep a constant vigil over the building's exterior and interior. Tampering with windows alerts an alarm system. Microwave, heat, smoke, ultrasound and infrared sensors send invisible probes through the building. The system's hub is an elaborate control room protected behind double doors and bulletproof glass. The system is to protect the State Historical Society's irreplaceable collection of artifacts. The system will also allow high-quality travelling exhibits to be brought to the Center; items that would not have been permitted in the old building or in a less secure new building. The security is not to intimidate visitors, but to enhance their safety and comfort while in the building.

The Bank of North Dakota's investment portfolio totaled \$179,724,687 as of December 31, 1981, a decrease of 4.3%; however, the issuance of Student Loans Bonds in December of 1981, allowed for the minimal reduction. In 1982, anticipated decreases in State Revenues may precipitate to a continued reduction in the Bank's portfolio.

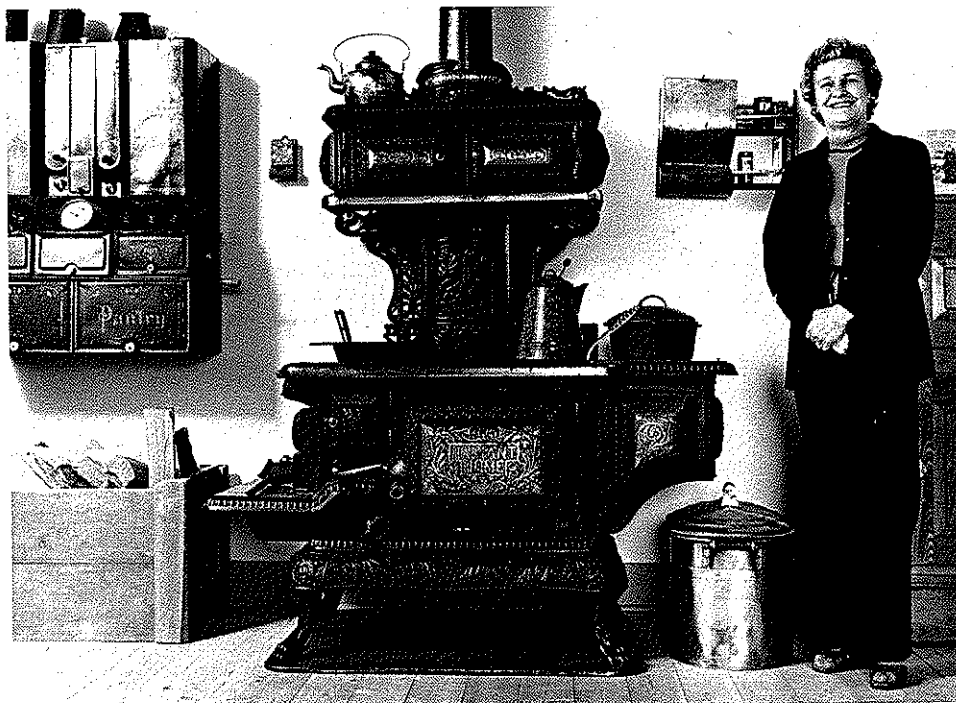
Due to continued market volatility (the national prime rate changed 27 times in 1981), inverted yield curve and the building of liquidity, trading in Federal Funds remained strong throughout the year. Total Federal Funds transactions were \$73.383 billion, resulting in a daily trading volume of \$201 million.

The Bank of North Dakota paid an effective daily rate of 16.32%.

The Bank of North Dakota's 62-year tradition of growth and stability can be measured in some degree to the strength of its investments in the money market. As the Bank builds its heritage with and for North Dakota and its people, the Money Market Center will continue to assure a sound money market program.

Bond and Coupon Paying Division

Shirley Homuth, vice president, says she can remember the days when a kitchen scene such as this was very typical. The kitchen exhibit is just one "period room" display in the main museum gallery. Others include a North Dakota optometric exhibit and an old-time barbershop.

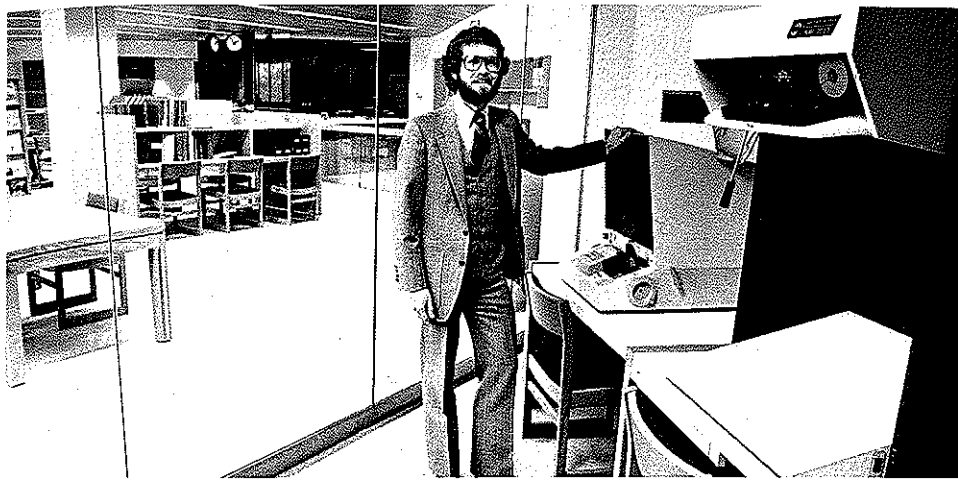


Along with this Division's responsibility for receiving and paying coupons and/or bonds received via the mails, individual presentation, or correspondent and respondent bank collection letters, it is also charged with the duty of servicing approximately \$70 million of "customer safekeeping". These are the municipal securities held in the vault of the Bank of North Dakota in safekeeping for customer banks, individuals, and the North Dakota Municipal Bond Bank.

As custodian, the Bank of North Dakota, through its Bond & Coupon Paying Division must keep current and accurate records on these securities assuring that coupons are clipped and bonds withdrawn prior to their due date so the owners receive their investment earnings when due. Generally, the Bank of North Dakota is not the paying agent, and in these cases the securities must be verified and prepared for mailing to the respective payer, with continual followup for proper return remittances to protect the interests of all our customers.

All of these services are offered at a minimal cost and represents just one more way the Bank of North Dakota builds on a heritage of service to the citizens of North Dakota.

Legal Department



The Legal Department serves as in-house counsel to all departments within the Bank of North Dakota. The Legal Department's staff consists of the Bank's General Counsel and a Legal Assistant. The General Counsel, as an attorney working full-time for the State of North Dakota, is an Assistant Attorney General by appointment of the Attorney General of North Dakota.

One of the primary functions of the General Counsel is to prepare proposed legislation for the Bank for consideration by the North Dakota legislature. This bill drafting process takes place during the interim between legislative sessions. Along with this responsibility goes the task of reviewing other bills which may affect the Bank and, together with other Bank officers, appearing before legislative committees to provide testimony on the Bank's behalf.

During the Forty-Seventh Session of the Legislative Assembly, which was in session from January 6, 1981, through March 31, 1981, and from November 16, 1981, through November 19, 1981, thirty-five bills were introduced which specifically affected the Bank, and approximately forty bills were introduced which affected financial institutions in general, several of which also affected the Bank. Almost thirty of these bills were either defeated or withdrawn.

