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The Stewardship of Bob and Gladys Levis

The greatest national treasures — Yellowstone, the Grand Tetons and other places of rare beauty that millions of Americans now take for granted were seldom preserved as a result of a ground swell of public opinion.

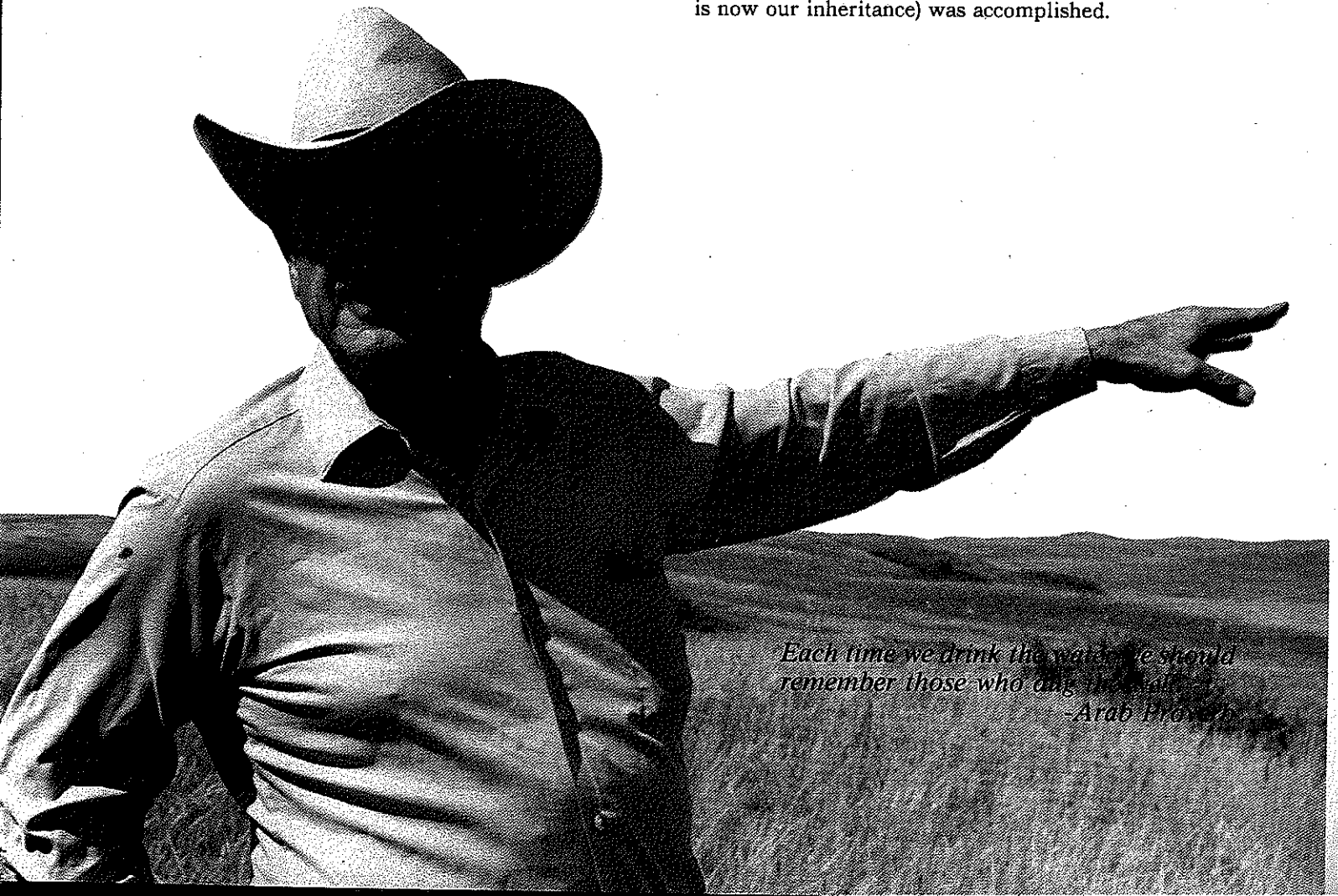
Almost invariably, these fragile jewels remain intact today because a selfless, farsighted, persistent individual or small group caused them to remain unspoiled.

In an era of unquestioned development, Bob and Gladys Levis understood best the remarkable national value entrusted to them.

This place of special beauty and meaning was preserved, unspoiled, much as it existed when Lewis and Clark first saw it.

As their stewardship drew to a close, they sought to transfer this natural treasure to the next generation by placing Cross Ranch in preserving hands.

Instead of weakening their resolve, adversity and opposition strengthened it until their dream (which is now our inheritance) was accomplished.



*Each time we drink the water, we should
remember those who dug the well.
-Arab Proverb*

The Bank of North Dakota Philosophy

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

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

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

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

FINANCIAL HIGHLIGHTS

AT YEAR END:	1982	1981	%
Resources.....	\$861,966,174	\$853,391,344	1%
Deposits.....	528,644,853	590,791,884	-11%
Real Estate Loans.....	191,510,464	213,447,396	-10%
All Other Loans.....	135,146,917	171,001,799	-21%

FOR THE YEAR:	1982	1981	%
Total Income.....	\$85,760,843	\$77,355,195	11%
Interest Paid.....	69,680,178	67,540,507	3%
Expenses Paid.....	8,256,528	3,729,838	121%

NET INCOME	7,824,137	6,084,850	29%
Dividend Paid to State Treasury	2,500,000	2,750,000	-9%
Number of Checks Processed...	42,336,926	45,249,547	-6%
Total Federal Funds Purchased	\$40,270,896,000	\$33,811,178,000	19%
Total Federal Funds Sold.....	\$60,771,431,000	\$39,572,396,000	54%

Report of the Industrial Commission



(left to right), Attorney General Robert O. Wefald, Commissioner of Agriculture Kent Jones, Governor Allen I. Olson.

To the Citizens of North Dakota:

Just as various forces have challenged the natural aesthetics of North Dakota's Cross Ranch, the Industrial Commission's maintenance of Bank of North Dakota's purpose - "to encourage and promote agriculture, commerce, and industry" - was broadly challenged in 1982. It was a year that witnessed depressed agriculture prices and declines in oil production, construction and state revenues, which are deposited in Bank of North Dakota.

The decline in state revenues made it necessary for Bank officials and members of the Industrial Commission to initiate swift management decisions required to maintain the Bank's positive cash flow and solid footings.

Included among these decisions was the temporary suspension of direct loan programs such as the Beginning Farmer program, which is part of the farm real estate portfolio of the Bank. Acting in his role as Chairman of the Industrial Commission, North Dakota Governor Allen I. Olson appointed a special committee that reviewed the Beginning Farmer program. That committee subsequently submitted its report to the Commission, and the result has been legislative action to reinstitute a revised Beginning Farmer loan program in 1983.

In an effort to provide a specialized team to oversee housing needs of state residents, housing bond issues and similar projects, the Industrial Commission deleted the Housing Finance Agency from Bank of North Dakota in 1982 and established the office as an independent agency under the Industrial Commission.

Members of the Commission also developed the State Guaranteed Student Loan Program in 1982 as a result of changes in federal regulations and procedures that mandated the state to create such an office. This agency processes student loan insurance on behalf of the state in cooperation with federal officials. Due to the Bank's experience with student loans, the program was developed under the direction of Bank of North Dakota. As an indication of the new agency's success, loans totaling nearly \$25 million were insured by the North Dakota Guaranteed Student Loan Program by the end of 1982.

Relative to more routine matters, Bank of North Dakota was the subject of 26 Industrial Commission meetings during 1982. The Commission approved seven letters of credit totaling \$15 million, as well as the Bank's \$27.8 million participation in 13 loans totaling \$63.7 million, six operational policies and the promotion of ten officers. The Commission also met with the Bank of North Dakota Advisory Board on four occasions and extends its gratitude for the Board's advice and counsel.

As the concept of the nation's only state-owned bank demonstrates a rewarding and unique feature of North Dakota, so also are members of the Commission proud to draw attention to the equally unique features of North Dakota's Cross Ranch in this issue of the Bank of North Dakota Annual Report.

To the North Dakota Industrial Commission:

While serenity is a natural presence in the forests and grasslands of the Cross Ranch featured in this year's Annual Report of Bank of North Dakota, a study in sharp contrast is revealed when considering activities of the Advisory Board and Bank officers in 1982.

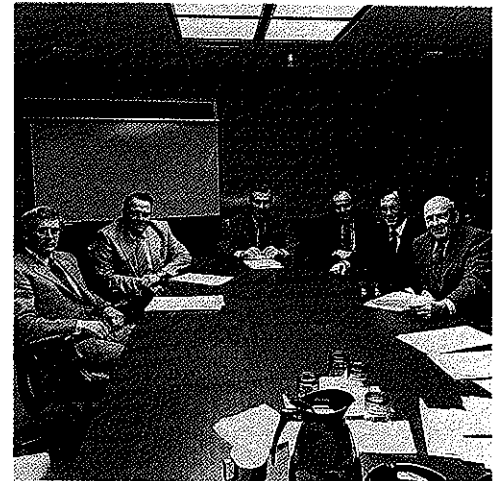
During the year, the Advisory Board met twelve times in Bismarck. Four of those meetings included members of the Industrial Commission.

The Board reviewed 51 loan applications totaling \$110.5 million and approved Bank of North Dakota's participation of \$66 million in all but ten of the loan requests. The Board also approved six letters of credit totaling \$15 million. Obviously, the level of activity indicates that Bank of North Dakota remains a vital force in our state's economy!