One of the most significant bills which the legislature enacted during its 1981 session, from a legal point of view, was H.B. 1145, which has been codified as Section 6-09-35, N.D.C.C. This new law provides for the confidentiality of certain records of the Bank which would otherwise come under the State's "public records" law and would be open and accessible for inspection by virtually anyone. With the enactment of this law, the Bank's integrity within the banking community has been strengthened.

Another important function of the Legal Department is to foreclose real property mortgages held by the Bank which are in default. Reflective of current economic conditions, the number of foreclosures commenced by the Bank during 1981 was more than double the number commenced during 1979. Because the North Dakota Century Code authorizes the Bank to foreclose by advertisement rather than by action, the Legal Assistant, under the supervision of the General Counsel, is able to prepare the necessary documentation and has the responsibility to see each foreclosure through from start to finish — from sending out the notice of intent to foreclose before commencing the actual foreclosure to representing the Bank at the sheriff's sale following publication of the notice that the mortgage will be foreclosed by a sale of the property.

In its programs and policies to promote and encourage agriculture, commerce and industry, the Bank of North Dakota must, at all times, maintain itself within the prudent parameters of state and federal law. It is this endeavor in which the Bank's Legal Department is proud to serve as we all strive for a better quality of life. . . and a grand heritage.

Tom B. Tudor, general counsel, investigates the North Dakota Heritage Center's library Reading Room. The Reading Room can accommodate eight times as many people as the old space in the Liberty Memorial Building. Microfilm readers have a room to themselves. Oral history tapes can be listened to in soundproof glass-walled cubicles. Stack space for the library is double in the new facility. Between July and September, as more and more people discovered the library and its collections, over 2,000 requests for information were handled by the library staff. Most requests deal with family history. On one particular day this summer the library had researchers from the four corners of the lower 48 states — Maine, Florida, Washington and California; and even Alaska. The archives take up where the library leaves off. Archival materials, like photos and documents, are almost entirely one-of-a-kind. That makes each irreplaceable. There are approximately 25,000 photos on file, many dating back to the 1860's.

Cashiers Division



Ila Eckroth, vice president and cashier, stands near the information desk in the main lobby of the North Dakota Heritage Center. A guest book on the desk contains the signatures of visitors who have recently toured the Center; visitors have filled 10 guest books since the May opening. An estimated 5,000 to 7,000 people attended the May 30 dedication of the Center. Another 10,000 attended grand opening special events during June, and an estimated 100,000 people have visited the Center since it opened.

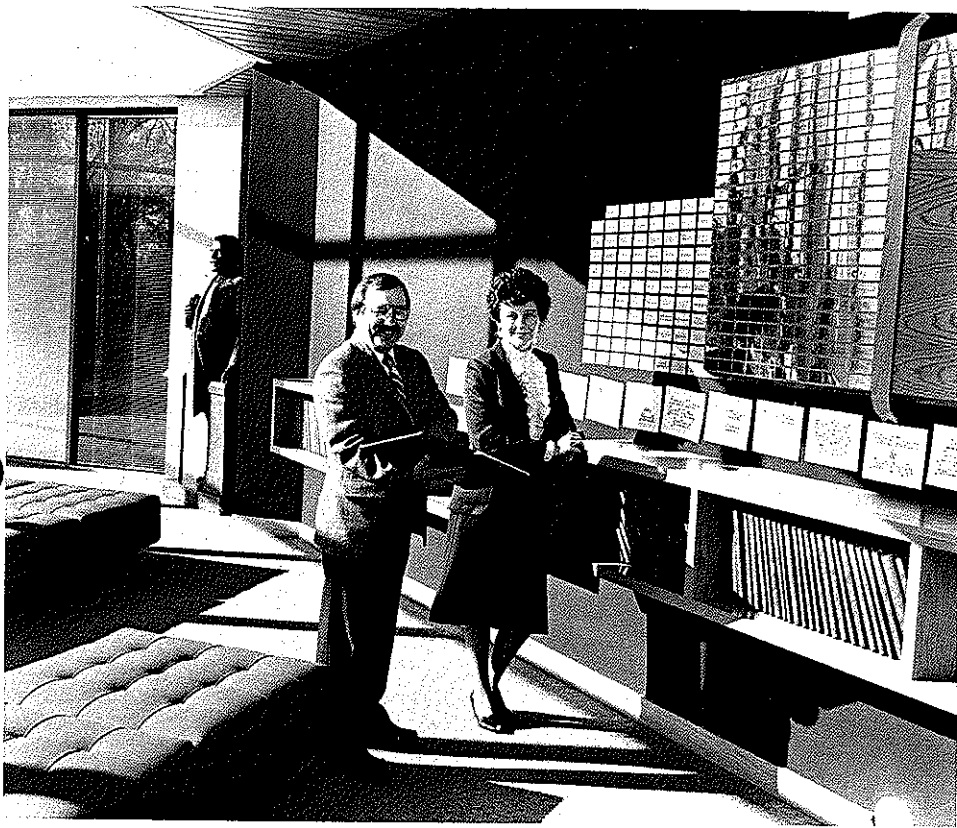
Increasing volumes of checking accounts, passbook savings accounts, various types of certificates of deposit and, in compliance with Regulation Q, various interest rates paid on our certificates have resulted in expanded services from the Cashiers Division in the Bank of North Dakota.

Our currency and coin shipments have increased to 60 financial institutions. The Federal Reserve is now pricing their currency and coin services which must be passed on to our customer financial institutions.

Effective January 1, 1982, the Individual Retirement Account Plan can benefit all wage-earners. Changes in I.R.A. rules provide anyone with an earned income in excess of \$2,000 an opportunity to contribute up to \$2,000 in their own IRA plan even if they are currently participating in an employment pension or retirement plan.

This plan is designed to assist wage-earners in saving for a happier and more comfortable retirement.

Operations Division



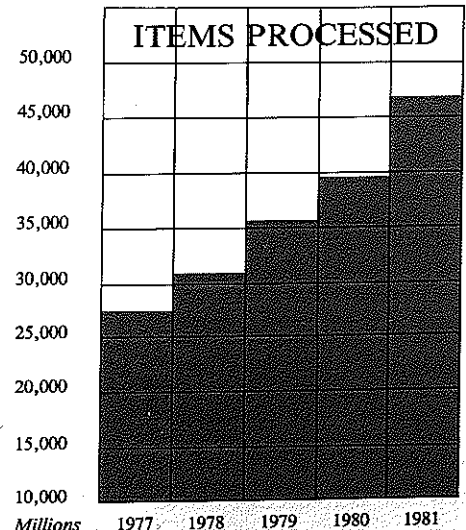
Carl Arndt and Evelyn Zelmer, both vice presidents, scan through books and wall plaques listing each and every organization, business or individual that donated financially to the North Dakota Heritage Center fundraising campaign. The Hall of Honors serves as a memorial to all gifts made to the Center. In the background is an office area for volunteers. Volunteers have played an important role at the Center since it opened. They act as tour guides and staff both the information booth and gift shop.