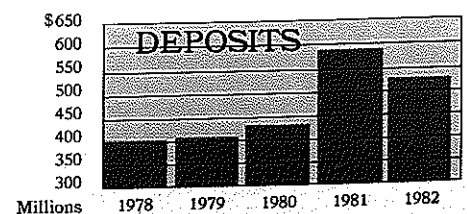
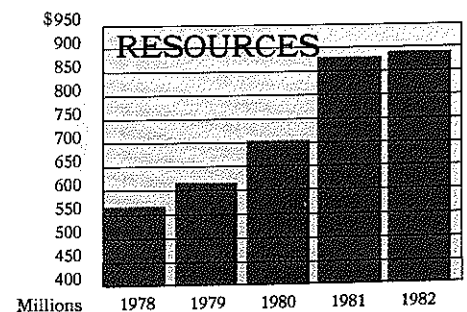
In order to provide flexible management for the well-being of the Bank's financial condition, the Board continues to meet with the Audit Department to monitor internal controls and recommend procedural adjustments.

Considering economic conditions and unforeseen difficulties with some loans, members of the Board have recommended several loan policies that should assist in making loan decisions. It is gratifying to know the Industrial Commission has approved these recommendations.

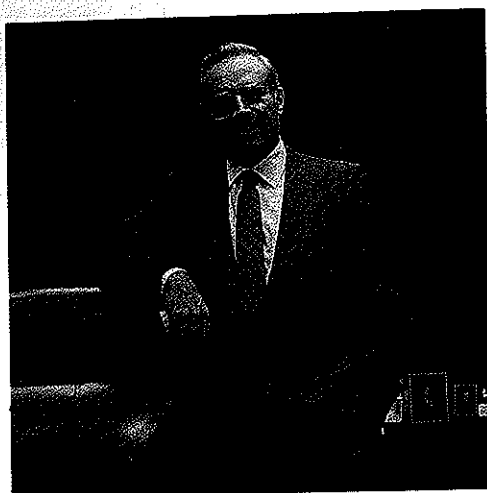
The Advisory Board is also pleased to have contributed its services in a mutual effort that has resulted in another successful year for Bank of North Dakota—a year that allowed the Bank to show a profit, notwithstanding record loan losses. Undoubtedly, prudent and careful management of overhead and loan activity played a significant role in this year's profit picture.



The Advisory Board; (left to right), Leslie Nesvig, William Baldwin Jr., Dan O'Day, John McGinley, Robert Gregoire, John Rouzie, not pictured - William Clairmont.



President's Message



H.L. Thorndal, President and Manager.

To the North Dakota Industrial Commission:

Our predictions concerning the need for lower interest rates in last year's Annual Report have come true! Declining interest rates have resulted in wider margins in our loan portfolio. The final figures for 1982 show net income for Bank of North Dakota was \$7,824,137, a 28.5 percent increase. Assets also reached new highs in 1982, peaking at \$891 million. May I direct your attention to the Comptroller's section of this report for additional detailed information, percentages and comparisons.

Through a number of procedural, policy and reorganizational changes the Bank has proceeded to continually improve its liquidity position, correcting the mismatch of assets and liabilities that occurred throughout the industry during the past few years. Included in the reorganizational changes was the transfer of the state Housing Finance Agency out of Bank of North Dakota to become an individual entity under the umbrella of the Industrial Commission. This action allowed the Bank to discontinue longer term home mortgage loans, which are now facilitated by this new agency.

Procedural and policy changes have provided for nearly all new loans and renewals to be written with a floating interest rate. The state, through Governor Allen I. Olson and State Treasurer John Steven Lesmeister, have purchased from the Bank \$35 million worth of farm real estate mortgages as backing for a 1982 bond issue. Also, legislation has increased the bonding authority from \$35 million to \$150 million.

Efforts to improve and maintain the Bank's liquidity, in view of anticipated declines in state revenues, also necessitated discontinuing the popular Beginning Farmer loan program. New legislation, however, affords the Bank the opportunity to continue a similar loan program utilizing funds separated from the Bank's assets.

In contrast to more recent years, 1982 witnessed most financial institutions experiencing more loan losses and Bank of North Dakota was no exception. In addition to a one million dollar increase in the loan loss reserve, the Bank charged off \$3,585,680 in loans during the year. While some loan loss recovery is expected in the future such loans could not qualify as Bank assets. Nonperforming loans, however, continue to occupy minimal amounts in our loan portfolio. Due to positive economic indications and a number of changes in Bank policy, we expect fewer loan charge-offs in the coming year, and we have identified problem loans which are receiving special attention and supervision.

The Bank's only bond issue in 1982 involved participation in the \$35 million farm real estate bond program; however, several issues are planned for 1983, including \$13 million for the North Dakota Municipal Bonds, a \$150 million advance refund on the 1981 Student Loan Bonds, and, with enabling legislation, another farm real estate issue. We also expect municipal bond underwriting action to diminish somewhat in 1983.

The above actions had an immediate desired impact that can be noted in Bank of North Dakota's surplus account which totaled \$18 million, an increase of \$2 million over the previous year. The lending limit (policy mandated not to exceed 25 percent of capital and surplus) is now \$8.5 million. At year end, no single loan exceeded \$6 million. The Bank's \$1 million Reserve for Contingencies was increased to \$3.5 million, and Loan Loss Reserves were also increased from \$2 million to \$3 million. In the final analysis, the transfers to reserves substantially increased Bank of North Dakota's financial strength and soundness by the end of 1982.

State Guaranteed Student Loan Program. The Guaranteed Student Loan Program (GSLP) became operational in 1982 as a new entity within the Bank of North Dakota. Since July 1, 1982, this new Department has provided insured backing for 13,894 loans totaling \$24.8 million. As the Department's report is reviewed (Page 13), keep in mind Bank of North Dakota's dominant role in making the nation's first and last

federally insured student loans beginning in 1967 and ending in 1982.

Comptrollers Division. The Bank had 174 computer program changes in 1982 with more anticipated for 1983. The changes are necessary as the Bank continues to maintain its position on the leading edge of this new and rapidly developing technology.

Special Loans Division. While Special Loans Division activities are not reflected in our Financial Statements, this Division's loans represent a significant role in Bank business throughout the state. Special loans are those involving particular interest groups the legislature has deemed appropriate to receive state financial assistance, including farm real estate loans, rural and city water facilities, group facilities for the developmentally disabled and others. The Special Loans Division supervises loans totaling more than \$56.5 million to 1,135 applicants.

Investment and Trust Department. The Bank's Investment and Trust Department serves as paying agent and/or trustee for 528 bond issues across the state that total over \$330 million. The Department is also responsible for trust assets totaling \$385 million for the state Teacher's Fund for Retirement, Workmen's Compensation Fund, State Bonding Fund, State Fire and Tornado Fund, Highway Patrol Retirement Fund and the Public Employees Retirement Fund.

Student Loan Department. Again in 1982, Bank of North Dakota's Student Loans were very much in demand. The Student Loan Department processed loans totaling \$25,257,640 for 13,637 applications. Department activities include the supervision of 91,440 loans that total nearly \$103 million. More than half the loans (49,000) are in repayment. All such loans were transferred to the student loan trust. Equal or perhaps greater demand is anticipated in 1983.

Promotions. Members of the state Industrial Commission awarded ten personnel promotions in 1982. These included Assistant Cashier Rod Anheluk to Assistant Vice President; Assistant Vice President and Assistant Comptroller Dale Eberle to Vice President; General Counsel Tom Tudor to Vice President and General Counsel; Assistant Cashier Betty Renz to Assistant Auditor; Assistant Auditor Cecilia Wanner to Assistant Cashier; Debbie Barth, Marilyn Kelsch, Julie Kubisiak, Kathy Lacher and Claudette Warren to Assistant Cashiers. Industrial Commission members and Bank management supervisors realize staff personnel are the Bank of North Dakota's strongest resource and continually make efforts to recognize the exceptional and meritorious service of staff members.

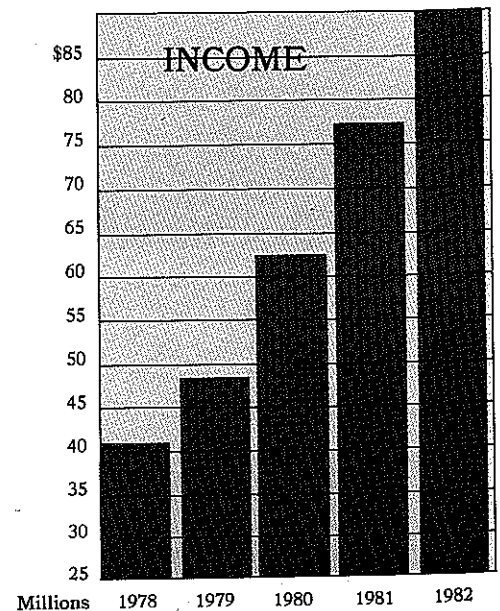
Bank of North Dakota's Advisory Board continued to show great interest and provide valuable advice and counsel to Bank management this past year. It is appropriate that each member of the Board be extended a personal note of gratitude for their efforts.

While 1982 can be noted as a difficult year, not just for Bank of North Dakota but for most of state government, the Bank concluded the year with increased earnings, improved liquidity, a stronger capital base, new programs, and a skilled and dedicated staff. We expect 1983 to be another challenging year that will show the Bank's continued success and progress in "aiding and encouraging agriculture, commerce and industry in North Dakota."

This year's Annual Report, is dedicated to the Cross Ranch, one of North Dakota's most beautiful and unique natural areas. The Cross Ranch is located north of the city of Mandan on the Missouri River.

Our cover and the photos throughout the report depict the pristine beauty of our great state in the area known as the Cross Ranch.


H.L. Thorndal
President





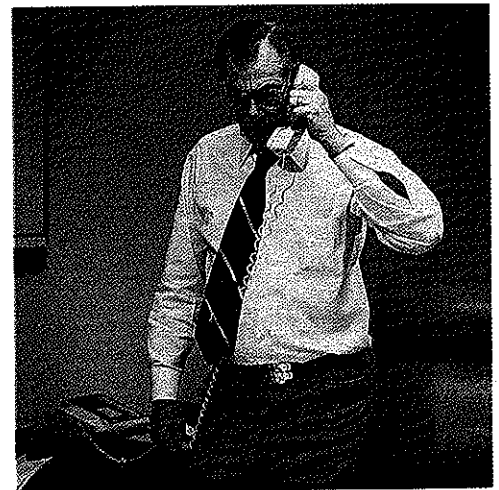
Towering buttes with tree filled ravines offer a majestic panorama.