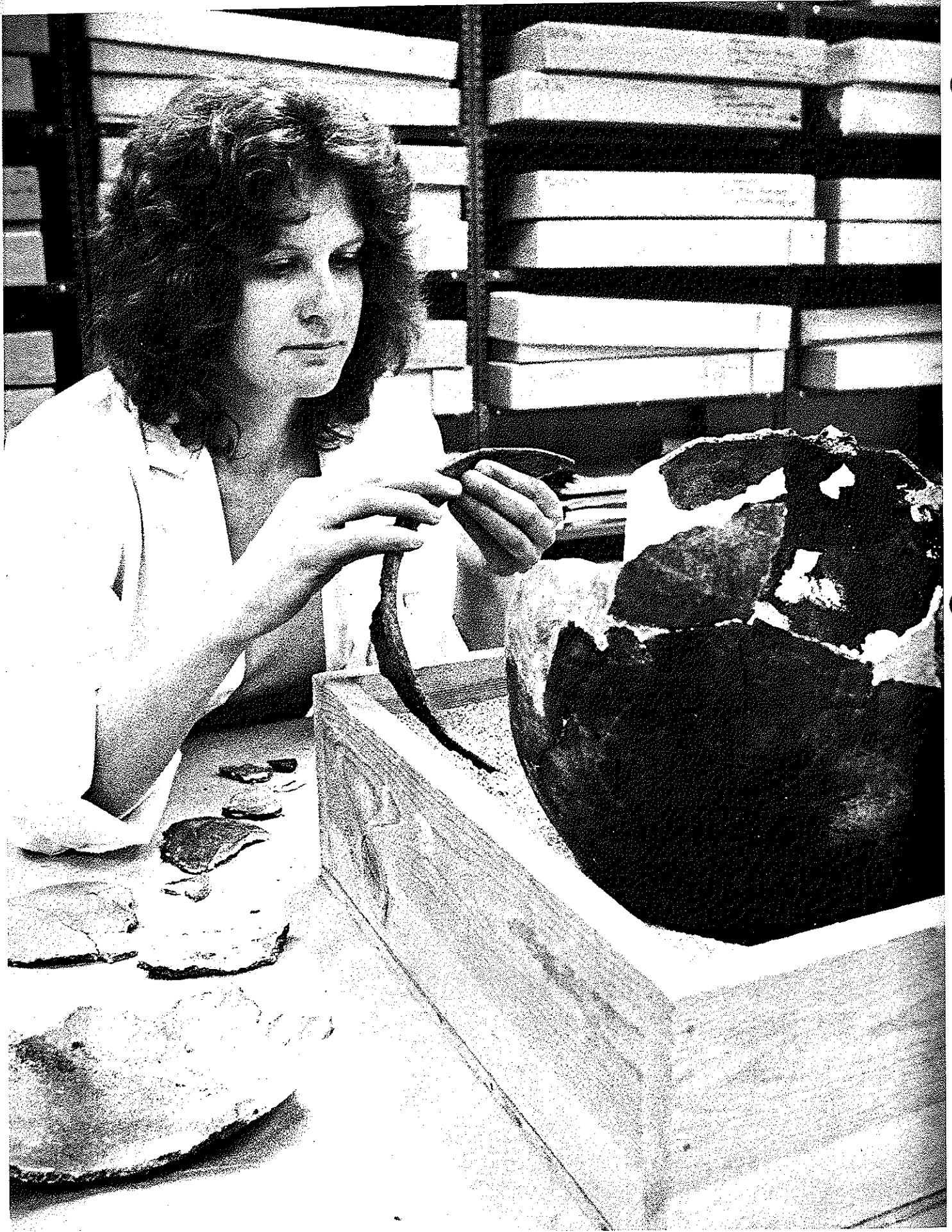
The processing of checks over the last sixty-years has changed dramatically. At one time, checks were hand sorted to a geographical area, then added on adding machines. The daily volume at the time was around 15,000 checks.

The Bank of North Dakota purchased five 40-pocket NCR Multi-Packet encoding machines to do our proof-transit work in 1967 resulting in a tremendous improvement over the hand sorting of checks.

As the volume grew to around 30,000 checks per day, the Bank purchased two additional 40-pocket NCR units that effectively handled our check volume until February, 1972, when a complete computer system was installed. Our average daily volume had reached 68,000 items, but the increasing volume forced an update of our computer in February, 1977, that made it possible to process up to 180,000 items per day.

A continuing growth to the status of the state's largest clearing bank has recently been cause for the conversion of the Bank's equipment to a complete new IBM System 3890 for proof-transit operations. We are now expecting to handle in excess of 300,000 items each day, as Bank services are expanded in building a prosperous new heritage for North Dakotans.





Comptroller Report

This analysis of operations should be read in conjunction with, and not rather than, Financial Statements and Notes contained elsewhere in this report.

Investment Securities declined 4.3% to \$179.7 million at year end 1981. Investment earnings, however, declined by only 1.1% to \$18.9 million reflecting an overall increase in the average return on investment assets from 9.4% to 10.26%. This trend is expected to continue during 1982 as portfolio holdings are further upgraded through maturities and trading.

The Bank's overall loan portfolio grew 17.5% to \$384.4 million at December 31, 1981 representing a loan to deposit percentage (percent "loaned up") of 65%. During this period the return on the average loan portfolio increased from 10.2% to 12.4%.

Total deposits increased 35.65% to \$590.8 million during 1981. It should be noted that one factor in this rapid increase in deposits was the \$94,520,000 sale of student loan bonds by the Industrial Commission. These funds were on deposit in the Bank at year end but had not yet been used to purchase student loans for the Student Loan Trust. Interest expense on deposits increased 45% during 1981 while average time and savings deposits increased by only 14.76% to \$371.9 million. The substantial increase in interest expense on deposits is the result of rapidly increasing interest rates on deposits.

Outstanding Collateralized Bonds decreased 6.5% to \$42,083,000 during 1981. This reduction of bonds through retirement was 16.7% greater than indenture requirements and was carried out to capitalize on changes in market conditions since issuance of the bonds.

Total capital funds remained fairly constant during 1981 but had declined by year end from 5.9% to 4.82% of total assets. This decline is due in large part to a 21% growth in assets without a corresponding increase in capital funds. In comparison, banks in North Dakota averaged an 8.7% capital to assets percentage during 1981. It should be noted, however, that there was a \$4 million increase in surplus as a result of transfer from undivided profits. Retention of these earnings has the effect of strengthening the Bank's capital structure and increasing its lending limit (now \$8 million to any one borrower). The Bank will need to continue to strengthen this capital position through retention of earnings during coming years.

Interest income during 1981 increased by 24.4%. However, interest expense during the same period increased 35.3%, leaving a net interest income margin of only 10.3% of total interest income. This represents a decline from 17.5% for 1980 and again reflects 1981 as a period of narrowing of interest income margins as interest expense rates continued to rise rapidly.

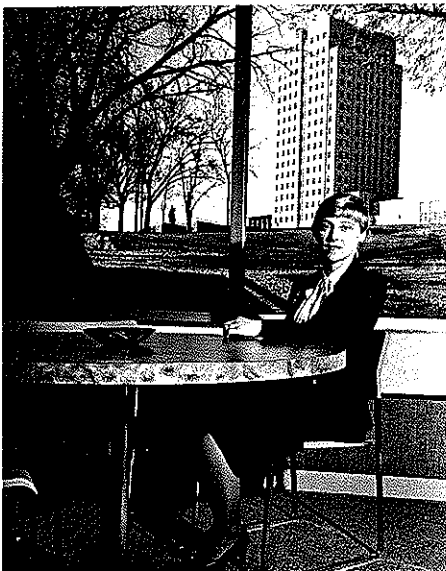
Overall operating expenses for the Bank increased 29.8% to \$3.7 million reflecting an increase in loan loss provisions, investment in upgrading existing data processing systems, cyclical purchase of large volumes of supplies and materials, substantial rate increases for postage, telephones, etc. It should be noted that salary and wage expense for 1981 represents .285% of average total assets. In contrast, North Dakota banks averaged salary and wage expenses of 1.46% of total assets during the same period. Loan loss provisions of \$351,000 represent .049% of average total assets for 1981. As a whole, North Dakota banks averaged loan loss provisions of .21% during the same period.