Correspondent Banking

Through the ages, a system for the management of payments and the allocation of available funds has been necessary for any economy. Whether a country or region, is predominantly free enterprise, socialist, communist, democratic or totalitarian, it must have arrangements whereby people receive a form of acceptable tender and can exchange that for goods in the market place. Modern economies are money economies, and Bank of North Dakota has served North Dakota as a central bank since 1919.

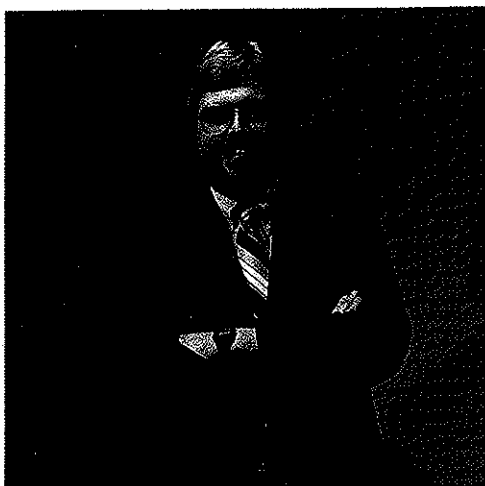
Dating back to the time when the Cross Ranch was a virgin wilderness, Bank of North Dakota was clearing checks, acting as a market for various loans and investments and making credit available through the community banks throughout North Dakota. As the only state-owned and operated Bank in the nation, our principal purpose is to make available and act as a conduit for the flow of funds through the financial institutions of North Dakota.

All money economies, especially in a free enterprise system, are cyclical; and 1982 was a year of real stress for the agricultural industry of North Dakota. The effects of high interest rates, high production costs, and diminished commodity prices created very unstable conditions for our economy. The Correspondent Banking Department of Bank of North Dakota has helped maintain a necessary source of credit and liquidity during this period. Like all the citizens of North Dakota, we suffered some bruises and numerous problems, but the system is working and the future holds real promise.



Robert E. "Bob" Caudel, Senior Vice President.

Commercial Loans Department

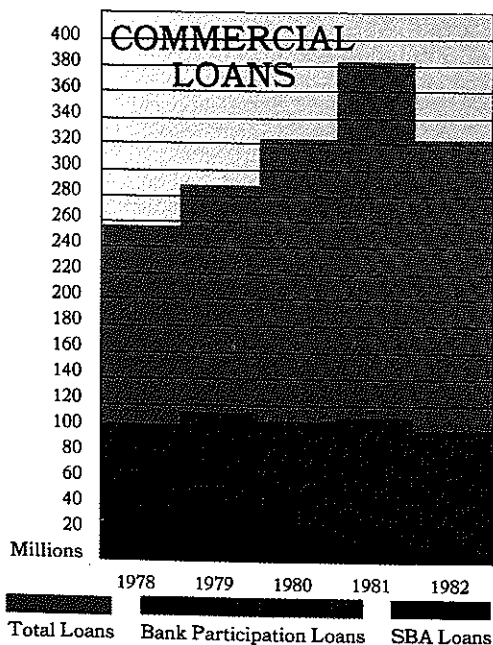


Lewis Wilson, Vice President.

At best, 1982 was a turbulent economic year. It was certainly a trying year for both lenders and borrowers. Despite borrowers' obvious attempts to keep their needs for capital purchases and operating expenditures to a minimum, many of them experienced mounting problems during the year due to the economic chaos that lingered throughout the country. High interest rates, decreased sales volume, low commodity prices, the high cost of production, and many other variables contributed to the dilemma facing the borrower. The farmer and small businessman in North Dakota suffered more in 1982 than since the Great Depression.

These problems surfaced through the lending portfolios of financial institutions throughout North Dakota in the form of increased work-out loans, bankruptcies, and charge-offs. Bank of North Dakota, through its participation lending with these financial institutions, was not immune to these problems. We experienced more problem loans than ever and record charge-offs in 1982.

Even though 1983 appears to be another difficult year, we are hopeful of an economic recovery and turn around. The strong agricultural base in North Dakota will not falter, and we also have an abundance of natural resources. Consequently, we are optimistic about North Dakota's future prosperity. Bank of North Dakota plans to remain a part of that prosperity through its continued "promotion of agriculture, commerce, and industry" in the state.



Farm and Ranch Ownership

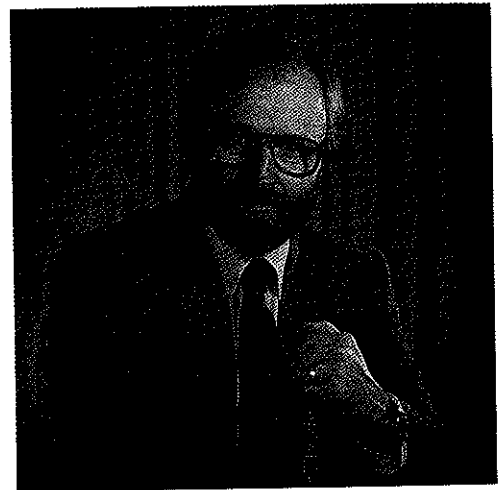
Bank of North Dakota Farm Ownership Program began in the early 70's; and in 1978, the Beginning Farmer Program was added to the original program.

North Dakota law allows Bank of North Dakota to make loans up to 65 percent of the appraised value of the farm real estate, secured by a first real estate mortgage. The Farmers Home Administration (FmHA) is allowed to make real estate loans secured by second mortgages; therefore, through a combined effort, Bank of North Dakota and the Farmers Home Administration can lend up to 100 percent of the appraised value to qualified farmers. 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 two percent reduction in the interest rate from the Bank's regular rate for the first five years of the loan.

In 1982, Bank of North Dakota's FmHA Farm Ownership Loan Portfolio increased by approximately \$11 million bringing the total to over \$52 million, including \$34.7 million which are loans to more than 500 beginning farmers.

Due to uncertainty in the general economy and demand for Bank of North Dakota funds, the Farm Ownership Program was temporarily discontinued in 1982.

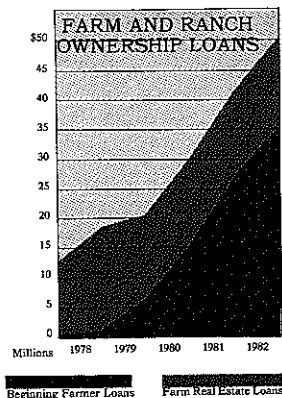
In 1983, Bank of North Dakota hopes to begin a similar Farm Real Estate Program which will again provide substantial financial assistance to North Dakota farmers and ranchers. This is the same optimism visitors feel with the renewal of springtime at the Cross Ranch.



Rod Anheluk, Assistant Vice President.



Betty Zeeb, Assistant Vice President, Duane Wagner, Assistant Vice President.



Student Loan Department



J. Jeannine Christy, Vice President, Arlene Olson (standing), Assistant Vice President.

Just as the Missouri River changes in its flow by the Cross Ranch on a day-to-day basis, so has the Student Loan Department of Bank of North Dakota changed in 1982.

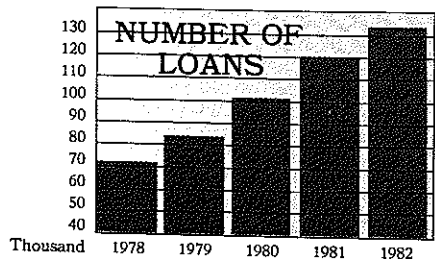
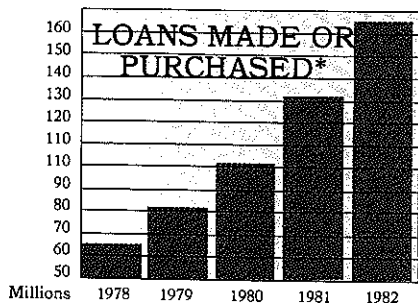
There were some changes in management with resultant reorganization of the entire Department. 1982 was a frustrating and challenging year for the Student Loan Department. We made the first Federally Insured Student Loan in the United States in 1976, and we also made the last one in June, 1982. The switch over in July to Guaranteed Student Loans was accomplished with some delay due to computer problems.

New procedures are being devised to accommodate guaranteed student loans in all areas: purchases, due diligence, and claim procedure.

Student loans in the amount of \$25,257,640 to 13,637 students were processed in 1982. The outstanding balance at year end was \$102,820,839.

The challenges for the Department will continue as rules and regulations change, resulting in new interest rates, new needs analysis, draft registration, and satisfactory progress.

The Student Loan Department and Bank of North Dakota remain constant in their pledge to continue to provide the leadership and access to loans for all North Dakota students who desire to continue with their education.



A 3% default rate has been maintained since program inception.
*Total from Program Inception

Guaranteed Student Loan Program

In February 1982, a special Committee of Bank of North Dakota officers appointed by President Thorndal met and set criteria for selection of a servicing system to be utilized by the newly organized North Dakota Guaranteed Student Loan Program (NDGSLP). This program was mandated by the United States Office of Education and authorized by the North Dakota State Legislature. Proposals were sent to ten servicers and all ten responded. From these, three were chosen for final consideration. The Committee selected Educational Methods, Inc., a Denver company, to provide the computer software, required forms, manuals, and technical assistance.

The next several months were very demanding and required much coordination with Central Data Processing, Bank of North Dakota, and the Office of Education in Washington before NDGSLP was sufficiently staffed, suitable quarters obtained, and final approval received from the Department of Education.