Overall, Bank of North Dakota, like other financial institutions, experienced a year of rising interest rates on its investment and loan portfolios, offset by much faster increases in interest expense associated with deposit and other sources of fund activities. This trend began during 1980, but its full impact was not felt until 1981.



Allan R. Nosbusch (left), vice president and comptroller, and Dale Eberle, assistant vice president and assistant comptroller, observe artifacts on a table in the laboratory used by State Historical Society of North Dakota archeologists. This particular area is a lab where artifacts can be cleaned and examined. Our state's archeological collection is one of the largest holdings of Northern Great Plains Indian artifacts in existence.

Personnel Division



Sharon Wehner, assistant vice president, relaxes in the staff lounge located on the lower level of the North Dakota Heritage Center. The area provides a panoramic view of the State Capitol Building.

A key element in the Bank of North Dakota's heritage is people. Continued growth, productivity and service result from the efficiency of the Bank's employees.

During 1981, a major emphasis was placed on staff development and professionalism. Several officers enrolled in, or graduated from, various recognized schools within the banking industry. One loan officer received his Certified Commercial Lending Certificate; one of three at the Bank and one of five in North Dakota. Other areas of concentration were in agricultural lending, bank administration, computer auditing and data processing.

Twenty-one changes occurred in classification status: four were reclassifications, five were lateral transfers and twelve were position promotions. Position promotions involved both paygrade and salary range increases with advanced job responsibilities. The Industrial Commission named five new officers during the year; one was elected Assistant Cashier; three elected from Assistant Cashier to Assistant Vice President; and one Assistant Vice President to Vice President.

Our heritage has seen not only growth in the number and quality of employees, but a marked improvement in the women's role of a traditionally male oriented industry. To date, the Bank's officers number 40, including 23 women and 17 men in management positions. Management will further advance career development and upward mobility within its state-agency structure.

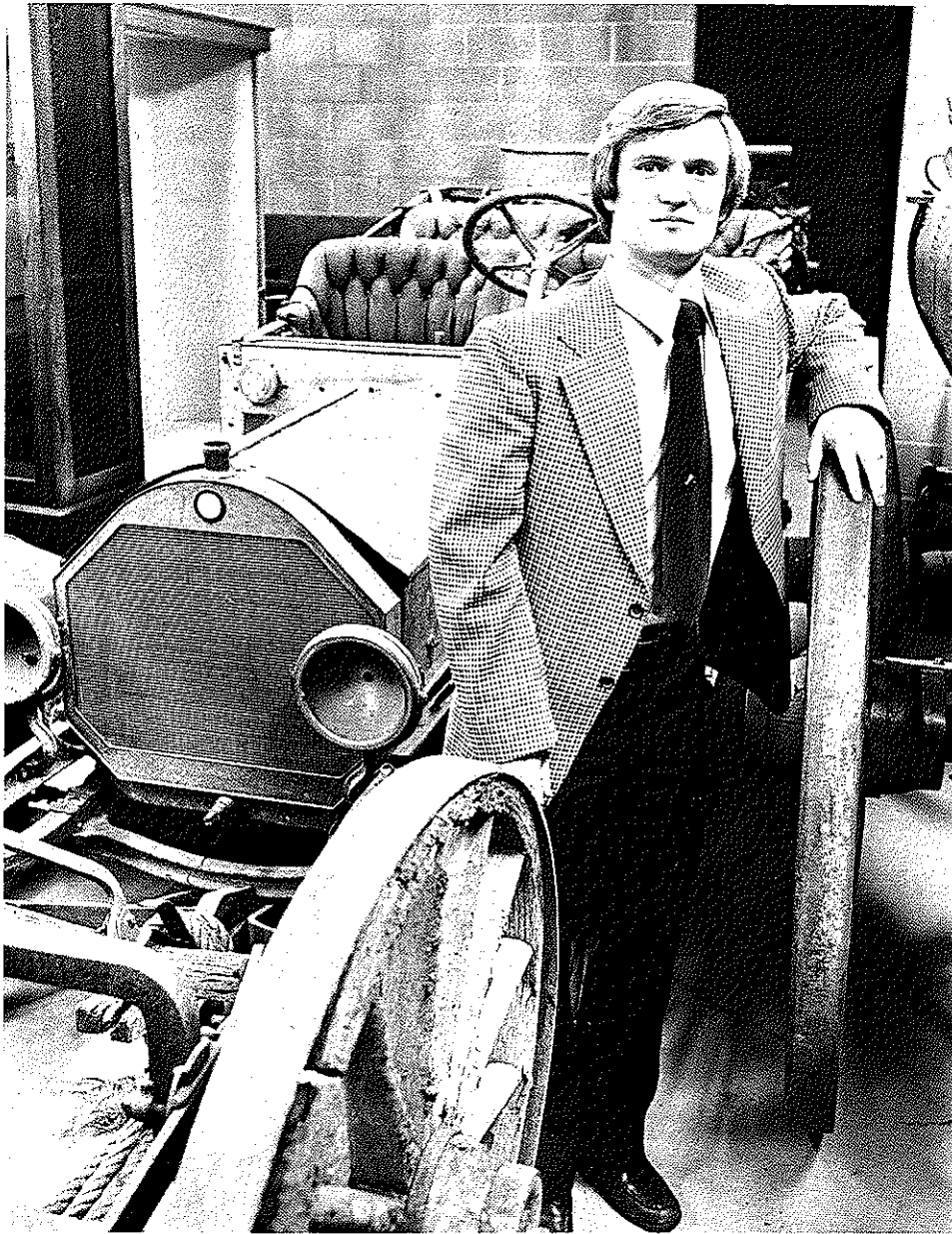
The total staff, at year-end, numbered 147, with 129 full-time and 18 part-time employees. Effective July 1, the Bank received 15 new employees from (and for) the Housing Assistance Program (HAP). The original thirteen employees, plus two newly authorized positions, transferred from the Social Service Department to become part of the Bank. HAP is a rental subsidy program assisting low income households and the fifteen employees are dedicated to providing assistance for North Dakota residents.

With the staff increase, another banking location was established in Bismarck during 1981. HAP and the Student Loan Division employees moved from 700 Main to 1835 Bismarck Avenue.

This past year and in the years ahead, the Bank of North Dakota remains committed to the practice of providing equal employment opportunities without regard to color, race, religion, sex, age, national origin, physical disabilities, political affiliations or any non-merit factor.

Our employees share a sense of pride in the Bank's heritage and continue their part to fulfill the Bank's future in accomplishing the promotion of agriculture, commerce and industry in North Dakota.