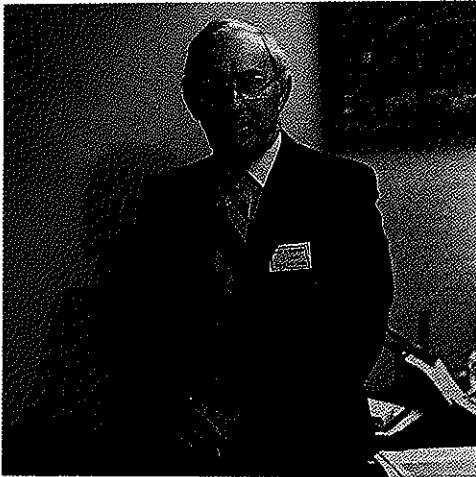
The first loan was guaranteed on July 20, 1982. Five months later on December 31, 1982, 13,894 students' loans had been guaranteed at a value of \$24.8 million. These students are attending more than 360 post-secondary schools throughout the nation. The funds were provided by 81 lenders who have signed Lenders Agreements with this Agency.

NDGSLP is indeed privileged to play a part in making higher education opportunities a reality for North Dakota students. We look forward to continuing to play a major role in providing access to post-secondary education by having a high-quality Guaranteed Student Loan Program.



*Martin Stenehjelm, Vice President, Delores James,
Assistant Vice President,*

Special Loans Division



Ernest Pederson, Vice President.

The activities of the Special Loans Division (other than the payments received from the Judge A.M. Christianson Project) do not appear on the Bank's general ledger; therefore, the activities reported here are in addition to the activities reported on other pages of this report for the Bank.

The 1982 activities in the special accounts are as follows:

The State Land Department Loan Pool. This pool of \$50 million had 95 loans paid in full, made 45 new loans, earned over \$3.9 million for the State Land Department, and paid more than \$160 thousand to Bank of North Dakota in fees.

The Nursing and Home for the Aged Fund. This fund had 14 loans with a year-end balance of over \$496 thousand. Principal and interest payments made on these loans are credited to the Developmentally Disabled Facility Loan Fund.

The Developmentally Disabled Facility Revolving Loan Fund. This fund made one loan in late 1981 and 12 loans in 1982. At year end there was \$4.36 million in the fund with over \$2.5 million outstanding in loans.

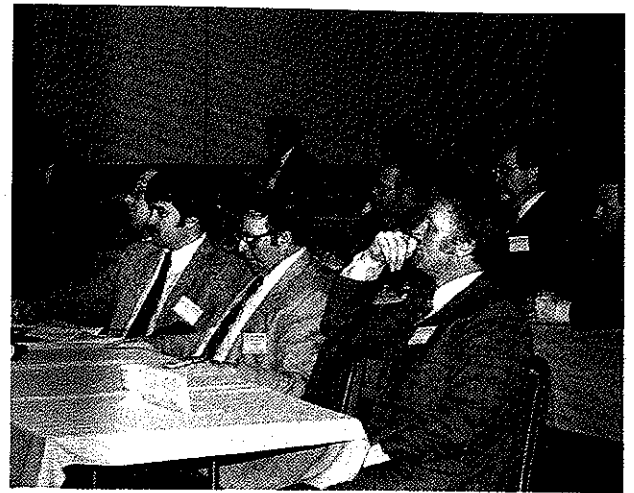
The North Dakota Rural Rehabilitation Corporation (NDRRC) Loan Fund. This fund of \$1.1 million made 60 Farmers Home Administration subordinated farm operating loans totaling just over \$1.1 million. The NDRRC board of directors increased the amount of the fund to \$1.3 million for the 1983 season. These loans are made only when other credit is not available.

The Community Water Facility Revolving Loan Fund. Six loans were made by this fund in 1982 for a total of \$1,618,000. All of these loans are supplemental to loans made by the Farmers Home Administration. The value of this fund at year end was \$7.95 million with over \$6.64 million out in loans. The fund will be receiving an additional \$2.5 million out of Bank of North Dakota future profits.

The Judge A.M. Christianson Project. At year end we had eight Contracts for Deed on project units at Burlington with a total outstanding balance of \$20 thousand.

The Seller Sponsored Loan Guarantee Fund. This fund of \$2 million had one request for a guarantee which was immediately withdrawn due to the interest limitation in the law.

Mid-Winter Break

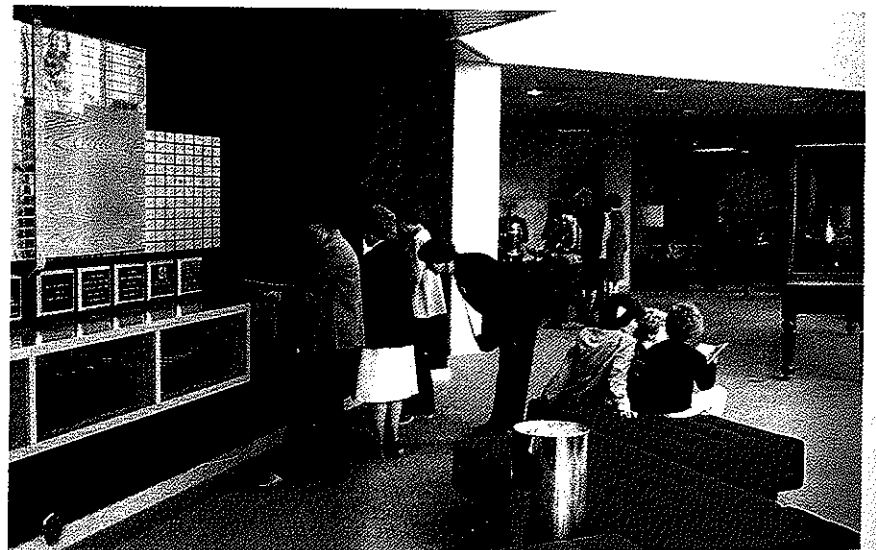
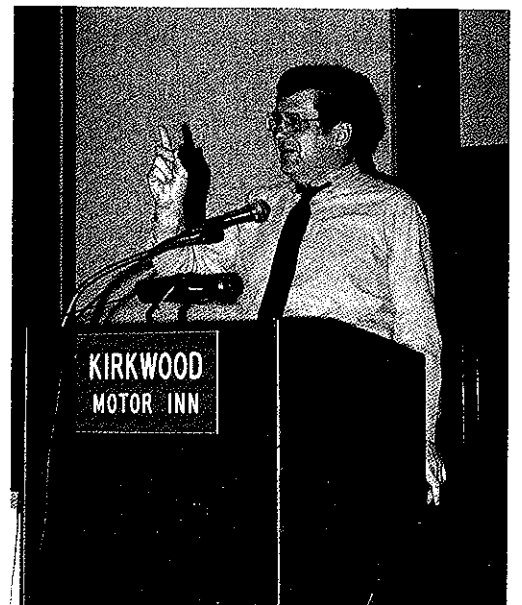


Each year the "Mid-Winter Break" offers the financial managers of the state of North Dakota new ideas, changes and learning experiences from within the banking industry. For eight successive years, the conference has developed and grown to become the most anticipated banking seminar in the state.

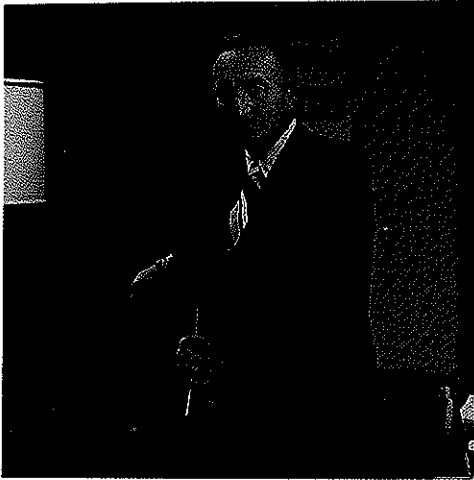
Along with the technical, legal and practical concepts there is a generous portion of fellowship and entertainment. Of special importance is the program for spouses. The "Break" is a short period where the programs and activities help produce positive results in the banks and communities of North Dakota.

The theme for the 1983 conference was "Banking for the 80's". With a new era of deregulation, competition and change facing financial institutions, our speakers were most positive in renewing a spirit of confidence and aggressiveness within the banking industry of North Dakota.

Plans are already under way for the ninth "Mid-Winter Break" scheduled for the third week of February, 1984.



Investment and Trust Department



John W. Fay, Senior Vice President.

The financial market place improved somewhat in 1982; but on the whole, the year was a carbon copy of 1980 and 1981.

Market volume was staggering considering the stock market recovery and the absorption of \$45 million in corporate debt, \$62 million of tax-exempt bonds (which included only \$12 million of direct municipal debt), and \$120 billion of government offerings. This large volume gives a fairly good perspective on the viability of the market place.

Certain developments, however, indicate the market may be headed in the right direction, even though there are some obstacles to overcome. Decreasing inflation rates are most welcome; and interest rates, while still somewhat high, are returning a strong 4 percent to 5 percent above the rate of inflation. This period gives a strong incentive for the saver and is becoming more palatable to the borrower.

On the other hand, the federal government continues to consume tremendous amounts of available dollars. New Treasury Department and Internal Revenue Service rules require reporting, withholding and remittance on all interest-bearing accounts, including tax-exempt bonds, which creates a real burden that must be resolved in order for such accounts to attract clients.

The high costs of construction and interest rates were cause for declining Bank of North Dakota participation in municipal underwriting in 1982, but we contemplate Bank of North Dakota will be going to market with another Student Loan Bond issue in the coming year.

The Student Loan issue is expected to total about \$150 million. The Bond Bank will also be selling an issue that should be approximately \$13 million. Two other issues are also under consideration as Bank of North Dakota continues to aid in the financing of agriculture, commerce, and industry throughout North Dakota.

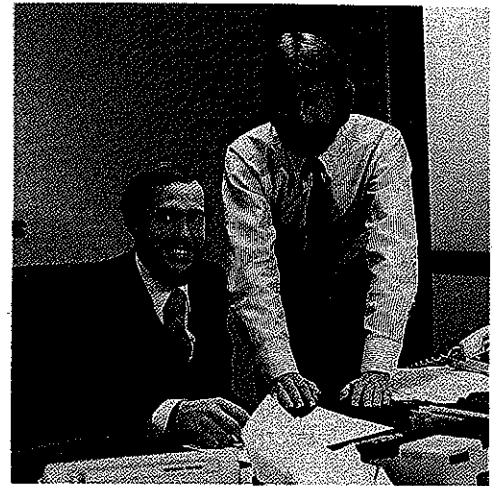
Money Market Center

Due primarily to the return of an upward sloping yield curve in the last quarter of the year, Bank of North Dakota's investment portfolio increased 28.7 percent over the previous year, totaling over \$231 million at the end of 1982.

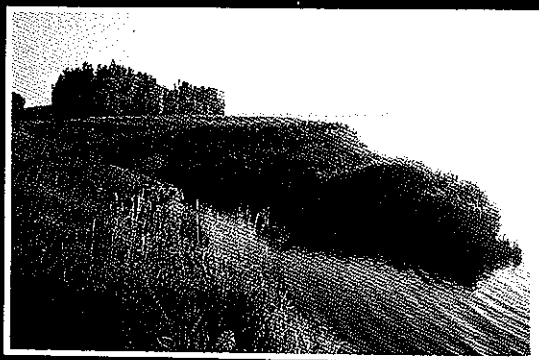
Trading in Federal Funds continued strong throughout 1982 because of an absence of loan demand and increasing liquidity. Daily Federal Funds trading volume was \$275 million, resulting in an annual total amounting to more than \$101 billion.

Federal Fund rates ranged from a high of 15.08 percent in the first quarter of 1982 to a low of 8.70 percent in the last quarter of the year, resulting in Bank of North Dakota paying an effective daily rate of 12.18 percent for the year.

We can expect some volatility in the financial markets generated from the large federal deficit and federal deregulation; however, interest rates should continue to decline—at least through the first half of 1983.



Edward B. Sather, Vice President (standing), Tim Glass, Assistant Vice President.



Unlike most of North Dakota, very little Cross Ranch since the days of Lewis and Clark

Almost every species of animal life found shelter here. Virtually every tree native to represented on the ranch, which also includes remaining stretches of natural Missouri River

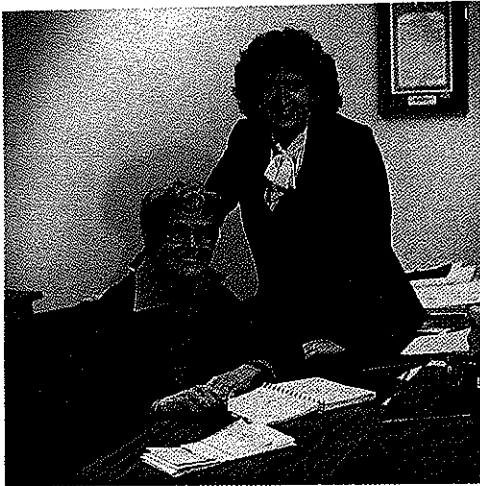
Cross Ranch is also of considerable historical 150 archaeological sites of Missouri River have been found so far.

Robert and Gladys Levis, The Nature Conservancy this state's citizens saw value in preserving of North Dakota's last and best places. As heritage embraced within Cross Ranch was more valuable.



as changed on the Cross
Voyage of Discovery.
North Dakota finds
North Dakota is
les one of the last re-
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Bond and Coupon Paying Division



Shirley Homuth, Vice President, Nancy Glass, Assistant Vice President.



*Gary Bauer, Special Assistant Attorney General
Marilyn Kelsch, Assistant Cashier.*

At the conclusion of 1982, Bank of North Dakota acted as a paying agent for more than \$330 million in bonds issued by state and local entities across North Dakota. This figure is representative of the vast growth in the volume of securities received and paid by the Bond and Coupon Paying Division.

Another example is shown in volume growth as moneys received from municipalities that are annually applied on their outstanding indebtedness has risen from \$11.5 million in 1976 to \$32.5 million in 1982. All of this money must be disbursed as interest and principal payments by this Division to individuals and correspondent and respondent banks holding the instruments of local municipal debt.

Reviewing the total dollar amount in bonds reveals that 95 percent are bearer bonds with coupons attached. Naturally, these coupons require clipping, counting, calculating and remittance to the bondholders. However, effective July 1, 1983, all bonds will be issued in fully registered form, which eliminates handling such large numbers of coupons. Bond issues prior to that date will remain in existing form, and will continue to be serviced.

The new fully registered form will provide for more efficient procedures in facilitating handling and paying, resulting in better services for everyone.

Legal Department

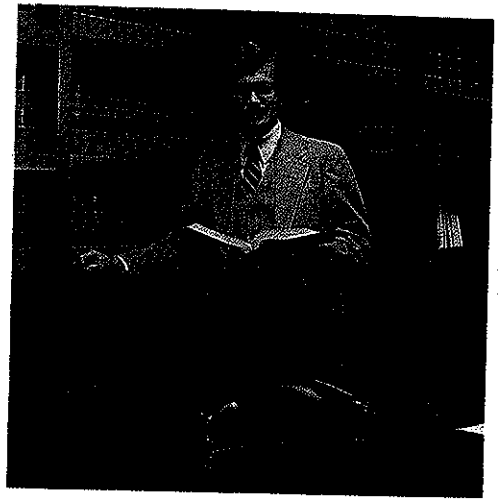
All departments and divisions of Bank of North Dakota are served by a full-time in-house legal department staffed by the Bank's General Counsel, (who is also an Assistant Attorney General), and a legal assistant. The North Dakota Municipal Bond Bank, administered by the Bank's Investment and Trust Department, is also afforded legal counsel from this Department.

As in 1981, foreclosure of real property mortgages held by Bank of North Dakota continued to demand a great amount of time and attention in 1982. A total of 45 such foreclosures were commenced by the Legal Department last year. Of that number, 16 were either brought current, assumed, or paid in full. The remaining 29 have either proceeded to foreclosure or remain in some phase of foreclosure action.

State bond issues also garnered considerable time and effort from the Legal Department. These bond issues included the issuance and sale of the state's \$35 million 1982 Real Estate Series "A" General Obligation Bonds. These bonds were issued in accordance with state law and were the first such issue since the 1930's.

Following separation of the Housing Finance Agency from Bank of North Dakota, the Legal Department continued to work closely with the new agency in the issuance and sale of the state's first Single Family Mortgage Revenue Bonds, 1982 Series "A".

As the Legal Department continues to work closely with all entities in Bank of North Dakota during the coming year, it would appear there will be more involvement in state-sponsored bond issues requiring legal assistance. With an improved economy, the Department would anticipate the rate of foreclosure activities to diminish.



Tom B. Tudor, Vice President and General Counsel.

Cashiers Division



Ila Eckroth, Vice President and Cashier.

Deposit accounts with the Bank of North Dakota fall under the responsibility of the Cashiers Division. The Division's responsibility is providing immediate and accurate information for all the Bank's depositors on their respective accounts.

There were significant and rapid changes in the deposit account offerings in 1982. Among those changes included authorization from the Depository Institution Deregulation Committee for financial institutions to offer the new Money Market Deposit Account for savers. The committee determined that the institutions were allowed to pay with no regulatory interest rate ceiling on any such account that maintained a minimum balance of \$2,500. Further, there is no required minimum maturity period. The interest is paid monthly. Interest rates on the accounts vary with the money market.

As deregulation continues, the minimum deposit requirements of 91-day certificates will be reduced from \$7,500 to \$2,500. The 7 - 31-day certificate requirements will drop from \$20,000 to \$2,500 and the \$10,000 six month money market certificates will also drop to \$2,500. These changes are expected in January, 1983.

In October, 1982, banks were authorized to allow previously ineligible governmental units to participate in Now Accounts. These include federal, state, county and municipal governments and their political subdivisions. These entities will be further eligible for the Super Now Accounts in January, 1983.

Financial institutions are allowed to pay with no regulatory interest rate ceiling on the SUPER NOW Accounts as long as a minimum balance of \$2,500 is maintained. Should the balance fall below that amount, the interest automatically falls to 5.25 percent.

Interest on the SUPER NOW Accounts accrues on the daily balance and is paid monthly. There is no limit on the number of third party drafts or transfers.

Essentially, Cashiers Division personnel expect more activity in 1983 on special savings plans offered by the Bank of North Dakota. We expect to see more people with lesser available income participate in the programs as minimum deposits are reduced.

Operations Division

As the sphere of influence for Bank of North Dakota has grown over the years, the requirements for handling the results of this growth have also increased.

To better accommodate increasing volumes of transmittal items, the Operations Division acquired a new IBM 3890 high-speed reader/sorter in March, 1982.

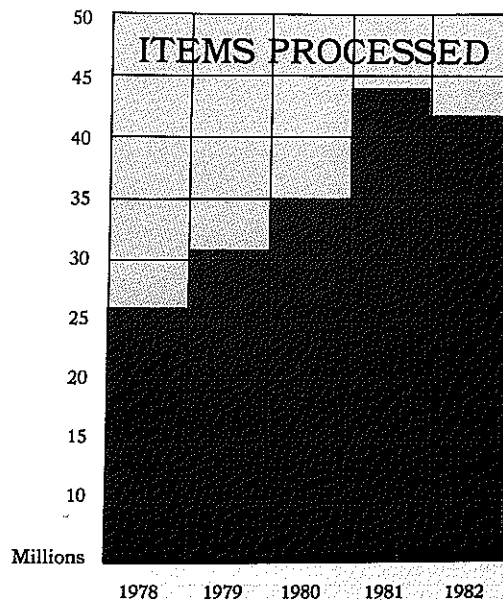
In its capacity as a central clearing bank for 105 North Dakota local banks remitting checks for deposit, the Operations Division has now developed the capabilities of handling all such requirements in a most timely and efficient manner.

The Division's new computer is also interfaced with the state Central Data Processing Center's IBM 4341 which enables the Division to process up to 300,000 items each day to meet deadlines involving daily cash letters to every bank across the state and other financial record-keeping requirements.