Audit Department



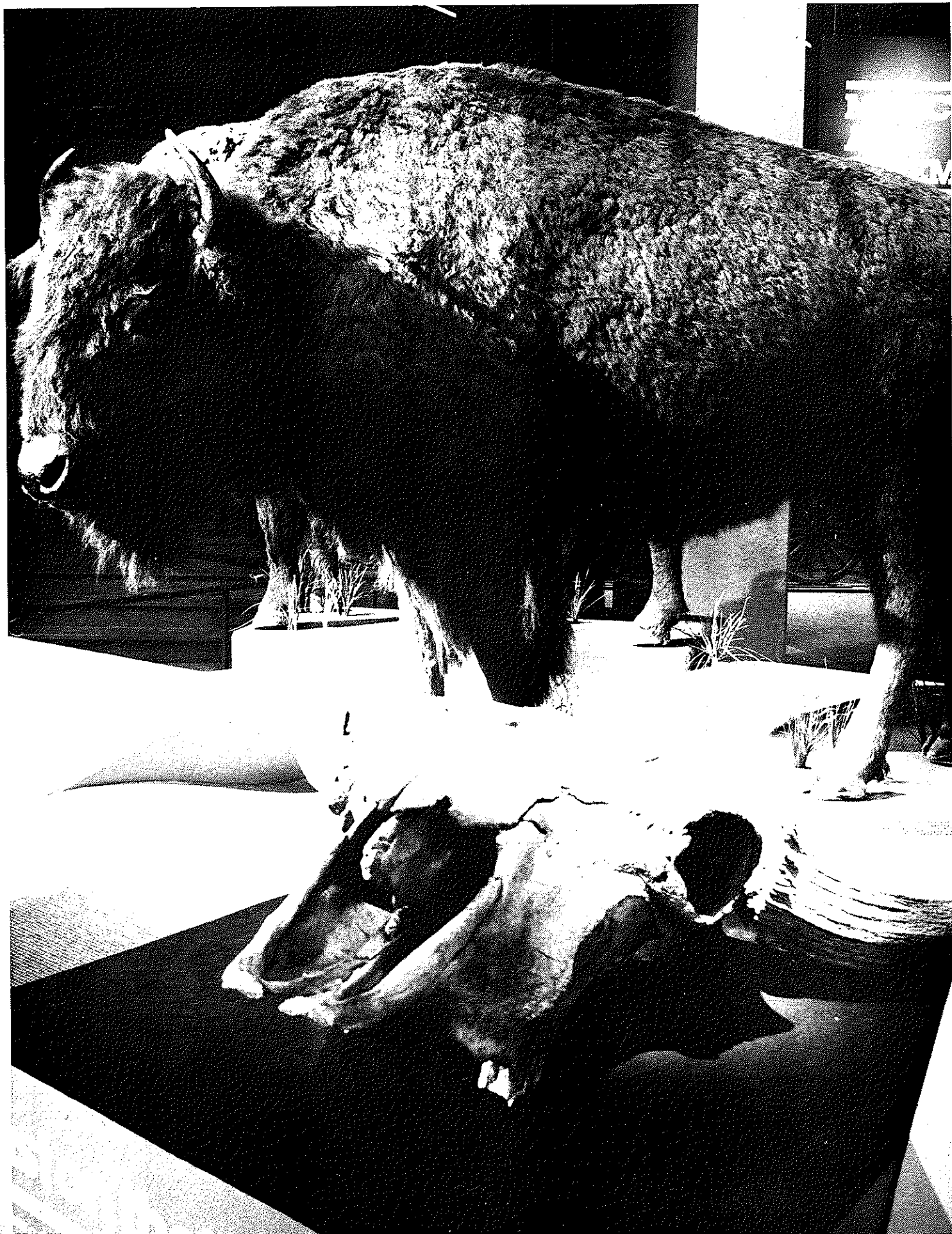
Entirely separate from the museum gallery and public areas are the State Historical Society's offices, workshops, and stack and storage areas. Steve Aune, auditor, is pictured in one of the workroom-storage areas. There was no room to store larger items in the old museum building. Storage rooms and workshops on the lower level of the Center are connected by a "working concourse" wide enough to accommodate a Cadillac and high enough to clear large prefabricated displays as they are moved from workrooms, up a service elevator, to the gallery. Artifact and document storage areas in the Center are environmentally controlled for optimum preservation of materials.

One of the Internal Audit Department's duties has been to provide assurance to the North Dakota Industrial Commission, Bank of North Dakota Advisory Board, and Bank management that the systems of internal accounting control are adequate, effective, and efficient. This assurance continues as a major responsibility for the Internal Audit Department.

In providing this assurance, the audit techniques and tools include auditing "through and with" the computer. The Bank of North Dakota has become dependent upon data processing systems. Therefore it is significantly important the internal auditors are also electronic data processing specialists.

The Internal Audit Department also assists management in Bank profitability. This goal is accomplished utilizing the Bank's new computer, performing audits that appraise the economy, efficiency and effectiveness of Bank activities, as well as analysis and review procedures.

In its efforts to become even more cost-effective, the Internal Audit Department continues to seek new auditing management techniques that can assure this Department's responsibilities to maintain the Bank of North Dakota's proud chapter in the heritage of this great state.



Official Staff

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

ADMINISTRATIVE AND RETAIL BANKING

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

AUDIT

Steve Aune, Auditor (3)
Korrine Lang, Ass't. Auditor
Betty Renz, Ass't. Auditor

INVESTMENT AND TRUST DEPARTMENT

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

COMMERCIAL AND CORRESPONDENT BANKING

R. E. Caudel, Senior Vice President (1-2)
I. Jeannine Christy, Vice President
E. W. Pederson, Vice President (3)
M. E. Stenhjem, Vice President (3)
Lewis Wilson, Vice President (2-3)
Annis Foss, Ass't. Vice President
Delores James, Ass't. Vice President
Arlene Olson, Ass't. Vice President
Duane Wagner, Ass't. Vice President
Betty Zeeb, Ass't. Vice President
Rod Anheluk, Ass't. Cashier
Sharon Grendahl, Ass't. Cashier
Sandy Kienzle, Ass't. Cashier
Rod McGlynn, Ass't. Cashier
Cecilia Wanner, Ass't. Cashier

KEY

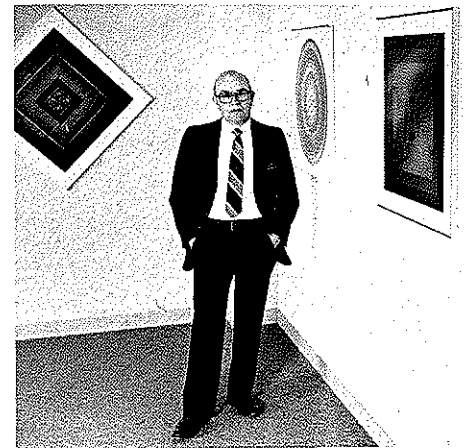
1 Member of Executive Committee
2 Member of Investment Committee
3 Member of Operations Committee

LEGAL

Tom B. Tudor, General Counsel (2)

PERSONNEL

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



R.E. Sailer, senior vice president, views the works of North Dakota artist Richard Sammons in a gallery near the library Reading Room. This particular alcove is just off the main lobby. The alcove is intended as a documentary collection exhibit area, but has held several art exhibits. North Dakota's first official Christmas tree, decorated with ornaments made by state artists, was also placed here during the 1981 Christmas season.