While 1982 saw a decline from the previous year in the number of checks processed, the Division predicts the 1983 volume to be increased due, in part, to improved economic conditions.



Evelyn Zelmer, Vice President, Carl Arndt, Vice President.





The last of the Missouri floodplain with its giant cottonwood will now be passed on to future generations.

Personnel Department

During 1982, the Bank's human resources have been as important as its investments, loans and deposits. Along with an increase in earnings, Bank employees increased productivity and services to North Dakota.

The total permanent staff at year-end numbered 140, with 129 full-time and 11 part-time positions. This is a decrease in number from 1981; however, temporary positions were added to assist in special projects throughout the year. In February, the Housing Assistance Program was given individual state agency status, and 15 positions transferred from the Bank.

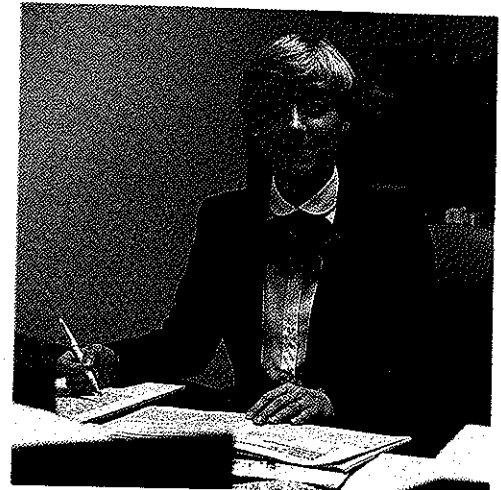
Thirty-three promotions were made during the year. As part of our career path development, these promotions involved increased paygrades and salary ranges, along with increased job responsibilities. Three additional changes were made through lateral transfers.

Measurement of employee attitudes and sensitivity to employee behavior is essential to progressive management. In October, Bank employees participated in a Bank Administration Institute "Employee Opinion Survey". Management has identified areas of strengths and weaknesses; and through feedback sessions has determined methods to increase the positive areas and decrease employee relations problems. Overall, when compared to the national norm for banks, Bank of North Dakota is above average in growth, advancement and personnel policies; average in benefits, work satisfaction, orientation, training and job value; and is working on methods to improve pay and communications. The Bank will continue to sample employee views and incorporate the findings into necessary action.

The Industrial Commission elected five employees to Assistant Cashier status in 1982. They also promoted three officers: one to General Counsel and Vice President; a second from Assistant Vice President to Vice President and the third from Assistant Cashier to Assistant Vice President. Two other officers received title changes from Assistant Cashier to Assistant Auditor and vice versa. At year end, the Bank had 40 officers, 24 females and 16 males.

Bank of North Dakota has remained 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 also remain committed to their dedicated efficiency in the promotion of agriculture, commerce and industry as Bank of North Dakota.



Sharon Wehner, Assistant Vice President.

Audit Department



(left to right), Steve Aune, Auditor, Korrine Lang, Assistant Auditor, Betty Renz, Assistant Auditor.

During 1982 the Audit Department developed skills in Electronic Data Processing (EDP) auditing. We were specifically concerned with structuring a practical EDP audit methodology and utilizing computer audit software programs in our financial and compliance audit projects. The Division also assisted the Operations and Comptroller Divisions in testing the controls of a new check processing computer system and assisted the Comptroller Division in the installation of an accounting system for the North Dakota State Guarantee Student Loan Agency.

The initiation and/or completion of 11 audit projects and completion of audit procedures performed on a continuous basis helped assure the North Dakota Industrial Commission, Bank of North Dakota Advisory Board and Bank management that its system of operating and accounting controls for those activities audited were adequate and the degree of compliance with such procedures provided effective control during the audit period.

For the future the Audit Department will continue to provide the aforementioned assurances to Bank management and improve and utilize its skills in EDP auditing. Other areas the Department will develop are skills in trust and operational auditing. Trust auditing is the examination of bank activities in its role of being Trustee. Operational auditing, otherwise called Management Auditing, is the review of a bank function for efficiency, economy, and effectiveness.

These goals and actions are efforts to become more cost effective and ensure the Department is meeting its responsibility, just as the Cross Ranch owners will continue to meet their responsibility in maintaining the beauty of the ranch.

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
Dale Eberle
Vice President
Evelyn Zelmer
Vice President
Alyce Starck
Assistant Vice President
Esther Focke
Assistant Comptroller
Janette Melby
Assistant Comptroller
Joyce Welder
Assistant Vice President
Assistant Comptroller
Debbie Barth
Assistant Cashier
Darlene Felchle
Assistant Cashier
Donna Frey
Assistant Cashier
Audre Goll
Assistant Cashier

Audit

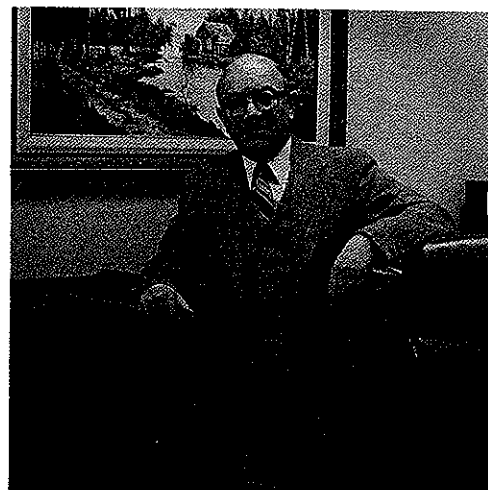
Steve Aune
Auditor 3
Korrine Lang
Assistant Auditor
Betty Renz
Assistant Auditor

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
Assistant Vice President
Tim Glass
Assistant Vice President
Marilyn Kelsch
Assistant Cashier

Commercial and Correspondent Banking

R. E. "Bob" Caudel
Senior Vice President 1-2
I. Jeannine Christy
Vice President 3
E. W. Pederson
Vice President 3



R.E. Sailer, Senior Vice President.

M. E. Stenehjem
Vice President
Lewis Wilson
Vice President 2-3
Rod Anheluk
Assistant Vice President
Delores James
Assistant Vice President
Arlene Olson
Assistant Vice President
Duane Wagner
Assistant Vice President
Betty Zeeb
Assistant Vice President
Kathy Lacher
Assistant Cashier
Julie Kubisiak
Assistant Cashier
Cecilia Wanner
Assistant Cashier

Legal

Tom B. Tudor
Vice President & General Counsel 2
Claudette Warren
Assistant Cashier

Personnel

Sharon Wehner
Assistant Vice President 3

Key

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

Comptroller Report

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

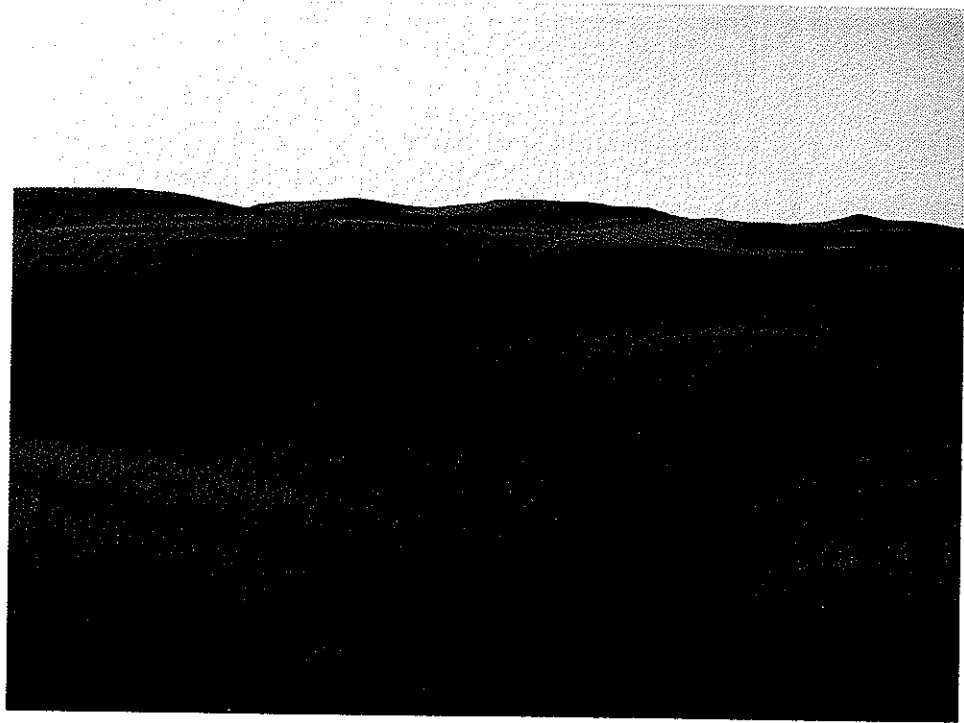
Bank of North Dakota's portfolio of Investment Securities increased 28.7 percent to \$231.3 million at year end 1982, while investment earnings increased 28 percent to \$21 million. Return on average investment assets increased from 8.9 percent for 1981 to 9.7 percent in 1982.

The Bank's overall loan portfolio declined 15 percent to \$326.6 million at December 31, 1982, largely due to the sale of \$35 million in farm loans to the State Treasurer as part of the Bonds of North Dakota, 1982 Real Estate Series A transaction (refer to Note 7 of the Financial Statements for additional details). The Bank's year end loan portfolio represents a loan to deposit percentage (percent "loaned up") of 61.8 percent as compared with 65 percent at year end 1981. During this period, return on the average loan portfolio decreased from 12.4 percent to 11.07 percent due primarily to a reduction in loan interest rates.

Total deposits decreased 10.5 percent to \$528.6 million by year end 1982 due primarily to reduction of time deposits of the State Treasurer. At December 31, 1981 the Industrial Commission had sold \$94,520,000 of student loan bonds, the proceeds of which were on deposit in the Bank but had not yet been used to purchase loans for the Student Loan Trust. By the end of 1982 unexpended moneys in this fund were down to approximately \$37 million, accounting for the majority of the deposit reduction. Other State Treasurer deposits were also reduced by State of North Dakota General Fund expenditures. Bank of North Dakota's deposit mix showing a reduction of time and savings deposits from 83 percent to 80 percent during 1982 appears to be distorted by the substantial reduction of State Treasurer deposits offset by increases in other holdings of interest-bearing deposits. Actions of the Depository Institutions Deregulation Committee authorizing new types of interest-bearing deposits such as the Money Markey Deposit Accounts and SUPER NOW Accounts authorized in December, 1982 and January, 1983, can be expected to further shift the deposit mix toward interest-bearing deposits in future years. Interest expense on deposits increased 7.6 percent during 1982 while average time and savings deposits increased 18.5 percent to \$440.8 million, again illustrating the slide in interest rates experienced in the latter part of the year.

Outstanding Bank of North Dakota 9¼% Collateralized Bonds were reduced to \$35,158,000 during 1982. This \$6,925,000 retirement of bonds was 177 percent greater than Indenture requirements, and was carried out to capitalize on changes in market conditions since issuance of the bonds. Profits from these transactions amounted to \$1,619,346. The portion of these retirements in excess of Indenture requirements and corresponding profits of \$1,013,707 has been segregated as an extraordinary item for statement purposes.

Total capital funds increased 9.9 percent during 1982 and by year end had grown from 4.82 percent to 5.2 percent of total assets. There was a \$2 million increase in the Bank's Surplus account and a \$2 million increase in the Reserve for Contingencies account, both as a result of transfers from undivided profits. Retention of earnings in this manner has the effect of strengthening the Bank's capital structure and increasing its lending limit. Bank of North Dakota will need to continue strengthening this capital position through retention of earnings if it is to remain a strong element of the banking community in North Dakota. By comparison, banks in North Dakota averaged an 8.09 percent capital to assets percentage during 1982, which is down from 8.7 percent in 1981. Bank of North Dakota experienced a return on equity of 14.7 percent and 15.5 percent in 1981 and 1982 respectively.



Interest income in 1982 increased 8.5 percent while interest expense increased 3.2 percent, leaving a net interest income margin of 14.8 percent of total interest income. This is an increase from 10.3 percent for 1981 and reflects an easing of the interest rate squeeze which was experienced throughout 1981. During 1982 the cost of interest-bearing deposits at Bank of North Dakota dropped from 12.4 percent to 10.79 percent.

Overall operating expenses of \$3,729,838 in 1981 rose 121 percent to \$8,256,528 in 1982. This reflects substantial increases in loan loss provisions and investment in upgrading data processing hardware and software systems. Loan loss provisions of \$4,585,680 represent .566 percent of average total assets for 1982 and is comprised of two elements: record loan charge-offs during the year as the economy took its toll on loan customers and a \$1 million increase in the Bank's Loan Loss Reserve. North Dakota banks as a whole averaged loan loss provisions of .22 percent during the same period. While some additional data processing enhancements are planned during 1983, we expect total data processing expenditures to be less than in 1982. It should be noted that salary and wage expense for 1982 represents .252 percent of average total assets for 1982 and .285 percent for 1981. In contrast, North Dakota banks averaged salary and wage expenses of 1.49 percent of total assets during 1982.

Bank of North Dakota, like other financial institutions, experienced 1982 as a year in which there was an easing of the squeeze on interest margins experienced in the previous couple of years. Loan interest rates declined, but at a somewhat slower pace than depository interest rates, hopefully adding some degree of stability to the economic picture for 1983. Economic deterioration of loan portfolios can be expected to continue into 1983, but we expect this continuation to be a lesser magnitude.

A.R. Nosbusch
Comptroller

Statement of Condition

December 31, 1982 and 1981

	1982	1981
ASSETS		
CASH AND DUE FROM BANKS	\$52,246,696	\$60,812,218
INVESTMENT SECURITIES (Note 2):		
U.S. Government obligations	97,898,079	75,401,150
Federal agency obligations	79,587,948	84,334,369
Money market investments	35,482,397	3,837,967
State, municipal and other obligations	18,397,011	16,151,201
Total investment securities	231,365,435	179,724,687
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	232,515,600	215,625,000
LOANS:		
FHA and VA home loans (Note 3)	173,375,469	170,732,817
Bank participation loans	107,768,562	114,605,726
Farm real estate loans	18,134,995	42,714,579
SBA participation loans	12,460,939	15,087,880
Federally insured student loans	2,005,570	31,051,308
Other	15,911,846	12,256,885
Total loans	329,657,381	386,449,195
Less reserve for loan losses (Note 4)	3,000,000	2,000,000
	326,657,381	384,449,195
BANK PREMISES AND EQUIPMENT	1,404,108	1,457,804
ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS	17,776,954	11,322,440
Total Assets	<u>\$861,966,174</u>	<u>\$853,391,344</u>
LIABILITIES AND CAPITAL FUNDS		
DEMAND DEPOSITS:		
Political subdivisions	\$47,944,435	\$45,950,344
Banks	33,192,473	32,617,232
State treasurer	13,085,006	12,264,918
Individuals, partnerships, and corporations	11,144,726	6,778,318
U.S. Government	119,536	98,261
Official checks	2,004,194	2,384,486
Total demand deposits	107,490,370	100,093,559
TIME AND SAVINGS DEPOSITS:		
State treasurer	187,222,899	275,132,140
Political subdivisions	200,668,149	192,691,427
Individuals, partnerships, and corporations	33,263,435	22,874,758
Total time and savings deposits	421,154,483	490,698,325
Total deposits	528,644,853	590,791,884
OTHER LIABILITIES:		
Federal funds purchased	120,560,000	110,950,000
Securities sold under agreements to repurchase (Note 2)	117,500,910	54,793,125
Collateralized long-term bonds (Note 3)	35,158,000	42,083,000
Accrued interest and other	11,109,781	9,854,842
Appropriation due the Community Water Facility Loan Fund (Note 5)	2,500,000	—
Appropriation due State General Fund (Note 5)	1,250,000	3,750,000
Total other liabilities	288,078,691	221,430,967
CAPITAL FUNDS:		
Capital	16,000,000	16,000,000
Surplus	18,000,000	16,000,000
Undivided profits	7,742,630	7,668,493
Reserve for contingencies	3,500,000	1,500,000
Total capital funds	45,242,630	41,168,493
COMMITMENTS AND CONTINGENCIES (Note 7)		
Total Liabilities and Capital Funds	<u>\$861,966,174</u>	<u>\$853,391,344</u>

See notes to financial statements.

Statement of Income

For the years ended December 31, 1982 and 1981

	1982	1981
INTEREST INCOME:		
Interest and fees on loans		
Interest on investment securities—	\$39,751,557	\$40,480,131
U.S. Government obligations	8,500,466	6,614,960
Federal agency obligations	8,779,171	6,561,764
Money market investments	2,404,845	2,111,917
State, municipal and other obligations	1,383,505	1,170,011
Interest on Federal funds sold and securities purchased on reverse repurchase agreements		
Total interest income	<u>20,952,234</u>	<u>18,372,345</u>
	<u>81,771,778</u>	<u>75,311,128</u>
INTEREST EXPENSE:		
Interest on deposits	47,611,169	44,251,215
Interest on Federal funds purchased	13,751,859	15,187,451
Interest on funds borrowed	8,317,150	8,101,841
Total interest expense	<u>69,680,178</u>	<u>67,540,507</u>
Net interest income	12,091,600	7,770,621
Percent to total interest income	14.8%	10.3%
SERVICE FEES AND OTHER INCOME	<u>2,350,909</u>	<u>1,850,401</u>
	<u>14,442,509</u>	<u>9,621,022</u>
OPERATING EXPENSES:		
Salaries and benefits (Note 9)	2,046,012	2,003,189
Fees and services	748,586	715,915
Data processing	625,982	416,262
Supplies and materials	135,564	129,103
Provision for loan losses (Note 4)	4,585,680	351,103
Depreciation	114,704	114,266
Total operating expenses	<u>8,256,528</u>	<u>3,729,838</u>
Income before security gains	6,185,981	5,891,184
	<u>624,449</u>	<u>193,666</u>
SECURITY GAINS	6,810,430	6,084,850
Income before extraordinary gain	1,013,707	—
EXTRAORDINARY GAIN (Note 3)	<u>\$7,824,137</u>	<u>\$6,084,850</u>
Net income for the year		

See notes to financial statements

Statement of Capital Funds

For the years ended December 31, 1982 and 1981

	Capital	Surplus	Undivided Profits	Reserve for Contingencies	Reserve for Purchase of Land and Building Improvements	Total
BALANCE, DECEMBER 31, 1980						
Net income for the year	\$16,000,000	\$12,000,000	\$11,832,607	\$1,500,000	\$1,036	\$41,333,643
Transfer to surplus	—	—	6,084,850	—	—	6,084,850
Transfer to the Community Water Facility Loan Fund (Note 5)	—	4,000,000	(4,000,000)	—	—	—
Appropriation due to State of North Dakota General Fund (Note 5)	—	—	(1,250,000)	—	—	(1,250,000)
Transfer of unexpended reserve for purchase of land and building improvements	—	—	(5,000,000)	—	—	(5,000,000)
	—	—	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>
Net income for the year	—	—	7,824,137	—	—	7,824,137
Transfer to surplus	—	2,000,000	(2,000,000)	—	—	—
Transfer to the Community Water Facility Loan Fund (Note 5)	—	—	(1,250,000)	—	—	(1,250,000)
Appropriation due the Community Water Facility Loan Fund (Note 5)	—	—	(2,500,000)	—	—	(2,500,000)
Transfer to reserve for contingencies (Note 6)	—	—	(2,000,000)	—	—	(2,500,000)
BALANCE, DECEMBER 31, 1982	<u>\$16,000,000</u>	<u>\$18,000,000</u>	<u>\$ 7,742,630</u>	<u>\$3,500,000</u>	<u>—</u>	<u>\$45,242,630</u>