Statement of Condition

December 31, 1981 and 1980

ASSETS	1981	1980
CASH AND DUE FROM BANKS	\$ 60,812,218	\$ 44,284,630
INVESTMENT SECURITIES (Notes 1 and 2):		
U.S. Government obligations	\$ 75,401,150	\$ 73,112,808
Federal agency obligations	84,334,369	64,475,136
Money market investments	3,837,967	36,010,724
State, municipal and other obligations	16,151,201	14,117,631
Total investment securities	<u>\$179,724,687</u>	<u>\$187,716,299</u>
FEDERAL FUNDS SOLD	<u>\$215,625,000</u>	<u>\$135,000,000</u>
LOANS:		
FHA and VA home loans (Note 3)	\$170,732,817	\$157,012,089
Bank participation loans	114,605,726	111,503,261
Farm real estate loans	42,714,579	30,777,059
Federally insured student loans	31,051,308	5,393,689
SBA participation loans	15,087,880	17,202,792
Other	12,256,885	7,416,971
Total loans	<u>\$386,449,195</u>	<u>\$329,305,861</u>
Less reserve for loan losses (Notes 1 and 4)	2,000,000	2,000,000
	<u>\$384,449,195</u>	<u>\$327,305,861</u>
BANK PREMISES AND EQUIPMENT (Note 1)	\$ 1,457,804	\$ 1,424,551
ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS	\$ 11,322,440	\$ 9,235,208
Total Assets	<u><u>\$853,391,344</u></u>	<u><u>\$704,966,549</u></u>
LIABILITIES AND CAPITAL FUNDS		
DEMAND DEPOSITS:		
Political subdivisions	\$ 45,950,344	\$ 45,294,571
Banks	32,617,232	27,643,409
State treasurer	12,264,918	26,205,890
Individuals, partnerships and corporations	6,778,318	4,898,817
U.S. Government	98,261	143,314
Official checks	2,384,486	1,117,674
Total demand deposits	<u>\$100,093,559</u>	<u>\$105,303,675</u>
TIME AND SAVINGS DEPOSITS:		
State treasurer	\$275,132,140	\$206,572,582
Political subdivisions	192,691,427	104,293,974
Individuals, partnerships and corporations	22,874,758	19,353,040
Total time and savings deposits	<u>\$490,698,325</u>	<u>\$330,219,596</u>
Total deposits	<u>\$590,791,884</u>	<u>\$435,523,271</u>
OTHER LIABILITIES:		
Federal funds purchased	\$110,950,000	\$ 83,095,000
Securities sold under agreements to repurchase (Note 2)	54,793,125	88,562,340
Collateralized long-term bonds (Note 3)	42,083,000	45,000,000
	<u>\$207,826,125</u>	<u>\$216,657,340</u>
Accrued interest and other	9,854,842	9,952,295
Appropriation due State General Fund (Note 5)	3,750,000	1,500,000
Total other liabilities	<u>\$221,430,967</u>	<u>\$228,109,635</u>
CAPITAL FUNDS:		
Capital (Notes 1 and 5)	\$ 16,000,000	\$ 16,000,000
Surplus	16,000,000	12,000,000
Undivided profits	7,668,493	11,832,607
Reserve for contingencies	1,500,000	1,500,000
Reserve for purchase of land and building improvements	—	1,036
Total capital funds	<u>\$ 41,168,493</u>	<u>\$ 41,333,643</u>
COMMITMENTS AND CONTINGENCIES (Note 6)		
Total Liabilities and Capital Funds	<u><u>\$853,391,344</u></u>	<u><u>\$704,966,549</u></u>

See notes to Financial Statements

Statement of Income

FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
INTEREST INCOME:		
Interest and fees on loans	\$40,480,131	\$31,551,404
Interest on investment securities —		
U.S. Government obligations	6,614,960	6,381,505
Federal agency obligations	6,561,764	5,910,715
Money market investments	4,575,446	6,028,374
State, municipal and other obligations	1,170,011	794,225
Interest on Federal funds sold	15,908,816	9,844,391
Total interest income	<u>\$75,311,128</u>	<u>\$60,510,614</u>
INTEREST EXPENSE:		
Interest on deposits	\$44,251,215	\$30,499,344
Interest on Federal funds purchased	15,187,451	10,942,960
Interest on funds borrowed	8,101,841	8,473,541
Total interest expense	<u>\$67,540,507</u>	<u>\$49,915,845</u>
Net interest income	<u>\$ 7,770,621</u>	<u>\$10,594,769</u>
Per cent to total interest income	10.3%	17.5%
SERVICE FEES AND OTHER INCOME		
	<u>\$ 1,850,401</u>	<u>\$ 1,590,299</u>
	<u>\$ 9,621,022</u>	<u>\$12,185,068</u>
OPERATING EXPENSES		
Salaries and benefits (Note 8)	\$ 2,003,189	\$ 1,633,642
Fees and services	715,915	587,736
Data processing	416,262	304,826
Supplies and materials	129,103	90,207
Provision for loan losses (Note 4)	351,103	147,131
Depreciation	114,266	109,156
Total operating expenses	<u>\$ 3,729,838</u>	<u>\$ 2,872,698</u>
Income before security gains	<u>\$ 5,891,184</u>	<u>\$ 9,312,370</u>
SECURITY GAINS		
	193,666	403,649
Net income for the year	<u>\$ 6,084,850</u>	<u>\$ 9,716,019</u>

Statement of Capital Funds

FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	Capital	Surplus	Undivided Profits	Reserve for Contingencies	Reserve for Purchase of Land and Building Improvements	Total
BALANCE, DECEMBER 31, 1979	\$12,000,000	\$12,000,000	\$ 2,110,102	\$ 1,500,000	\$ 7,522	\$27,617,624
Net income for the year	—	—	9,716,019	—	—	9,716,019
Appropriation due to State of North Dakota General Fund (Note 5)	4,000,000	—	—	—	—	4,000,000
Transfer to reserve for purchase of land and building improvements	—	—	(7,500)	—	7,500	—
Remodeling costs paid and capitalized	—	—	13,986	—	(13,986)	—
BALANCE, DECEMBER 31, 1980	<u>\$16,000,000</u>	<u>\$12,000,000</u>	<u>\$11,832,607</u>	<u>\$ 1,500,000</u>	<u>\$ 1,036</u>	<u>\$41,333,643</u>
Net income for the year	—	—	6,084,850	—	—	6,084,850
Transfer to surplus	—	4,000,000	(4,000,000)	—	—	—
Transfer to the Community Water Facility Loan Fund (Note 6)	—	—	(1,250,000)	—	—	(1,250,000)
Appropriation due to State of North Dakota General Fund (Note 5)	—	—	(5,000,000)	—	—	(5,000,000)
Transfer of unexpended reserve for purchase of land and building improvements	—	—	1,036	—	(1,036)	—
BALANCE, DECEMBER 31, 1981	<u>\$16,000,000</u>	<u>\$16,000,000</u>	<u>\$ 7,668,493</u>	<u>\$ 1,500,000</u>	<u>\$ —</u>	<u>\$41,168,493</u>

See notes to financial statements.