See notes to financial statements

Statement of Changes in Financial Position

For the years ended December 31, 1982 and 1981

	1982	1981
FUNDS PROVIDED FROM:		
Operations—		
Net income for the year	\$7,824,137	\$6,084,850
Add-items not requiring expenditure of funds—		
Provision for loan losses	4,585,680	351,103
Depreciation and amortization	234,188	179,609
Total from operations	<u>\$12,644,005</u>	<u>\$6,615,562</u>
Increase in—		
Deposits	—	155,268,613
Other liabilities	66,647,724	—
Decrease in—		
Cash and due from banks	8,565,522	—
Investment securities	—	7,991,612
Loans, net	53,206,134	—
	<u>\$141,063,385</u>	<u>\$169,875,787</u>
FUNDS USED TO:		
Purchase building improvements and equipment	\$61,008	\$147,519
Transfer to—		
Community Water Facility Loan Fund	1,250,000	1,250,000
Appropriation due the Community Water Facility Loan Fund	2,500,000	—
Appropriation due to State of ND General Fund	—	5,000,000
Increase in—		
Cash and due from banks	—	16,527,588
Investment securities	51,640,748	—
Federal funds sold and securities purchased under reverse repurchase agreements	16,890,600	80,625,000
Loans, net	—	57,494,437
Accrued interest receivable	6,573,998	2,152,575
Decrease in—		
Deposits	62,147,031	—
Other liabilities	—	6,678,668
	<u>\$141,063,385</u>	<u>\$169,875,787</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 BANK OF NORTH DAKOTA as of December 31, 1982 and 1981, 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, 1982 and 1981, 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 24, 1983

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 accretion of 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 potential loan losses.

d. Bank Premises and Equipment —

Bank premises and equipment are stated at cost, less accumulated depreciation of \$774,117 and \$659,413 at December 31, 1982 and 1981, respectively.

The Bank provides depreciation based on the estimated useful life of the individual units of property. Depreciation is computed on 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	
	1982	1981
Securities sold under agreements to repurchase	\$117,368,000	\$ 55,915,000
Payment of principal and interest of the 1977 Series A Bonds issued by the ND Municipal Bond Bank	11,000,000	15,000,000
1982 Real Estate Series A Bonds issued by the State of ND	7,660,000	—
Collateralized long-term bonds (Note 3) 1981 and 1979 Student Loan Revenue Bonds Series A issued by the State of North Dakota	7,000,000	7,000,000
Deposits in the treasury tax and loan account	6,460,000	—
	2,000,000	2,000,000
	<u>\$151,488,000</u>	<u>\$ 79,915,000</u>

3. COLLATERALIZED LONG-TERM BONDS:

The Bank issued 9% 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

\$79,994,870 outstanding as of December 31, 1982. The Bank is required to maintain the discounted value of eligible collateral of at least 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 collateralized long-term bonds 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, 1982.

During 1982, the Bank purchased on the open market \$6,925,000 of their outstanding collateralized bonds. This purchase exceeded annual sinking fund requirements by \$4,425,000. This resulted in an extraordinary gain on extinguishment of debt which amounted to \$1,013,707 after deducting related bond issue costs.

4. RESERVE FOR LOAN LOSSES:

Transactions in the reserve for loan losses were as follows:

	1982	1981
Balance, January 1	\$2,000,000	\$2,000,000
Add (deduct):		
Recoveries	33,278	180,569
Loans charged off	(3,618,958)	(531,672)
Provision charged to operating expenses	4,585,680	351,103
Balance, December 31	<u>\$3,000,000</u>	<u>\$2,000,000</u>

5. APPROPRIATIONS DUE:

The North Dakota State Legislature appropriated \$5,000,000 for the State General Fund from undivided profits of the Bank during the biennium beginning July 1, 1981. The remaining amount due at December 31, 1982 is \$1,250,000

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, 1982, \$7,500,000 has been appropriated and paid. The remaining \$2,500,000 is unpaid at December 31, 1982, and will be transferred upon order of the Industrial Commission when the need arises.

6. TRANSFER TO THE RESERVE FOR CONTINGENCIES:

During 1982, the Bank, by order of the Industrial Commission, transferred \$2,000,000 from undivided profits to the reserve for contingencies. The reserve for contingencies was established for the purpose of setting aside a portion of undivided profits for unforeseen and unknown contingencies.

7. COMMITMENTS AND CONTINGENCIES:

a. In 1982, the State of North Dakota issued long-term bonds totaling \$35,000,000 which was used to purchase approximately \$35,000,000 in farm loans from the Bank of North Dakota. In connection with this bond issue, the Bank of North Dakota has signed an agreement with the State Treasurer of North Dakota. Among other things, the agreement requires the Bank to do the following:

1. Purchase any coupons or bonds that mature when insufficient funds are held

by the 1982 Farm Real Estate Bond Fund. The Bank will be reimbursed when sufficient monies are available in the Bond Sinking Fund and the Interest Payment Fund.

2. Establish a reserve fund for the payment of principal and interest. The Bank must pay 13% interest per annum on the reserve fund which has a balance of \$4,832,100 at December 31, 1982. The income on this reserve fund shall accrue to the Bank of North Dakota and is restricted in use to purchase bonds and coupons in the event there is a shortage of funds as described above.

The average rate on the bonds is 11.2% and the current average rate of purchased loans is 8.5%. It is probable that the Bank of North Dakota will incur a liability on this bond issue based on the differential of interest rates. The Bank has accrued a liability of \$469,000 representing the liability incurred for the calendar year ended December 31, 1982.

The bonds have terms to 15 years and the loans have terms to 40 years; therefore, it will be necessary to repurchase the remaining loans from the State Treasurer in order to fund the repayment of the bonds. Approximately \$26,000,000 of the \$35,000,000 bonds are due in 1997.

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.

8. 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.

9. SALARIES AND BENEFITS:

a. Included in salaries and benefits for 1982 and 1981 were the following:

	1982	1981
Salaries	\$1,759,869	\$1,719,108
Social security taxes	112,750	108,796
Retirement plan	83,710	86,080
Hospitalization	80,781	79,715
Unemployment and workmen's compensation	8,902	9,490
	<u>\$2,046,012</u>	<u>\$2,003,189</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 Bank has not been assessed for any amount by which vested benefits exceed fund assets.

INCOME

46.4	Interest on Loans
9.9	U.S. Gov't. Obligations
10.2	Federal Agency Obligations
1.6	State, Municipal and Other Obligations
2.8	Money Market Investments
24.2	Federal Funds Sold
4.7	Other Income

EXPENSES & PROFIT

26.2	Interest Paid on State Treasurer Accounts.
16.0	Interest on Funds Borrowed
9.7	Interest on Federal Funds Purchased
29.4	Interest Paid on Other Deposit Accounts
2.4	Salaries & Employee Benefits
7.2	Other Expenses
9.1	Profit

Five Year Summary

	1982	1981	1980	1979	1978
OPERATING RESULTS (000 omitted)					
Total Income	\$ 85,761	\$ 77,356	\$ 62,505	\$ 48,727	\$ 41,322
Interest Expenses	69,680	67,541	49,916	37,900	28,559
Other Oper. Expenses	8,257	3,730	2,873	2,799	2,429
NET EARNINGS (profit)	7,824	6,085	9,716	8,028	10,334
Paid to St. Treas. (Dividend)	2,500	2,750	5,000	7,500	8,000
BALANCE AT YEAR END (000 omitted)					
Total Resources	861,966	853,391	704,967	624,701	572,698
Total Deposits	528,645	590,792	435,523	408,297	403,236
Demand Deposits	107,490	100,094	105,304	114,799	105,987
Time Deposits	421,155	490,698	330,219	293,498	297,249
Fed. Fds. Purchase/R.P.'s	238,061	165,743	171,657	120,792	72,426
Fed. Fds. Sold	232,516	215,625	135,000	95,735	37,525
TOTAL INVESTMENT SECURITIES (000 omitted)					
U.S. Government	231,365	179,724	187,716	178,414	225,710
Federal Agencies	97,898	75,401	73,113	84,621	117,377
Other Money Market Instruments	79,588	84,334	64,475	72,365	57,216
ND Political Sub. Bds.	35,482	3,838	36,011	13,187	37,823
	18,397	16,151	14,117	8,241	13,294
TOTAL LOANS (000 omitted)					
Farm Home Adm. Loans	326,657	384,450	327,306	289,062	259,908
Fed. Insured Student Loans	0	0	0	0	390
Farm Real Estate Loans	2,005	31,051	5,394	0	36,464
FHA Home Loans	18,135	42,715	30,777	20,994	14,220
GI Home Loans	126,369	123,141	108,338	83,628	52,312
Small Business Adm. Loans	47,006	47,592	48,674	43,081	32,680
Bank Participation Loans	12,461	15,088	17,203	16,850	15,178
Other Loans	107,769	112,606	109,503	118,538	105,475
	15,912	12,257	7,417	5,971	3,189
CAPITAL AND RESERVES (000 omitted)					
Capital	45,243	41,168	41,334	27,618	36,090
Surplus	16,000	16,000	16,000	12,000	12,000
Undivided Profits	18,000	16,000	12,000	12,000	12,000
Reserves	7,743	7,668	11,833	2,110	10,553
	3,500	1,500	1,501	1,508	1,537
OTHER DATA (Numbers)					
Financial Inst. with BND Accts.	227	221	210	207	203
Individual Checking Accounts	3,836	3,869	4,747	3,795	3,832
Individual Savings Accounts	5,163	3,572	3,629	4,513	3,695
Fed. Insured Student Loans (made or purchased)	13,637	18,697	16,368	13,577	9,109
FHA House Loans (made or purchased)	171	451	717	936	710
GI House Loans (made or purchased)	16	17	187	352	325
SBA & BI Loans On Hand	151	156	30	70	16
Bank Participation Loans On Hand	1,511	1,767	1,656	1,033	972
Number of Employees	140	147	128	121	102