Statement of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
FUNDS PROVIDED FROM:		
Operations —		
Net income for the year	\$ 6,084,850	\$ 9,716,019
Add — Items not requiring expenditure of funds —		
Provision for loan losses	351,103	147,131
Depreciation and amortization	179,609	174,543
Total from operations	<u>\$ 6,615,562</u>	<u>\$ 10,037,693</u>
Increase in —		
Deposits	155,268,613	27,226,187
Other liabilities	—	39,323,134
Capital	—	4,000,000
Decrease in —		
Cash and due from banks	—	7,630,319
Investment securities	7,991,612	—
	<u>\$169,875,787</u>	<u>\$ 88,217,333</u>
FUNDS USED TO:		
Purchase Building improvements and equipment	\$ 147,519	\$ 37,623
Transfer to —		
Community Water Facility Loan Fund	1,250,000	—
Appropriation due to State of North Dakota General Fund	5,000,000	—
Increase —		
Cash and due from banks	16,527,588	—
Investment securities	—	9,302,591
Federal funds sold	80,625,000	39,265,000
Loans, net	57,494,437	38,390,781
Accrued interest receivable	2,152,575	1,221,338
Decrease other liabilities	6,678,668	—
	<u>\$169,875,787</u>	<u>\$ 88,217,333</u>

See notes to financial statements.



Charles Bailly & Company

Certified Public Accountants

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

We have examined the statement of condition of THE BANK OF NORTH DAKOTA as of December 31, 1981 and 1980, 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, 1981 and 1980, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Bismarck, North Dakota
January 27, 1982

Charles Bailly & Company

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Nature of Organization —

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

b. Investment Securities —

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

c. Reserve For Loan Losses —

The reserve for loan losses is based on the Bank's past loan loss experience and other 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 \$659,413 and \$545,147 at December 31, 1981 and 1980, respectively.

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

2. INVESTMENT SECURITIES:

The Bank has pledged investment securities to the following:

	Amounts Pledged	
	1981	1980
Deposits in the treasury tax and loan account	\$ 2,000,000	\$ 2,000,000
Securities sold under agreements to repurchase	55,915,000	92,351,000
Collateralized long-term bonds (Note 3)	7,000,000	7,000,000
Payment of principal and interest of the 1977 Series A Bond issued by the North Dakota Municipal Bond Bank	15,000,000	15,000,000
	<u>\$79,915,000</u>	<u>\$116,351,000</u>

3. COLLATERALIZED LONG-TERM BONDS:

The Bank issued 9¼% collateralized long-term bonds in December, 1978, totaling \$50,000,000. Annual sinking fund payments of \$2,500,000 are due each December 1 through December 1, 1988, and \$5,000,000 beginning December 1, 1989 through December 1, 1993, when the bonds mature. Redemption of the bonds may be accelerated by paying a premium which decreases proportionately from 108.538% at December, 1979 until it is eliminated in December, 1991. The bonds are collateralized by FHA and VA guaranteed loans with a principal balance of \$82,572,537 outstanding as of December 31, 1981. The Bank is required to maintain the discounted value of eligible collateral at 115% of the aggregate principal amount of the bonds outstanding. In addition the Bank pledged \$7,000,000 in U.S. Government securities as additional 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, 1981.

4. RESERVE FOR LOAN LOSSES:

Transactions in the reserve for loan losses were as follows:

	1981	1980
Balance, January 1	\$2,000,000	\$2,000,000
Add (deduct) —		
Recoveries	180,569	74,809
Loans charged off	(531,672)	(221,940)
Provision charged to operating expenses	351,103	147,131
Balance, Dec. 31	<u>\$2,000,000</u>	<u>\$2,000,000</u>

5. APPROPRIATION DUE STATE GENERAL FUND:

On July 12, 1980, the Industrial Commission authorized the Bank of North Dakota to withdraw \$4,000,000 of the \$14,000,000 appropriated for the State General Fund for the biennium beginning July 1, 1979 to increase the Bank's capital account.

The North Dakota State Legislature appropriated \$5,000,000 for the State General Fund from the undivided profits of the Bank during the biennium beginning July 1, 1981. The remaining amount due at December 31, 1981 is \$3,750,000.

6. COMMITMENTS AND CONTINGENCIES:

a. The 1977 North Dakota State Legislature

created a Community Water Facility Loan Fund to be administered by the Bank of North Dakota. The loan fund was to be established from the future undivided profits of The Bank of North Dakota with an authorized ceiling of \$10,000,000. As of December 31, 1981, \$6,250,000 has been appropriated and paid. The remaining \$3,750,000 has been appropriated at December 31, 1981, to be transferred upon order of the Industrial Commission if the need arises. It is reasonably possible that the funds will not be needed and that the Bank may retain the funds to maintain adequate capital.

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

7. TRUST ASSETS:

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

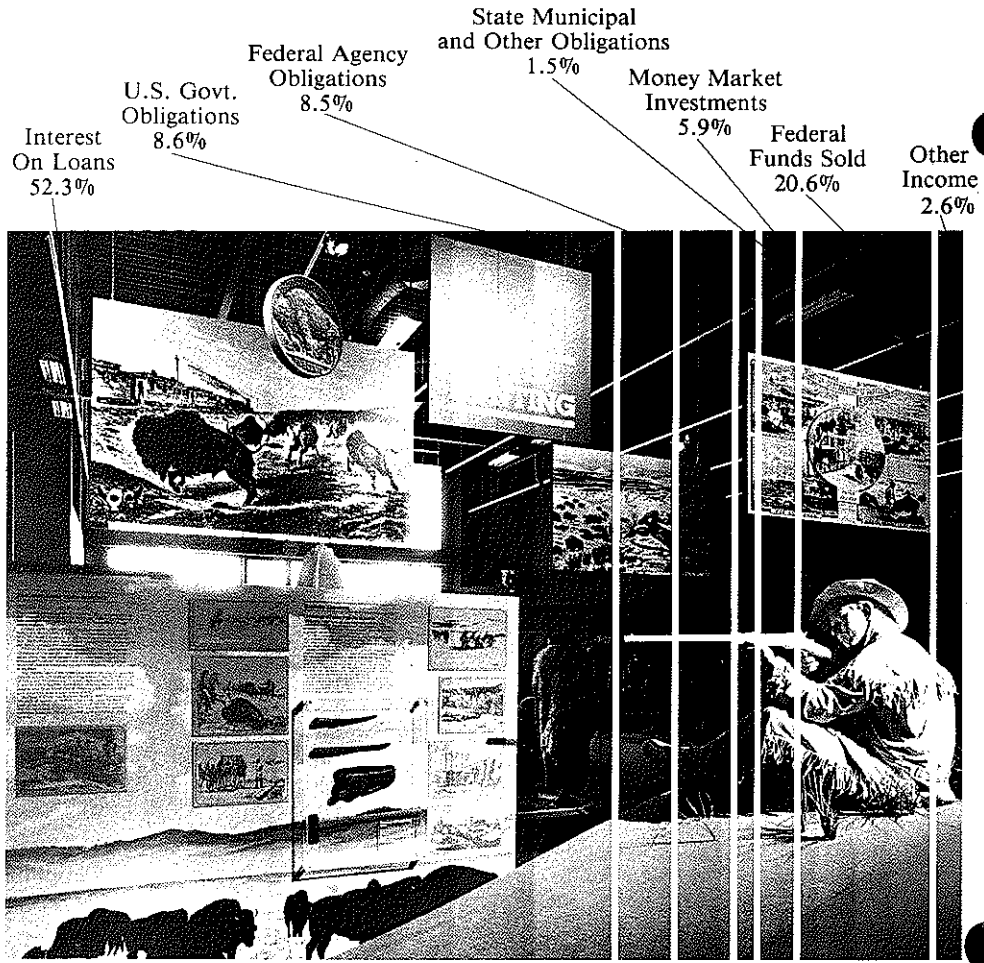
8. SALARIES AND BENEFITS:

a. Included in salaries and benefits for 1981 and 1980 were the following:

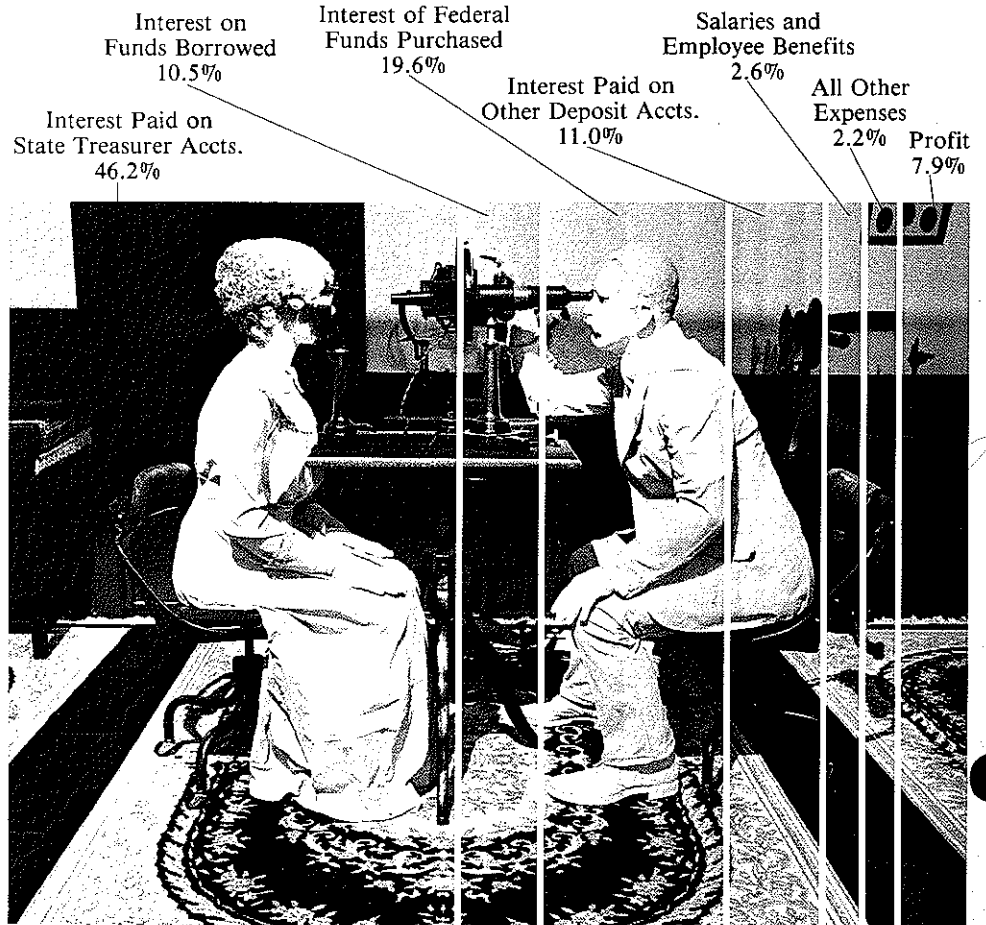
	1981	1980
Salaries	\$1,719,108	\$1,400,870
Social security taxes	108,796	93,116
Retirement plan	86,080	66,646
Hospitalization	79,715	64,112
Unemployment and workmen's compensation	9,490	8,898
	<u>\$2,003,189</u>	<u>\$1,633,642</u>

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 available to all full-time employees of the Bank. Under the provisions of the plan, the Bank contributes 5.12% and the employee 4.00% of the monthly qualifying salary of the individual employee. Monthly contributions are expensed when paid. Vested benefits currently exceed the fund assets. The amount of the excess is not known for each individual governmental unit. The Bank is not liable for the amounts by which vested benefits exceed fund assets.

Income



Expenses and Profit



Five Year Summary

	1981	1980	1979	1978	1977
OPERATING RESULTS (000 omitted)					
Total Income	\$ 77,356	\$ 62,505	\$ 48,727	\$ 41,322	\$ 32,401
Interest Expenses	67,541	49,916	37,900	28,559	19,483
Other Oper. Expenses	3,730	2,873	2,799	2,429	1,858
NET EARNINGS (profit)	6,085	9,716	8,028	10,334	11,060
Paid to St. Treas. (Dividend)	2,750	5,000	7,500	8,000	8,000
BALANCE AT YEAR END (000 omitted)					
Total Resources	853,391	704,967	624,701	572,698	512,809
Total Deposits	590,792	435,523	408,297	403,236	376,268
Demand Deposits	100,094	105,304	114,799	105,987	92,643
Time Deposits	490,698	330,219	293,498	297,249	283,625
Fed. Fds. Purchase/R.P.'s	165,743	171,657	120,792	72,426	91,646
Fed. Fds. Sold	215,625	135,000	95,735	37,525	32,800
TOTAL INVESTMENT SECURITIES (000 omitted)					
U.S. Government	179,724	187,716	178,414	225,710	242,189
Federal Agencies	75,401	73,113	84,621	117,377	91,700
Other Money Market Instruments	84,334	64,475	72,365	57,216	41,488
D. Political Sub. Bds.	3,838	36,011	13,187	37,823	97,861
	16,151	14,117	8,241	13,294	11,140
TOTAL LOANS (000 omitted)					
Farm Home Adm. Loans	384,450	327,306	289,062	259,908	192,206
Fed. Insured Student Loans	0	0	0	390	392
Farm Real Estate Loans	31,051	5,394	0	36,464	32,539
FHA Home Loans	42,715	30,777	20,994	14,220	12,972
GI Home Loans	123,141	108,338	83,628	52,312	31,610
Small Business Adm. Loans	47,592	48,674	43,081	32,680	24,446
Bank Participation Loans	15,088	17,203	16,850	15,178	11,933
Other Loans	112,606	109,503	118,538	105,475	77,063
	12,257	7,417	5,971	3,189	1,251
CAPITAL AND RESERVES (000 omitted)					
Capital	41,168	41,334	27,618	36,090	28,256
Surplus	16,000	16,000	12,000	12,000	10,000
Undivided Profits	16,000	12,000	12,000	12,000	12,000
Reserves	7,668	11,833	2,110	10,553	4,344
	1,500	1,501	1,508	1,537	1,912
OTHER DATA (Numbers)					
Financial Inst. with BND Accts.	221	210	207	203	206
Individual Checking Accounts	3,869	4,747	3,795	3,832	3,895
Individual Savings Accounts	3,572	3,629	4,513	3,695	3,161
Fed. Insured Student Loans (made or purchased)	18,697	16,368	13,577	9,109	8,543
FHA House Loans (made or purchased)	451	717	936	710	707
GI House Loans (made or purchased)	17	187	352	325	301
SBA & BI Loans On Hand	156	30	70	16	42
Bank Participation Loans On Hand	1,767	1,656	1,033	972	470
Number of Employees	147	128	121	102	98